GREEN BANKSHARES, INC.
Form DEFM14A
July 27, 2011

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**SCHEDULE 14A**
**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant þ
Filed by the Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

**GREEN BANKSHARES, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2 ) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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July 27, 2011

Dear Shareholder:

We invite you to attend a Special Meeting of Shareholders (the Special Meeting ) of Green Bankshares, Inc. (the Company ) to be held at the General Morgan Inn, 111 North Main Street, Greeneville, Tennessee, on September 7, 2011, at 9:00 a.m., local time.

On May 5, 2011, the Company, GreenBank, and North American Financial Holdings, Inc. ( NAFH ) entered into an investment agreement (the Investment Agreement ), pursuant to which NAFH has agreed, subject to certain conditions more fully described in the enclosed proxy statement, to:

- purchase for $217,019,000 in cash, 119,900,000 shares of Common Stock, at a purchase price of $1.81 per share; and

- permit the Company to distribute to each Company shareholder as of a certain date fixed prior to the closing of the transactions contemplated by the Investment Agreement (the Closing ), immediately prior to Closing, one contingent value right ( CVR ) per share that would entitle the holder to receive up to $0.75 in cash per CVR at the end of a five-year period based on the credit performance of GreenBank s existing loan portfolio.

In connection with the transaction with NAFH, your shares of Company common stock that you own will remain outstanding immediately following closing of the transaction and are not being cashed out as part of the transaction. As a result, unless you buy or sell shares of Company common stock on the open market, you will continue to own the same number of shares of Company common stock that you own today. The CVRs that will be issued in connection with the transaction are in addition to your shares of Company common stock and are not being issued in exchange for these shares.

In connection with the Investment Agreement, we have called a Special Meeting to obtain your approval of the following matters:

(1) the original issuance and certain subsequent issuances of shares of the Company s Common Stock to NAFH under the terms of the Investment Agreement;

(2) an amendment to the Company s Amended and Restated Charter (the Charter ) to increase the number of authorized shares of the Company s Common Stock from twenty million (20,000,000) to three hundred million (300,000,000);

(3) an amendment to the Company s Charter to decrease the par value of the Company s Common Stock from $2.00 per share to $0.01 per share;

(4) an amendment to the Company s Charter to expressly exempt NAFH and its affiliates and associates from the provisions of Section 9 of the Company s Charter;

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(5) an amendment to the Company s Charter to remove Section 8(j) of the Charter so that the Tennessee Control Share Acquisition Act will not apply to the Company and its shareholders;

(6) the merger of GreenBank with and into a subsidiary of NAFH;

(7) on an advisory and non-binding basis, the compensation to be received by the Company s named executive officers in connection with the issuance of the shares of Common Stock to NAFH under the terms of the Investment Agreement; and

(8) the grant to the proxy holder of discretionary authority to vote to adjourn the Special Meeting, if necessary, in order to solicit additional proxies in the event there are not sufficient affirmative votes present at the Special Meeting to approve the proposals that may be considered and voted on, at the Special Meeting.

Enclosed is a proxy statement and a proxy card. Directors and officers of the Company will be present to respond to any appropriate questions shareholders may have.

**Your vote is important, regardless of the number of shares you own.** On behalf of the Board of Directors, we urge you to sign, date and return the enclosed proxy as soon as possible, even if you currently plan to attend the Special Meeting. We also offer telephone and Internet voting, as more particularly described in the attached proxy statement. Voting by telephone, Internet or by returning a proxy in the mail will not prevent you from voting in person at the Special Meeting, but will assure that your vote is counted if you are unable to attend the Special Meeting.

Thank you for your cooperation and your continuing support.

Sincerely,
/s/ Stephen M. Rownd
Chairman of the Board and
Chief Executive Officer

If you have any questions or need assistance voting
your shares, please call our proxy solicitor:
**INNISFREE M&A INCORPORATED**
**Shareholder may call toll-free at 1 (888) 750-5834**
**Banks and Brokers may call collect at 1 (212) 750-5833**

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**GREEN BANKSHARES, INC.**
**Notice of Special Meeting of Shareholders**
**To Be Held on September 7, 2011**

**Notice is hereby given** that a Special Meeting of Shareholders (the Special Meeting ) of Green Bankshares, Inc. (the Company ) will be held on September 7, 2011 at 9:00 a.m., local time, at the General Morgan Inn, 111 North Main Street, Greeneville, Tennessee.

A Proxy Card and a Proxy Statement for the Special Meeting are enclosed.

The Special Meeting is for the purpose of considering and acting upon the following matters:

(1) to approve the original issuance and certain subsequent issuances of shares of the Company s Common Stock to North American Financial Holdings, Inc. under the terms of the Investment Agreement, dated May 5, 2011, among Green Bankshares, Inc., GreenBank and North American Financial Holdings, Inc. (the Investment Agreement );

(2) to vote on an amendment to the Company s Amended and Restated Charter (the Charter ) to increase the number of authorized shares of the Company s Common Stock from twenty million (20,000,000) to three hundred million (300,000,000);

(3) to vote on an amendment to the Company s Charter to decrease the par value of the Company s Common Stock from $2.00 per share to $0.01 per share;

(4) to vote on an amendment to the Company s Charter to expressly exempt North American Financial Holdings, Inc. and its affiliates and associates from the provisions of Section 9 of the Company s Charter;

(5) to vote on an amendment to the Company s Charter to remove Section 8(j) of the Charter so that the Tennessee Control Share Acquisition Act will not apply to the Company and its shareholders;

(6) to approve the merger of GreenBank with and into a subsidiary of North American Financial Holdings, Inc.;

(7) to approve, on an advisory and non-binding basis, the compensation to be received by the Company s named executive officers in connection with the issuance of the shares of the Company s Common Stock to North American Financial Holdings, Inc. under the terms of the Investment Agreement; and

(8) to grant the proxy holder discretionary authority to vote to adjourn the Special Meeting, if necessary, in order to solicit additional proxies in the event there are not sufficient affirmative votes present at the Special Meeting to approve the proposals that may be considered and voted on, at the Special Meeting.

NOTE: As of the date hereof, the Board of Directors is not aware of any other business to come before the Special Meeting.

Any action may be taken on any one of the foregoing proposals at the Special Meeting on the date specified above or on any date or dates to which, by original or later adjournments, the Special Meeting may be adjourned. Shareholders of record at the close of business on July 6, 2011 will be entitled to vote at the Special Meeting and any adjournments thereof.

You are requested to fill in and sign the enclosed proxy card which is solicited by the Board of Directors and to mail it promptly in the enclosed envelope or, alternatively, vote by telephone or over the Internet as described in the attached Proxy Statement. The proxy will not be used if you attend the Special Meeting and choose to vote in person.

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BY ORDER OF THE BOARD OF DIRECTORS
/s/ Michael J. Fowler
Secretary
Greeneville, Tennessee
July 27, 2011

**It is important that proxies be returned promptly. Therefore, whether or not you plan to be present in person at the Special Meeting, please sign, date, and complete the enclosed proxy card and return it in the enclosed envelope. No postage is required if mailed in the United States. Alternatively, you can vote over the telephone or on the Internet, as more particularly described in the attached Proxy Statement. Should you subsequently desire to revoke your proxy, you may do so as provided in the attached Proxy Statement before it is voted at the Special Meeting.**

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**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS**
**Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Shareholders to be Held on September 7, 2011**

This Proxy Statement and a proxy card are available at https://www.proxyvotenow.com/grnb.

The Special Meeting of Shareholders will be held September 7, 2011 at 9:00 a.m. local time at the General Morgan Inn, 111 North Main Street, Greeneville, Tennessee. In order to obtain directions to attend the Special Meeting of Shareholders, please call Michael J. Fowler, our Corporate Secretary, at (423) 278-3050.

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**PROXY STATEMENT**
**of**
**GREEN BANKSHARES, INC.**
**100 North Main Street**
**P.O. Box 1120**
**Greeneville, Tennessee 37743**
**(423) 639-5111**

**SPECIAL MEETING OF SHAREHOLDERS**
**September 7, 2011**

## General

This Proxy Statement is being furnished to Green Bankshares, Inc. (the Company ) shareholders in connection with the solicitation of proxies by the Company s Board of Directors (the Board of Directors ) to be used at the Special Meeting of Shareholders of the Company (the Special Meeting ), to be held on September 7, 2011, at 9:00 a.m., local time, at General Morgan Inn, 111 North Main Street, Greeneville, Tennessee. The accompanying Notice of Special Meeting and form of proxy and this Proxy Statement are first being mailed to shareholders on or about July 27, 2011.

The Board of Directors has fixed the close of business on July 6, 2011 as the record date (the Record Date ) for determining the shareholders entitled to receive notice of and to vote at the Special Meeting. Only holders of record of shares of the Company s common stock ( Common Stock ) at the close of business on that date will be entitled to vote at the Special Meeting and at any adjournment or postponement of that meeting. At the close of business on the Record Date, there were 13,239,090 shares of the Company s Common Stock outstanding, held by approximately 2,500 holders of record. Each Company shareholder as of the Record Date will be entitled to one vote for each share of Common Stock held of record upon each matter properly submitted at the Special Meeting and at any adjournment or postponement of that meeting.

## Overview

On May 5, 2011, the Company, GreenBank ( GreenBank or the Bank ), and North American Financial Holdings, Inc. ( NAFH ) entered into an investment agreement (the Investment Agreement ), pursuant to which NAFH has agreed to purchase, subject to certain conditions, for $217,019,000 in cash, 119,900,000 shares of Common Stock, at a purchase price of $1.81 per share (the Initial Investment ), and under which each Company shareholder as of a certain date fixed prior to the closing of the Initial Investment (the Closing ) shall receive, immediately prior to Closing, one contingent value right ( CVR ) per share that would entitle the holder to receive up to $0.75 in cash per CVR at the end of a five-year period based on the credit performance of GreenBank s existing loan portfolio. The CVRs that each shareholder will receive are in addition to the shares of Company Common Stock that the Company s shareholders own, which shares will continue to be owned by the shareholders following the Closing. Following consummation of the transactions contemplated by the Investment Agreement, it is anticipated that NAFH will own approximately 90.1% of the Company s outstanding Common Stock. It is also expected that in connection with the closing of the Initial Investment that GreenBank will be merged with and into NAFH s bank subsidiary Capital Bank, National Association (formerly known as NAFH National Bank) (the Bank Merger ). Throughout this Proxy Statement, we refer to Capital Bank, National Association as NAFH Bank . The approximately $217 million that NAFH is investing in the Company will be available for the primary purpose of providing capital support to GreenBank, and following the Bank Merger, NAFH Bank, including providing any capital necessary to allow GreenBank or, following the Bank Merger, NAFH Bank to meet any capital commitments made by those banks to their primary regulators. The Company believes that the operations of GreenBank will

benefit from this additional capital support, which should allow management to return their principal focus to improving the profitability of GreenBank and growing the bank s operations throughout its Tennessee markets. It is not expected that any of the $217 million investment will be distributed to the Company s shareholders.

The purpose of the Special Meeting is to obtain the shareholder approvals needed to complete the transactions contemplated by the Investment Agreement.

*Conditions to the Completion of the Initial Investment*

The obligation of each of NAFH, the Company and GreenBank to complete the Initial Investment is subject to the satisfaction or waiver of the following conditions:

- the absence of any law, order, injunction or decree by a governmental body prohibiting (or any lawsuit or formal proceeding by a governmental body seeking to prohibit) the Initial Investment or NAFH s owning or voting the shares it intends to purchase in the Initial Investment;
- receipt of all required regulatory approvals;
- the approval of Proposals 1, 2, 3, 5 and 6 described in this Proxy Statement;
- the accuracy of the other party s representations and warranties (subject to the materiality standard described in the Investment Agreement) and the performance by the other party in all material respects of its obligations under the Investment Agreement; and
- the entry by NAFH and the United States Department of the Treasury ( Treasury ) into a binding agreement, on terms previously disclosed to the Company by NAFH, regarding the NAFH s repurchase of $72.3 million of shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A and warrant to purchase shares of Common Stock issued to the Treasury in connection with the Company s participation in the Capital Purchase Program (the CPP ) of the Treasury s Troubled Asset Relief Program (the TARP ) (the Repurchase ).

In addition, the obligation of NAFH to complete the Initial Investment is subject to the satisfaction or waiver of the following conditions:

- either (i) Proposal 4 described in this Proxy Statement is approved by the Company s shareholders or (ii) the Bank Merger (as defined in Proposal 4) shall have received all required board and governmental approvals and is reasonably capable of being consummated within three business days following the Closing;
- the absence, since December 31, 2010, of any material adverse effect (as defined in the Investment Agreement) on the Company or its subsidiaries;
- the appointment of individuals designated by NAFH to the board of directors of the Company and GreenBank such that the NAFH designees constitute a majority of the board of directors of the Company and GreenBank;
- the resignation of certain directors of the Company and GreenBank;
- the waiver of rights to receive certain change in control and other payments from certain senior officers;
- the absence of any requirement imposed by any required regulatory approvals that materially reduces the economic benefit of the transactions contemplated by the Investment Agreement for NAFH (a Burdensome Condition ), as determined by NAFH in its good faith judgment;

certain limitations on reductions in deposit levels and the amount of charge-offs at GreenBank between the date of the Investment Agreement and Closing;

the declaration of the CVR distribution; and

other terms and conditions typical of similar transactions and described in the Investment Agreement.

*Termination of the Investment Agreement*

The Investment Agreement may be terminated in a number of situations, including (i) by the Company or NAFH if (a) the Closing does not occur within 150 days after the Investment Agreement is signed or (b) notice from a governmental entity that it will not grant a required approval or if a governmental entity takes certain actions prohibiting, or imposing a Burdensome Condition upon, the transactions contemplated by the Investment Agreement, (ii) by the Company or NAFH in the event of a breach by the other of a representation or warranty or a covenant (that is not cured in the time allowed in the Investment Agreement) that causes the failure of a closing condition to be satisfied, (iii) by the Company or NAFH if Proposals 1, 2, 3, 5 and 6 described in this Proxy Statement are not approved, or (iv) by NAFH if, prior to the date of the Special Meeting, the Company breaches the Agreement s exclusivity/non-solicitation provisions or the Board of Directors withdraws its recommendation to the Company s shareholders with respect to the transactions contemplated by the Investment Agreement.

*Termination Fees Payable by the Company*

If an Acquisition Proposal (as defined in the Investment Agreement) is made to the Company or its subsidiaries and thereafter the Investment Agreement is terminated because (i) the required approvals of the Company s shareholders are not obtained; (ii) the Company breaches its obligations under the non-solicitation/exclusivity provisions; or (iii) the Company breaches a covenant of the Investment Agreement (and fails to cure such breach in the time allowed in the Investment Agreement) that causes the failure of a closing condition to be satisfied, then the Company will owe NAFH a $750,000 expense reimbursement immediately and, if an alternative transaction is entered into within twelve (12) months of the termination of the deal, an $8,000,000 termination fee at the time the agreement for the new transaction is entered into. If an Acquisition Proposal is made, and thereafter the Agreement is terminated by NAFH because the Board of Directors has withdrawn its recommendation that the shareholders approve the transactions or recommended a competing transaction, a $750,000 expense reimbursement would be payable immediately and $4,000,000 of the termination fee would be payable immediately, with the remaining $4,000,000 payable if the Company enters into an agreement for an alternative transaction within 12 months of the termination of the deal.

In addition, on May 5, 2011, the Company also entered into a Stock Option Agreement (the Option Agreement ) with NAFH, pursuant to which the Company granted an option (the Option ) to purchase up to 2,628,183 shares of Common Stock (not to exceed 19.9% of the issued and outstanding shares of the Company) at a price equal to the closing price on the first trading day following the date of the Investment Agreement (the Option Price ). Pursuant to the Option Agreement, the Option will be exercisable under certain circumstances in connection with certain third party acquisitions or acquisition proposals that occur prior to an Exercise Termination Event.

An Exercise Termination Event means any of the following:

completion of the Initial Investment;

termination of the Investment Agreement in accordance with its terms, before certain third party acquisitions or acquisition proposals, except a termination of the Investment Agreement by NAFH based on a breach by the Company of a representation, warranty, covenant or other agreement contained in the Investment Agreement (unless the breach is non-volitional) or a termination based on the Company breaching its obligations under the non-solicitation/exclusivity provisions of the Investment Agreement or based on the Board of Directors having withdrawn its recommendation that the Company s shareholders approve the transactions or recommended a competing transaction; or

the passage of 18 months, subject to certain limited extensions described in the Option Agreement, after termination of the Investment Agreement, if the termination follows the occurrence of certain third party acquisitions or acquisition proposals or is a termination of the Investment Agreement by NAFH based on a breach by the Company of a representation, warranty, covenant or other agreement contained in the Investment Agreement (unless the breach is non-volitional) or a termination based on the Company breaching its obligations under the non-solicitation/exclusivity provisions of the Investment Agreement or based on the Board of Directors having withdrawn its recommendation that the Company s shareholders approve the transactions or recommended a competing transaction.

In addition, upon the occurrence of certain events relating to third party acquisitions, NAFH may require the Company to repurchase the Option at a price equal to either (i) the number of shares for which the Option may be exercised multiplied by the amount by which the Market/Offer Price (as that term is defined in the Option Agreement), exceeds the Option Price or (ii) $2,500,000, adjusted in the case of clause (ii) for the aggregate purchase price previously paid by NAFH with respect to any option shares and gains on sales of stock purchased under the Option. In no event may NAFH s total profit with respect to the Option exceed $8,000,000.

*Termination Fee Payable by NAFH*

If the Investment Agreement is terminated because NAFH breaches a covenant of the Investment Agreement (and fails to cure such breach in the time allowed in the Investment Agreement) that causes the failure of a closing condition to be satisfied, then NAFH will owe the Company an amount equal to $8,000,000 in respect of the Company s and the Bank s out-of-pocket expenses incurred in connection with the Investment Agreement and the transactions contemplated thereby.

*Contingent Value Rights*

Pursuant to the terms of the Investment Agreement, immediately prior to the closing date of the Investment, existing shareholders of the Company as of a certain date fixed prior to the closing date will be issued one CVR for each share of Common Stock owned by the shareholder. Based on the term sheet for the CVRs which is included as Exhibit A of the Investment Agreement which is attached as Appendix A to this Proxy Statement, the Company expects that each CVR will entitle the holder thereof to a cash payment of up to $0.75 per CVR based on the amount of net charge-offs ( Credit Losses ) incurred between May 5, 2011 and the five year anniversary of the Closing (the CVR Measurement Period ) on account of any of GreenBank s loans existing as of May 5, 2011. The CVRs will provide that if the amount of Credit Losses during the CVR Measurement Period is less than $178 million, then NAFH will pay to the Company s shareholders within sixty (60) days following the five year anniversary of the Closing an amount equal to (1) if the difference between $178 million and the amount of Credit Losses incurred during the CVR Measurement Period, expressed on a per CVR basis, is less than or equal to $0.50, then 100% of such difference; and (2) if the difference between $178 million and the amount of Credit Losses incurred during the CVR Measurement Period, expressed on per CVR basis, is greater than $0.50, then $0.50 plus 50% of such amount in excess of $0.50, with an aggregate maximum of $0.75 per CVR. In the event that the amount of Credit Losses during the CVR Measurement Period equals or exceeds $178 million, then the CVRs will expire and the holders thereof will receive no payment on account of the CVRs.

Except for modifications of the terms of the CVRs that are adverse to the holders of the CVRs, the holders of the CVRs will have no voting rights with respect to the CVRs, will have no right to receive dividends on account of the CVRs and will only be able to transfer the CVRs by will or the laws of descent or distribution. The Company may redeem the CVRs at any time at a price of $0.75 per share and in the event that the Company experiences a change in control (which means any transaction resulting in the holders of the equity interests of NAFH immediately prior to such transaction owning, directly or indirectly, less than 50% of the equity interests of NAFH) the CVRs shall be redeemed at a price of $0.75 per CVR upon closing of that change in control transaction.

By way of example if the Credit Losses incurred during the CVR Measurement Period total $156 million, each holder of a CVR will receive a cash payment of $0.75 per CVR. Credit Losses during the CVR Measurement Period of $168 million would result in a cash payment of $0.63 per CVR, while Credit Losses during the CVR Measurement Period of $174 million would result in a cash payment of $0.30 per CVR. These payment scenarios

are only examples of certain payout scenarios and should not be viewed as the Company s expectations as to the likely payouts under the CVRs.

The Company is unable to predict whether any amounts will be payable under the CVRs as the amount of Credit Losses that may be experienced over the CVR Measurement Period is subject to numerous risks and uncertainties, including, among others, the condition of the economy in the markets served by GreenBank. By way of example only, the total amount of the Company s Credit Losses over the five year period ended December 31, 2010 was $156.1 million. For additional information regarding projected net charge-offs and estimated potential loan losses see Proposal 1 Approval of the Issuance of Shares of Common Stock Under the Investment Agreement Projected Financial Information.

**Matters to be Considered**

At this Special Meeting, holders of record of the Company s Common Stock as of the Record Date will be asked to:

- approve the original issuance and certain subsequent issuances of shares of Common Stock to NAFH under the terms of the Investment Agreement;
- vote on an amendment to the Company s Charter to increase the number of authorized shares of Common Stock from twenty million (20,000,000) to three hundred million (300,000,000);
- vote on an amendment to the Charter to decrease the par value of the Common Stock from $2.00 per share to $0.01 per share;
- vote on an amendment to the Charter to expressly exempt NAFH and its affiliates and associates from the provisions of Section 9 of the Charter;
- vote on an amendment to the Charter to remove Section 8(j) of the Charter so that the Tennessee Control Share Acquisition Act will not apply to the Company and its shareholders;
- approve the merger of GreenBank with and into a subsidiary of NAFH;
- approve, on an advisory and non-binding basis, the compensation to be received by the Company s named executive officers in connection with the issuance of the shares of Common Stock to NAFH under the terms of the Investment Agreement; and
- grant the proxy holder discretionary authority to vote to adjourn the Special Meeting, if necessary, in order to solicit additional proxies in the event there are not sufficient affirmative votes present at the Special Meeting to approve the proposals that may be considered and voted on, at the Special Meeting.

**Proxies**

Each copy of this Proxy Statement mailed to Company shareholders is accompanied by a proxy card with instructions for voting by mail, by telephone or on the Internet. If voting by mail, you should complete and return the proxy card accompanying this Proxy Statement in the enclosed, postage paid envelope to ensure that your vote is counted at the Special Meeting, or at any adjournment or postponement of the Special Meeting, regardless of whether you plan to attend the Special Meeting. You may also vote your shares by telephone or on the Internet. Instructions for voting by telephone or on the Internet are set forth in the enclosed proxy card.

The presence of a shareholder at the Special Meeting will not automatically revoke that shareholder s proxy. However, a shareholder may revoke a proxy at any time prior to its exercise by:

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submitting a written revocation prior to the meeting to Michael J. Fowler, Corporate Secretary, Green Bankshares, Inc., 100 North Main Street, Greeneville, Tennessee 37743-4992;

submitting another proxy by mail, Internet or telephone on a later date than the original proxy; or

attending the Special Meeting and voting in person.

If your shares are held by a broker or bank, you must follow the instructions on the form you receive from your broker or bank with respect to changing or revoking your proxy.

The shares represented by any proxy card that is properly executed and received by the Company in time to be voted at the Special Meeting will be voted in accordance with the instructions that are marked on the proxy card. **If you execute your proxy card but do not provide the Company with any instructions, your shares will be voted FOR the issuance of Common Stock pursuant to the terms of the Investment Agreement; FOR the amendment to the Company s Charter to increase the number of authorized shares of Common Stock; FOR the amendment to the Company s Charter to decrease the par value of the Common Stock; FOR the amendment to the Company s Charter to expressly exempt NAFH and its affiliates and associates from Section 9 of the Charter; FOR the amendment to the Company s Charter removing Section 8(j) of the Charter; FOR the approval of the merger of GreenBank with and into a subsidiary of NAFH; FOR the approval of the compensation to be received by the Company s named executive officers in connection with the issuance of the Company s Common Stock to NAFH under the Investment Agreement; and FOR the grant of discretionary authority to adjourn the Special Meeting, if necessary, in order to solicit additional proxies.**

Proxies that are returned to us where brokers have received instructions to vote on one or more proposals but do not vote on other proposal(s) are referred to as broker non-votes with respect to the proposal(s) not voted upon. Broker non-votes are included in determining the presence of a quorum.

**Vote Required**

In order to have a lawful meeting, a quorum of shareholders must be present at the Special Meeting. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of the Company s Common Stock outstanding as of the Record Date will constitute a quorum at the Special Meeting. A shareholder will be deemed to be present if the shareholder either attends the Special Meeting or submits a properly executed proxy card by mail, on the Internet or by telephone that is received at or prior to the Special Meeting (and not revoked). Under the laws of the State of Tennessee, the Company s state of incorporation, abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum, but are not counted as votes cast at the meeting. Broker non-votes occur when brokers who hold their customers shares in street name submit proxies for such shares on some matters, but not others. Generally, this would occur when brokers have not received any instructions from their customers. In these cases, the brokers, as the holders of record, are permitted to vote on routine matters, but not on non-routine matters, such as approval of the issuance of Common Stock to NAFH pursuant to the terms of the Investment Agreement; approval of the merger of GreenBank with and into a subsidiary of NAFH; and approval of the compensation to be received by the Company s named executive officers in connection with the issuance of the Company s Common Stock under the Investment Agreement. As such, unless you instruct your broker how to vote shares of yours held in a broker s name, those shares will not be voted on the approval of the issuance of Common Stock to NAFH pursuant to the terms of the Investment Agreement; approval of the merger of GreenBank with and into a subsidiary of NAFH; and approval of the compensation to be received by the Company s named executive officers in connection with the issuance of the Company s Common Stock to NAFH under the Investment Agreement, but will be counted in determining whether there is a quorum.

If a quorum exists, approval of the amendments to the Company s Charter, other than the approval of the amendment to expressly exempt NAFH and its affiliates and associates from Section 9 of the Charter; approval of the issuance of Common Stock to NAFH under the terms of the Investment Agreement; approval

of the compensation to be received by the Company s named executive officers in connection with the issuance of the Company s Common Stock to NAFH under the Investment Agreement; and approval of the proposal to adjourn the Special Meeting, if necessary, require that the number of votes cast, in person or by proxy, in favor of such proposals at the Special Meeting exceed the number of votes cast, in person or by proxy, against the proposals. Approval of the amendment to the Company s Charter to expressly exempt NAFH and its affiliates and associates from Section 9 of the Charter requires the affirmative vote of 80% of the outstanding shares of Common Stock entitled to vote on the matter. Approval of the merger of GreenBank with and into a subsidiary of NAFH requires the affirmative vote of a majority of the outstanding shares of Common Stock as of the Record Date entitled to vote at the Special Meeting.

Abstentions and broker non-votes will have no effect on the approval of the amendments to the Company s Charter (other than the approval of the amendment to expressly exempt NAFH and its affiliates and associates from Section 9 of the Charter), the approval of the issuance of Common Stock to NAFH under the terms of the Investment Agreement, the approval of the compensation to be received by the Company s named executive officers in connection with the issuance of the Company s Common Stock to NAFH under the Investment Agreement and the approval of the proposal to adjourn the Special Meeting and will have the effect of a vote against approval of the amendment to the Charter to expressly exempt NAFH and its affiliates and associates from Section 9 of the Charter and approval of the merger of GreenBank with and into a subsidiary of NAFH.

**Solicitation of Proxies**

The Company will pay all expenses incurred in connection with this solicitation, including postage, printing, handling and the actual expenses incurred by custodians, nominees and fiduciaries in forwarding proxy materials to beneficial owners. Additionally, the Company has engaged Innisfree M&A Incorporated to assist in the distribution of proxy materials and the solicitation of proxies by mail, telephone, facsimile, or personal meetings. The Company has agreed to pay Innisfree a solicitation fee not to exceed $20,000 plus expenses. In addition to solicitation by mail, certain of the Company s officers, directors and regular employees, who will receive no additional compensation for their services, may solicit proxies by telephone, personal communication or other means. The Company will also reimburse brokerage firms and other persons representing beneficial owners of shares for reasonable expenses incurred in forwarding proxy soliciting materials to the beneficial owners.

## PROPOSAL 1 APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK UNDER THE INVESTMENT AGREEMENT

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is conditioned upon shareholder approval of this Proposal No. 1 as well as approval of Proposals No. 2, 3, 5 and 6 and, in certain circumstances, approval of Proposal No. 4. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 1 as well as Proposals No. 2 6. As described below, the Company s Board of Directors also recommends that shareholders vote to approve Proposals No. 7 and 8.**

On May 5, 2011, the Company s Board of Directors approved a resolution to issue shares of Common Stock under the Investment Agreement, pursuant to which NAFH has agreed to purchase, subject to certain conditions, for $217,019,000 in cash, 119,900,000 shares of Common Stock at a purchase price of $1.81 per share, and under which each Company shareholder as of a certain date fixed prior to the Closing will receive one CVR per share that would entitle the holder to receive up to $0.75 in cash per CVR at the end of a five-year period based on the credit performance of GreenBank s existing loan portfolio. In addition, pursuant to the Investment Agreement, following the closing of the Initial Investment and until such time as the Bank is merged with and into a subsidiary of NAFH, NAFH has the right to purchase, at a price equal to the lesser of (a) $1.81 per share and (b) the Company s tangible book value per share at the end of the then most recently completed fiscal quarter, such additional shares of Common Stock necessary to ensure that the Bank s tier 1 leverage ratio is at least 10% (the Top-Up Investment and, collectively with the Initial Investment, the Investment ). A copy of the Investment Agreement is attached as Appendix A to this Proxy Statement.

Because the Company s Common Stock is listed on the NASDAQ Stock Market LLC ( NASDAQ ), it is subject to NASDAQ s rules and regulations. NASDAQ Listing Rule 5635(d) requires shareholder approval prior to the issuance of Common Stock, or securities convertible into or exercisable for Common Stock, equal to 20% or more of the Common Stock or 20% or more of the voting power outstanding before the issuance for less than the greater of book value or market value of the stock.

Under NASDAQ Listing Rule 5635(b), companies are required to obtain shareholder approval prior to the issuance of securities when the issuance or potential issuance would result in a change of control as defined by NASDAQ. NASDAQ generally characterizes a transaction whereby an investor or group of investors acquires, or obtains the right to acquire, 20% or more of the voting power of an issuer on a post-transaction basis as a change of control for purposes of Rule 5635(b).

Assuming the existence of a quorum, this proposal will be approved if the number of shares voted in favor of the proposal to approve the issuance of shares of Common Stock under the Investment Agreement exceeds the number of shares voted against the proposal. As such, abstentions and broker non-votes will not affect the outcome of the vote.

**Reasons for this Proposal**

As part of its ongoing evaluation of the Company s business, the Company s Board of Directors and the Company s senior management regularly evaluate the Company s long-term strategic alternatives and prospects for continued operations. These strategic discussions have included, among other things, the possibility of business combinations with other entities, continuing the Company s on-going operation as an independent institution, securities offerings, both public and private, and the potential sale or recapitalization of the Company.

Beginning in late 2007, the Company, like many financial institutions across the United States, began to experience financial stress which was primarily attributable to the significant weaknesses in the U.S. economy that began to surface during the fourth quarter of 2007 which continued to escalate throughout 2008 and 2009. These deteriorating economic conditions, which manifested themselves primarily in the Company s residential real estate construction and development portfolio, continued into 2010 when economic conditions briefly exhibited signs of improvement in the first half of 2010, and continued to deteriorate again in the second half of the year. As a result of these weakened economic conditions, the Company s results of operations were significantly and negatively affected in the fourth quarter of 2007 and throughout each of the 2008, 2009 and 2010 fiscal years.

Beginning in 2008, the Company sought to proactively address its asset quality problems by seeking to quickly dispose of troubled assets (which were principally in its residential real estate construction and development portfolio in its Nashville and Knoxville, Tennessee markets) taking losses on the disposition of those assets as necessary. As a result, the Company s provision for loan losses in 2008, 2009 and 2010 totaled $52.8 million, $50.2 million and $71.1 million. The Company incurred net charge-offs of $38.1 million, $48.9 million and $54.4 million in each of those three years. During the first quarter of 2011, the Company continued to experience increased levels of provision expense and net charge-offs as its asset quality problems continued. For the first quarter of 2011, the Company s provision for losses totaled $13.9 million and its net charge-offs totaled $15.6 million.

The impact of the increase in nonperforming assets and the associated increase in credit expense and other real estate owned expenses has resulted in significant losses over the past three fiscal years and the first quarter of 2011, which has eroded the Company s shareholders equity and regulatory capital ratios. The Company reported a net loss available to common shareholders of $85.7 million in 2010. This compared to a net loss available to common shareholders of $155.7 million in 2009 that included a $143.4 million non-recurring charge for goodwill impairment and a net loss available to common shareholders of $5.5 million in 2008. For the first quarter of 2011, the Company recorded a net loss available to common shareholders of $11.6 million.

In December of 2008, the Company s Board of Directors authorized the Company to participate in the CPP established by the Treasury under the TARP of the Emergency Economic Stabilization Act of 2008 (the EESA ). In connection with its participation in the CPP, the Company issued to Treasury (i) 72,278 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the Series A Preferred Stock ), and (ii) a ten-year warrant to purchase up to 635,504 shares of the Company s

Common Stock, at an initial exercise price of $17.06 per share (the Warrant ), for an aggregate purchase price of approximately $72.3 million in cash. This $72.3 million investment qualified as Tier 1 capital and significantly improved the regulatory capital ratios of the Company and GreenBank. Although the capital contributed to GreenBank as a result of the Company s participation in the CPP significantly improved GreenBank s regulatory capital ratios, which also benefited from the approximately $88.7 million of capital contributed by the Company s trust preferred issuances, the investment did not strengthen the Company s common shareholders equity, which continued to erode as the Company s credit quality issues continued into 2009 and 2010.

In November 2010, the Company informally committed to the Federal Reserve Bank of Atlanta that it would not incur additional indebtedness, pay cash dividends, make payments on the Series A Preferred Stock or the Company s trust preferred securities or repurchase outstanding stock without prior regulatory approval. Since that date, the Company has not been given permission to pay interest on the Company s trust preferred securities or dividends on the Series A Preferred Stock. As a result of such deferrals, the Company may not pay dividends on any of its common or preferred stock or trust preferred securities until all accrued and deferred amounts have been paid.

GreenBank has also informally committed to the Federal Deposit Insurance Corporation ( FDIC ) and the Tennessee Department of Financial Institutions ( TDFI ) that it will maintain a Tier 1 leverage ratio of not less than 10% and a Total risk-based capital ratio of not less than 14%. Because of the significant losses that the Bank incurred in the second half of 2010 and first quarter of 2011, GreenBank s capital levels fell below these required minimum levels at December 31, 2010 and remain below these levels at March 31, 2011.

Beginning in the third quarter of 2010, the Company s Board of Directors began to work closely with management and the Company s financial advisor to explore the Company s reasonably available strategic alternatives to address the Company s credit, financial and regulatory challenges, including maintaining the status quo, selling common or preferred stock in a public or private offering, disposing of a significant amount of problem assets, a balance sheet restructuring transaction in which the Series A Preferred Stock was converted to common stock, and merging with a larger financial institution in a strategic transaction.

In September 2010, the Company formally engaged its financial advisor in connection with its exploration of these strategic alternatives. Pursuant to the terms of its engagement, the Company s financial advisor will receive a fee upon the successful consummation of the NAFH recapitalization transaction. During the two years prior to its engagement on September 16, 2010, the Company s financial advisor had no formal engagements with either the Company or NAFH.

Following their engagement in September 2010, representatives of the Company s financial advisor met with various members of the Company s senior management to discuss the Company s near and longer-term prospects assuming various scenarios.

Throughout the third and fourth quarters of 2010 and into the first quarter of 2011 the Company s Board of Directors, with the assistance of the Company s financial advisor, engaged in extensive discussions regarding the Company s strategic alternatives and the Company s Board of Directors authorized the Company s financial advisor and members of senior management to pursue all alternatives available to the Company to strengthen the Company s capital position, including pursuing discussions with Treasury regarding converting the Series A Preferred Stock into Common Stock and any discount that Treasury might be willing to accept in connection with such a conversion. The Company s Board of Directors also authorized management to provide financial information to companies that might be interested in pursuing a transaction with the Company, subject to those companies executing confidentiality agreements with the Company.

Beginning late in the third quarter of 2010, on behalf of the Company, the Company s financial advisor began contacting both potential private equity investors and possible strategic partners and inquiring as to whether these companies would have interest in pursuing a transaction with the Company. Over the next six months, on behalf of the Company, the Company s financial advisor contacted fifty potential private equity investors and sixteen potential strategic partners. The private equity investors contacted were chosen because they had generally expressed interest to the Company s financial advisor in pursuing capital investment transactions like those being considered by the Company. The strategic partners contacted were chosen because they had generally expressed to the Company s financial advisor a willingness to consider acquiring financial institutions of a similar size

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to the Company or with operations in the Company s market areas. Of these potential private equity investors and strategic partners contacted, twenty-one potential private equity investors and seven potential strategic partners, including both platform companies, like NAFH, and large, regional financial institutions, entered into a confidentiality agreement with the Company. Subsequent to these companies executing confidentiality agreements, the Company provided these interested companies with access to an online data room containing financial information about the Company and provided these interested companies with information regarding the Company s loan portfolio. Members of the Company s senior management also held in-person meetings with seventeen of the private equity sponsors and three of the strategic partners.

During the time that the Company s senior managers were having discussions with these private equity firms and potential strategic partners, the Company s results of operations continued to be negatively impacted by credit quality issues and related elevated provision expense and net charge-offs, and the Company s stock price continued to decline. During the third and fourth quarters of 2010, equity capital market conditions continued to worsen and it became increasingly more difficult for bank holding companies, particularly those experiencing significant asset quality problems like the Company, to successfully consummate public offerings. As a result, the Company s Board of Directors directed management and the Company s financial advisor to focus their efforts on raising capital through the sale of common or preferred stock in a private offering rather than a public offering and in a transaction between the Company and a strategic partner.

Throughout October 2010 and November 2010, management and the Company s financial advisor continued to have discussions with companies that were interested in making an investment in the Company or in merging with the Company, and on a regular basis the Company s Board of Directors was apprised of the results of those discussions. In November 2010, the Company received oral indications of interest from two potential private equity investors and preliminary written indications of interest from three potential strategic partners. Each of the indications from the private equity investors was conditioned on further due diligence, particularly involving the Company s loan portfolio and potential losses embedded in the portfolio. Under each proposal, additional investors would have been required to supplement these lead investors investment to raise an amount of capital that the investors thought was sufficient to capitalize the Company and GreenBank in light of the amount of losses these investors believed remained in the Company s loan portfolio. Neither of these private equity investors ever made a written offer to the Company. The three indications that the Company received from strategic partners were also conditioned on further due diligence, particularly involving the Company s loan portfolio and the potential losses embedded in the portfolio. Following their due diligence review, none of these strategic partners ever made a definitive offer to acquire the Company.

In December 2010, the Company s senior managers and its financial advisor engaged in discussions with a private equity investor ( PE Firm A ) that owned a portion of a community bank based in the Southeast ( PE Firm A s Bank ) about a transaction that would combine the Company s bank subsidiary with PE Firm A s Bank coupled with a recapitalization of the resulting entity led by PE Firm A. Over the next four months, the Company s representatives and PE Firm A s representatives had intermittent discussions about a potential transaction and PE Firm A completed a significant amount of due diligence on the Company, with particular emphasis on the Company s loan portfolio, and the Company s senior managers completed limited due diligence on PE Firm A s Bank.

During the period from December 2010 to April 2011, the Company s senior management and its financial advisor continued to engage in discussions with PE Firm A, met with a number of other private equity investors and explored other alternatives for the Company. On or about April 14, 2011, NAFH submitted a written offer to invest $202 million into the Company at a per share price of $1.00 per share and requested that the Company negotiate exclusively with NAFH for a period of thirty days to reach a definitive agreement. This offer was conditioned on, among other things, NAFH being able to secure a discount of 40% from the Treasury on the repurchase of the Series A Preferred Stock. The Company s Board of Directors met on April 15, 2011 to consider this written offer and after discussing the offer, instructed the Company s financial advisor and the Company s senior managers to notify NAFH that it was rejecting this offer because, among other things, the Board of Directors believed the per share investment price was inadequate. The Company s Board of Directors did not convey to NAFH a minimum per share investment price that would be acceptable to the Board of Directors and did not discuss as a group any such minimum price.

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Around the time that the Company received NAFH s initial written offer, the Company also received an oral indication from PE Firm A indicating that it was interested in leading a $170 million investment in the Company at a price of up to $2.00 per share, conditioned upon, among other things, the Company acquiring PE Firm A s Bank at 1.5x book value and on Treasury converting its Series A Preferred Stock to Common Stock at a 70% discount. The Company s Board of Directors met on April 15, 2011 to consider this oral indication of interest and instructed the Company s financial advisor to have PE Firm A reduce its offer to writing, which PE Firm A did, delivering a written offer to the Company on April 18, 2011. PE Firm A s written offer confirmed its oral indication of interest, although it reflected a reduction in the size of the capital investment from $170 million to $163 million. The written offer continued to be conditioned upon (1) the Company s agreeing to acquire PE Firm A s Bank s common stock at 1.5x book value, (2) the Treasury s willingness to convert the Series A Preferred Stock to Common Stock at a 70% discount and (3) PE Firm A s satisfactory completion of further financial, legal, and operational due diligence, including accounting and tax-related due diligence. In addition, PE Firm A s written offer was conditioned upon the Company implementing protections designed to ensure that the Company would be able to utilize its net operating losses and deferred tax assets following closing of the investment without limitation.

On April 18, 2011, the Company s Board of Directors met to consider PE Firm A s written offer. At that meeting, the Board of Directors authorized the Company s senior management and its financial advisor to pursue further discussions with PE Firm A. Over the next ten days, members of the Company s senior management and its financial advisor had numerous discussions with representatives of PE Firm A and representatives of PE Firm A s Bank regarding the structure of the proposed transaction and other transaction-related matters. The Company s senior managers and financial advisor also engaged in discussions with representatives of PE Firm A and PE Firm A s Bank regarding PE Firm A s Bank s prospects for growth and preliminary views on the opportunity for the combined banks. The Company s senior managers performed a limited amount of due diligence on PE Firm A s Bank, including a review of publicly available financial information regarding PE Firm s A s Bank s historical financial performance. Throughout their discussions, the Company s senior management and its financial advisor stressed to PE Firm A s representatives that the current transaction proposal had significant execution risk, particularly the requirement that Treasury convert the Series A Preferred Stock to common stock at at least a 70% discount. Based on conversations that the Company s senior management had with Treasury s representatives, the Company s senior management did not believe Treasury would agree to a discount of that magnitude.

On April 22, 2011, representatives of NAFH asked members of the Company s senior management if they could make a presentation to the Company s Board of Directors. On April 26, 2011, representatives of NAFH attended a meeting of the Company s Board of Directors and described the terms of a revised offer that NAFH was prepared to make to the Company. Pursuant to the terms of this revised offer, NAFH would acquire 100% of the Company s outstanding Common Stock in a merger transaction. The consideration paid to the Company s shareholders would be based on the closing price for the Company s common stock on that date, which was $2.09 per share, and could be paid in all cash, or in a combination of cash and equity securities of NAFH, or its subsidiary Capital Bank Corporation, although no more than 20% of the total consideration would be in the form of equity and only shareholders of the Company that qualified as accredited investors under the SEC s rules and regulations would be entitled to receive NAFH stock. Unlike its earlier offer, this offer was not conditioned on the Treasury agreeing to sell the $72.3 million of Series A Preferred Stock to NAFH at a discount although NAFH orally indicated that they continued to seek a discount from Treasury. This revised offer also included the issuance of contingent value rights to the Company s shareholders which would entitle the Company s shareholders to cash proceeds of up to $0.75 per share, based on the credit performance of GreenBank s legacy loan portfolio over the five years following closing. NAFH s representatives communicated to the Company s Board of Directors that NAFH had substantially completed its due diligence and that it had a sufficient amount of cash on hand to effect the transaction and would not require any type of financing contingency or condition. NAFH s representatives communicated to the Company s Board of Directors that NAFH needed to move quickly on this transaction and was prepared to devote the resources necessary to finalizing definitive deal documentation by April 30, 2011. At this meeting, NAFH was asked, and confirmed, that the recapitalization transaction structure it has proposed on or about April 14, 2011 was still a transaction structure that it would consider, but that the investment price under that structure would not be as high as the $2.09 price it had

offered for the merger transaction.

Following NAFH s representatives presentation at the April 26, 2011 board meeting, the Company s Board of Directors and senior management discussed with the Company s legal and financial advisors the revised NAFH proposal and the current status of the discussions with PE Firm A. The Company s Board of Directors authorized

management and the Company s financial advisor to pursue further discussions with NAFH and with PE Firm A.

Between April 26, 2011 and April 29, 2011, NAFH revised its proposals and offered the Company s Board of Directors the option of a recapitalization transaction, in which NAFH would acquire approximately $217 million of the Company s Common Stock at a per share purchase price of $1.81 per share, or alternatively, a transaction in which NAFH would acquire 100% of the Company s outstanding common stock in a merger transaction at a per share purchase price of $2.15, with the option of up to 20% of the merger consideration being in the form of Capital Bank Corporation stock. Each transaction structure included the same offer of contingent value rights. Each transaction included roughly the same closing conditions, and neither transaction was expressly conditioned on the Treasury agreeing to sell the $72.3 million of Series A Preferred Stock to NAFH at a discount. The Company s Board of Directors directed the Company s senior management and its financial advisor to continue to have discussions with NAFH regarding its proposal, including requesting that NAFH allow the Company s existing shareholders a chance to invest in the Company s common stock in a rights offering if the recapitalization transaction was consummated.

On April 29, 2011, the Company s Board of Directors met to consider the three alternatives then available to the Board of Directors the recapitalization transaction with NAFH; the merger transaction with NAFH with a per share price now at $2.15 per share; and the recapitalization transaction with PE Firm A at a per share price of up to $2.00. The Company s Board of Directors also considered the alternative of continuing to operate the Company on a stand-alone basis with an injection of new capital. In comparing the three transaction alternatives, the Company s Board of Directors considered numerous factors, including but not limited to, price, availability of financing, deal certainty, timing, the amount of capital infusion, likelihood of and timing for securing regulatory approval, its estimate of the Treasury s willingness to agree to a repurchase of the Series A Preferred Stock, and the potential investors different visions for the Company going forward. In evaluating the investment price being offered in each of the recapitalization transactions and the value of the merger consideration being offered in the NAFH merger transaction, the Board of Directors considered that each of those prices was at a discount to the Company s book value per common share (shareholders equity less preferred stock and common stock warrants) and the trading price of the Company s common stock. While the per share consideration being offered in each of the proposed structures was below the Company s book value per common share of $4.88 as of March 31, 2011, the Company s Board of Directors considered that the Company s book value per common share did not reflect NAFH s or PE Firm A s views on the potential losses embedded in the Company s loan portfolio or the impact of the purchase accounting adjustments, including the adjustments resulting from marking the loan portfolio to fair value, that would likely accompany either alternative. When evaluating the discount each alternative reflected to the current trading price of the Company s common stock, the Company s Board of Directors also considered that the trading price of the Company s common stock did not reflect NAFH s or PE Firm A s views on the potential losses embedded in the Company s loan portfolio or the impact of the purchase accounting adjustments, including the adjustments resulting from marking the loan portfolio to fair value, that would likely accompany either alternative, and did not reflect the fact that the announcement by the Company that it had consented to the issuance of a cease and desist order by the FDIC and entered into a written agreement with the TDFI, the possibility of which is discussed in more detail below, both of which would likely have negatively impacted the trading price of the Company s Common Stock.

In evaluating the various alternatives, the Company s Board of Directors considered that while PE Firm A offered the possibility of a higher nominal price per share than the NAFH recapitalization transaction, its offer was conditioned on further due diligence, Treasury agreeing to convert the Series A Preferred Stock to common stock on acceptable terms, and preservation of the Company s net operating losses and deferred tax asset. The Company s Board of Directors also believed that while the merger transaction alternative proposed by NAFH offered a higher nominal price per share than NAFH s recapitalization transaction, the Company s common stock price would likely trade higher than the value of the consideration being offered in the NAFH merger transaction, based on the trading history of certain companies that had recently announced similar recapitalization transactions whose stock prices were trading, on April 28, 2011, at premiums ranging from 115% of pro forma tangible book value per share to 270% of pro forma tangible book value per share. In addition, the Company s Board of Directors believed that the recapitalization transaction could be consummated on a more accelerated timeline than the merger transaction because the shares of Capital Bank Corporation common stock to be issued in the merger transaction would have needed to be registered

with the SEC, which would have likely added additional time to the process. The

Company s Board of Directors also believed that the NAFH recapitalization transaction, which offered the Company s shareholders an opportunity to remain shareholders of the Company and ultimately shareholders of NAFH, which has now filed a registration statement with the SEC related to its proposed initial public offering and which the Board of Directors at that time believed would be filing for its initial public offering before the end of 2011, offered the potential for further improved returns over the NAFH merger transaction in which only a portion of the consideration that the Company s shareholders would have received would have been in equity securities. The Company s Board of Directors also believed that the potential cash value to the CVRs provided a positive benefit over the recapitalization transaction involving PE Firm A, and that accordingly the NAFH recapitalization transaction offered a higher value to shareholders than the recapitalization transaction involving PE Firm A. For these reasons, the Company s Board of Directors instructed the Company s financial advisor and the senior management to focus their efforts on negotiating a recapitalization transaction with NAFH.

In instructing the Company s senior management and its financial advisor to focus their efforts on the NAFH recapitalization transaction, the Company s Board of Directors viewed the NAFH recapitalization transaction as more certain to close over PE Firm A s recapitalization transaction and to provide greater future growth opportunities for the Company and the Company s shareholders than either of the other two alternative transactions. The financing for the transaction with PE Firm A was not as secure as NAFH s readily available cash, and regulatory approval for the transaction with PE Firm A was less certain as to both timing and likelihood of approval because PE Firm A would require additional co-investors to fund the full investment. In addition to being more certain to close, the NAFH recapitalization transaction also entails a much larger capital infusion than the alternative transaction with PE Firm A, does not require that Treasury accept a discount on its Series A Preferred Stock (although NAFH indicated that it was still seeking a discount from Treasury), and is not conditioned on the Company preserving its net operating losses and deferred tax asset. Also, when considering the recapitalization transaction, the Company s Board of Directors also considered the contingent nature of the financial advisor s fee.

Beginning on April 29, 2011 and continuing through May 5, 2011, the Company s senior management and its legal and financial advisors negotiated the terms of the Investment Agreement and the ancillary documents thereto with NAFH and its advisors. The Company s legal and financial advisors sought numerous changes to the draft of the Investment Agreement submitted by NAFH, including, among others, changes to the non-solicitation provisions, elimination of the Option, and modifications to the closing conditions. The Company s legal advisor also attempted to negotiate a reduction in the size of the termination fees and a reduction in the number of situations in which those fees would be payable as well as an increase in the size of the reverse termination fee. The Company s advisors also reiterated the desire of the Company s Board of Directors that NAFH permit the Company to conduct a rights offering following consummation of the recapitalization transaction to its existing shareholders at the same per share price that NAFH was paying. NAFH was unwilling to agree to most of the changes suggested by the Company s advisors, including the request for a rights offering to be included in the transaction or for the Company being entitled to require NAFH to specifically perform its obligations under the Investment Agreement, and insisted that the agreement be signed promptly.

On May 2, 2011, GreenBank received notice from the FDIC and TDFI that, as a result of those agencies findings in their most recently completed joint safety and soundness examination, the agencies would be seeking a formal enforcement action against GreenBank aimed at strengthening GreenBank s operations and its financial condition. Accordingly, the FDIC informed the Company that it was pursuing the issuance of a consent order against GreenBank and the TDFI was pursuing the issuance of a written agreement against GreenBank and that these formal enforcement actions would likely require GreenBank to maintain capital levels at or above those minimum levels that GreenBank had informally committed to maintain (as described above), which were above those levels that GreenBank currently met. The Board of Directors believed that the issuance of this formal enforcement action would negatively impact the Company s operations and that the prompt consummation of a capital raising transaction would significantly reduce this negative impact.

On May 5, 2011, the Company s Board of Directors met for the primary purpose of considering the NAFH recapitalization transaction. Representatives of the Company s legal and financial advisors attended this meeting, as did certain members of the Company s senior management. At this meeting, the Company s financial advisor advised

the Board of Directors that the financial advisor currently anticipated that it would act as a managing underwriter in connection with NAFH s potential public offering and that the financial advisor may provide investment banking services to the Company and NAFH in the future, for which the financial advisor may receive a fee.

The Board of Directors did not believe that this potential conflict of interest impaired the financial advisor s ability to advise the Board of Directors impartially.

Following a discussion of the financial terms of the NAFH recapitalization transaction, a representative of the Company s legal advisor reviewed with the Company s Board of Directors their applicable fiduciary duties and responsibilities and described for the Board of Directors in detail the terms of the Investment Agreement and the ancillary agreements. The Company s Board of Directors considered the $1.81 per share purchase price proposed by NAFH, together with the CVR, compared to the per share prices offered in the other two alternatives as well as the potential stock price performance for the Company s Common Stock on a stand-alone basis (based on management s assumptions as to future financial performance).

In considering the $1.81 per share purchase price proposed by NAFH, the Company s Board of Directors discussed that the price was below the current trading price for the Company s common stock and current book value per share of Common Stock as well as the per share price offered by NAFH in the merger transaction alternative. Despite the fact that this price was nominally below these other per share prices, the Board of Directors believed that it was likely that the trading price of the Company s common stock would trade higher following announcement of the proposed transaction and that the trading price would likely trade higher than the $2.15 per share price offered in the merger transaction. The Board of Directors reached this conclusion based on its review of the stock price performance of the following companies that had entered into recapitalization transactions similar to the transaction proposed by NAFH since September 30, 2009: (i) Capital Bank Corporation; (ii) TIB Financial Corp.; (iii) Palmetto Bancshares, Inc.; (iv) Hampton Roads Bankshares, Inc.; (v) Pacific Capital Bancorp; (vi) Sterling Financial Corporation; and (vii) West Coast Bancorp. In the case of each of these companies, the price at which the company s stock was trading at the close of the market on May 4, 2011 ranged from 115% of the company s pro forma tangible book value per share to 213% of pro forma tangible book value per share. Applying these trading multiples to the $1.55 pro forma tangible book value per share implied by the $1.81 per share purchase price, the Board of Directors believed that it was likely that the Company s Common Stock would trade at a price higher than the price offered by NAFH in the merger transaction. The Board of Directors gave particular attention to the trading price of Capital Bank Corporation, which on May 4, 2011, was trading at 201.8% of pro forma tangible book value per share. The Board of Directors believed that the Capital Bank Corporation trading price was particularly relevant to the Company s situation given the similarities between NAFH s investment in Capital Bank Corporation and its proposed investment in the Company.

At the May 5, 2011 Board of Directors meeting, Mr. Rownd also presented the views of management regarding the proposed recapitalization transaction with NAFH, concluding with management s recommendation that the transaction be approved. After discussion, the Company s Board of Directors adopted and approved the Investment Agreement and the transactions contemplated by the Investment Agreement, including the Bank Merger described in Proposal 6, and determined that the Investment Agreement and the transactions contemplated by the Investment Agreement, including the Bank Merger, are advisable and in the best interests of the Company and its shareholders.

On May 5, 2011, the Company announced the execution of the Investment Agreement with NAFH. The Company is seeking approval to issue shares of Common Stock under the Investment Agreement to support the Company s strategic growth opportunities in the future. If the issuance of shares under the Investment Agreement is approved and the proposed transactions are consummated, the Company will receive approximately $217 million in gross proceeds from the Investment by NAFH. If the Company is unable to complete the Investment, it would materially and adversely affect the Company s business, financial results and prospects.

**Projected Financial Information**

The Company s senior management does not as a matter of course make public projections as to future performance or earnings and, especially during this period of economic uncertainty, cautions against relying on any such projections, including those summarized below. However, the Company s senior management did provide the Company s 2011 financial plan to NAFH, PE Firm A, and other potential private equity investors and strategic partners in connection with their consideration of a possible transaction with the Company. The projections included in the Company s 2011

financial plan, as well as other projections, were also provided to the Company s Board of Directors. The Company has included in this Proxy Statement the projections included in the Company s 2011 financial plan that were deemed material by the Company s Board of Directors for purposes of considering and evaluating the recapitalization transaction proposed by NAFH. The inclusion of these projections should not be regarded as an indication that the Company s management or Board of Directors or any other recipient of these or other financial projections considered, or now consider, these projections, or any other projections provided in connection with the proposed NAFH recapitalization transaction, to be a reliable prediction of future results and they should not be relied on as such.

The Company believes that the assumptions the Company s management used as a basis for preparing projections were reasonable at the time the projections were prepared, given information the Company s management had at the time. However, the projections do not take into account any circumstances or events occurring after the date they were prepared and you should not assume that the projections remain accurate as of the date of this Proxy Statement or that the projections will continue to be accurate or reflective of the Company s management s view at the time you consider whether to vote for approval of the proposals included in this Proxy Statement. The internal financial forecasts upon which these projections were based are subjective in many respects and are thus susceptible to various interpretations. The projections reflect numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, all of which are difficult to predict and many of which are beyond the Company s control. The projections are also subject to significant uncertainties in connection with changes to the Company s business and its financial condition and results of operations, and include numerous estimates and assumptions related to the Company s business that are inherently subject to significant economic, political and competitive uncertainties, including those factors described below under Forward Looking Statements beginning on page 38, all of which are difficult to predict and many of which are beyond the Company s control. As a result, although the projections set forth below were prepared in good faith based upon assumptions believed to be reasonable at the time the projections were prepared, there can be no assurance that the projected results will be realized or that actual results will not be significantly higher or lower than projected.

Since the date of the management-prepared projections set out below, the Company has made publicly available its actual results of operations for the fiscal year ended December 31, 2010 and the three months ended March 31, 2011. You should review the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, together with the information set forth in Appendix F attached hereto. Readers of this Proxy Statement are cautioned not to place undue reliance on the specific portions of the financial projections set forth below. No one has made or makes any representation to you regarding the information included in these projections or the future financial results of the Company.

For the foregoing reasons, as well as the bases and assumptions on which the financial projections presented below were compiled, the inclusion of these specific portions of the financial projections in this Proxy Statement should not be regarded as an indication that such projections will be an accurate prediction of future results or events, and they should not be relied on as such. Except as required by applicable securities laws, the Company has not updated and does not intend to update or otherwise revise the financial projections or the specific portions presented below to reflect circumstances existing after the date when such projections were made or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the projections are shown to be in error.

A summary of the above-described financial projections is set forth below:

| | Projected as of and for the fiscal year ending December 31, 2011 (dollars in thousands) |
|---|---|
| **Balance Sheet Data:** | |
| Investments and cash | $ 510,865 |
| Loans | 1,590,818 |
| Loan loss reserve | (61,662) |
| Other real estate owned | 74,246 |
| Deposits | 1,875,876 |
| Borrowings | 163,944 |
| Capital | 205,848 |
| **Income Statement Data:** | |
| Net interest income | 75,637 |
| Loan loss provision | (41,860) |
| Non-interest income | 30,414 |
| Non-interest expense | (89,556) |
| Loss before income taxes | (25,365) |
| Net loss GreenBank | (25,365) |
| Green Bankshares expenses | (7,100) |
| Consolidated net loss | (32,465) |
| **Other Financial Data:** | |
| Net charge -offs | $ 45,100 |
| **Capital Ratios:** | |
| Tier 1 leverage ratio | 8.20% |
| Total risk-based capital ratio | 12.88% |
| Tangible common equity as a percentage of tangible assets | 1.66% |

In addition to the 2011 financial plan, the Company also provided NAFH, PE Firm A and other potential private equity investors and strategic partners with a loan portfolio analysis (the Analysis ) prepared by Situs Real, LLC ( Situs ), an experienced independent loan valuation firm that has reviewed numerous loan portfolios throughout the United States, including portfolios of companies like the Company that were seeking to raise capital. The Company engaged Situs in the first quarter of 2011 after interviewing other similar firms, choosing Situs because of its reputation for providing portfolio reviews and Situs s independent approach. The Company paid Situs a fee of approximately $250,000 to perform the valuation analysis, which fee was not contingent on Situs agreeing on certain Company-mandated procedures or reaching any particular analytical results. The Company did not impose any limitations on the scope of Situs s review.

Situs s review was based on a review of the Company s loan portfolio as of December 31, 2010 and was based upon Situs s views of the prevailing economic conditions and real estate conditions as of August 2010. The Analysis included Situs s estimates of potential future losses embedded in the Company s loan portfolio over a three year time horizon. The Analysis estimated that the future cumulative losses embedded within the Company s loan portfolio at December 31, 2010 ranged between $75.3 million, in its upside case scenario, to approximately $98.7 million in its base case scenario and $173.3 million in its downside case scenario.

Because payments under the CVRs are based on Credit Losses incurred between May 5, 2011 and the five year anniversary of the Closing, the portion of any of Situs s estimated potential future losses that the Company charged off between December 31, 2010 and May 4, 2011 would be excluded from the amount of Credit Losses that the Company incurred for purposes of determining the amount of any payment due under the CVRs and Situs did

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not estimate effects during the period from December 31, 2013 through May 5, 2016. For the quarter ended March 31, 2011, the Company incurred net charge-offs totaling approximately $15.6 million.

In preparing its Analysis, Situs reviewed approximately 5,000 loans, including commercial real estate, construction and land loans ( CRE Loans ), commercial and industrial loans ( C&I Loans ) and residential real estate loans, and conducted several distinct, but related procedures, to derive collateral values and to estimate possible losses (reflecting the product of probability of default and collateral deficiencies) in the Company s loan portfolio. For GreenBank s consumer loan portfolio, Situs applied the industry loss rate calculated by the Federal Reserve. With respect to GreenBank s CRE Loans, Situs reviewed approximately 210 loans with balances totaling approximately $533.6 million, representing approximately 65.1% of the dollar value of GreenBank s loans within this segment of the portfolio at December 31, 2010. Situs s review of GreenBank s commercial and industrial loans covered approximately 70 loans with balances totaling approximately $207.0 million, representing approximately 35.7% of the dollar value of GreenBank s loans within this segment of the portfolio at December 31, 2010. The residential real estate loans reviewed by Situs covered approximately 4,700 loans totaling approximately $352.9 million, representing approximately 82.0% of the dollar value of GreenBank s loans within this segment of the loan portfolio at December 31, 2010, with the results of its review of those loans extrapolated to the remaining balance of the residential real estate portfolio.

When reviewing the selected CRE Loans, Situs categorized the loans based on two levels of review. Situs s Level 1 analysis involved an in-depth loan file review of approximately 50 loans representing approximately 37.3% of the dollar value of CRE Loans at December 31, 2010. In reviewing these loans for the possibility of default under the base case scenario, Situs s representatives reviewed a summary description of the loan history, current status and terms, collateral, financial condition of the borrower and/or guarantor, local real estate market, including market participant comments as well as sales and rent comparables, as appropriate, any collateral property s tenancy, occupancy and cash flow projections and probability of default. Level 2 analysis for those CRE Loans sampled involved calculating a possible loss estimate based on a limited file review of approximately 161 loans representing approximately 27.8% of the dollar value of CRE Loans at December 31, 2010 based on property type, geographic region and property operating information, where available, combined with the results of Situs s Level 1 analysis. Based on its review of the CRE Loans within the selected sample, Situs estimated the possible loan losses within the sampled loans within the segment of the portfolio by multiplying Situs s subjective view on the probability (expressed as a percentage) that the borrower would default on the obligation by the difference between the current amount committed on the loan and estimates of the current value of the collateral supporting the borrower s obligation. Situs then extrapolated losses across the remainder of GreenBank s portfolio of CRE Loans based on its analysis of the sampled loans. To arrive at its upside case and downside case scenarios, Situs adjusted its assumptions with respect to collateral values and probability of default downward and upward, as applicable

For its base case review of the selected sample of C&I Loans, Situs completed a Level 2 analysis of approximately 70 loans representing approximately 35.7% of the dollar value of C&I Loans at December 31, 2010. The Level 2 analysis consisted of analyzing the loan s risk rating, repayment sources, accrual status, collateral coverage, covenant structure and obligor support to help determine a probability of default, loss given default, expected exposure at default and timing of projected default. Situs s conclusions with respect to the possible losses in the sample of C&I Loans were then extrapolated across the remainder of GreenBank s portfolio of C&I Loans. To arrive at its upside case scenario, Situs increased the underlying collateral value by 10%. The downside case scenario was the result of migrating the sampled C&I Loans down one risk rating.

For its base case review of the selected sample of residential real estate loans, including mortgage and home equity loans, Situs utilized a location-correlated housing price index model, estimating mark-to-market loan to value ratios at the property level for residential loan portfolios based on relative price movements from the date of a loan s origination and/or the latest appraisal. Situs s review consisted of a residential index value assessment on approximately 4,700 loans, representing approximately 82% of the dollar value of these types of loans at December 31, 2010 Situs arrived at its estimated possible loss conclusions based on estimated loan to value ratios resulting from its review of observed historical, industry peak loss rates and forward-looking loss rate conclusions with respect to first and second mortgages and home equity lines of credit. Then, Situs calculated an estimated

probability (expressed as a percentage) that the borrower would default on the obligation based on the resulting loan to value ratios, further enhancing the probability of default by taking into account the then current loan performance,

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including loan status, days past due and credit score. To arrive at its upside case and downside case scenarios, Situs increased and decreased the estimated collateral values by 10%, respectively.

For its base case review of GreenBank s consumer loan portfolio, Situs applied the Federal Reserve s charge-off rate for consumer loans at commercial banks (excluding the top 100 banks) of 2.09% to GreenBank s consumer portfolio. To arrive at its upside case and downside case scenarios, Situs decreased and increased the loss rate by 50 basis points, respectively.

In performing its Analysis of GreenBank s CRE Loans and C&I Loans, Situs followed agreed upon procedures which included reviewing information provided by GreenBank for each of the loans reviewed utilizing a Level 1 analysis and completing market research on each piece of collateral for loans reviewed utilizing a Level 1 analysis. To estimate the probability that a borrower might default on a loan reviewed utilizing a Level 1 analysis, Situs considered a variety of factors, including loan to value ratios, debt service coverage ratios, maturity date, remaining interest reserve, additional loan support and practical sources of repayment. For each of the loans reviewed utilizing a Level 2 analysis, Situs completed a file review and limited market research, reviewing, among other things, loan approvals, property operating statements, watch list reports, criticized asset reports, appraisals and borrower/guarantor financial statements.

In performing the Analysis, Situs relied on information provided by GreenBank, including data tapes, as well as market statistics and other information provided by both public and private sources as well as interviews with market participants, including appraisers, brokers, realtors, investors and local governmental agencies. Situs representatives also engaged in discussions with members of GreenBank s senior management regarding certain individual loans. Situs did not conduct site inspections as part of the scope of its assignment and made certain assumptions about compliance with zoning restrictions and other applicable government regulations affecting properties securing collateral-dependent loans. While Situs reviewed certain financial information of guarantors of CRE Loans provided by GreenBank, it did not complete a full analysis of the guarantors financial statements and was not able to make any statement regarding a guarantor s financial condition. Accordingly, Situs s scope included subjective quantification of the recourse support available from guarantors.

The Analysis was prepared by Situs s representatives, and not by the Company or its management, and accordingly, the Analysis reflects Situs s views, including views as to the broader economic outlook for the United States and the Company s market areas, including for the housing industry, and not necessarily those of the Company s management. Further, the conclusions reached in the Analysis are based on a significant number of assumptions, including, but not limited to, assumptions related to then current and projected economic conditions in the United States and in the Company s market areas and collateral values, particularly those related to residential real estate, in the Company s market areas. The Company believes that Situs s assumptions with respect to the economic conditions for the 2011 fiscal year were not materially different than the Company s management s assumptions in preparing the management-prepared 2011 financial projections. Situs noted in the Analysis that its review should not be used for valuation purposes under generally accepted accounting principles.

Just as the Company has cautioned that the inclusion in this Proxy Statement of the management-prepared financial projections described above should not be regarded as an indication that those projections will be an accurate prediction of future results or events, and should not be relied upon as such, the Company similarly cautions it shareholders and other investors that the potential estimated loss levels described in the Analysis similarly should not be regarded as an indication that these potential estimated losses will be an accurate prediction of future losses that will be experienced in the Company s loan portfolio and should not be relied upon as such. Like the management-prepared financial projections, the estimated losses described in the Analysis do not take into account any circumstances or events occurring after the date it was prepared and you should not assume that these estimates remain accurate as of the date of this Proxy Statement or that these estimates will continue to be accurate at the time you consider whether to vote for approval for the proposals included in this Proxy Statement. Further, except as required by applicable securities laws, the Company undertakes no obligation to update or revise these estimates.

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**Effect of this Proposal**

The issuance of shares of Common Stock under the Investment Agreement will not affect the rights of the holders of currently outstanding Common Stock, but the shares issued pursuant to the Investment will cause substantial dilution to existing shareholders voting power and in the future earnings per share of their Common Stock. When the additional shares of Common Stock are issued under the Investment Agreement and assuming approval of the other proposals set forth in this Proxy Statement, such new shares will have the same voting and other rights and privileges as the currently issued and outstanding shares of Common Stock, including the right to cast one vote per share on all matters and to participate in dividends when and to the extent declared and paid.

If this proposal is approved and other closing conditions (including the approval of Proposals 2, 3, 5 and 6) are satisfied, the Company will issue 119,900,000 shares of Common Stock to NAFH, which will result in NAFH owning approximately 90.1% of the Company s outstanding Common Stock. In addition, if requested by NAFH, the Company will issue such additional shares following the closing of the Initial Investment but prior to such time as GreenBank is merged with and into a subsidiary of NAFH as are necessary to maintain GreenBank s tier l leverage ratio at or above 10%.

If the Closing occurs, no further vote of the Company s shareholders will be required to effect the merger of the Company with and into NAFH (the Holding Company Merger ), as NAFH will be a controlling majority shareholder and will be able to accomplish that transaction under the provisions of the Tennessee Business Corporation Act that allows a parent corporation that owns at least 90% of the outstanding capital stock of a subsidiary to merge that subsidiary corporation into the parent without requiring a vote of the minority shareholders. If the Holding Company Merger is completed, the Company s Common Stock would be exchanged for shares of Class A common stock of NAFH, with the Company s shareholders becoming shareholders of NAFH.

Pursuant to the terms of the Investment Agreement and as approved by the Company s Board of Directors, the exchange ratio that would be used for determining the number of shares of NAFH Class A common stock into which the Company s Common Stock would be converted in the Holding Company Merger will be based on the relative pro forma tangible book value per share of NAFH s common stock and the Company s Common Stock. In setting the exchange ratio to be used in the Holding Company Merger, the purchase accounting adjustments made in accordance with generally accepted accounting principles that will be made to the Company s and GreenBank s financial statements, including the adjustments resulting from marking GreenBank s loan portfolio to market value, would impact the Company s tangible book value per share. NAFH s board of directors has financial interests that are adverse to those of the Company s shareholders in making these adjustments as any reduction in the Company s tangible book value per common share relative to the tangible book value per share of NAFH would reduce the number of shares of NAFH Class A common stock that the Company s shareholders would receive in the Holding Company Merger.

The pro forma relative tangible book value per share of the Company s and NAFH s common stock approved by the Company s Board of Directors to be utilized in calculating the exchange ratio applicable to the Holding Company Merger is not currently known and will be impacted by the purchase accounting adjustments that will be made to the Company s financial statements in connection with the Holding Company Merger, including the adjustments resulting from marking GreenBank s loan portfolio to market value. At March 31, 2011, the Company s and NAFH s tangible book value per share of common stock was $4.41 and $17.76, respectively. The Company s tangible book value per share as of March 31, 2011 does not reflect the purchase accounting adjustments, which are expected to reduce the Company s tangible book value per share relative to the tangible book value per share of NAFH.

**Interests of the Company s Directors and Executive Officers in the Proposal**

Certain of the Company s directors and executive officers have an interest in this Proposal No. 1 as a result of their ownership of shares of Common Stock, as set forth in the section entitled Security Ownership of Certain Beneficial Owners and Management below. In addition to their interests in this Proposal No. 1 as a result of their ownership of shares of Common Stock, certain of the Company s directors and executive officers also have interests in this Proposal No. 1 that differ from, or are in addition to, those of the Company shareholders generally, because the Initial Investment and the consummation of the related transactions contemplated by the Investment Agreement

will constitute a change in control under certain employment agreements, equity plans and other benefits plans and programs in which the Company s directors and executive officers participate. The employment agreements and benefit plans and programs provide the Company s directors and officers certain additional benefits upon a change in control, subject to any applicable legal or regulatory restrictions.

In addition to the interests and benefits applicable to the Company s named executive officers as described in Proposal 7 Approval of Executive Compensation the Company s directors and executive officers have the following additional interests in the transaction with NAFH:

*Treatment of Outstanding Equity Awards*. Under the terms of the Company s Amended and Restated 2004 Long-Term Incentive Plan (the LTIP ), the vesting of the restricted stock and unvested stock options accelerate immediately prior to a change in control of the Company, including the Investment, and become fully vested. However, because of the Company s participation in the CPP any such vesting is prohibited for the Company s SEOs and next five most highly compensated employees. While the vesting of the unvested equity awards will not accelerate prior to consummation of the Investment for these individuals, it is anticipated that these unvested equity awards will accelerate following consummation of the Repurchase. Each of the named executive officers, except R. Stan Puckett, currently hold unvested equity awards which are anticipated to vest following the consummation of the Repurchase.

As of July 27, 2011, Messrs. Vaught, W. Adams and Ottinger hold 2,000, 476 and 392 unvested stock options, respectively, that are anticipated to vest following consummation of the Repurchase. None of the unvested stock options have an exercise price that is less than $1.81 and, therefore, such stock options currently have no intrinsic value.

As of July 27, 2011, Messrs. Rownd, Fowler, W. Adams and Ottinger hold 42,537, 30,865, 624 and 1,716 shares of unvested restricted stock, respectively, that are anticipated to vest following the consummation of the Repurchase.

*Potential Payments with Respect to Executive Officers.* In addition to those benefits for the named executive officers described in Proposal 7 Approval of Executive Compensation, Steve D. Ottinger, the Company s only executive officer who is not a named executive officer, is party to a Change in Control Protection Plan Participation Agreement, dated October 22, 2004, under the Company s Change in Control Protection Plan (the CIC Plan ) which provides that if Mr. Ottinger is terminated without cause or resigns with good reason (both as defined in the CIC Plan) within two years following a change in control, Mr. Ottinger would be entitled to an amount equal to 1.99 times Mr. Ottinger s base amount within the meaning of Section 280G(b)(3) of the Internal Revenue Code of 1986, as amended (the Code ), payable in lump sum. If this payment is triggered, Mr. Ottinger would be entitled to receive a payment equal to $296,898.

The independent members of the Company s Board of Directors were aware of and considered these interests, among other matters, in evaluating and negotiating the Investment Agreement and in recommending the approval of this Proposal No. 1. For an additional discussion of the additional interests of certain officers of the Company in this Proposal No. 1, please see Proposal 7 Approval of Executive Compensation.

**No Preemptive Rights**

The holders of Common Stock have no preemptive rights to any future issuances of Common Stock.

**Regulatory Approval**

*Board of Governors of the Federal Reserve System.* The acquisition of control of a bank holding company through acquisition of its securities requires the prior approval of the Board of Governors of the Federal Reserve (the Federal Reserve ) pursuant to Section 3 of the Bank Holding Company Act of 1956, as amended ( Section 3 ). Prior approval under Section 3 also is needed for NAFH to exercise the Option and acquire the underlying shares. The Federal Reserve generally will not approve an application under Section 3:

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That would result in a monopoly or that would further a combination or conspiracy to monopolize banking in the United States; or

That could substantially lessen competition in any in any banking market, that would tend to create a monopoly in any banking market, or that would be in restraint of trade, unless the Federal Reserve finds that the public interest in meeting the convenience and needs of the communities served outweighs the anti-competitive effects of the proposed transaction.

The Federal Reserve is also required to consider: (a) the financial condition and future prospects of NAFH, NAFH Bank, Green Bankshares, and GreenBank, (b) the managerial condition of the NAFH, NAFH Bank, Green Bankshares and GreenBank, (c) the convenience and needs of the communities to be served, including the record of performance under the Community Reinvestment Act of 1977, and (d) the effectiveness of NAFH, NAFH Bank, Green Bankshares and GreenBank in combating money laundering.

The statutory criteria for an interstate acquisition also must be satisfied to receive Federal Reserve approval. Such standards include that (i) NAFH is at least well capitalized and well managed under criteria determined by the Federal Reserve, unless the transaction is approved before July 21, 2011, in which case the statutory standard is that NAFH must be at least adequately capitalized and adequately managed, (ii) GreenBank has been in existence for the minimum amount of time required under state law or five years, whichever period is less, (iii) NAFH will not control deposits that exceed 10% of all deposits controlled by insured depository institutions in the United States or 30% of deposits controlled by insured depository institutions in North Carolina and (iv) certain other requirements. The parties expect to satisfy these standards.

Applicable regulations require publication of notice of a Section 3 application and an opportunity for the public to comment on the application in writing and to request a hearing. Any acquisition of the securities of the Company approved by the Federal Reserve may not be completed until 30 calendar days after such approval, during which time the U.S. Department of Justice may challenge such acquisition on anti-trust grounds and seek divestiture of certain assets and liabilities. With the approval of the Federal Reserve and the U.S. Department of Justice, the waiting period may be reduced to 15 days.

*Application*. NAFH is preparing, and expects to file soon, the necessary Section 3 application requesting approval of the Federal Reserve. The application will describe the terms of the transaction whereby NAFH would acquire the Company s securities, the parties involved, and the plan to engage in the Bank Merger immediately after the consummation of that transaction.

**Recommendation of the Company s Board of Directors**

In reaching its decision to adopt and approve the Investment Agreement and the transactions contemplated thereby, including the Bank Merger, and to recommend that the Company s shareholders approve the proposals included in this Proxy Statement, the Company s Board of Directors considered a number of factors, including, without limitation, the following potentially positive factors in support of the recapitalization transaction with NAFH:

its belief that the recapitalization transaction with NAFH was more favorable to the Company s shareholders than any other alternative reasonably available to the Company. The Board of Directors considered possible alternatives to the recapitalization transaction with NAFH, including continuing to operate the Company on a stand-alone basis, entering into the merger transaction with NAFH, or pursuing a recapitalization transaction with PE Firm A, and the risks and uncertain returns associated with each of these alternatives, each of which the Board of Directors determined not to pursue when compared to the recapitalization transaction, which the Company s Board of Directors believed offered the possibility of the highest value to the Company s shareholders because of the Board of Directors belief that (1) based on the trading prices of certain comparable recapitalization transactions, the Company s stock price would trade higher than the value of the merger consideration being offered by NAFH and (2) unlike in the NAFH merger transaction in which the Company s shareholders would receive primarily cash in exchange for their shares of Company Common Stock, the Company s shareholders would remain shareholders of the Company and as a

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result they would have the opportunity to participate in the Company s future earnings or growth, which the Company s Board of Directors believed would be improved over a stand-alone basis on account of the significant capital investment by NAFH;

the Board of Directors belief that if the Company s stock price traded higher than the per share price offered in the merger transaction the Company s shareholders could immediately sell their shares of Common Stock at a price higher than the price they would receive in the merger transaction without having to wait for the transaction to close before doing so;

the results of the extensive review of strategic alternatives conducted by the Company, with the assistance of its financial and legal advisors over a period of nine months, which involved the Company s management engaging in discussions with approximately twenty parties to determine their potential interest in a business combination or recapitalization transaction with the Company;

the conclusion of the Company s Board of Directors that the termination fees, expense reimbursements and payments potentially owning to NAFH under the Investment Agreement and the Option (and the circumstances when each such fee or payment is payable) were reasonable in light of the potential benefits to the Company and its shareholders of the recapitalization transaction with NAFH and the extensive sale process conducted by the Company;

the significant amount of cash on hand at NAFH, and the absence of a financing condition to NAFH s obligation to consummate the Investment, together with NAFH s obligation under the Investment Agreement to pay the Company a reverse termination fee in an amount equal to $8,000,000 if the Investment Agreement is terminated because NAFH breaches a covenant of the Investment Agreement (and fails to cure such breach in the time allowed in the Investment Agreement) that causes the failure of a closing condition to be satisfied; and

the conclusion by the Company s Board of Directors that consummation of the recapitalization transaction with NAFH, including the Bank Merger, would aid the Company and GreenBank in dealing with the formal regulatory enforcement action being pursued by the FDIC and the TDFI, which the Board of Directors believed would negatively impact the Company s and GreenBank s operations on a stand-alone basis.

The Board of Directors also considered and balanced against the potentially positive factors the following potentially negative factors concerning the recapitalization transaction with NAFH:

the amount of dilution that the Company s existing shareholders would incur as a result of consummation of the transactions contemplated by the Investment Agreement;

the fact that the per share purchase price being paid by NAFH was less than the trading price for the Company s Common Stock and the book value per share of Common Stock;

the risk that the NAFH recapitalization transaction might not be completed, including the risk that the banking regulators or the Company s shareholders might not approve the transaction;

the actual and potential interests of the Company s executive officers and directors in the recapitalization transaction that may be different than or in addition to those of the Company s shareholders generally (see Interests of the Company s Directors and Executive Officers in the Proposal );

the restrictions in the Investment Agreement on the Company s ability to solicit or engage in discussions or negotiations with a third party regarding other proposals and the restrictions on the ability of the Company s Board of Directors to withdraw its recommendation that the Company s shareholders vote in favor of the

proposals included in this Proxy Statement;

the requirements in the Investment Agreement and the Option that the Company pay NAFH termination fees and expense reimbursement payments of up to $16,750,000 in certain circumstances (see Overview Termination Fees Payable by the Company ); and

the possibility of employee and customer disruption associated with the recapitalization transaction.

After taking into account all of the factors set forth above, as well as others, the Board of Directors determined that the potentially positive factors outweighed the potentially negative factors and that the Investment Agreement and the transactions contemplated thereby, including the Bank Merger, are advisable and in the best interests of the Company and its shareholders. For the additional factors considered by the Company s Board of Directors in determining whether to recommend that the Company s shareholders approve the Bank Merger, see PROPOSAL 6 APPROVAL OF THE MERGER OF GREENBANK WITH AND INTO A SUBSIDIARY OF NORTH AMERICAN FINANCIAL HOLDINGS, INC. Reasons for the Bank Merger .

This discussion of the information and factors considered by the Company s Board of Directors is not intended to be exhaustive, but is believed to address the material information and factors considered by the Company s Board of Directors. In view of the number and variety of these factors, the Company s Board of Directors did not find it practicable to make specific assessments of, or otherwise assign relative weights to, the specific factors and analyses considered in reaching its determination. The determination to adopt and approve the Investment Agreement and the transactions contemplated thereby, including the Bank Merger, was made after consideration of all of the factors and analyses as a whole. In deciding to adopt and approve the Investment Agreement and the transactions contemplated thereby, including the Bank Merger, individual members of the Company s Board of Directors may have given different weights to the different factors considered by the Board of Directors.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK TO NAFH UNDER THE INVESTMENT AGREEMENT.**

## PROPOSAL 2 AMENDMENT TO THE COMPANY S CHARTER TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is conditioned upon shareholder approval of this Proposal No. 2 as well as approval of Proposals No. 1, 3, 5 and 6 and, in certain circumstances, approval of Proposal No. 4. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 2 as well as Proposals No. 1, 3, 4, 5 and 6.**

On May 5, 2011, the Board of Directors approved and adopted, subject to shareholder approval, a proposed amendment to the Company s Charter, providing for an increase in the authorized number of shares of Common Stock from twenty million (20,000,000) to three hundred million (300,000,000). In order for this amendment to the Company s Charter to be approved, the number of shares voted in favor of the amendment must exceed the number of shares voted against the amendment.

If this proposal is approved by the Company s shareholders at the Special Meeting, the amendment to the Charter will become effective upon the filing of Articles of Amendment with the Secretary of State of Tennessee, which filing is expected to take place shortly after the Special Meeting. The Board of Directors believes that it is in the best interests of the Company and all of its shareholders to amend the Charter to increase the authorized number of shares of Common Stock from twenty million (20,000,000) to three hundred million (300,000,000).

Except as set forth below and elsewhere in this Proxy Statement, the relative rights of the holders of Common Stock under the Charter would remain unchanged. The text of this proposed amendment to Company s Charter is set forth in Appendix B to this proxy statement.

**Reasons for this Proposal**

The reasons for the increase in the authorized shares of Common Stock are (i) to facilitate the Company s ability to issue shares to NAFH in connection with the Investment Agreement and (ii) for other corporate purposes. As part of the Company s efforts to increase the resources of GreenBank, the Company has executed the Investment Agreement, pursuant to which 119,900,000 shares of the Company s Common Stock will be issued to NAFH at a purchase price of $1.81 per share. The proposed amendment would increase the number of authorized shares of Common Stock by two hundred eighty million (280,000,000) shares. Other than with respect to the Initial Investment and the Top-Up Investment, the Board of Directors has no present agreement, arrangement or commitment to issue any of the remaining shares for which approval is sought.

The Board of Directors has determined that this proposal to increase the number of authorized shares of Common Stock is desirable and in the best interest of shareholders because it would provide the Company with the ability to support its present capital needs and future anticipated growth. Additionally, an increase in the amount of authorized shares is necessary to ensure that the Company has an adequate amount of authorized and unissued shares to complete the issuance of shares of Common Stock to NAFH in connection with the Investment.

**Effect of this Proposal**

Adoption of this proposal would not affect the rights of current holders of outstanding Common Stock. If additional authorized shares of Common Stock, or securities that are convertible into or exchangeable or exercisable for shares of Common Stock, are issued, our existing shareholders could, depending upon the price realized, experience dilution of book value per share, earnings per share and percentage ownership. When, and if, additional shares of our Common Stock are issued, including under the Investment Agreement, these new shares would have the same voting and other rights and privileges as the currently issued and outstanding shares of Common Stock, including the right to cast one vote per share and to participate in dividends when and to the extent declared and paid.

The following table illustrates the effect the proposed amendment would have on the number of shares of Common Stock available for issuance, if approved by the shareholders:

| | As of June 30, 2011 | Upon Effectiveness of Amendment |
|---|---|---|
| Shares of Common Stock Authorized | 20,000,000 | 300,000,000 |
| Shares of Common Stock Outstanding | 13,239,090 | 13,239,090 |
| Shares of Common Stock Reserved for Issuance* | 1,050,937 | 1,050,937 |
| Shares of Common Stock Available for Future Issuance | 5,709,973 | 285,709,973 |
| Shares of Common Stock to be Issued in Connection with Investment Agreement | 119,900,000 | 119,900,000 |

* The number of shares of Common Stock reserved for issuance includes 979,874 shares of Common Stock subject to outstanding options at June 30, 2011 and 72,278 shares of Common Stock subject to the Treasury Warrant.

This proposed amendment is required to effect the Investment and is not intended as an anti-takeover provision. However, an increase in the authorized number of shares of Common Stock could make it more difficult, and thereby discourage, attempts to acquire control of the Company in the future.

**No Preemptive Rights**

The holders of Common Stock have no preemptive rights to any future issuances of Common Stock.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY S CHARTER TO AUTHORIZE ADDITIONAL SHARES OF COMMON STOCK.**

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## PROPOSAL 3 AMENDMENT TO THE COMPANY S CHARTER TO DECREASE THE PAR VALUE OF COMMON STOCK

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is conditioned upon shareholder approval of this Proposal No. 3 as well as Proposals No. 1, 2, 5 and 6 and, in certain circumstances, approval of Proposal No. 4. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 3 as well as Proposals No. 1, 2, 4, 5 and 6.**

On May 5, 2011, the Board of Directors approved and adopted, subject to shareholder approval a proposed amendment to the Company s Charter, providing for a reduction to the par value of Common Stock from $2.00 per share to $0.01 per share. In order for the amendment to the Company s Charter to be approved, the number of shares voted in favor of the amendment must exceed the number of shares voted against the amendment.

If the proposal is approved by the Company s shareholders at the Special Meeting, the amendment to the Charter and the reduction in par value will become effective upon the filing of Articles of Amendment with the Secretary of State of Tennessee, which filing is expected to take place shortly after the Special Meeting. The Board believes it is in the best interest of the Company and all of its shareholders to amend the Charter to decrease the par value.

Historically, the concept of par value served to protect creditors and senior security holders by ensuring that a company received at least the par value as consideration for issuance of stock. Over time, the concept of par value has lost much of its significance. Many companies that incorporate today use a nominal par value or have no par value. The reduction in the par value of Company s Common Stock will have no effect on the rights of holders of Company Common Stock except for the minimum amount per share the Company may receive upon the issuance of authorized but unissued shares. The reduction in par value, on its own, will not change the number of authorized shares of Company Common Stock or the value of Common Stock currently issued and outstanding.

Furthermore, under Tennessee law, the setting of a par value for shares does not create a requirement for a minimum consideration for the issuance of such shares or impose any other restriction on their issuance. The Board of Directors considers the proposed amendment to be in the best interests of the Company and its shareholders because it is a condition to the completion of the Investment and because the it will eliminate any possible confusion over whether the Investment is permissible since the per share purchase price ($1.81) under the terms of the Investment Agreement is below the current stated par value per share of Company Common Stock ($2.00). Shareholder approval of this proposed amendment alone will not assure that the Company will be able to consummate the transaction with NAFH; however, the approval of this amendment is necessary under the Investment Agreement in order to proceed with the NAFH transaction.

The text of this proposed amendment to the Company s Charter is set forth in Appendix B to this proxy statement.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY S CHARTER TO REDUCE THE PAR VALUE OF SHARES OF COMMON STOCK.**

## PROPOSAL 4 AMENDMENT TO THE COMPANY S CHARTER TO EXEMPT NORTH AMERICAN FINANCIAL HOLDINGS, INC. AND ITS AFFILIATES AND ASSOCIATES FROM THE PROVISIONS OF SECTION 9

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is, in certain circumstances, conditioned upon shareholder approval of this Proposal No. 4 as well as in all circumstances approval of Proposals No. 1, 2, 3, 5 and 6. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 4 as well as Proposals No. 1, 2, 3, 5 and 6.**

On May 5, 2011, the Board of Directors approved and adopted, subject to shareholder approval, a proposed amendment to the Company s Charter, expressly exempting NAFH and its affiliates and associates from the business combination provisions found in Section 9 of the Charter. In order for the amendment to the Company s Charter to be approved, the proposal must be approved by the affirmative vote of at least 80% of the outstanding shares of voting stock entitled to vote on the matter.

If this proposal is approved by the Company s shareholders at the Special Meeting, the amendment to the Charter will become effective upon the filing of Articles of Amendment with the Secretary of State of Tennessee, which filing is expected to take place shortly after the Special Meeting. The Board of Directors believes that it is in the best interests of the Company and its shareholders to amend the Charter to expressly exempt NAFH and its affiliates and associates from the provisions of Section 9 of the Charter. Shareholder approval of this proposed amendment alone will not ensure that the Company will be able to consummate the transaction with NAFH.

The text of this proposed amendment to Company s Charter is set forth in Appendix C to this Proxy Statement.

**Reasons for this Proposal**

Section 9 of the Charter currently provides that a business combination (such as a merger, consolidation, sale of over $1 million of the Company s stock or assets or similar transactions) with an interested shareholder (defined as a person owning, either directly or indirectly, 10% or more of the voting stock of the Company) must be approved by (i) the affirmative vote of at least 80% of the outstanding shares of voting stock and (ii) the affirmative vote of a majority of the outstanding shares of voting stock not including the voting stock beneficially owned by an interested shareholder. This increased vote, however, is not required if the business combination is approved by a majority of the disinterested directors or if the business combination meets certain conditions specified in the Charter. The Charter also provides that this provision may not be amended or repealed unless approved by both the affirmative vote of at least 80% of the outstanding shares of voting stock and the affirmative vote of a majority of the outstanding shares of voting stock not including shares beneficially owned by the interested shareholder.

The Board of Directors has determined that this proposal to expressly exempt NAFH and its affiliates and associates from the business combination requirements found in Section 9 of the Charter is desirable and in the best interest of the Company s shareholders because it may facilitate the consummation of the transactions contemplated by the Investment Agreement. As described in the Investment Agreement, following the Closing, NAFH intends to merge GreenBank with and into a subsidiary of NAFH (the Bank Merger ). In addition, following the Closing and as described in the Investment Agreement, NAFH intends to consummate the Holding Company Merger. A majority of disinterested directors on the Board of Directors has already approved the Company s entering into the Investment Agreement, pursuant to which 119,900,000 shares of Common Stock will be issued to NAFH at a purchase price of $1.81 per share as well as the Bank Merger and the Holding Company Merger on the terms described in the Investment Agreement. The proposed amendment to expressly exempt NAFH and its affiliates and associates from the provisions of Section 9 of the Charter is being sought to facilitate the Bank Merger and the Holding Company Merger and avoid the potential delay and expense of NAFH possibly having to comply with the supermajority voting requirements of Section 9 of the Charter in connection with the Bank Merger and the Holding Company Merger or future transactions with NAFH, which following the Closing will own approximately 90.1% of the Company s Common Stock. For more information on the Holding Company Merger, including NAFH s ability to consummate the Holding Company Merger without the need for the affirmative vote of any of the Company s other shareholders approving the Holding Company Merger see Proposal 1 - Approval of the Issuance of Shares of Common Stock Under the Investment Agreement - Effect of this Proposal.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY S CHARTER TO EXPRESSLY EXEMPT NORTH AMERICAN FINANCIAL HOLDINGS, INC. AND ITS AFFILIATES AND ASSOCIATES FROM SECTION 9 OF THE CHARTER.**

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## PROPOSAL 5 AMENDMENT TO THE COMPANY S CHARTER TO REMOVE SECTION 8(J) SO THAT THE TENNESSEE CONTROL SHARE ACQUISITION ACT WILL NOT APPLY TO THE COMPANY AND ITS SHAREHOLDERS

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is conditioned upon shareholder approval of this Proposal No. 5 as well as approval of Proposals No. 1, 2, 3 and 6 and, in certain circumstances, approval of Proposal No. 4. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 5 as well as Proposals No. 1, 2, 3, 4 and 6.**

On May 5, 2011, the Board of Directors approved and adopted, subject to shareholder approval, a proposed amendment to the Company s Charter to remove a provision in the Company s Charter whereby the Company elected to have the Tennessee Control Share Acquisition Act, Section 48-103-301, *et seq.* of the Tennessee Business Corporation Act, apply to the Company. In order for this amendment to the Company s Charter to be approved, the number of shares voted in favor of the amendment must exceed the number of shares voted against the amendment.

If the proposal is approved by the Company s shareholders at the Special Meeting, this amendment to the Charter will become effective upon the filing of Articles of Amendment with the Secretary of State of Tennessee, which filing is expected to take place shortly after the Special Meeting. The Board of Directors believes it is in the best interest of the Company and all of its shareholders to amend the Charter to remove the provision by which the Company has elected to be governed by the Tennessee Control Share Acquisition Act.

The Tennessee Control Share Acquisition Act generally takes away certain voting rights of a purchaser any time the purchaser acquires shares of certain Tennessee corporations equal to 20%, 33-1/3%, or more than 50% of all voting power in such corporation. The purchaser s voting rights can be maintained or re-established only by a majority vote of all the shares entitled to vote generally with respect to the election of directors other than those shares owned by the purchaser and the officers and inside directors of the corporation.

The Company s Board of Directors considers the proposed amendment to be in the best interests of the Company and its shareholders because it will allow for the issuance and sale of shares of Common Stock to NAFH pursuant to the terms of the Investment Agreement. The Investment will result in NAFH owning approximately 90.1% of the Company s outstanding Common Stock. An amendment to the Company s Charter to eliminate the applicability of the Tennessee Control Share Acquisition Act is necessary in order for NAFH to maintain voting rights with respect to the shares being purchased. Shareholder approval of this amendment alone will not ensure that the Company will be able to consummate the transaction with NAFH; however, the approval of this amendment is necessary in order to proceed with the NAFH transaction.

The text of this proposed amendment to the Company s Charter is set forth in Appendix D to this Proxy Statement.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY S CHARTER TO REMOVE SECTION 8(J) FROM THE CHARTER SO THAT THE TENNESSEE CONTROL SHARE ACQUISITION ACT WILL NOT APPLY TO THE COMPANY AND ITS SHAREHOLDERS.**

## PROPOSAL 6 APPROVAL OF THE MERGER OF GREENBANK WITH AND INTO A SUBSIDIARY OF NORTH AMERICAN FINANCIAL HOLDINGS, INC.

**Subject to the terms of the Investment Agreement, the investment by NAFH in the Company is conditioned upon shareholder approval of this Proposal No. 6 as well as Proposals No. 1, 2, 3 and 5 and, in certain circumstances, Proposal No. 4. Shareholders who wish to approve NAFH s investment in the Company should vote to approve this Proposal No. 6 as well as Proposals No. 1, 2, 3, 4 and 5.**

On May 5, 2011, the Board of Directors approved and adopted, subject to shareholder approval, the merger of GreenBank with and into a subsidiary of NAFH, or the Bank Merger. In order for the Bank Merger to be

approved, this proposal must receive the affirmative vote of a majority of shares of Common Stock outstanding as of the Record Date and entitled to vote thereon.

If the proposal is approved by the Company s shareholders at the Special Meeting, the Bank Merger will become effective upon the filing of Articles of Merger with the Secretary of State of Tennessee and the Office of the Comptroller of the Currency, which filing is expected to take place shortly after the Closing. The Board of Directors believes it is in the best interest of the Company and all of its shareholders to approve the Bank Merger.

**Terms of the Bank Merger**

Pursuant to the terms of the Investment Agreement, the Board of Directors of the Company is requesting that the Company s shareholders approve the merger of GreenBank with and into NAFH Bank, a national banking association organized under the laws of the United States and subsidiary of NAFH pursuant to an Agreement and Plan of Merger (the Merger Agreement ), that was previously approved by the Board of Directors of the Company, GreenBank, NAFH and NAFH Bank. Pursuant to the Merger Agreement and at the effective time of the Bank Merger, each share of common stock of GreenBank currently held by the Company will be exchanged for a number of shares common stock of NAFH Bank equal to the ratio of the tangible book value of GreenBank to the tangible book value of NAFH Bank, in each case as of the end of the then most recently completed fiscal quarter and all issued and outstanding shares of GreenBank will be cancelled. At the effective time of the Bank Merger, NAFH Bank will assume all liabilities of GreenBank and the separate corporate existence of GreenBank will cease. The Company s shareholders will not receive any consideration in connection with the Bank Merger and all rights of the Company s shareholders will remain the same with respect to shares of the Company s common stock owned by the shareholders. If the Bank Merger is approved and thereafter consummated the Company will own approximately 36% of the resulting bank, rather than 100% of GreenBank. A copy of the Merger Agreement is attached to this Proxy Statement as Appendix E.

In connection with the Bank Merger, no shareholder of the Company will have dissenter s rights or any other appraisal rights with respect to the shares of Common Stock owned by them.

**Business of GreenBank**

GreenBank is a Tennessee-chartered commercial bank established in 1890 which has its principal executive offices located at 111 North Main Street, Greeneville, Tennessee 37743 and its telephone number is (423) 639-5111. As of March 31, 2011, GreenBank had assets of approximately $2.39 billion, $1.61 billion in loans and $1.98 billion in deposits. The principal business of GreenBank consists of attracting deposits from the general public and investing those funds, together with funds generated from operations and from principal and interest payments on loans, primarily in commercial and residential real estate loans, commercial loans and installment consumer loans. At March 31, 2011, GreenBank had 63 Tennessee-based full-service banking offices located in Greene, Blount, Cocke, Hamblen, Hawkins, Knox, Loudon, McMinn, Monroe, Sullivan, and Washington Counties in East Tennessee and in Davidson, Lawrence, Macon, Montgomery, Rutherford, Smith, Sumner and Williamson Counties in Middle Tennessee. GreenBank also operates two other full service branches one located in nearby Madison County, North Carolina and the other in nearby Bristol, Virginia. Further, GreenBank operates a mortgage banking operation in Knox County, Tennessee.

Deposits of GreenBank are insured by the Deposit Insurance Fund ( DIF ) of the FDIC. GreenBank is subject to comprehensive regulation, examination and supervision by the TDFI, the FRB and the FDIC.

For additional information relating to GreenBank and the Company, including the financial condition and results of the Company s operations, please see Appendix F.

**Business of NAFH**

NAFH is a bank holding company incorporated in late 2009 with the goal of creating a regional banking franchise in the southeastern region of the United States through organic growth and acquisitions of other banks, including failed, underperforming and undercapitalized banks. NAFH was founded by a group of experienced bankers with a record of leading, operating, acquiring and integrating financial institutions. In December 2009 and

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January 2010, NAFH raised approximately $900 million to make acquisitions through a series of private placements of its common stock. On June 24, 2011, NAFH filed a registration statement with the SEC related to its proposed initial public offering of up to $300 million of its Class A common stock.

Since its founding, NAFH has acquired five depository institutions, including the assets and certain deposits of three failed banks from the FDIC, and operates branches located in North Carolina, South Carolina and Florida. In 2010 and 2011, NAFH deployed some of the proceeds from its private offerings in the following transactions:

On July 16, 2010, NAFH commenced banking operations when it purchased approximately $1.2 billion of assets and assumed approximately $960 million of deposits of three failed banks from the FDIC: First National Bank of the South of Spartanburg, South Carolina, Metro Bank of Dade County of Miami, Florida and Turnberry Bank of Aventura, Florida (collectively, the Failed Banks ). The transactions included 13 branches located in South Carolina and 10 branches located in Florida. NAFH purchased assets of approximately $1.4 billion and assumed deposits of approximately $1.2 billion from the Failed Banks. In connection with the acquisition, NAFH entered into loss-sharing arrangements with the FDIC covering approximately $796 million of loans and real estate owned of the Failed Banks that NAFH acquired.

On September 30, 2010, NAFH invested approximately $175 million in TIB Financial, a bank holding company headquartered in Naples, Florida with approximately $1.7 billion in assets and 28 branches in southwest Florida at the acquisition date, and acquired approximately 94% of that company s common stock after giving effect to a subsequent rights offering to legacy TIB Financial Corp. shareholders. On April 27, 2011, NAFH combined TIB Financial Corp. s banking subsidiary, TIB Bank, with NAFH Bank in an all stock transaction.

NAFH s primary business is to offer a wide range of commercial and consumer loans and deposits, as well as ancillary financial services. NAFH s strategy is to build a mid-size regional bank by operating, integrating and growing its existing operations as well as to acquire other banks, including failed, underperforming and undercapitalized banks. NAFH seeks to create a mid-sized regional bank that will be able to realize greater economies of scale compared to smaller community banks while still providing more personalized, local service than large-sized banks.

NAFH currently leases office space in Miami, Florida for its principal executive offices. As of March 31, 2011, NAFH operated 37 branches in Florida, 32 in North Carolina and 13 in South Carolina.

**Litigation Matters**

From time to time NAFH is a party to various litigation matters incidental to the conduct of its business. NAFH is not presently party to any such legal proceeding the resolution of which we believe would have a material adverse effect on its business, operating results, financial condition or cash flow.

On May 12, 2011, a shareholder of the Company filed a putative class action lawsuit (styled Betty Smith v. Green Bankshares, Inc. et al., Case No. 11-625-III, Davidson County, Tennessee, Chancery Court) against the Company, the Bank, the Company s Board of Directors (Steven M. Rownd, Robert K. Leonard, Martha M. Bachman, Bruce Campbell, W.T. Daniels, Samuel E. Lynch, Bill Mooningham, John Tolsma, Kenneth R. Vaught, and Charles E. Whitfield, Jr.) and NAFH on behalf of all persons holding common stock of the Company. This complaint, which has been subsequently amended, was filed following the Company s public announcement on May 5, 2011 of its entering into the Investment Agreement with NAFH and relates to the proposed investment in the Company by NAFH. The amended complaint alleges that the individual defendants breached their fiduciary duties

by accepting a sale price for the shares to be sold to NAFH that was unfair to the Company s shareholders and by issuing a proxy statement that contained material omissions. The complaint also alleges that the Company, the Bank and NAFH aided and abetted these breaches of fiduciary duty. It seeks injunctive relief and/or rescission of the proposed investment by NAFH and fees and expenses in an unspecified amount.

On May 25, 2011, another shareholder of the Company filed a similar putative class action lawsuit (styled Mark McClinton v. Green Bankshares, Inc. et al., Case No. 11-CV-284ktl, Greene County Circuit Court, Greeneville, Tennessee) against the Company, the Company s Board of Directors and NAFH on behalf of all persons holding the Company s common stock. The complaint similarly alleges that the individual defendants breached their fiduciary duties to the Company by agreeing to sell shares to NAFH at a price unfair to the Company s shareholders. The complaint also alleges that the Company and NAFH aided and abetted these breaches of fiduciary duty. It seeks and injunction and/or rescission of NAFH s investment in the Company and fees and expenses in an unspecified amount.

On June 16, 2011, another shareholder of the Company filed a putative class action lawsuit (styled Thomas W. Cook Jr. v. Green Bankshares, Inc. et al., Civil Action No. 2:11-cv-00176, United States District Court for the Eastern District of Tennessee, Greeneville) against the Company, the Company s Board of Directors and NAFH on behalf of all persons holding the Company s common stock. The complaint alleges that the individual defendants breached their fiduciary duties to the Company by failing to maximize shareholder value in the proposed transaction with NAFH. The complaint also alleges that the Company and the individual defendants violated the securities laws by issuing a Preliminary Proxy Statement that contains alleged material misstatements and omissions. The complaint also alleges that the Company and NAFH aided and abetted the breaches of fiduciary duty. It seeks an injunction and/or rescission of NAFH s investment in the Company, monetary damages and fees and expenses in an unspecified amount.

On July 6, 2011, another shareholder of the Company filed a lawsuit (styled Barbara N. Ballard v. Stephen M. Rownd, et al., Civil Action No. 2:11-cv-00201, United States District Court for the Eastern District of Tennessee, Greeneville) against the Company, the Company s Board of Directors and NAFH asserting an individual claim that alleges that the individual defendants violated the securities laws by issuing a Preliminary Proxy Statement that contains alleged material misstatements and omissions. The complaint also alleges a class action claim on behalf of all persons holding the Company s common stock against the individual defendants for breach of fiduciary duty based on these same alleged material misstatements and omissions. The complaint also alleges that the Company and NAFH aided and abetted the breaches of fiduciary duty. It seeks an injunction and/or rescission of NAFH s investment in the Company and fees and expenses in an unspecified amount.

On July 26, 2011, the parties to the above-referenced class action lawsuits reached an agreement in principle to resolve these lawsuits on the basis of the inclusion of certain additional disclosures regarding the NAFH transaction in this Proxy Statement. The proposed settlement is subject to, among other things, court approval.

NAFH intends to defend these matters vigorously and cannot predict their outcome.

**Reasons for the Bank Merger**

A condition to the Closing is the approval by the shareholders of the Company of the Bank Merger. The Company is seeking your approval of the Bank Merger because the Company s results of operations and financial condition are principally made up of GreenBank s results of operations and financial condition. The Board of Directors of the Company believes that the Investment and the Bank Merger are in the best interests of the Company s shareholders and in connection with the Investment recommends that the Company s shareholders approve the Bank Merger. Each of the Board of Directors of the Company, GreenBank, NAFH and NAFH Bank believes that the Bank Merger is in the best interest of their respective entities and shareholders. In arriving at their determination, each of the respective boards considered a number of factors, including the following:

- The Bank Merger is expected to create significant operating efficiencies by consolidating the loan operations, deposit operations, ALCO and risk management, budgeting, marketing, financial reporting and compliance functions of the two banks;

- The Bank Merger will result in a bank with increased size and scale;

The Bank Merger will expand NAFH Bank s and GreenBank s overall geographic coverage;

The Bank Merger is expected to be a tax free transaction; and

The Bank Merger is expected to mitigate the regulatory burden of operating two stand alone banks regulated by two different federal regulators.

In addition to the above factors, the Board of Directors of the Company, in determining whether to recommend approval of the Bank Merger to the Company s shareholders, also considered publicly available historical financial information related to NAFH s five completed acquisitions and the March 31, 2011 financial condition and capital position of NAFH Bank and NAFH s Capital Bank subsidiary. The Company s Board of Directors also considered, when considering whether to recommend approval of the Bank Merger to the Company s shareholders, the Company s and GreenBank s tangible book value and the Company s shareholders tangible common equity ownership in the Company as of March 31, 2011 and on an estimated pro forma basis after giving effect to NAFH s investment in the Company, both before and after giving effect to the Bank Merger, and in each case after giving effect to the estimated purchase accounting adjustments to be made in connection with the transaction, including as a result of the marking to market of GreenBank s loan portfolio. The Company s Board of Directors, when considering whether to recommend approval of the Bank Merger to the Company s shareholders, also considered the fact that the exchange ratio to be utilized in calculating the number of NAFH Bank common shares to be issued to the Company in connection with the Bank Merger would be calculated on the basis of GreenBank s and NAFH Bank s tangible book value per share, after giving effect to any purchase accounting adjustments to be made in connection with the transaction, including as a result of the marking to market of GreenBank s loan portfolio.

The Company did not receive a fairness opinion from its financial advisor regarding whether the consideration offered by NAFH in the Bank Merger was fair, from a financial point of view, to GreenBank s shareholder or the Company s shareholders.

The Company s Board of Directors believed that the critical aspect of the transaction was to raise capital. Given the Company s regulatory posture and diminished capital resources, and after having canvassed the market for merger partners and significant investors, the Company s Board determined that the NAFH recapitalization presented the best course of action for the Company and its shareholders. The Company s Board of Directors understood that a capital raising transaction such as the Investment by NAFH, which does not involve a sale of control by existing shareholders to a third party, is not the type of transaction that would typically lend itself to a fairness analysis on the part of a financial advisor. As to the Bank Merger, which is an ancillary component to the principal recapitalization transaction, the Company s Board of Directors believed that it had sufficient information regarding GreenBank s historical results and prospects and the historical results and prospective business plans of NAFH Bank, as well as sufficient understanding of the transaction structure, to reach an informed decision, without requiring a fairness opinion from its financial advisor, and that merging the two banks together on the basis of the pro forma tangible book value of each bank was advisable.

The foregoing discussion of the information and factors considered by each of the respective board of directors is not exhaustive, but includes the material factors considered by such board of directors. In view of the wide variety of factors considered by each board of directors in connection with its evaluation of the Bank Merger and the complexity of such matters, each board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision.

**Background of the Bank Merger**

The Bank Merger is an ancillary step in the Investment and the other transactions with NAFH. For a background of the Investment and the Company s reasons for seeking to consummate the Investment, please see Proposal 1 Approval of the Issuance of Shares of Common Stock Under the Investment Agreement Reasons for this Proposal .

**Unaudited Historical and Pro Forma Comparative Per Share Data**

The following table shows comparative per share data about the Company s and NAFH s historical and pro forma net income, cash dividends and book value. The comparative per share data below provides the Company s

shareholders

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with information about the value of their shares of Common Stock prior to the Bank Merger as opposed to the value of their shares of Common Stock after the Bank Merger and once the two companies are combined.

You should not rely on the pro forma information as necessarily indicative of historical results the Company would have experienced had GreenBank been combined with NAFH Bank or of future results the Company will have after the Bank Merger. In addition, you should not rely on the three-month information as indicative of results for the entire year.

This information should be read in conjunction with the historical consolidated financial statements (and the related notes to these statements) of the Company and NAFH, which are attached hereto as Appendix F and G, respectively.

The pro forma data in the table below assumes that the Initial Investment is accounted for using the acquisition method of accounting and represents a current estimate based on available information of the combined company s results of operations. The significant pro forma assumptions include estimates regarding fair value adjustments to the balance sheet as well as the amortization/accretion impact of those adjustments on results of operations.

The pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible cost savings, revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the combined company would have been had the companies been combined during these periods. Upon completion of the Bank Merger, a portion of the operating results of the resulting bank will be reflected in the consolidated financial statements of the Company on a prospective basis.

**Unaudited Historical and Pro Forma Per Share Data**

| | **Company Per Share Data (As Reported)** | **NAFH Per Share Data (As Reported)** | **Company Per Share Data (Pro Forma)** | **NAFH Per Share Data (Pro Forma)** |
|---|---|---|---|---|
| **Three months ended March 31, 2011** | | | | |
| Net income (loss) per share, basic | **$ (0.88)** | $ 0.01 | $ 0.04 | $ 0.11 |
| Net income (loss) per share, diluted | **(0.88)** | 0.01 | 0.04 | 0.11 |
| Dividends | | | | |
| Common book value per share | **$ 4.88** | $19.56 | $1.90 | $19.53 |
| **Year ended December 31, 2010** | | | | |
| Net income (loss) per share, basic | **(6.54)** | 0.32 | 0.13 | 0.72 |
| Net income (loss) per share, diluted | **(6.54)** | 0.32 | 0.13 | 0.72 |
| Dividends | | | | |
| Common book value per share | **5.75** | 19.49 | 1.98 | 19.45 |

**Regulatory Approval**

*Office of the Comptroller of the Currency.* The merger of two banks in which the surviving bank is a national bank requires the approval of the Office of the Comptroller of the Currency. The Office of the Comptroller of the Currency will review the Bank Merger. The Office of the Comptroller of the Currency generally will not approve any merger:

That would result in a monopoly or that would further a combination or conspiracy to monopolize banking in the United States; or

That could substantially lessen competition in any banking market, that would tend to create a monopoly in any banking market, or that would be in restraint of trade, unless the Office of the Comptroller of the

Currency finds that the public interest in meeting the convenience and needs of the communities served outweighs the anti-competitive effects of the proposed transaction.

The Office of the Comptroller of the Currency is also required to consider the financial and managerial resources and future prospects of GreenBank and NAFH Bank and the convenience and needs of the communities to be served. Under the Community Reinvestment Act of 1977, the Office of the Comptroller of the Currency also must take into account the record of performance of GreenBank and NAFH Bank in meeting the credit needs of their communities, including low and moderate-income neighborhoods. The Office of the Comptroller of the Currency also must consider the effectiveness of GreenBank and NAFH Bank in combating money laundering.

The statutory criteria for an interstate combination also must be satisfied to receive Office of the Comptroller of the Currency Approval. Such standards include that (i) NAFH Bank is at least well capitalized and well managed under criteria determined by the Office of the Comptroller of the Currency, unless the transaction is approved before July 21, 2011, in which case the statutory standard is that NAFH must be at least adequately capitalized and adequately managed, (ii) GreenBank has been in existence for the minimum amount of time required under state law or five years, whichever is less, (iii) NAFH will not control deposits that exceed 10% of all deposits controlled by insured depository institutions in the United States or 30% of deposits controlled by insured depository institutions in North Carolina and (iv) certain other requirements. The parties expect to satisfy these standards.

Applicable regulations require publication of notice of an application for approval of the Bank Merger and an opportunity for the public to comment on the application in writing and to request a hearing. Any merger approved by the Office of the Comptroller of the Currency generally may not be completed until 30 days after such approval, during which time the U.S. Department of Justice may challenge such transaction on antitrust grounds and seek divestiture of certain assets and liabilities. With the approval of the Office of the Comptroller of the Currency and the U.S. Department of Justice, the waiting period may be reduced to 15 days.

*Application.* GreenBank and NAFH Bank have filed the necessary application with the Office of the Comptroller of the Currency, requesting approval of the Bank Merger. The application describes the terms of the Bank Merger, the parties involved, and the activities to be conducted by the combined companies as a result of the Bank Merger, and contain certain related financial and managerial information. Copies of the application were provided to the U.S. Department of Justice and other governmental agencies.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF THE BANK MERGER.**

## PROPOSAL 7 APPROVAL OF EXECUTIVE COMPENSATION

Rules recently adopted by the SEC pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act require the Company to submit to a vote of its shareholders, on a non-binding and advisory basis, the compensation that may be payable to its named executive officers that is based on or otherwise relates to the Investment. As discussed in more detail below, because of the Company s participation in the CPP, the Company is currently unable to pay its named executive officers any such payments. A condition to the Closing, however, is the Repurchase. The following discussion sets forth the compensation that may be payable to our named executive officers, or NEOs, that is based on or otherwise relates to the Investment and should be read in conjunction with the table Golden Parachute Payments below.

### Background

On October 14, 2008, the Treasury announced the creation of the CPP, pursuant to which the Company issued to the Treasury the Series A Preferred Stock and Common Stock warrants of the Company. As a result of the Company s participation in the CPP, the Company became subject to certain executive compensation requirements under EESA, Treasury regulations, and the contract pursuant to which the Company sold such preferred stock. The compensation requirements were modified and strengthened in February 2009 with the passage of the American Recovery and Reinvestment Act of 2009 ( ARRA ) and again in June 2009 when Treasury issued regulations implementing various provisions of EESA, as modified by ARRA (the June 2009 IFR ). As described more

specifically below, these requirements are applicable to our NEOs. Throughout this proxy statement, we refer to EESA to mean EESA as amended by ARRA and as implemented by the June 2009 IFR.

In connection with the Company s sale of the Series A Preferred Stock our employees that were our senior executive officers, or SEOs, as defined under EESA, executed letter agreements with the Company in 2008 in which, among other things, each employee agreed that the Company is prohibited from paying any golden parachute payment (as originally defined in Section 111(b)(2)(c) of the EESA) to the individual during any period that the executive is a senior executive officer of the Company and the Treasury holds any equity or debt securities of the Company issued in the CPP. As mentioned above, the ARRA and the June 2009 IFR imposed additional restrictions and limits concerning executive compensation of companies that participated in the CPP, including a provision prohibiting any payment to any SEO or any of the Company s next five most highly compensated employees, including the Company s named executive officers, for departure from a company for any reason, except for payments for services performed or benefits accrued. Under EESA, a payment, or a right to payment, generally will be treated as a payment for services performed or benefits accrued only if the payment would be made regardless of whether the employee departs or the change in control event occurs, or if payment is due upon departure of the employee, regardless of whether the departure is voluntary or involuntary. EESA also provides exceptions for certain payments made under benefits plans or deferred compensation plans. In December 2009, the Compensation Committee of the Board of Directors requested, and subsequently received, additional letter agreements from each of our SEOs acknowledging the additional limitations on the individual s compensation imposed under EESA, as modified by the ARRA and the June 2009 IFR during the TARP Period.

In connection with the Closing, NAFH will purchase from the Treasury all of the issued and outstanding shares of Series A Preferred Stock and Common Stock owned by the Treasury. As such, the prohibitions on executive compensation under EESA set forth above will no longer apply.

**Treatment of Outstanding Equity Awards**

As described above in Proposal 1 Approval of the Issuance of Shares of Common Stock Under the Investment Agreement Interest of the Company s Directors and Executive Officers in the Proposal it is anticipated that any unvested stock options and unvested shares of restricted stock owned by the NEOs will vest following the Repurchase.

**Potential Payments with Respect to the Named Executive Officers**

The following discussion sets forth the potential payments that could become due to each individual NEO that is based on or otherwise relates to the Investment and taking into consideration applicable restrictions under EESA as modified by ARRA and the June 2009 IFR, as well as the closing condition set forth in the Investment Agreement that requires that Kenneth R. Vaught and Steven L. Droke (as well as two other current employees of the Company who are not named executive officers) waive all compensation and benefits that would be payable following the Investment and the Repurchase that is not payable due to restrictions under EESA, as modified by ARRA and the June 2009 IFR. Mr. Droke resigned effective June 17, 2011, which resignation eliminated the need to obtain the waiver from Mr. Droke contemplated by the closing condition set forth in the Investment Agreement.

Steven L. Droke resigned on June 17, 2011, and James E. Adams and Stan R. Puckett retired on May 16, 2011 and March 31, 2010, respectively, and as such are not included in the following discussion as none of the individuals is entitled to any payments solely as a result of consummation of the Investment. In addition, neither Stephen M. Rownd nor Michael J. Fowler are entitled to change in control or severance payments or benefits so they are also excluded from the discussion below. Under all of the agreements and arrangements discussed below, the Investment would qualify as a change in control.

A. Kenneth R. Vaught

Mr. Vaught is a party to an Employment Agreement, dated December 31, 2007 (the Vaught Employment Agreement ), with respect to his employment by the Company. Under the terms of the Vaught Employment Agreement, if within 18 months following a change in control the Company or its successor terminates Mr. Vaught without cause or Mr. Vaught voluntarily resigns following a change in position, a reduction in title or a significant

reduction in the duties which he is to perform for the Company or its successor, then the Company or its successor shall pay to Mr. Vaught a lump sum payment equal to 2.99 times Mr. Vaught s annual base salary and bonus for the year immediately preceding termination. This payment shall be made no earlier than six months following the date of termination. If payments to Mr. Vaught following a change in control would create an excise tax for the employee under the excess parachute rules of Section 4999 of the Code, the Company is required to pay to the employee the amount of such excise tax and all federal and state income or other taxes with respect to any such additional amounts (the Gross-Up Amount ) and such additional amount as is necessary to offset any tax liability of the employee as a result of the Gross-Up Amount.

As discussed above, the change in control payment would be due to Mr. Vaught under the terms of the Vaught Employment Agreement if a change in control occurs and subsequently Mr. Vaught is terminated. Because the Company s participation in the CPP will terminate at Closing in connection with the Repurchase resulting in the restrictions of EESA as modified by ARRA and the June 2009 IFR not applying to the Company after Closing, Mr. Vaught could potentially be eligible to receive the change in control payment discussed above. However, in order to enter into the Investment Agreement, NAFH required that its obligation to consummate the Investment be conditioned on Mr. Vaught entering into a waiver agreement with NAFH waiving any right to the change in control payment pursuant to any benefit plan in which Mr. Vaught participates, including the Vaught Employment Agreement. If Mr. Vaught does not execute the requested waiver, or the Company otherwise fails to effect Mr. Vaught not being entitled to any change in control payments under any benefit plan in which he participates, NAFH is not obligated to consummate the Investment.

Mr. Vaught has also entered into a Non-Competition Agreement with the Company. In consideration for entering into this agreement, the Company provided certain deferred compensation benefits which have been funded by individual insurance policies. The benefits payable range from 7 to 10 years based upon certain events occurring such as age, retirement, disability or death and are described in more detail below. The benefits payable under the agreement, other than benefits relating to a change in control, are not prohibited by EESA, as modified by ARRA and the June 2009 IFR, and Mr. Vaught is not required to waive his right to receive the benefits that are not related to a change in control in order for NAFH s closing condition to be satisfied.

B. William C. Adams, Jr.

Mr. W. Adams is a party to a Change in Control Protection Plan Participation Agreement, dated October 22, 2004 (the Adams CIC Agreement ). The terms of the Adams CIC Agreement are subject to the provisions of the CIC Plan. Pursuant to the terms of the Adams CIC Agreement, if Mr. W. Adams is terminated without cause or resigns with good reason (both as defined in the CIC Plan) within two years following a change in control, Mr. W. Adams would be entitled to an amount equal to 1.99 times Mr. W. Adams s base amount within the meaning of Section 280G(b)(3) of the Code, payable in lump sum.

As discussed above, the change in control payment would be due to Mr. W. Adams under the terms of the Adams CIC Agreement if a change in control occurs and subsequently Mr. W. Adams is terminated. Because the Company s participation in the CPP will terminate at Closing in connection with the Repurchase and the restrictions of EESA will not apply to the Company after Closing, Mr. W. Adams could still potentially receive the change in control payment discussed above.

**Golden Parachute Compensation**

The following table should be read in conjunction with the narrative above and sets forth additional information required by Item 402(t) of Regulation S-K regarding compensation for each NEO that is based on or otherwise relates to the Investment, assuming the following:

The closing price per share at the time of consummation of the Investment is $2.58, which is equal to average closing market price of the Company s common stock over the first five business days following the first public announcement of the Investment (or May 5, 2011);

The Investment closed on July 26, 2011, the last practicable date prior to the filing of this Proxy Statement;

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The named executive officers of the Company were terminated without cause immediately following a change in control on July 26, 2011, which is the last practicable date prior to the filing of this Proxy Statement; and

Mr. Vaught waived his right to receive any change in control payments based on or otherwise related to the Investment.

| Name | Cash ($) | Equity ($)(1) | Pension/ NQDC ($) | Total ($) |
|---|---|---|---|---|
| Stephen M. Rownd | | 109,745 | | 109,745 |
| Michael J. Fowler | | 79,632 | | 79,632 |
| Kenneth R. Vaught | (2) | 2,655 | (3) | 2,655 |
| James E. Adams(4) | | | | |
| Steve L. Droke(5) | | | | |
| William C. Adams, Jr. | 321,266 | 1,604 | | 322,870 |
| R. Stan Puckett (4) | | | | |

(1) Pursuant to EESA, the accelerated vesting of equity awards upon a change in control is prohibited. However, it is anticipated that following consummation of the Repurchase the unvested equity awards of the NEOs will be accelerated. None of the stock options held by the NEOs have exercise prices that are less than $2.58. Accordingly, no value is ascribed to these stock options and the value reported is related solely to unvested shares of restricted stock.

(2) If the Company fails to obtain waivers with respect to payments based on or otherwise related to the Investment from Mr. Vaught and NAFH waives such condition to the Closing, Mr. Vaught may be entitled to additional payments in the amount of approximately $798,000.

(3) Under the Non-Competition Agreement and in connection with his termination (without regard for any change in control enhancement), Mr. Vaught would be entitled to receive payments of $84,924 per year for a period of ten years. Mr. Vaught would not be entitled to receive payments until he reaches age 50.

(4) Messrs. J. Adams and Puckett retired on May 16, 2011 and March 31, 2010, respectively, and neither is entitled to any payments solely as a result of consummation of the Investment.

(5) Mr. Droke resigned effective June 17, 2011 and is not entitled to any payments solely as a result of consummation of the Investment.

The Company is requesting shareholder approval, on a non-binding and advisory basis, of the compensation that may be payable to the Company s named executive officers that is based on or otherwise relates to the Investment and therefore is asking stockholders to adopt the following resolution:

RESOLVED, that the compensation that may be paid or become payable to the Company s named executive officers that is based on or otherwise relates to the Investment, as disclosed in the table entitled Golden Parachute Compensation pursuant to Item 402(t) of Regulation S-K including the associated narrative discussion, and the agreements or understandings pursuant to which such compensation may be paid or become payable, are hereby APPROVED.

The vote on this Proposal 7 is a vote separate and apart from the vote on the other proposals. Accordingly, you may vote to approve this Proposal 7 on executive compensation and vote not to approve the other proposals and vice versa. Because the vote is advisory in nature only, it will not be binding on either the Company or NAFH regardless of whether the Investment is approved and subsequently consummated. Accordingly, as the compensation to be paid in

connection with the Investment is contractual with the executives, regardless of the outcome of this advisory vote, such compensation may be payable, subject only to the conditions and restrictions applicable thereto, if the Investment is approved.

Assuming the existence of a quorum, this proposal will be approved if the number of shares voted in favor of the proposal to approve the compensation of the Company s named executive officers in connection with the Investment exceeds the number of shares voted against such proposal. As such, abstentions and broker non-votes will not affect the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR PROPOSAL 7 AS TO THE APPROVAL, ON A NON-BINDING AND ADVISORY BASIS, OF THE COMPENSATION TO BE RECEIVED BY THE COMPANY S NAMED EXECUTIVE OFFICERS IN CONNECTION WITH THE INVESTMENT.**

## PROPOSAL 8 APPROVAL OF ADJOURNMENT OF THE SPECIAL MEETING

This proposal would give the proxy holders discretionary authority to vote to adjourn the Special Meeting if there are not sufficient affirmative votes present at the Special Meeting to approve the proposals that may be considered and acted upon. Any adjournment of the Special Meeting may be made without notice, other than by an announcement made at the Special Meeting. Approval of this proposal will allow the Company, to the extent that shares voted by proxy are required to approve a proposal to adjourn the Special Meeting, to solicit additional proxies to determine whether sufficient shares will be voted in favor of or against the proposals. If the Company is unable to adjourn the Special Meeting to solicit additional proxies, the proposals may fail, not because shareholders voted against the proposals, but rather because there were not sufficient shares represented at the Special Meeting to approve the proposals. The Company has no reason to believe that an adjournment of the Special Meeting will be necessary at this time.

Assuming the existence of a quorum, this proposal will be approved if the number of shares voted in favor of this proposal exceeds the number of shares voted against the proposal. As such, abstentions and broker non-votes will not affect the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE APPROVAL OF A POTENTIAL ADJOURNMENT OF THE SPECIAL MEETING.**

## FORWARD LOOKING STATEMENTS

Certain matters discussed in this Proxy Statement are not historical facts but are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risk and uncertainty and actual results could differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Risks and uncertainties related to the Company s business are discussed in the Company s SEC filings, including its Annual Report on Form 10-K for the year ended December 31, 2010 and its Quarterly Report in Form 10-Q for the three months ended March 31, 2011, and include, but are not limited to, (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the Investment Agreement, pursuant to which the Investment is to be consummated; (2) the outcome of any legal proceedings that may be instituted against the Company and others following announcement of the Investment Agreement; (3) the inability to complete the transactions contemplated by the Investment Agreement due to the failure to obtain shareholder approval or the failure to satisfy other conditions to completion of the transaction, including the receipt of regulatory approval; (4) risks that the proposed transactions contemplated by the Investment Agreement disrupt current plans and operations and the potential difficulties in employee retention as a result of the proposed transaction; (5) the amount of the costs, fees, expenses and charges related to the proposed transaction, including the expense reimbursement and termination fees that may be payable in the event that the Investment Agreement is terminated under certain scenarios; (6) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (7) continuation of the historically low short-term interest rate environment; (8) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (9) increased levels of non-performing and repossessed assets and the ability to resolve these may result in future losses; (10) greater than anticipated deterioration or lack of sustained growth in the national or local economies; (11) rapid fluctuations or unanticipated changes in interest rates; (12) the impact of governmental restrictions on entities participating in the CPP of the Treasury; (13) changes in state and federal legislation, regulations or policies applicable to banks or other financial service providers, including regulatory or legislative developments, like the Dodd-Frank Wall Street Reform and Consumer Protection Act, arising out of current unsettled conditions in the economy, (14) the results of regulatory examinations including requirements contained in any enforcement action against the Company or the Bank as a result of such examinations; (15) the remediation efforts related to the Company s material weakness in its internal control over financial reporting; (16) increased competition with other financial institutions in the markets that GreenBank serves; (17) the Company recording a further valuation allowance related to its deferred tax asset; (18) exploring alternatives available for the future repayment or conversion of the preferred stock issued in the CPP, including in the transaction contemplated in the Investment Agreement; (19) further deterioration in the valuation of other real estate owned; (20) inability to comply with regulatory capital requirements and to secure any

required regulatory approvals for capital actions to raise capital if necessary to comply with any regulatory capital requirements; and (21) the loss of key personnel. The Company undertakes no obligation to update forward-looking statements.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Persons and groups beneficially owning more than 5% of the Common Stock are required under federal securities laws to file certain reports with the SEC detailing their ownership. The following table sets forth the amount and percentage of the Common Stock beneficially owned by any person or group of persons known to the Company to be a beneficial owner of more than 5% of the common stock as of the Record Date.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership (a) | Percent of Common Stock Outstanding |
|---|---|---|
| Scott M. Niswonger<br>P.O. Box 938<br>Greeneville, TN 37744 | 827,711(b) | 6.25% |
| Columbia Wagner Assets Management, L.P.<br>227 West Monroe Street, Suite 3000<br>Chicago, IL 60606 | 1,183,912(c) | 8.94% |
| Phil M. Bachman<br>Martha Bachman<br>100 N. Main Street, P.O. Box 1120<br>Greeneville, Tennessee 37743 | 893,280(d) | 6.75% |
| Dimensional Fund Advisors LP<br>6300 Bee Cave Road, Building One<br>Austin, TX 78746 | 780,663(e) | 5.90% |

(a) For purposes of this table, an individual or entity is considered to beneficially own any share of Common Stock which he, she or it directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares: (1) voting power, which includes the power to vote, or to direct the voting of, such security; and/or (2) investment power, which includes the power to dispose, or to direct the disposition of, such security. In addition, an individual or entity is deemed to be the beneficial owner of any share of Common Stock of which he, she or it has the right to acquire voting or investment power within 60 days of the Record Date.

(b) Based upon information set forth in a Schedule 13D/A, filed with the SEC on October 22, 2010 by Mr. Niswonger, who has sole voting and dispositive power with respect to 827,711 shares.

(c) Based solely on the information contained in a Schedule 13G filed by Columbia Wagner Asset Management, L.P. with the SEC on February 10, 2011, as of December 31, 2010.

(d) Martha Bachman is a director and the wife of retired director Phil Bachman. Includes 201,417 shares of common stock held directly or indirectly by Martha Bachman, 673,697 shares owned by Phil Bachman individually and 18,166 shares owned by Mr. and Mrs. Bachman jointly.

(e) Based solely on the information contained in a Schedule 13G filed by Dimensional Fund Advisors, L.P. with the SEC on February 11, 2011, as of December 31, 2010.

The following table sets forth, as of the Record Date, certain information known to the Company as to Common Stock beneficially owned by each director and named executive officer of the Company and by all directors and executive officers of the Company as a group. The address for each of our directors and executive officers listed below is c/o Green Bankshares, Inc., 100 North Main Street, P.O. Box 1120, Greeneville, Tennessee 37743. As of the Record Date, there were 13,239,090 shares of the Company s Common Stock outstanding.

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| Name and Position | Number of Shares Beneficially Owned<br>Common Shares Beneficially Owned(a)(b) | Shares Acquirable in 60 Days (c) | Total | Percent of Common Stock Outstanding |
|---|---|---|---|---|
| Stephen M. Rownd, Chairman of the Board and Chief Executive Officer | 47,114 | | 47,114 | * |
| Martha Bachman, Director | 893,280(d)(e) | | 893,280 | 6.75% |
| Bruce Campbell, Director | 10,189 | | 10,189 | * |
| W.T. Daniels, Director | 14,215 | | 14,215 | * |
| Robert K. Leonard, Director | 94,153(f)(e) | | 94,153 | * |
| Samuel Lynch, Director | 3,850 | | 3,850 | * |
| Bill Mooningham, Director | 2,396 | | 2,396 | * |
| John Tolsma, Director | 11,985 | | 11,985 | * |
| Charles H. Whitfield, Jr., Director | 14,817 | | 14,817 | * |
| Kenneth R. Vaught, Director, President and Chief Operating Officer | 38,834 | 26,800 | 65,634 | * |
| William C. Adams, Senior Vice President and Chief Information Officer | 25,870(e) | 16,391 | 42,261 | * |
| Steve L. Droke, Former Senior Vice President and Chief Credit Officer | 18,802 | 7,219 | 26,021 | * |
| R. Stan Puckett, Retired Chairman of the Board and Chief Executive Officer | 45,772 | 44,640(g) | 90,412 | * |
| James E. Adams, Retired Executive Vice President, Former Chief Financial Officer and Secretary | 25,823 | 4,200 | 30,023 | * |
| Michael J. Fowler, Senior Vice President and Chief Financial Officer | 30,865 | | 30,865 | * |
| All directors and executive officers as a group (16 persons)(h) | 1,299,825 | 119,737 | 1,419,562 | 10.63% |

* Less than 1% of the outstanding Common Stock.

(a) For the definition of beneficially owned, see Note (a) to the preceding table.

(b) Includes shares owned directly by directors and executive officers of the Company as well as shares held by their spouses and children, trust of which certain directors are trustees and corporations in which certain directors own a controlling interest.

(c) Represents options to purchase Common Stock which are exercisable within 60 days of the Record Date.

(d) Martha Bachman is a director and the wife of retired director Phil Bachman. Includes 201,417 shares of common stock held directly or indirectly by Martha Bachman, 673,697 shares owned by Phil Bachman individually and 18,166 shares owned by Mr. and Mrs. Bachman jointly.

(e) As of July 6, 2011, the following individuals have pledged the following amounts of their common shares beneficially owned to secure lines of credits or other indebtedness: Martha Bachman and retired director Phil Bachman 312,899 shares; Robert Leonard 15,000 shares held in a limited liability partnership; and William C. Adams 5,000 shares.

(f) Includes 41,197 shares of common stock in a limited partnership of which Mr. Leonard is a limited partner. Mr. Leonard disclaims beneficial ownership of 32,216 of these shares. Also includes 504 shares of common stock in a limited liability company in which Mr. Leonard has an interest. Mr. Leonard disclaims beneficial ownership of 363 of these shares.

(g) Includes options to acquire 36,000 shares of Common Stock currently exercisable (or exercisable within 60 days of the Record Date) by Mr. Puckett at an exercise price equal to 150% of the book value of the Common Stock at the date of grant (a weighted average price of

approximately $16.27 per share) and options to acquire 19,800 shares of Common Stock currently exercisable (or exercisable within 60 days of the Record Date) by Mr. Puckett at an exercise price equal to the fair market value at the date of grant (a weighted average price of approximately $29.03 per share).

(h) Includes shares held by Mr. Puckett, who served as the Company s Chairman and Chief Executive Officer until March 31, 2010, shares held by Mr. J. Adams, who served as the Company s Executive Vice President, Chief Financial Officer and Secretary until May 16, 2011 and shares held by Mr. Droke, who served as the Company s Senior Vice President and Chief Credit Officer until June 17, 2011.

## FUTURE SHAREHOLDER PROPOSALS

If a shareholder wishes to have a proposal included in the Company s proxy statement for the Company s 2012 Annual Meeting of Shareholders, that proposal must be received by the Company at its executive offices in Greeneville, Tennessee by December 10, 2011. If a shareholder wishes to present a proposal at the Company s 2012 annual meeting of shareholders and the proposal is not intended to be included in the Company s proxy statement relating to that meeting, the shareholder must give advance notice to the Company prior to the deadline for such meeting determined in accordance with the Company s Charter (the Charter Deadline ). Under the Company s Charter, in order to be deemed properly presented, notice must be delivered to the Company s Secretary at the Company s principal executive offices no less than forty (40) nor more than sixty (60) days prior to the scheduled date of the meeting at which such matter is to be acted upon; provided, however, that if notice or public disclosure of such meeting is given fewer than fifty (50) days before the meeting, notice by the shareholder must be delivered to the Company not later than the close of business on the tenth (10th) day following the day on which notice of the meeting was mailed to shareholders. If a shareholder gives notice of such a proposal after the Charter Deadline, the shareholder will not be permitted to present the proposal to the shareholders for a vote at the meeting.

The SEC rules also establish a different deadline for submission of shareholder proposals that are not intended to be included in the Company s proxy statement with respect to discretionary voting (the Discretionary Voting Deadline ). This deadline for the 2012 annual meeting of shareholders is February 23, 2012. If a shareholder gives notice of a proposal after this deadline, the persons named as proxies in the proxy statement for the 2012 annual meeting will be allowed to use their discretionary voting authority to vote against the shareholder proposal when, and if, the proposal is raised at the 2012 annual meeting. Because the Charter Deadline is not capable of being determined until the Company gives notice of, or publicly announces, the date for the 2012 annual meeting of shareholders, it is possible that the Charter Deadline may occur after the Discretionary Voting Deadline, in which case a proposal received after the Discretionary Voting Deadline but before the Charter Deadline would be eligible to be presented at the 2012 annual meeting of shareholders and the Company believes that the persons named as proxies in the proxy statement would be allowed to use the discretionary authority granted by the proxy card to vote against the proposal at the meeting without including any disclosures of the proposal in the proxy statement relating to the meeting.

Shareholder proposals should be addressed to Secretary, Green Bankshares, Inc., 100 North Main Street, P.O. Box 1120, Greeneville, Tennessee 37743 and must comply with the provisions of the Company s Charter. Nothing in this paragraph shall be deemed to require the Company to include in its proxy statement and form of proxy relating to the Company s 2012 Annual Meeting of Shareholders any shareholder proposal that does not satisfy the requirements for inclusion as established by the SEC at the time of receipt.

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## OTHER MATTERS

*Discretionary Authority to Vote.* As of the date of this document, the Company s Board of Directors is not aware of any matters that will be presented for consideration at the Company s Special Meeting. If any other matters come before either of the meetings or any adjournments or postponements of the meeting and are voted upon, the enclosed proxy will confer discretionary authority on the individuals named as proxies to vote the shares represented by the proxy as to any other matters. The individuals named as proxies intend to vote in accordance with their best judgment as to any other matters.

*Directions to Our Special Meeting at the General Morgan Inn.* Requests for directions to General Morgan Inn should be directed to Michael J. Fowler, 100 North Main Street, Greeneville, Tennessee 37743 (telephone number (423) 278-3050).

BY ORDER OF THE BOARD OF DIRECTORS
/s/ Michael J. Fowler
Secretary
Greeneville, Tennessee
July 27, 2011

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**INVESTMENT AGREEMENT**

**INVESTMENT AGREEMENT**
dated as of May 5, 2011
among
**GREEN BANKSHARES, INC.,**
**GREENBANK**
and
**NORTH AMERICAN FINANCIAL HOLDINGS, INC.**

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INVESTMENT AGREEMENT, dated as of May 5, 2011 (this Agreement ), among Green Bankshares, Inc., a corporation organized under the laws of the State of Tennessee (the Company ), GreenBank, a Tennessee state-chartered banking corporation and a banking subsidiary of the Company (the Bank ), and North American Financial Holdings, Inc., a Delaware corporation ( Purchaser ).

**RECITALS:**

WHEREAS, the Company intends to issue and sell to Purchaser, and Purchaser intends to purchase from the Company, as an investment in the Company, 119,900,000 shares of common stock, $2.00 par value per share, of the Company (the Common Stock ) at a purchase price of $1.81 per share on the terms and conditions described herein;

WHEREAS, on the date hereof, the Company has granted to the Purchaser an option to acquire up to 2,628,183 shares of Common Stock (but not to exceed 19.9% of the Company s issued and outstanding shares of Common Stock without giving effect to any shares subject to or issued pursuant to such option) at a price per share equal to the closing price on the Nasdaq Global Select Market for shares of Common Stock on the first trading day following the date hereof (the Option );

WHEREAS, in addition to the purchase price described above, the Company shall, immediately prior to the issuance of shares of Common Stock to Purchaser, issue to the holders of its Common Stock (excluding the Purchaser) contingent value rights (the CVRs ) on substantially the terms set forth in Exhibit A;

WHEREAS, in connection with the investment by Purchaser, the Purchaser shall enter into a binding definitive agreement with the United States Department of the Treasury ( Treasury ), pursuant to which, among other things and subject to the terms and conditions set forth therein, contemporaneous with the Closing, the Purchaser will purchase from Treasury all of the outstanding shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred ) (including all obligations with respect to accrued but unpaid dividends on the Series A Preferred) and related warrants to purchase shares of Company Common Stock (the Treasury Warrants ) (the Repurchase ) (the terms of the Repurchase being set forth in Exhibit B); and

WHEREAS, the Company intends to amend its Charter and its bylaws, in form and substance reasonably satisfactory to Purchaser, to permit the transactions contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements set forth herein, the parties agree as follows:

**ARTICLE I**

**PURCHASE; CLOSING**

1.1 Purchase. On the terms and subject to the conditions set forth herein, at the Closing, Purchaser will purchase from the Company, and the Company will issue and sell to Purchaser, 119,900,000 shares of Common Stock (the Purchased Shares ).

1.2 Closing.

(a) The Closing. The closing of the purchase and sale of the Purchased Shares referred to in Section 1.1 (the Closing ) shall occur at 10:00 a.m., New York City time, on the third business day after the satisfaction or, if permissible, waiver (by the party entitled to grant such waiver) of the conditions to the Closing set forth in this Agreement (other than those conditions that by their nature are to be satisfied at the Closing, but subject to fulfillment or waiver of those conditions), at the offices of Wachtell, Lipton, Rosen

& Katz, 51 West 52nd Street, New York, New York 10019 or such other date or location as agreed by the parties. The date of the Closing is referred to as the Closing Date.

(b) Closing Deliveries. Subject to the satisfaction or waiver on the Closing Date of the applicable conditions to the Closing set forth in Section 1.2(c), at the Closing:

(1) the Company will deliver to Purchaser (A) the Closing Expense Reimbursement in accordance with Section 6.2 hereof, by wire transfer of immediately available funds to an account or accounts designated by Purchaser, and (B) the Purchased Shares, as evidenced by one or more certificates dated the Closing Date and bearing the appropriate legends as set forth herein and free and clear of all liens, charges, encumbrances and security interests of any kind or nature whatsoever (other than restrictions on transfer imposed by applicable securities Laws) (collectively, Liens ); and

(2) Purchaser will deliver to the Company, by wire transfer of immediately available funds to an account or accounts designated by the Company, an amount equal to the product of $1.81 per share (the Per Share Purchase Price ) multiplied by the number of Purchased Shares.

(c) Closing Conditions. (1) The obligation of Purchaser, on the one hand, and the Company and the Bank, on the other hand, to effect the Closing is subject to the fulfillment or written waiver by Purchaser, the Company and the Bank prior to the Closing of the following conditions:

(A) no provision of any applicable Law and no judgment, injunction, order or decree of any court, administrative agency or commission or other governmental authority or instrumentality, whether federal, state, local or foreign (each, a Governmental Entity ) shall prohibit the Closing or shall prohibit or restrict Purchaser or its Affiliates from owning or voting any Purchased Shares, and no lawsuit or formal administrative proceeding shall have been commenced by any Governmental Entity seeking to effect any of the foregoing;

(B) any Required Approvals of the Tennessee Department of Financial Institutions (the Tennessee DFI ), Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (the Federal Reserve ) required to consummate the transactions contemplated by this Agreement shall have been made or obtained and shall be in full force and effect as of the Closing Date; and

(C) the holders of shares of Common Stock of the Company shall have approved the Shareholder Proposal (other than the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal ) by the requisite vote of such holders and the corresponding amendments to the Charter shall have become effective.

(2) The obligation of Purchaser to purchase the Purchased Shares at the Closing is also subject to the fulfillment or written waiver by Purchaser prior to the Closing of each of the following conditions:

(A) all representations and warranties of the Company and the Bank contained in this Agreement shall be true and correct (without regard to materiality or Material Adverse Effect qualifiers contained therein), both individually and in the aggregate, except where the failure of such representations and warranties to be so true and correct, individually or in the aggregate, has not had and would not be reasonably expected to have a Material Adverse Effect (other than the representations and warranties set forth in Sections 2.2(b), (d)(1), (o), (z), and (bb), which shall be true and correct in all material respects (subject to materiality or Material Adverse Effect qualifiers contained therein)) as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation and warranty expressly relates to a specified date, in which case such representation and warranty need only be true and correct as of such specified date);

(B) each of the Company and the Bank shall have performed in all material respects all obligations required to be performed by it at or prior to the Closing;

(C) Purchaser shall have received a certificate signed on behalf of each of the Company and the Bank by a senior executive officer certifying to the effect that the conditions set forth in Sections 1.2(c)(2)(A) and 1.2(c)(2)(B) have been satisfied;

(D) since December 31, 2010, except as set forth in any section of the Company Disclosure Schedule corresponding to Section 2.2 of this Agreement, no fact, event, change, condition, development, circumstance or effect shall have occurred that, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect;

(E) (i) The Treasury shall have entered into a binding definitive agreement with Purchaser providing for, contemporaneous with the Closing, the sale to Purchaser of all of the issued and outstanding shares of the Series A Preferred (including all obligations with respect to accrued but unpaid dividends on the Series A Preferred) and the Treasury Warrants in accordance with the terms set forth in Exhibit B and such agreement shall remain in full force and effect; and (ii) the Company shall have received from each employee of the Company listed on Schedule 1.2(c)(2)(E) who has waived any compensation or benefits in connection with the Company s issuance of the Series A Preferred and Treasury Warrants pursuant to the interim final rule issued by Treasury or who would be prohibited from receiving compensation or benefits under the interim final rule issued by Treasury, a binding waiver (in a form acceptable to Purchaser) stipulating that such compensation and benefits that are not payable as of the date of this Agreement will not become payable at or following the Closing;

(F) no Required Approval issued by any Governmental Entity shall impose or contain any restraint, condition or requirement, that, individually or in the aggregate, is adverse to Purchaser or any of its Affiliates in any material respect (in the case this clause, adverse shall mean reducing the economic benefit or increasing the economic burden of the transactions contemplated hereby), as determined by Purchaser in its reasonable good faith judgment (any restraint, condition, or requirement of the type described in this clause (F), a Burdensome Condition );

(G) each of the individuals designated by the Purchaser in its sole discretion prior to the Closing (the Purchaser Designees ) shall have been appointed to the Board of Directors of the Company and of the Bank, and an equal number of individuals shall have resigned from the Board of Directors of the Company and of the Bank (the Resigning Directors ), in each case effective as of the Closing, such that immediately after the Closing, the Purchaser Designees constitute a majority of the Board of Directors of each of the Company and the Bank; provided, however, in no event shall the Board of Directors of the Company contain fewer than two of the members of the Company s Board of Directors as of the date hereof, which members shall also be appointed to the board of directors of Purchaser immediately following the Closing;

(H) either (i) the existing directors and officers liability and errors and omissions insurance policies of the Company, the Bank and any Subsidiary (the Existing D&O Policies ) shall remain in full force and effect as of the date of this Agreement and shall continue in full force and effect until they expire upon the expiration dates set forth in Section 2.2(x) of the Company Disclosure Schedule and the insurers thereunder shall have provided to the Company an endorsement in writing to the effect that neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement shall result in a termination of such policies, or a reduction in coverage of any such policies; or (ii) the Company shall have obtained a policy (or policies) of directors and officers liability and errors and omissions insurance coverage with insurance carriers believed to be financially sound and reputable with coverage substantially identical to the coverage provided by the Existing D&O Policies;

(I) the shares of Common Stock included in the Purchased Shares shall have been authorized for listing on the NASDAQ Stock Market ( NASDAQ ) or such other market on which the Common Stock is then listed or quoted, subject to official notice of issuance;

(J) the Company shall have entered into the Registration Rights Agreement pursuant to Section 4.4, having the terms set forth in Exhibit C;

(K) as measured immediately prior to the Closing and excluding any deposits withdrawn by Purchaser or its controlled Affiliates, core deposits (i.e., money market, demand, checking, savings and transactional accounts for retail customers) of the Bank shall not have decreased by more than twenty percent (20%) from the amount thereof as of March 31, 2011;

(L) excluding Charge-Offs made at the written direction of Purchaser or any controlled Affiliate of Purchaser, (i) the Charge-Offs in any completed calendar fiscal quarter commencing after March 31, 2011 shall not exceed $40,000,000 and (ii) the Charge-Offs in the most recent interim quarterly period commencing after the date hereof and ending five calendar days prior to the Closing Date shall not exceed an amount equal to $40,000,000 pro-rated by the number of days in such interim quarterly period; for the purposes of this Section 1.2(c)(2)(L), Charge-Offs shall mean the loans charged-off as reflected in the Company Reports, if then publicly filed, and otherwise derived from the books and records of the Bank in a manner consistent with past practice, with the preparation of the financial statements in the Company Reports and with the Company s or Bank s written policies in effect as of the date of this Agreement; and three calendar

days prior to the Closing Date, the Company shall provide Purchaser with a schedule reporting Charge-Offs for the periods referred to in clauses (i) and (ii);

(M) The Board of Directors of the Company shall have declared a distribution of the CVRs, effective immediately prior to the Closing, pursuant to a contingent value right agreement substantially on the terms set forth on Exhibit A and in form and substance reasonably acceptable to the Purchaser;

(N) Either (i) the holders of shares of Common Stock of the Company shall have approved the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal by the requisite vote of such holders and the corresponding amendment to the Charter shall have become effective or (ii) the merger of the Bank with and into a Subsidiary of the Purchaser on terms reasonably satisfactory to Purchaser and consistent with Exhibit D shall have been approved by the Boards of Directors of the Company and the Bank and by any Governmental Entity the approval of which is required, and such merger is reasonably capable of being consummated not later than three (3) business days following the Closing; and

(3) The obligations of the Company and the Bank to effect the Closing are subject to the fulfillment or written waiver by both of the Company and the Bank prior to the Closing of the following additional conditions:

(A) all representations and warranties of Purchaser contained in this Agreement shall be true and correct (without regard to materiality or material adverse effect qualifiers contained therein) in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except to the extent any such representation and warranty expressly relates to a specified earlier date, in which case such representation and warranty need only be true and correct as of such specified earlier date, and except where the failure of any such representation or warranty to be true and correct would not, individually or in the aggregate, impair in any material respect the ability of Purchaser to consummate the transactions contemplated by this Agreement;

(B) Purchaser shall have performed in all material respects all obligations required to be performed by it at or prior to the Closing;

(C) the Company and the Bank each shall have received a certificate signed on behalf of Purchaser by a senior executive officer certifying to the effect that the conditions set forth in Sections 1.2(c)(3)(A) and (B) have been satisfied; and

(D) Purchaser and the Treasury shall have entered into a binding definitive agreement reflecting Purchaser s agreement to repurchase all of the issued and outstanding Series A Preferred (including all obligations with respect to accrued but unpaid dividends on the Series A Preferred) and the Treasury Warrants in accordance with the terms set forth in Exhibit B and such agreement shall remain in full force and effect.

## ARTICLE II
## REPRESENTATIONS AND WARRANTIES

2.1 Disclosure. (a) On or prior to the date hereof, the Company and the Bank delivered to Purchaser and Purchaser delivered to the Company and the Bank a schedule (a Disclosure Schedule ) setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision hereof or as an exception to one or more representations or warranties contained in Section 2.2 with respect to the Company or the Bank, or in Section 2.3 with respect to Purchaser, or to one or more covenants contained in Article III.

(b) Material Adverse Effect means any fact, event, change, development, circumstance or effect that, individually or in the aggregate, (1) is or would be reasonably likely to be material and adverse to the business, assets, liabilities, results of operations or condition (financial or otherwise) of the Company, the Bank and the Subsidiaries, taken as a whole (provided, however, that with respect to this clause (1), a Material Adverse Effect shall not be deemed to include any fact, event, change, condition, development, circumstance or effect to the extent resulting from actions or omissions by the Company taken or not taken with the prior written consent or at the written direction of Purchaser or as expressly required by this Agreement), or (2) materially impairs or would be reasonably likely to materially impair the ability of the Company or the Bank to perform its obligations under this Agreement or to consummate the Closing. Notwithstanding the foregoing, any adverse change, event or effect to the extent arising from: (i) conditions generally affecting the United States economy or generally affecting the banking industry except to the extent the Company and the Bank, taken as a whole, are affected in a materially disproportionate manner as compared to other community banks in the southeastern United States; (ii) national or international political or social conditions, including terrorism or the engagement by the United States in hostilities or acts of war except to the extent the Company and the Bank, taken as a whole, are affected in a materially disproportionate manner as compared to other community banks in the southeastern United States; (iii) changes in any federal, state, local or foreign Laws, any rule or regulation of any SRO, statutes, regulations, rules, ordinances and judgments, decrees, orders, writs and injunctions (collectively, Laws ) issued by any Governmental Entity; (iv) any action taken by Purchaser prior to or at the Closing; (v) any failure, in and of itself, by the Company or the Bank to meet any internal or disseminated projections, forecasts or revenue or earnings predictions for any period (provided that any underlying causes of such failure shall not be excluded in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur); (vi) any natural disaster except to the extent the Company and the Bank, taken as a whole, are affected in a materially disproportionate manner as compared to other community banks in the southeastern United States (vii) any compliance by the Company or the Bank with any express written request made by Purchaser; (viii) a decline in the price, or a change in the trading volume, of the Common Stock on the NASDAQ (provided that any underlying causes of such decline or change shall not be excluded in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur); or (ix) the public announcement, pendency or completion of the transactions contemplated by this Agreement, including any action taken in response thereto by any person with which the Company or the Bank does business shall not, in any such case, be taken into account in determining whether a Material Adverse Effect has occurred or would reasonably be expected to occur.

(c) Previously Disclosed with regard to (1) a party means information set forth in its Disclosure Schedule, and (2) the Company or the Bank means information publicly disclosed by the Company in (A) its Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed by it with the Securities and Exchange Commission ( SEC ) on March 15, 2010 (including all exhibits included or incorporated by reference therein) (the Company 10-K ), or (B) any Current Report on Form 8-K filed or furnished by it with the SEC since January 1, 2011 and publicly available prior to the date of this Agreement (excluding any risk factor disclosures contained in such documents under the heading Risk Factors and any disclosure of risks included in any forward-looking statements disclaimer or other statements that are similarly non-specific and are predictive or forward-looking in nature).

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(d) To the knowledge of the Company, to the knowledge of the Bank, or any similar phrase means, (i) with respect to any fact or matter, the actual knowledge of Stephen M. Rownd or James E. Adams, and (ii) with respect to facts or matters relating to representations and warranties set forth in Section 2.2(w), Stephen M. Rownd, James E. Adams or Steve Droke, in the case of each of clauses (i) and (ii) without any duty to investigate.

2.2 Representations and Warranties of the Company and the Bank. The Company and the Bank, jointly and severally, represent and warrant to Purchaser, as of the date of this Agreement and as of the Closing Date (except to the extent made only as of a specified date in which case as of such date), that, except as Previously Disclosed:

(a) Organization and Authority. (1) The Company is, and at the Closing Date will be, a corporation duly organized, validly existing and in good standing under the laws of the State of Tennessee. The Company is a bank holding company duly registered under the Bank Holding Company Act of 1956, as amended. The Company has, and at the Closing Date will have, the power and authority (corporate, governmental, regulatory and otherwise) and has or will have all necessary approvals, orders, licenses, certificates, permits and other governmental authorizations (collectively, the Authorizations ) to own or lease all of the assets owned or leased by it and to conduct its business in all material respects in the manner Previously Disclosed, and has the corporate power and authority to own its properties and assets and to carry on its business as it is now being conducted except where the failure to have such power and authority or such Authorizations has not had, individually or in the aggregate, a Material Adverse Effect. The Company is, and at the Closing Date will be, duly licensed or qualified to do business and in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted by the Company requires such qualification except for jurisdictions in which the failure to be so qualified or authorized has not had, individually or in the aggregate, a Material Adverse Effect. The Charter, as amended, of the Company (the Charter ) complies in all material respects with applicable Law. A complete and correct copy of the Charter and bylaws of the Company, as amended and as currently in effect, has been delivered or made available to Purchaser. The Company s direct and indirect subsidiaries (other than the Bank) (each a Subsidiary and collectively the Subsidiaries ) are listed on Schedule A to this Agreement.

(2) The Bank is a wholly owned subsidiary of the Company and is a corporation and state chartered bank duly organized, validly existing and in good standing under the Laws of the State of Tennessee. The deposit accounts of the Bank are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (the FDIC ); all premiums and assessments required to be paid in connection therewith have been paid when due; and no proceedings for the termination or revocation of such insurance are pending or, to the knowledge of the Company, threatened. The Bank has the power and authority (corporate, governmental, regulatory and otherwise) and has or will have all necessary Authorizations to own or lease all of the assets owned or leased by it and to conduct its business in all material respects in the manner Previously Disclosed, except where the failure to have such power and authority or such Authorizations has not had, individually or in the aggregate, a Material Adverse Effect. The Bank is duly licensed or qualified to do business and in good standing in all jurisdictions in which the nature of the activities conducted by the Bank requires such qualification except for jurisdictions in which the failure to be so qualified or authorized has not had, individually or in the aggregate, a Material Adverse Effect. The charter ( Bank Charter ) of the Bank complies in all material respects with applicable Law. A complete and correct copy of the Bank Charter and the bylaws of the Bank, as amended and as currently in effect, has been delivered or made available to Purchaser.

(3) Each of the Subsidiaries is a corporation or other legal entity duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization. Each such Subsidiary has the power and authority (corporate, governmental, regulatory and otherwise) and has or will have all necessary Authorizations to own or lease all of the assets owned or leased by it

and to conduct its business in all material respects as Previously Disclosed, except where the failure to have such power and authority or such Authorizations has not had, individually or in the aggregate, a Material Adverse Effect. Each such Subsidiary is duly licensed or qualified to do business and in good standing as a foreign corporation or other legal entity in all jurisdictions in which the nature of the activities conducted by such Subsidiary requires such qualification except for jurisdictions in which the failure to be so qualified or authorized has not had, individually or in the aggregate, a Material Adverse Effect. The charter, articles or certificate of incorporation, certificate of trust or other organizational document of each Subsidiary comply in all material respects with applicable Law. A complete and correct copy of the charter, articles or certificate of incorporation or certificate of trust and bylaws of each Subsidiary (or similar governing documents), as amended and as currently in effect, has been delivered or made available to Purchaser.

(b) Capitalization. The authorized capital stock of the Company consists of 130 shares of organizational common stock, par value $10.00 per share, of the Company (the Organizational Common Stock ), 20,000,000 shares of Common Stock and 1,000,000 shares of preferred stock, no par value, of the Company (the Company Preferred Stock ). As of the close of business on May 2, 2011 (the Capitalization Date ), there were no shares of Organizational Common Stock and no more than 13,206,952 shares of Common Stock outstanding (which includes restricted shares) and 72,278 shares of Series A Preferred and no other shares of Company Preferred Stock outstanding. Since the Capitalization Date and through the date of this Agreement, except in connection with this Agreement and the transactions contemplated hereby, and as set forth in Section 2.2(b) of the Company Disclosure Schedule, the Company has not (1) issued or authorized the issuance of any shares of Organizational Common Stock, Common Stock or Company Preferred Stock, or any securities convertible into or exchangeable or exercisable for shares of Organizational Common Stock, Common Stock or Company Preferred Stock, (2) reserved for issuance any shares of Organizational Common Stock, Common Stock or Company Preferred Stock or (3) repurchased or redeemed, or authorized the repurchase or redemption of, any shares of Organizational Common Stock, Common Stock or Company Preferred Stock. As of the close of business on the Capitalization Date, other than in respect of shares of Common Stock reserved for issuance in connection with the Treasury Warrants, any stock option or other equity incentive plan in respect of which an aggregate of no more than 146,169 shares of Common Stock have been reserved for issuance and under the Company s Dividend Reinvestment Plan, no shares of Organizational Common Stock, Common Stock or Company Preferred Stock were reserved for issuance. All of the issued and outstanding shares of Organizational Common Stock, Common Stock and Company Preferred Stock have been duly authorized and validly issued and are fully paid and nonassessable, and have been issued in compliance with all federal and state securities laws, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities. All shares of Organizational Common Stock are callable by the Company at any time at a price of $10.00 per share by the Company. No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which the shareholders of the Company may vote ( Voting Debt ) are issued and outstanding. As of the date of this Agreement, except (A) pursuant to any cashless exercise provisions of any Company stock options or pursuant to the surrender of shares to the Company or the withholding of shares by the Company to cover tax withholding obligations under the Benefit Plans, (B) the warrant to purchase up to 635,504 shares of Common Stock sold by the Company to the Treasury pursuant to that certain Letter Agreement and Securities Purchase Agreement dated as of December 23, 2008 or (C) as set forth elsewhere in this Section 2.2(b) or on the Company Disclosure Schedule, the Company does not have and is not bound by any outstanding subscriptions, options, calls, commitments or agreements of any character calling for the purchase or issuance of, or securities or rights convertible into or exchangeable for, any shares of Organizational Common Stock, Common Stock or Company Preferred Stock or any other equity securities of the Company or Voting Debt or any securities representing the right to purchase or otherwise receive any shares of capital stock of the Company (including any rights plan or agreement). Section 2.2(b) of the Company Disclosure Schedule sets forth a table listing the outstanding series of trust preferred and subordinated debt securities of the Company and the Bank and certain information with respect thereto, including the holders of such securities as of the date of this Agreement if known to the Company, and all such information is accurate and complete to the knowledge of the Company and the Bank.

(c) Subsidiaries. With respect to the Bank and each of the Subsidiaries, (1) all the issued and outstanding shares of such entity s capital stock have been duly authorized and validly issued, are fully paid and nonassessable, have been issued in compliance with all federal and state securities Laws, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and (2) there are no outstanding options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into or exchangeable for, or any contracts or commitments to issue or sell, shares of such entity s capital stock, any other equity security or any Voting Debt, or any such options, rights, convertible securities or obligations. Except as set forth in Section 2.2(c) of the Company Disclosure Schedule, the Company owns, directly or indirectly, all of the issued and outstanding shares of capital stock of each of the Bank and the Subsidiaries, free and clear of all Liens. Except as set forth in Section 2.2(c) of the Company Disclosure Schedule, the Company does not own, directly or indirectly, any capital stock or other equity securities of any person that is not a Subsidiary or the Bank.

(d) Authorization. (1) Each of the Company and the Bank has the full legal right, corporate power and authority to enter into this Agreement and the other agreements referenced herein to which it will be a party and to carry out its obligations hereunder and thereunder. The execution, delivery and performance of this Agreement and the other agreements referenced herein to which each of the Company and the Bank will be a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by the Boards of Directors of each of the Company and the Bank. This Agreement has been, and the other agreements referenced herein to which they will be a party, when executed, will be, duly and validly executed and delivered by the Company and the Bank and, assuming due authorization, execution and delivery by Purchaser, is and will be a valid and binding obligation of each of the Company and the Bank enforceable against each of the Company and the Bank in accordance with its terms (except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors rights or by general equity principles). No other corporate proceedings are necessary for the execution and delivery by the Company or the Bank of this Agreement and the other agreements referenced herein to which it will be a party, the performance by them of their obligations hereunder and thereunder or the consummation by them of the transactions contemplated hereby, subject to receipt of the approval by the Company s shareholders of the Shareholder Proposal. Except as set forth in Section 2.2(d) of the Company Disclosure Schedule, the only vote of the shareholders of the Company required in connection with the approval of the Shareholder Proposal is the affirmative vote of the holders of not less than a majority of the outstanding Common Stock entitled to vote at the meeting at which such a vote is taken. All shares of Common Stock outstanding on the record date for a meeting at which a vote is taken with respect to the Shareholder Proposal shall be eligible to vote on such proposal.

(2) Neither the execution and delivery by the Company or the Bank of this Agreement, nor the consummation of the transactions contemplated hereby, nor compliance by the Company or the Bank with any of the provisions hereof, will (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event that, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or result in the loss of any benefit or creation of any right on the part of any third party under, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of any Liens upon any of the material properties or assets of the Company, the Bank or any Subsidiary under any of the terms, conditions or provisions of (i) its charter or bylaws (or similar governing documents) or the certificate of incorporation, charter, bylaws or other governing instrument of any Subsidiary or (ii) except as set forth in Section 2.2(d) of the Company Disclosure Schedule, and except for defaults that would not have nor reasonably be expected to have a Material Adverse Effect, any material note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which the Company, the Bank or any Subsidiary is a party or by which it may be bound, including without limitation the trust preferred securities issued by Greene County Capital Trust I, Greene County Capital Trust II, GreenBank Capital Trust I, Civitas Statutory Trust I, Cumberland Capital Statutory Trust II or the related

indentures (collectively, the Trust Preferred Securities ), or to which the Company, the Bank or any Subsidiary or any of the properties or assets of the Company, the Bank or any Subsidiary may be subject, or (B) except for violations that would not have nor reasonably be expected to have a Material Adverse Effect, assuming the consents referred to in Section 2.2(f) are duly obtained, violate any Law applicable to the Company, the Bank or any Subsidiary or any of their respective properties or assets.

(e) Accountants. Dixon Hughes PLLC, who has expressed its opinion with respect to the consolidated financial statements contained in the Company 10-K, is as of the date of such opinion a registered independent public accountant, within the meaning of the Code of Professional Conduct of the American Institute of Certified Public Accountants, as required by the Securities Act and the rules and regulations promulgated thereunder and by the rules of the Public Accounting Oversight Board.

(f) Consents. Schedule 2.2(f) of the Company Disclosure Schedule lists all governmental and any other material consents, approvals, authorizations, applications, registrations and qualifications that are required to be obtained in connection with or for the consummation of the transactions contemplated by this Agreement (the Required Approvals ). Other than the securities or blue sky laws of the various states and the Required Approvals, no material notice to, registration, declaration or filing with, exemption or review by, or authorization, order, consent or approval of, any Governmental Entity or SRO, or expiration or termination of any statutory waiting period, is necessary for the consummation by the Company or the Bank of the transactions contemplated by this Agreement.

(g) Financial Statements. The Company has previously made available to Purchaser copies of the consolidated statements of financial condition of the Company, the Bank and the Subsidiaries as of December 31 for the fiscal years 2008, 2009 and 2010, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders equity, and of cash flows for the fiscal years 2008 through 2010, inclusive, as reported in the Company 10-K, in each case accompanied by the audit report of Dixon Hughes PLLC. The December 31, 2010 consolidated statement of financial condition of the Company (including the related notes, where applicable) fairly presents in all material respects the consolidated financial position of the Company, the Bank and the Subsidiaries as of the date thereof, and the other financial statements referred to in this Section 2.2(g) (including the related notes, where applicable) fairly present in all material respects, and the financial statements to be filed by the Company with the SEC after the date of this Agreement will fairly present in all material respects (subject, in the case of the unaudited statements, to recurring audit adjustments normal in nature and amount), the results of the consolidated operations, comprehensive income, changes in shareholders equity, cash flows and the consolidated financial position of the Company, the Bank and the Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth; each of such statements (including the related notes, where applicable) in all material respects complies, and the financial statements to be filed by the Company with the SEC after the date of this Agreement will comply, with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto; and each of such statements (including the related notes, where applicable) has been, and the financial statements to be filed by the Company with the SEC after the date of this Agreement will be, prepared in accordance with generally accepted accounting principles ( GAAP ) consistently applied during the periods involved, except as indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q. There is no transaction, arrangement or other relationship between the Company, the Bank or any Subsidiary and an unconsolidated or other Affiliated entity that is not reflected on the financial statements specified in this Section 2.2(g). The books and records of the Company, the Bank and the Subsidiaries in all material respects have been, and are being, maintained in accordance with applicable Law and GAAP accounting requirements and reflect only actual transactions. Dixon Hughes PLLC has not resigned or been dismissed as independent public accountants of the Company as a result of or in connection with any disagreements with the Company on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

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(h) Reports. (1) Since December 31, 2008, the Company, the Bank and each Subsidiary has timely filed all material reports, registrations, documents, filings, statements and submissions, together with any amendments thereto, that it was required to file with any Governmental Entity or self-regulatory organization having jurisdiction over the Company ( SRO ) (the foregoing, collectively, the Company Reports ) and has paid all material fees and assessments due and payable in connection therewith. As of their respective dates of filing, the Company Reports complied in all material respects with all statutes and applicable rules and regulations of the applicable Governmental Entities or SROs. Except as set forth in Section 2.2(h)(1) of the Company Disclosure Schedule, to the knowledge of the Company, as of the date of this Agreement, there are no outstanding comments from the SEC or any other Governmental Entity or any SRO with respect to any Company Report. In the case of each such Company Report filed with or furnished to the SEC, such Company Report did not, as of its date or if amended prior to the date of this Agreement, as of the date of such amendment, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made in it, in light of the circumstances under which they were made, not misleading and complied as to form in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the Securities Act ), and the Securities Exchange Act of 1934, as amended (the Exchange Act ). With respect to all other Company Reports, the Company Reports were complete and accurate in all material respects as of their respective dates, or the dates of their respective amendments. No executive officer of the Company, the Bank or any Subsidiary has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act. Copies of all Company Reports not otherwise publicly filed have, to the extent allowed by applicable Law, been made available to Purchaser by the Company. Except for normal examinations conducted by a Governmental Entity or SRO in the regular course of the business of the Company, the Bank and the Subsidiaries, no Governmental Entity or SRO has initiated any proceeding or, to the knowledge of the Company, investigation into the business or operations of the Company, the Bank or any Subsidiary since December 31, 2008. Except as set forth in Section 2.2(h)(1) of the Company Disclosure Schedule, to the knowledge of the Company and the Bank, there is no unresolved violation, criticism or exception by any Governmental Entity or SRO with respect to any report or statement relating to any examinations of the Company, the Bank or any of the Subsidiaries.

(2) The Company (i) keeps books, records and accounts that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, the Bank and the Subsidiaries, and (ii) maintains a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management s general or specific authorization, (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets, (C) access to assets is permitted only in accordance with management s general or specific authorization and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company (A) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) to ensure that material information relating to the Company, including the Bank and the Subsidiaries, is made known to the chief executive officer and the chief financial officer of the Company by others within those entities, and (B) has disclosed, based on its most recent evaluation prior to the date hereof, to the Company s outside auditors and the audit committee of the Board of Directors (x) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that are reasonably likely to adversely affect the Company s ability to record, process, summarize and report financial information and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company s internal controls over financial reporting. Since December 31, 2008, (A) none of the Company, the Bank or any Subsidiary or, to the knowledge of the Company or the Bank, any director, officer, employee, auditor, accountant or representative of the Company, the Bank or any Subsidiary has received or otherwise had or obtained knowledge of any material complaint,

allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of the Company, the Bank or any Subsidiary or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that the Company, the Bank or any Subsidiary has engaged in questionable accounting or auditing practices, and (B) no attorney representing the Company, the Bank or any Subsidiary, whether or not employed by the Company, the Bank or any Subsidiary, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by the Company or any of its officers, directors, employees or agents to the Company s Board of Directors or any committee thereof or to any director or officer of the Company. The Company is otherwise in compliance in all material respects with all applicable provisions of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ), as amended and the rules and regulations promulgated thereunder and as of the date of this Agreement, the Company has no knowledge of any reason that its outside auditors and its chief executive officer and chief financial officer shall not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

(i) Properties and Leases. The Company, the Bank and the Subsidiaries have good and marketable title to all real properties and transferable title to all other properties and assets, tangible or intangible, owned by them (other than any assets or properties classified as other real estate owned) that are material to the operation of their businesses, in each case free from Liens (other than (i) Liens for current taxes and assessments not yet past due or being contested in good faith, (ii) inchoate Liens for construction in progress, (iii) mechanics , materialmen s, workmen s, repairmen s, warehousemen s and carriers Liens arising in the ordinary course of business of the Company, the Bank or such Subsidiary consistent with past practice for sums not yet delinquent or being contested in good faith by appropriate proceedings and (iv) Liens with respect to tenant personal property, fixtures and/or leasehold improvements at the subject premises arising under state statutes and/or principles of common law (collectively, Permitted Liens )) that would impair in any material respect the value thereof or interfere with the use made or to be made thereof by them in any material respect. The Company, the Bank and the Subsidiaries own, lease or otherwise have valid easement rights to use all properties as are necessary to their operations as now conducted. To the knowledge of the Company, the Company, the Bank and the Subsidiaries hold all leased real or personal property under valid and enforceable leases with no exceptions that would interfere with the use made or to be made thereof by them in any material respect. None of the Company, the Bank or any Subsidiary or, to the knowledge of the Company, any other party thereto is in default in any material respect under any lease described in the immediately preceding sentence. There are no condemnation or eminent domain proceedings pending or, to the knowledge of the Company, threatened in writing, with respect to any of the real properties owned, or to the Company s knowledge, any of the real properties leased, by the Company, the Bank or any of the Subsidiaries. None of the Company, the Bank or any of the Subsidiaries has, within the last two (2) years, made any material title claims, or has outstanding any material title claims, under any policy of title insurance respecting any parcel of real property.

(j) Taxes. Except as set forth in Section 2.2(j) of the Company Disclosure Schedule, (1) each of the Company, the Bank and the Subsidiaries has duly and timely filed (including, pursuant to applicable extensions granted without penalty) all material Tax Returns required to be filed by it and all such Tax Returns are correct and complete in all material respects. Each of the Company, the Bank and the Subsidiaries have paid in full, or made adequate provision in the financial statements of the Company (in accordance with GAAP) for, all Taxes shown as due on such Tax Returns; (2) no material deficiencies for any Taxes have been proposed, asserted or assessed against or with respect to any Taxes due by, or Tax Returns of, the Company, the Bank or any of the Subsidiaries which deficiencies have not since been resolved; and (3) there are no material Liens for Taxes upon the assets of either the Company, the Bank or the Subsidiaries except for statutory Liens for Taxes not yet due or that are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP have been provided. None of the Company, the Bank or any of the Subsidiaries has been a distributing corporation or a controlled corporation in any distribution occurring during the last two years in which the parties to such distribution treated the distribution as one to which Section 355 of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations promulgated thereunder (the Code ) is applicable. None of the Company, the Bank or any Subsidiary has engaged in any transaction that is the same as or substantially

similar to a listed transaction for United States federal income tax purposes within the meaning of Treasury Regulations section 1.6011-4. None of the Company, the Bank or any of the Subsidiaries has engaged in a transaction of which it made disclosure to any taxing authority to avoid penalties under Section 6662(d) or any comparable provision of state, foreign or local Law. None of the Company, the Bank or any of the Subsidiaries has participated in any tax amnesty or similar program offered by any taxing authority to avoid the assessment of penalties or other additions to Tax. The Company, the Bank and each of the Subsidiaries have complied in all material respects with all requirements to report information for Tax purposes to any individual or taxing authority, and have collected and maintained all requisite certifications and documentation in valid and complete form with respect to any such reporting obligation, including, without limitation, valid Internal Revenue Service Forms W-8 and W-9. No claim has been made by a Tax Authority in writing to the Company, the Bank or any of the Subsidiaries in a jurisdiction where the Company, the Bank or any of the Subsidiaries, as the case may be, does not file Tax Returns that the Company, the Bank or any of such Subsidiaries, as the case may be, is or may be subject to Tax by that jurisdiction. None of the Company, the Bank or any of the Subsidiaries has granted any waiver, extension or comparable consent regarding the application of the statute of limitations with respect to any Taxes or Tax Return that is outstanding, nor has any request for any such waiver or consent been made. None of the Company, the Bank or any of the Subsidiaries has been or is in violation (or with notice or lapse of time or both, would be in violation) of any applicable Law relating to the payment or withholding of Taxes (including, without limitation, withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or any similar provisions of state, local or foreign Law). Each of the Company, the Bank and its Subsidiaries has duly and timely withheld from employee salaries, wages and other compensation and paid over to the appropriate taxing authority all amounts required to be so withheld and paid over for all periods under all applicable Laws. No audits or material investigations by any taxing authority relating to any Tax Returns of any of the Company, the Bank or any of the Subsidiaries is in progress, nor has the Company, the Bank or any of the Subsidiaries received notice from any taxing authority of the commencement of any audit not yet in progress. There are no outstanding powers of attorney enabling any person or entity not a party to this Agreement to represent the Company, the Bank or any Subsidiary with respect to Tax matters. None of the Company, the Bank or any of the Subsidiaries has applied for, been granted, or agreed to any accounting method change for which it will be required to take into account any adjustment under Code Section 481 or any similar provision. There are no material elections regarding Taxes affecting the Company, the Bank or any of the Subsidiaries. None of the Company, the Bank or any of the Subsidiaries has undergone an ownership change within the meaning of Code Section 382(g) provided that the Company makes no representations as to whether the execution of this Agreement or the consummation of the transactions contemplated hereby will constitute an ownership change under Code Section 382(g). For purposes of this Agreement, Taxes shall mean all taxes, charges, levies, penalties or other assessments imposed by any United States federal, state, local or foreign taxing authority, including any income, excise, property, sales, transfer, franchise, payroll, withholding, social security, abandoned or unclaimed property or other taxes, together with any interest, penalties or additions to tax attributable thereto, and any payments made or owing to any other person measured by such taxes, charges, levies, penalties or other assessment, whether pursuant to a tax indemnity agreement, tax sharing payment or otherwise (other than pursuant to commercial agreements or Benefit Plans). For purposes of this Agreement, Tax Return shall mean any return, report, information return or other document (including any related or supporting information) required to be filed with any taxing authority with respect to Taxes, including, without limitation, all information returns relating to Taxes of third parties, any claims for refunds of Taxes and any amendments or supplements to any of the foregoing.

(k) Absence of Certain Changes. Since December 31, 2010, except as Previously Disclosed, (1) the Company, the Bank and the Subsidiaries have conducted their respective businesses in all material respects in the ordinary and usual course of business and consistent with prior practice, (2) none of the Company, the Bank or any Subsidiary has issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, except borrowings in the ordinary course of business, (3) except for publicly disclosed ordinary dividends on the Common Stock and outstanding Company Preferred Stock or as contemplated by Section 2.2(b) of this Agreement, the Company has not made or declared any distribution in cash or in kind to its shareholders or issued or repurchased any shares of its capital stock or other equity interests, (4) no fact, event, change, condition, development, circumstance or effect has occurred that has

had or would reasonably be expected to have a Material Adverse Effect and (5) no material default (or event that, with notice or lapse of time, or both, would constitute a material default) exists on the part of the Company, the Bank or any Subsidiary or, to their knowledge, on the part of any other party, in the due performance and observance of any term, covenant or condition of any Company Significant Agreement that would, individually or in the aggregate, constitute a Material Adverse Effect.

(l) No Undisclosed Liabilities. Except as set forth in Section 2.2(l) of the Company Disclosure Schedule, none of the Company, the Bank or any of the Subsidiaries has any liabilities or obligations of any nature and is not an obligor under any guarantee, keepwell or other similar agreement (absolute, accrued, contingent or otherwise) except for (1) liabilities or obligations reflected in or reserved against in the Company s consolidated balance sheet as of December 31, 2010, (2) current liabilities that have arisen since December 31, 2010 in the ordinary and usual course of business and consistent with past practice and that have either been Previously Disclosed or would not have, individually or in the aggregate, a material impact on the Company, the Bank or any Subsidiary and (3) contractual liabilities under (other than liabilities arising from any breach or violation of) agreements made in the ordinary and usual course of business and consistent with past practice and that have either been Previously Disclosed or would not have, individually or in the aggregate, a material impact on the Company, the Bank or any Subsidiary.

(m) Commitments and Contracts. (i) The Company has Previously Disclosed or made available to Purchaser or its representatives true, correct and complete copies of, each of the following written contracts to which the Company, the Bank or any Subsidiary is a party (each, a Company Significant Agreement ):

(1) any contract or agreement which is a material contract within the meaning of Item 601(b)(10) of Regulation S-K to be performed in whole or in part after the date of this Agreement;

(2) any contract or agreement with respect to the employment or service of any current or former directors, officers, or consultants of the Company, the Bank or any of the Subsidiaries;

(3) any contract or agreement with any director, officer, or Affiliate of the Company, the Bank or any of the Subsidiaries;

(4) any contract or agreement materially limiting the freedom of the Company, the Bank or any Subsidiary to engage in any line of business or to compete with any other person or prohibiting the Company, the Bank or any Subsidiary from soliciting customers, clients or employees, in each case whether in any specified geographic region or business or generally;

(5) any contract or agreement with a labor union or guild (including any collective bargaining agreement);

(6) any contract or agreement which grants any person a right of first refusal, right of first offer or similar right with respect to any material properties, assets or businesses of the Company, the Bank or the Subsidiaries other than other real estate owned;

(7) any trust indenture, mortgage, promissory note, loan agreement or other contract, agreement or instrument for the borrowing of money, any currency exchange, commodities or other hedging arrangement or any leasing transaction of the type required to be capitalized in accordance with GAAP, in each case, where the Company, the Bank or any Subsidiary is a lender, borrower or guarantor other than those entered into in the ordinary course of business;

(8) any contract or agreement entered into since January 1, 2005 (and any contract or agreement entered into at any time to the extent that material obligations remain as of the date hereof) relating to the acquisition or disposition of any material business or material assets (whether by merger, sale of stock or assets or otherwise), which acquisition or disposition is not yet complete or where such contract contains continuing material obligations, including continuing material indemnity obligations, of the Company, the Bank or any of the Subsidiaries;

(9) any agreement of guarantee, support or indemnification by the Company, the Bank or any Subsidiary, assumption or endorsement by the Company, the Bank or any Subsidiary of, or any similar commitment by the Company, the Bank or any Subsidiary with respect to, the obligations, liabilities (whether accrued, absolute, contingent or otherwise) or indebtedness of any other person other than those entered into in the ordinary course of business;

(10) any alliance, cooperation, joint venture, stockholders partnership or similar agreement involving a sharing of profits or losses relating to the Company, the Bank or any Subsidiary;

(11) any agreement, option or commitment or right with, or held by, any third party to acquire, use or have access to any assets or properties, or any interest therein, of the Company, the Bank or any Subsidiary; and

(12) any material contract or agreement that would require any consent or approval of a counterparty as a result of the consummation of the transactions contemplated by this Agreement.

(ii) (A) Each of the Company Significant Agreements has been duly and validly authorized, executed and delivered by the Company, the Bank or any Subsidiary and is binding on the Company, the Bank and the Subsidiaries, as applicable, and to the Company s knowledge, is in full force and effect; (B) the Company, the Bank and each of the Subsidiaries, as applicable, are in all material respects in compliance with and have in all material respects performed all obligations required to be performed by them to date under each Company Significant Agreement; (C) as of the date hereof, none of the Company, the Bank or any of the Subsidiaries has received notice of any material violation or default (or any condition that with the passage of time or the giving of notice would cause such a violation of or a default) by any party under any Company Significant Agreement; and (D) no other party to any Company Significant Agreement is, to the knowledge of the Company, in default in any material respect thereunder.

(n) Offering of Purchased Shares. Neither the Company nor any person acting on its behalf has taken any action (including any offering of any securities of the Company) under circumstances that would require the integration of such offering with the offering of any of the Purchased Shares, the shares underlying the Option or CVRs to be issued pursuant to this Agreement, in each case under the Securities Act, and the rules and regulations of the SEC promulgated thereunder, which might subject the offering,

issuance or sale of any of the Purchased Shares or the shares underlying the Option to Purchaser or the CVRs to the Company s shareholders (excluding the Purchaser) pursuant to this Agreement to the registration requirements of the Securities Act.

(o) Status of Purchased Shares. The Purchased Shares to be issued pursuant to this Agreement have been duly authorized by all necessary corporate action, in each case subject to the approval of the Shareholder Proposal. When issued, delivered and sold against receipt of the consideration therefor as provided in this Agreement, the Purchased Shares will be validly issued, fully paid and nonassessable, will not be issued in violation of or subject to preemptive rights of any other shareholder of the Company and will not result in the violation or triggering of any price-based antidilution adjustments under any agreement to which the Company, the Bank or any Subsidiary is a party. The voting rights of the holders of the Purchased Shares will be enforceable in accordance with the terms of the Charter, the bylaws of the Company and applicable Law.

(p) Litigation and Other Proceedings. Except as set forth in Section 2.2(p) of the Company Disclosure Schedule, none of the Company, the Bank or any Subsidiary is a party to any, and there are no pending or, to the Company s knowledge, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature (1) against the Company, the Bank or any Subsidiary (excluding those of the type contemplated by the following clause (2)) that, if adversely determined, would reasonably be expected to result in damages, costs or any other liability owed by the Company, the Bank or such Subsidiary, as applicable, in excess of $1,000,000 individually or $5,000,000 in the aggregate or (2) as of the date hereof, challenging the validity or propriety of the transactions contemplated by this Agreement. There is no material injunction, order, judgment, decree or regulatory restriction (other than regulatory restrictions of general application that apply to similarly situated companies) imposed upon the Company, the Bank, any Subsidiary or the assets of the Company, the Bank or any Subsidiary. There is no material unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of the Company, the Bank or any Subsidiary.

(q) Compliance with Laws. (1) The Company, the Bank and each Subsidiary have all material permits, licenses, franchises, authorizations, orders and approvals of ( Permits ), and have made all filings, applications and registrations with, Governmental Entities and SROs that are required in order to permit them to own or lease their properties and assets and to carry on their business as presently conducted, except where the failure to have, or the suspension or cancellation of, any Permit has not had a Material Adverse Effect. Except as has not had a Material Adverse Effect, each of the Company, the Bank and each Subsidiary is and has been in compliance with and is not in default or violation of, and none of them is, to the knowledge of the Company, under investigation with respect to or, to the knowledge of the Company, has been threatened to be charged with or given notice of any material violation of, any applicable material domestic (federal, state or local) or foreign Law or order, demand, writ, injunction, decree or judgment of any Governmental Entity or SRO. Except for statutory or regulatory restrictions of general application, no Governmental Entity or SRO has placed any material restriction on the business or properties of the Company, the Bank or any Subsidiary. Except as set forth in Section 2.2(q) of the Company Disclosure Schedule, since December 31, 2009, none of the Company, the Bank or any Subsidiary has received any written notification or communication from any Governmental Entity or SRO (A) asserting that the Company, the Bank or any Subsidiary is not in material compliance with any applicable Law, (B) threatening to revoke any permit, license, franchise, authorization, order or approval, or (C) threatening or contemplating revocation or limitation of, or which would have the effect of revoking or limiting, FDIC deposit insurance.

(2) Except as would not be material to the Company, the Bank and the Subsidiaries, taken as a whole, the Bank and each Subsidiary have properly administered all accounts for which the Bank or any Subsidiary acts as a fiduciary, including accounts for which the Bank or any

Subsidiary serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment adviser, in accordance with the terms of the governing documents, applicable state and federal law and regulation and common law in all material respects. None of the Bank or any Subsidiary, or any director, officer or employee of the Bank or any Subsidiary, has committed any breach of trust with respect to any such fiduciary account that would be material to the Bank and the Subsidiaries, taken as a whole, and the accountings for each such fiduciary account are true and correct in all material respects and accurately reflect in all material respects the assets of such fiduciary account.

(r) Labor. Employees of the Company, the Bank and the Subsidiaries are not represented by any labor union nor are any collective bargaining agreements otherwise in effect with respect to such employees. No labor organization or group of employees of the Company, the Bank or any Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority. There are no organizing activities (to the Company s knowledge), strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances, or other material labor disputes pending or to the Company s knowledge threatened against or involving the Company, the Bank or any Subsidiary. The Company, the Bank and each Subsidiary believe that their relations with their employees are good. As of the date hereof, no executive officer of the Company, the Bank or any Subsidiary has notified the Company, the Bank or any Subsidiary that such officer intends to leave the employ of the Company, the Bank or any Subsidiary or otherwise terminate such executive officer s employment with the Company, the Bank or any Subsidiary. To the knowledge of the Company, no executive officer of the Company, the Bank or any Subsidiary is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other agreement or any restrictive covenant, and to the knowledge of Company the continued employment of each such executive officer does not subject the Company, the Bank or any Subsidiary to any liability with respect to any of the foregoing matters. The Company, the Bank and the Subsidiaries are in compliance with all notice and other requirements under the Worker Adjustment and Retraining Notification Act of 1988, and any other similar applicable foreign, state, or local Laws relating to facility closings and layoffs.

(s) Company Benefit Plans.

(1) (A) Section 2.2(s)(1)(A) of the Company Disclosure Schedule sets forth a complete list of the Company s Benefit Plans. With respect to each Benefit Plan, except as set forth in Section 2.2(s)(1)(A) of the Company Disclosure Schedule, the Company, the Bank and the Subsidiaries have complied, and are now in compliance, in both instances in all material respects, with all provisions of the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), the Code and all Laws and regulations applicable to such Benefit Plan; and (B) each Benefit Plan has been administered in all material respects in accordance with its terms. Benefit Plan means any employee welfare benefit plan within the meaning of Section 3(1) of ERISA, any employee pension benefit plan within the meaning of Section 3(2) of ERISA, and any bonus, incentive, deferred compensation, vacation, stock purchase, stock option, severance, employment, change of control, fringe benefit, or other compensation or employee benefit plan, program, agreement, arrangement or policy sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated (an ERISA Affiliate ), that together with the Company would be deemed a single employer within the meaning of section 4001(b) of ERISA, or to which the Company, the Bank, any Subsidiary or any of their respective ERISA Affiliates is party, whether written or oral, for the benefit of any director, former director, consultant, former consultant, employee or former employee of the Company, the Bank or any Subsidiary.

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(2) With respect to each Benefit Plan, the Company has heretofore delivered or made available to Purchaser or Previously Disclosed true and complete copies of each of the following documents, to the extent applicable: (A) a copy of the Benefit Plan and any amendments thereto (or if the Benefit Plan is not a written Benefit Plan, a description thereof); (B) a copy of the two most recent annual reports and actuarial reports, and the most recent report prepared with respect thereto in accordance with Statement of Financial Accounting Standards No. 87; (C) a copy of the most recent summary plan description required under ERISA with respect thereto; (D) if the Benefit Plan is funded through a trust or any third party funding vehicle, a copy of the trust or other funding agreement and the latest financial statements thereof; and (E) the most recent determination or opinion letter received from the Internal Revenue Service with respect to each Benefit Plan intended to qualify under section 401 of the Code.

(3) Except as set forth in Section 2.2(s)(3) of the Company Disclosure Schedule, no claim has been made, or to the knowledge of the Company threatened, against the Company, the Bank or any of the Subsidiaries related to the employment and compensation of employees or any Benefit Plan, including, without limitation, any claim related to the purchase of employer securities or to expenses paid under any defined contribution pension plan other than ordinary course claims for benefits.

(4) No Benefit Plans are subject to Title IV or described in Section 3(37) of ERISA, and none of the Company, the Bank or its Subsidiaries has at any time within the past six (6) years sponsored or contributed to, or has or had within the past six (6) years any liability or obligation in respect of, any plan subject to Title IV or described in Section 3(37) of ERISA. Except as set forth in Section 2.2(s)(4) of the Company Disclosure Schedule, neither the Company, the Bank, nor any Subsidiary has incurred any current or projected liability in respect of post-retirement health, medical or life insurance benefits for Company Employees, except as required to avoid an excise tax under Section 4980B of the Code or comparable State benefit continuation laws.

(5) Each Benefit Plan intended to be qualified within the meaning of section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under section 501(a) of the Code, and, to the knowledge of the Company, no condition exists that could reasonably be expected to jeopardize any such qualification or exemption.

(6) None of the Company, the Bank or any Subsidiary, any Benefit Plan, any trust created thereunder, or any trustee or administrator thereof has engaged in a transaction in connection with which the Company, the Bank or any Subsidiary, any Benefit Plan, any such trust, or any trustee or administrator thereof, or any party dealing with any Benefit Plan or any such trust could be subject to either a civil penalty assessed pursuant to section 409 or 502(i) of ERISA or a tax imposed pursuant to section 4975 or 4976 of the Code.

(7) There has been no material failure of a Benefit Plan that is a group health plan (as defined in section 5000(b)(1) of the Code) to meet the requirements of section 4980B(f) of the Code with respect to a qualified beneficiary (as defined in section 4980B(g) of the Code).

(8) Except as set forth in Section 2.2(s)(8) of the Company Disclosure Schedule, each Benefit Plan that is a non-qualified deferred compensation plan within the meaning of Section 409A(d)(1) of the Code (a 409A Plan ) complies in all material respects with the requirements of Section 409A of the Code and the guidance promulgated thereunder. From January 1, 2005 through December 31, 2008, each 409A Plan and any award thereunder was

maintained in good faith operational compliance with the requirements of (i) Section 409A of the Code and (ii) (x) the proposed regulations issued thereunder, (y) the final regulations issued thereunder or (z) Internal Revenue Service Notice 2005-1. From and after January 1, 2009, each 409A Plan and any award thereunder has been maintained in operational compliance with the requirements of Section 409A of the Code the final regulations issued thereunder. Except as set forth in Section 2.2(s)(8) of the Company Disclosure Schedule, as of and since December 31, 2008, each 409A Plan and any award thereunder has been in documentary compliance with the requirements of Section 409A of the Code and the final regulations issued thereunder. Except as set forth in Section 2.2(s)(8) of the Company Disclosure Schedule, no payment to be made under any 409A Plan is or will be subject to the interest and additional tax payable pursuant to Section 409A(a)(1)(B) of the Code. None of the Company, the Bank or any Subsidiary is party to, or otherwise obligated under, any contract, agreement, plan or arrangement that provides for the gross-up of taxes imposed by Section 409A(a)(1)(B) of the Code.

(9) (A) Except as set forth in Section 2.2(s)(9) of the Company Disclosure Schedule or as required by applicable Law, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby will (i) result in any payment (including severance, unemployment compensation, excess parachute payment (within the meaning of Section 280G of the Code), forgiveness of indebtedness or otherwise) becoming due to any current or former employee, officer or director of the Company, the Bank or any Subsidiary from the Company, the Bank or any Subsidiary under any Benefit Plan or otherwise, (ii) increase any benefits otherwise payable under any Benefit Plan, (iii) result in any acceleration of the time of payment or vesting of any such benefits, (iv) require the funding or increase in the funding of any such benefits or (v) result in any limitation on the right of the Company, the Bank or any Subsidiary to amend, merge, terminate or receive a reversion of assets from any Benefit Plan or related trust and (B) except as set forth in Section 2.2(s)(9) of the Company Disclosure Schedule or as required by applicable Law, none of the Company, the Bank or any Subsidiary has taken, or permitted to be taken, any action that required, and no circumstances exist that will require the funding, or increase in the funding, of any benefits, or will result, in any limitation on the right of the Company, the Bank or any Subsidiary to amend, merge, terminate any Benefit Plan or receive a reversion of assets from any Benefit Plan or related trust. Except as set forth in Section 2.2(s)(9) of the Company Disclosure Schedule, none of the Company, the Bank or any Subsidiary is party to, or otherwise obligated under, any contract, agreement, plan or arrangement that provides for the gross-up of excise taxes imposed by Section 4999 of the Code.

(10) The Company, the Bank and the Subsidiaries will be in compliance, as of the Closing Date, with Sections 111 and 302 of the Emergency Economic Stabilization Act of 2008, as amended by the U.S. American Recovery and Reinvestment Act of 2009, including all guidance issued thereunder by a Governmental Entity (collectively EESA ). Except as set forth in Section 2.2(s)(10) of the Company Disclosure Schedule, without limiting the generality of the foregoing, each employee of the Company, the Bank, and the Subsidiaries who is subject to the limitations imposed under EESA has executed a waiver of claims against the Company, the Bank and the Subsidiaries with respect to limiting or reducing rights to compensation for so long as the EESA limitations are required to be imposed.

(t) Risk Management Instruments. All material derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company s own account, or for the account of the Bank or one or more of the Subsidiaries, were entered into (1) only in the ordinary and usual course of business and consistent with past practice, (2) in accordance with commercially reasonable banking practices and in all material respects with all applicable laws, rules, regulations and regulatory policies and (3) with counterparties believed to be financially responsible at the time; and each of them constitutes the valid and legally binding obligation of the Company, the Bank or one of the Subsidiaries, enforceable in accordance with its terms. None of the Company, the Bank or the Subsidiaries, or, to the

knowledge of the Company, any other party thereto, is in breach of any of its material obligations under any such agreement or arrangement.

(u) Agreements with Regulatory Agencies. Except as set forth in Section 2.2(u) of the Company Disclosure Schedule, none of the Company, the Bank or any Subsidiary is subject to any cease-and-desist or other similar order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or has adopted any board resolutions at the request of, any Governmental Entity or SRO (each item in this sentence, a Regulatory Agreement ), nor has the Company, the Bank or any Subsidiary been advised since December 31, 2008 by any Governmental Entity or SRO that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. Except as set forth in Section 2.2(u) of the Company Disclosure Schedule, the Company, the Bank and each Subsidiary are in compliance in all material respects with each Regulatory Agreement to which it is a party or subject, and none of the Company, the Bank or any Subsidiary has received any notice from any Governmental Entity or SRO indicating that either the Company, the Bank or any Subsidiary is not in compliance in all material respects with any such Regulatory Agreement.

(v) Environmental Liability. The Company, the Bank and the Subsidiaries have, and at the Closing Date will have, complied in all material respects with all laws, regulations, ordinances and orders relating to public health, safety or the environment (including without limitation all laws, regulations, ordinances and orders relating to releases, discharges, emissions or disposals to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use, handling or disposal of polychlorinated biphenyls, asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances, pollutants or contaminants, or to exposure to toxic, hazardous or other controlled, prohibited or regulated substances), the violation of which would or might have a material impact on the Company, the Bank or any Subsidiary or the consummation of the transactions contemplated by this Agreement. There is no legal, administrative, arbitral or other proceeding, claim, action or notice of any nature seeking to impose, or that could result in the imposition of, on the Company, the Bank or any Subsidiary, any liability or obligation of the Company, the Bank or any Subsidiary with respect to any environmental health or safety matter or any private or governmental, environmental health or safety investigation or remediation activity of any nature arising under common law or under any local, state or federal environmental, health or safety statute, regulation or ordinance, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ), pending or, to the Company s knowledge, threatened against the Company, the Bank or any Subsidiary or any property in which the Company, the Bank or any Subsidiary has taken a security interest the result of which has had or would reasonably be expected to have a Material Adverse Effect; to the Company s knowledge, there is no reasonable basis for, or circumstances that could reasonably be expected to give rise to, any such proceeding, claim, action, investigation or remediation; and to the Company s knowledge, none of the Company, the Bank or any Subsidiary is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Entity or third party that could impose any such environmental obligation or liability.

(w) Loan Portfolio.

(1) Except as set forth in Section 2.2(w)(1) of the Company Disclosure Schedule, as of April 29, 2011, none of the Company, the Bank or any Subsidiary is a party to (A) any written or oral loan, loan agreement, note or borrowing arrangement (including leases, credit enhancements, commitments, guarantees and interest-bearing assets) (collectively, Loans ), other than any Loan the unpaid principal balance of which does not exceed $50,000, under the terms of which the obligor was, as of March 31, 2011, over 90 days delinquent in payment of principal or interest or in default of any other provision, or (B) Loan in excess of $100,000 with any director, executive officer or five percent or greater shareholder of the Company, the Bank or any

Subsidiary, or to the knowledge of the Company, any person, corporation or enterprise controlling, controlled by or under common control with any of the foregoing. Section 2.2(w) of the Company Disclosure Schedule sets forth (x) all of the Loans in original principal amount in excess of $100,000 of the Company, the Bank or any of the Subsidiaries that as of March 31, 2011 were classified by the Company or the Bank or any regulatory examiner as Other Loans Specially Mentioned, Special Mention, Substandard, Doubtful, Loss, Classified, Criticized, Assets, Concerned Loans, Watch List or words of similar import, together with the principal amount of and accrued and unpaid interest on each such Loan as of March 31, 2011 and the identity of the borrower thereunder, (y) by category of Loan (i.e., commercial, consumer, etc.), all of the other Loans of the Company, the Bank and the Subsidiaries that as of March 31, 2011 were classified as such, together with the aggregate principal amount of and accrued and unpaid interest on such Loans by category as of March 31, 2011 and (z) each asset of the Company or the Bank that as of March 31, 2011 was classified as Other Real Estate Owned and the book value thereof.

(2) Each Loan of the Company, the Bank or any of the Subsidiaries (A) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (B) to the extent secured, has been secured by valid Liens which have been perfected and (C) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors rights and to general equity principles.

(3) Each outstanding Loan (including Loans held for resale to investors) has been solicited and originated and is administered and serviced (to the extent administered and serviced by the Company, the Bank or any Subsidiary), and the relevant Loan files are being maintained in all material respects in accordance with the relevant loan documents, the Company s and the Bank s underwriting standards (and, in the case of Loans held for resale to investors, the underwriting standards, if any, of the applicable investors) and in material compliance with all applicable requirements of federal, state and local Laws, regulations and rules.

(4) Except as set forth in Section 2.2(w)(4) of the Company Disclosure Schedule, none of the agreements pursuant to which the Company, the Bank or any of the Subsidiaries has sold Loans or pools of Loans or participations in Loans or pools of Loans contains any obligation to repurchase such Loans or interests therein.

(5) Each of the Company, the Bank and the Subsidiaries, as applicable, is approved by and is in good standing: (A) as a supervised mortgagee by the Department of Housing and Urban Development to originate and service Title I FHA mortgage loans; (B) as a GNMA I and II Issuer by the Government National Mortgage Association; (C) by the Department of Veterans Affairs (VA) to originate and service VA loans; and (D) as a seller/servicer by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation to originate and service conventional residential mortgage Loans (each such entity being referred to herein as an Agency).

(6) Except as set forth in Section 2.2(w)(6) of the Company Disclosure Schedule, none of the Company, the Bank or any of the Subsidiaries is now nor has it ever been since December 31, 2008 subject to any fine, suspension, settlement or other agreement or other administrative agreement or sanction by, or any reduction in any loan purchase commitment from, any Agency or any federal or state agency relating to the origination, sale or servicing of mortgage

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or consumer Loans. None of the Company, the Bank or any of the Subsidiaries has received any notice, nor does it have any reason to believe as of the date of this Agreement, that any Agency proposes to limit or terminate the underwriting authority of the Company, the Bank or any of the Subsidiaries or to increase the guarantee fees payable to any such Agency.

(7) Each of the Company, the Bank and the Subsidiaries is in compliance in all material respects with all applicable federal, state and local Laws, rules and regulations, including the Truth-In-Lending Act and Regulation Z, the Equal Credit Opportunity Act and Regulation B, the Real Estate Settlement Procedures Act and Regulation X, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and all Agency and other investor and mortgage insurance company requirements relating to the origination, sale and servicing of mortgage and consumer Loans.

(8) To the knowledge of the Company, each Loan included in a pool of Loans originated, acquired or serviced by the Company, the Bank or any of the Subsidiaries (a Pool ) meets all eligibility requirements (including all applicable requirements for obtaining mortgage insurance certificates and loan guaranty certificates) for inclusion in such Pool. All such Pools have been finally certified or, if required, recertified in accordance with all applicable Laws, rules and regulations, except where the time for certification or recertification has not yet expired. To the knowledge of the Company, no Pools have been improperly certified, and no Loan has been bought out of a Pool without all required approvals of the applicable investors.

(9) The information with respect to each Loan set forth in the Loan Tape, and, to the knowledge of the Company, any third party information set forth in the Loan Tape is true, correct and accurate as of the dates specified therein, or, if no such date is indicated therein, as of December 31, 2010. As used herein, Loan Tape means a data storage disk produced by the Company from its management information systems regarding the Loans.

(x) Insurance. The Company, the Bank and each of the Subsidiaries maintain, and have maintained for the two years prior to the date of this Agreement, insurance underwritten by insurers of recognized financial responsibility, of the types and in the amounts that the Company, the Bank and the Subsidiaries reasonably believe are adequate for their respective businesses and as constitute reasonably adequate coverage against all risks customarily insured against by banking institutions and their subsidiaries of comparable size and operations, including, but not limited to, insurance covering all real and personal property owned or leased by the Company, the Bank and any Subsidiary against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, with such deductibles as are customary for companies in the same or similar business. True, correct and complete copies of all policies and binders of insurance currently maintained in respect of the assets, properties, business, operations, employees, officers or directors of the Company, the Bank and the Subsidiaries, excluding such policies pursuant to which the Company, the Bank, any Subsidiary or an Affiliate of any them acts as the insurer and that are identified with respective expiration dates on Section 2.2(x) of the Company Disclosure Schedule (collectively, the Company Insurance Policies ), and all correspondence relating to any material claims under the Company Insurance Policies, have been previously made available to Purchaser. All of the Company Insurance Policies are in full force and effect, the premiums due and payable thereon have been timely paid, and there is no breach or default (and no condition exists or event has occurred which, with the giving of notice or lapse of time or both, would constitute such a breach or default) by the Company, the Bank or any of the Subsidiaries under any of the Company Insurance Policies or, to the knowledge of the Company, by any other party to the Company Insurance Policies, except for any such breach or default that would not reasonably be expected to have, individually or in the aggregate, a material impact on the Company, the Bank or any Subsidiary. None of the Company, the Bank or any of the Subsidiaries has received any written notice of cancellation or non-renewal of any Company Insurance Policy nor, to the knowledge of the Company, is the termination of any such policies threatened, and,

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except as set forth in Section 2.2(x) of the Company Disclosure Schedule, there is no claim for coverage by the Company, the Bank or any of the Subsidiaries, pending under any of such Company Policies as to which coverage has been questioned, denied or disputed by the underwriters of such Company Policies or in respect of which such underwriters have reserved their rights.

(y) Intellectual Property. The Company, the Bank and the Subsidiaries own, or are licensed or otherwise possess rights to use free and clear of all Liens all patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets, applications and other unpatented or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names (collectively, Proprietary Rights ) used in the conduct of the business of the Company, the Bank and the Subsidiaries as now conducted, except where the failure to own such Proprietary Rights would not have any material impact on the Company, the Bank or any Subsidiary. The Company, the Bank and the Subsidiaries have the right to use all Proprietary Rights used in or necessary for the conduct of their respective businesses without infringing the rights of any person or violating the terms of any licensing or other agreement to which the Company, the Bank or any Subsidiary is a party, except for such infringements or violations that have not had a Material Adverse Effect, and, to the Company s knowledge, no person is infringing upon any of the Proprietary Rights, except where the infringement of or lack of a right to use such Proprietary Rights would not have any material impact on the Company, the Bank or any Subsidiary. Except as Previously Disclosed, no charges, claims or litigation have been asserted or, to the Company s knowledge, threatened against the Company, the Bank or any Subsidiary contesting the right of the Company, the Bank or any Subsidiary to use, or the validity of, any of the Proprietary Rights or challenging or questioning the validity or effectiveness of any license or agreement pertaining thereto or asserting the misuse thereof, and, to the Company s knowledge, no valid basis exists for the assertion of any such charge, claim or litigation. All licenses and other agreements to which the Company, the Bank or any Subsidiary is a party relating to Proprietary Rights are in full force and effect and constitute valid, binding and enforceable obligations of the Company, the Bank or such Subsidiary, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors rights and to general equity principles, as the case may be, and there have not been and there currently are not any defaults (or any event that, with notice or lapse of time, or both, would constitute a default) by the Company, the Bank or any Subsidiary under any license or other agreement affecting Proprietary Rights used in or necessary for the conduct of the business of the Company, the Bank or any Subsidiary, except for defaults, if any, which would not have any material impact on the Company, the Bank or any Subsidiary. The validity, continuation and effectiveness of all licenses and other agreements relating to the Proprietary Rights and the current terms thereof will not be affected by the transactions contemplated by this Agreement.

(z) Anti-takeover Provisions Not Applicable. The Company has taken all action required to be taken by it in order to exempt this Agreement, the purchase of the Purchased Shares, the merger of the Bank into a depository subsidiary of the Purchaser and the other transactions to be consummated pursuant to the express terms of this Agreement from, and this Agreement and the transactions contemplated hereby are exempt from, any anti-takeover or similar provisions of the Charter, and its bylaws and the requirements of any moratorium, control share, fair price, affiliate transaction, business combination or other antitakeover Laws and regulations of any state, including the Tennessee Business Corporation Act.

(aa) Knowledge as to Conditions. As of the date of this Agreement, each of the Company and the Bank knows of no reason why any regulatory approvals and, to the extent necessary, any other approvals, authorizations, filings, registrations and notices required for the consummation of the transactions contemplated by this Agreement will not be obtained or that any Required Approval will not be granted without the imposition of a Burdensome Condition, provided, however, that neither the Company nor the Bank makes any representation or warranty with respect to the management, capital or ownership structure of Purchaser or any of its Affiliates.

(bb) Brokers and Finders. Except as set forth in Section 2.2(bb) of the Company Disclosure Schedule, none of the Company, the Bank or any Subsidiary or any of their respective officers, directors, employees or agents has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder s fees, and no broker or finder has acted directly or indirectly for the Company, the Bank or any Subsidiary, in connection with this Agreement or the transactions contemplated hereby.

(cc) Related Party Transactions.

(1) Except as set forth in Section 2.2(cc) of the Company Disclosure Schedule or as part of the normal and customary terms of an individual s employment or service as a director, none of the Company, the Bank or any of the Subsidiaries is party to any extension of credit (as debtor, creditor, guarantor or otherwise), contract for goods or services, lease or other agreement with any (A) affiliate, (B) insider or related interest of an insider, (C) shareholder owning 5% or more of the outstanding Common Stock or related interest of such a shareholder, or (D) to the knowledge of the Company, and other than credit and consumer banking transactions in the ordinary course of business, employee who is not an executive officer. For purposes of the preceding sentence, the term affiliate shall have the meaning assigned in Regulation W issued by the Federal Reserve, as amended, and the terms insider, related interest, and executive officer shall have the meanings assigned in the Federal Reserve s Regulation O, as amended.

(2) Except as set forth in Section 2.2(cc) of the Company Disclosure Schedule, the Bank is in compliance with, and has since December 31, 2008, complied with, Sections 23A and 23B of the Federal Reserve Act, its implementing regulations, and the Federal Reserve s Regulation O.

(dd) Foreign Corrupt Practices. None of the Company, the Bank or any Subsidiary, or, to the knowledge of the Company, any director, officer, agent, employee or other person acting on behalf of the Company, the Bank or any Subsidiary has, in the course of its actions for, or on behalf of, the Company, the Bank or any Subsidiary (A) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; (B) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (C) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or (D) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

(ee) Customer Relationships.

(1) Each trust or wealth management customer of the Company, the Bank or any Subsidiary has been in all material respects originated and serviced (A) in conformity with the applicable policies of the Company, the Bank and the Subsidiaries, (B) in accordance with the terms of any applicable instrument or agreement governing the relationship with such customer, (C) in accordance with any instructions received from such customers, (D) consistent with each customer s risk profile and (E) in compliance with all applicable laws and the Company s, the Bank s and the Subsidiaries constituent documents, including any policies and procedures adopted thereunder. Each instrument or agreement governing a relationship with a trust or wealth management customer of the Company, the Bank or any Subsidiary has been duly and validly executed and delivered by the Company, the Bank and each Subsidiary and, to the knowledge of the Company, the other contracting parties, each such instrument of agreement constitutes a valid

and binding obligation of the parties thereto, except as such enforceability may be limited by bankruptcy, insolvency, moratorium and other similar Laws affecting creditors rights generally and by general principles of equity, and the Company, the Bank and the Subsidiaries and the other parties thereto have duly performed in all material respects their obligations thereunder and the Company, the Bank and the Subsidiaries and such other person is in compliance with each of the terms thereof.

(2) No instrument or agreement governing a relationship with a trust or wealth management customer of the Company, the Bank or any Subsidiary provides for any material reduction of fees charged (or in other compensation payable to the Company, the Bank or any Subsidiary thereunder) at any time subsequent to the date of this Agreement.

(3) None of the Company, the Bank or any Subsidiary or any of their respective directors or senior officers (A) is the beneficial owner of any interest in any of the accounts maintained on behalf of any trust or wealth management customer of the Company, the Bank or any Subsidiary or (B) is a party to any contract pursuant to which it is obligated to provide service to, or receive compensation or benefits from, any of the trust or wealth management customers of the Company, the Bank or any Subsidiary after the Closing Date.

(4) Each account opening document, margin account agreement, investment advisory agreement and customer disclosure statement with respect to any trust or wealth management customer of the Company, the Bank or any Subsidiary conforms in all material respects to the forms provided to Purchaser prior to the Closing Date.

(5) Except as would not have any material impact on the Company, the Bank or any Subsidiary, all other books and records primarily related to the trust and wealth management businesses of the Company, the Bank and each Subsidiary include documented risk profiles signed by each such customer.

(ff) Investment Company; Investment Adviser. Neither the Company, the Bank nor any Subsidiary is required to be registered as, and is not an affiliate of, and immediately following the Closing will not be required to register as, an investment company within the meaning of the Investment Company Act of 1940, as amended. Neither the Company, the Bank nor any Subsidiary is required to be registered, licensed or qualified as an investment adviser under the Investment Advisers Act of 1940, as amended, or in another capacity thereunder with the SEC or any other Governmental Entity.

2.3 Representations and Warranties of Purchaser. Purchaser hereby represents and warrants to the Company and the Bank, as of the date of this Agreement and as of the Closing Date (except to the extent made only as of a specified date, in which case as of such date), that, except as Previously Disclosed:

(a) Organization and Authority. Purchaser is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, is duly qualified to do business and is in good standing in all jurisdictions where its ownership or leasing of property or the conduct of its business requires it to be so qualified, and Purchaser has the power and authority and governmental authorizations to own its properties and assets and to carry on its business in all material respects as it is now being conducted.

(b) Authorization. (1) Purchaser has the power and authority to enter into this Agreement and the other agreements referenced herein to which it will be a party and to carry out its obligations hereunder and thereunder. The execution, delivery and performance of this Agreement and the other agreements referenced herein to which it will be a party by Purchaser and the consummation of the transactions contemplated hereby and thereby have been duly authorized by Purchaser s board of directors, and no further approval or authorization by any of its shareholders or other equity owners, as the case may be, is required. This Agreement has been, and the other agreements referenced herein to which it will be a party, when executed, will be, duly and validly executed and delivered by Purchaser and assuming due authorization, execution and delivery by both the Company and the Bank, is and will be a valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms (except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar Laws of general applicability relating to or affecting creditors rights or by general equity principles).

(2) Neither the execution, delivery and performance by Purchaser of this Agreement, nor the consummation of the transactions contemplated hereby, nor compliance by Purchaser with any of the provisions hereof, will (A) violate, conflict with, or result in a breach of any provision of, or constitute a default (or an event that, with notice or lapse of time or both, would constitute a default) under, or result in the termination of, or accelerate the performance required by, or result in a right of termination or acceleration of, or result in the creation of any Lien upon any of the properties or assets of Purchaser under any of the terms, conditions or provisions of (i) its certificate of incorporation or similar governing documents or (ii) any material note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which Purchaser is a party or by which it may be bound, or to which Purchaser or any of the properties or assets of Purchaser may be subject, or (B) subject to compliance with the statutes and regulations referred to in Section 2.3(b)(3), violate any Law, statute, ordinance, rule or regulation, permit, concession, grant, franchise or any judgment, ruling, order, writ, injunction or decree applicable to Purchaser or any of its properties or assets except in the case of clauses (A)(ii) and (B) for such violations, conflicts and breaches as would not reasonably be expected to materially and adversely affect Purchaser s ability to perform its obligations under this Agreement or consummate the transactions contemplated hereby.

(3) Assuming the Company s and the Bank s representations contained in Section 2.2(f) are true and correct and other than the securities or blue sky Laws of the various states or as set forth in Section 2.3(b)(3) of the Purchaser Disclosure Schedule, no material notice to, registration, declaration or filing with, exemption or review by, or authorization, order, consent or approval of, any Governmental Entity, or expiration or termination of any statutory waiting period, is necessary for the consummation by Purchaser of the transactions contemplated by this Agreement.

(c) Restricted Securities; Limitation on Resale. Purchaser acknowledges that the Purchased Shares have not been registered under the Securities Act or under any state securities Laws and Purchaser understands that the Purchased Shares are restricted securities under applicable federal and state securities Laws and that, pursuant to these Laws, the Purchaser must hold the Purchased Shares indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available.

(d) Purchase for Investment. Purchaser (1) is acquiring the Purchased Shares pursuant to an exemption from registration under the Securities Act solely for investment with no present intention to resell or distribute any of the Purchased Shares to any person, (2) will not sell or otherwise dispose of any of the Purchased Shares, except in compliance with the registration requirements or exemption provisions of the Securities Act and any other applicable securities Laws, (3) has such knowledge, sophistication and

experience in financial and business matters and in investments of this type that it is capable of evaluating the merits and risks of its investment in the Purchased Shares, of making an informed investment decision and of bearing the economic risk of such investment for an indefinite period of time, and (4) is an accredited investor (as that term is defined by Rule 501 of the Securities Act ). Purchaser has not been formed for the specific purpose of acquiring the Purchased Shares. Purchaser has had an opportunity to discuss the business, management, financial affairs of the Company and of the Bank and the terms and conditions of the offering of the Purchased Shares with management of the Company and of the Bank and has had an opportunity to review the facilities of the Company and the Bank. The foregoing, however, does not limit or modify the representations and warranties of the Company or of the Bank in Section 2.2 of this Agreement or the right of Purchaser to rely thereon.

(e) Financial Capability. Purchaser currently has, and at the Closing will have, available funds necessary to pay the funds described in Section 1.2(b)(2) and to consummate the Closing on the terms and conditions contemplated by this Agreement.

(f) No General Solicitation. Neither Purchaser, nor any of its officers, directors, employees, agents, stockholders or partners has either directly or indirectly, including through a broker or finder (i) engaged in any general solicitation, or (ii) published any advertisement in connection with the offer and sale of the Purchased Shares.

(g) Brokers and Finders. Neither Purchaser nor its Affiliates, any of their respective officers, directors, employees or agents has employed any broker or finder or incurred any liability for any financial advisory fees, brokerage fees, commissions or finder s fees, and no broker or finder has acted directly or indirectly for Purchaser, in connection with this Agreement or the transactions contemplated hereby, in each case, whose fees the Company, the Bank or any Subsidiary would be required to pay (other than pursuant to the reimbursement of expenses provisions of Section 6.2).

(h) Litigation and Other Proceedings. Neither Purchaser nor any Affiliate of Purchaser is a party to any, and there are no pending or, to Purchaser s knowledge, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature (i) against Purchaser or any Affiliate of Purchaser (excluding those of the type contemplated by the following clause (ii)) that, if adversely determined, would reasonably be expected to have a material adverse effect on Purchaser or (ii) challenging the validity or propriety of the transactions contemplated by this Agreement. There is no material injunction, order, judgment, decree or regulatory restriction (other than regulatory restrictions of general application that apply to similarly situated companies) imposed upon Purchaser or any of its Affiliates or their respective assets. There is no material unresolved violation, criticism or exception by any Governmental Entity with respect to any report or relating to any examinations or inspections of Purchaser or any of its Affiliates.

(i) Compliance with Laws. Each of Purchaser and its Affiliates is and has been in compliance in all material respects with and is not in default or violation in any material respect of, and none of them is, to the knowledge of Purchaser, under investigation with respect to or, to the knowledge of Purchaser, has been threatened to be charged with or given notice of any material violation of, any applicable material domestic (federal, state or local) or foreign Law, statute, ordinance, license, rule, regulation, policy or guideline, order, demand, writ, injunction, decree or judgment of any Governmental Entity, except for such noncompliance that has not had nor reasonably would be expected to have a material adverse effect on Purchaser.

(j) Agreements with Regulatory Agencies. None of Purchaser or any of its Affiliates is subject to any Regulatory Agreement, nor has Purchaser or any of its Affiliates been advised since December 31, 2009 by any Governmental Entity or SRO that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement. Purchaser and its Affiliates are in compliance in all material respects with each Regulatory Agreement to which it is a party or subject, and none of Purchaser and its Affiliates has received any notice from any Governmental Entity or SRO indicating that either Purchaser or its Affiliates is not in compliance in all material respects with any such Regulatory Agreement.

(k) Information in the Proxy Statement. The information supplied in writing by Purchaser expressly for inclusion in the Proxy Statement will not contain at the time it is first mailed to the shareholders of the Company or at the time of the Shareholder Meeting, any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(l) Knowledge as to Conditions. As of the date of this Agreement, Purchaser knows of no reason why any regulatory approvals and, to the extent necessary, any other approvals, authorizations, filings, registrations, and notices required for the consummation of the transactions contemplated by this Agreement will not be obtained.

## ARTICLE III

## COVENANTS

3.1 Filings; Other Actions.

(a) Subject to the conditions set forth in this Agreement and the last sentence of this Section 3.1(a), Purchaser, on the one hand, and the Company and the Bank, on the other hand, will cooperate and consult with the other and use reasonable best efforts to prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to obtain all necessary permits, consents, orders, approvals and authorizations of, or any exemption by, all third parties and Governmental Entities, including, without limitation, the Required Approvals, and the expiration or termination of any applicable waiting period, necessary or advisable to consummate the transactions contemplated by this Agreement, at the earliest practicable date, and to perform the covenants contemplated by this Agreement. Each party shall execute and deliver both before and after the Closing such further certificates, agreements and other documents and take such other actions as the other party may reasonably request to consummate or implement such transactions or to evidence such events or matters. In furtherance (but not in limitation) of the foregoing, Purchaser shall use reasonable best efforts to file any required applications, notices or other filings with the Federal Reserve Board and the Tennessee DFI within twenty (20) calendar days of the date hereof. Purchaser, the Company and the Bank will have the right to review in advance, and to the extent practicable, each will consult with the others with respect to, in each case subject to applicable Laws relating to the exchange of information, all the information relating to such other party, and any of their respective Affiliates, which appears in any filing made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions to which it will be party contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as practicable. Each party hereto agrees to keep the other party apprised of the status of matters referred to in this Section 3.1(a). Purchaser shall promptly furnish the Company and the Bank, and the Company and the Bank shall promptly furnish Purchaser, to the extent permitted by applicable Law, with copies of written communications received by it or their subsidiaries from, or delivered by any of the foregoing to, any Governmental Entity in respect of the transactions contemplated by this Agreement. Notwithstanding anything in this Agreement to the

contrary, Purchaser shall not be required to furnish the Company with any (1) personal biographical or financial information of any of the directors, officers, employees, managers or partners of Purchaser or any of its present of former Affiliates (other than the personal biographical information of any of the directors, officers, employees, managers, investors or partners of Purchaser or any of its present of former Affiliates required to be disclosed by the Company by reason of the fact that such person will be appointed or elected to the Company s Board of Directors) or (2) proprietary and non-public information related to the organizational terms of, or investors in, Purchaser or any of its present or former Affiliates. Notwithstanding anything to the contrary herein, nothing contained in this Agreement shall require Purchaser or any of its present or former Affiliates to take or refrain from taking or agree to take or refrain from taking any action or suffer to exist any condition, limitation, restriction or requirement that individually or in the aggregate with any other actions, conditions, limitations, restrictions or requirements would or would be reasonably likely to result in a Burdensome Condition.

(b) The Company shall call and hold a special meeting of its shareholders (the Shareholder Meeting ), as promptly as practicable following the date hereof to vote on a proposal (the Shareholder Proposal ) to (1) amend the Charter to (i) increase the number of authorized shares of Common Stock to at least 300,000,000 shares, (ii) reduce the par value per share of Common Stock to an amount equal to or less than $0.01 and (iii) expressly exempt Purchaser, its Affiliates and associates and their respective successors and assigns from the provisions Section 9 of the Charter (the form of such amendment being acceptable to the Purchaser in its sole discretion), (2) approve the issuance and sale of the Purchased Shares and any shares purchased pursuant to Section 4.7, (3) approve the merger of the Bank with and into a subsidiary of Purchaser on terms consistent with Exhibit D and (4) remove Section 8(j) from the Charter. The Board of Directors of the Company shall recommend to the Company s shareholders that such shareholders vote in favor of the Shareholder Proposal (subject to any legally required abstentions and subject to Section 3.4(b)) (such recommendation, the Company Recommendation ) and Purchaser shall, to the extent permitted by applicable Law, vote all shares owned by it in favor of the Shareholder Proposal. In connection with such meeting, the Company shall promptly prepare (and Purchaser will reasonably cooperate with the Company to prepare) and file with the SEC a preliminary proxy statement, shall use its reasonable best efforts to respond to any comments of the SEC or its staff and to cause a definitive proxy statement related to such shareholders meeting to be mailed to the Company s shareholders not more than five business days after clearance thereof by the SEC, and shall use its reasonable best efforts to solicit proxies for such shareholder approval. The Company shall notify Purchaser promptly of the receipt of any comments from the SEC or its staff with respect to the proxy statement and of any request by the SEC or its staff for amendments or supplements to such proxy statement or for additional information and will supply Purchaser with copies of all correspondence between the Company or any of its representatives, on the one hand, and the SEC or its staff, on the other hand, with respect to such proxy statement. If at any time prior to the Shareholder Meeting there shall occur any event that should, upon the advice of the Company s outside legal counsel, be set forth in an amendment or supplement to the Proxy Statement so that the Proxy Statement shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, the Company shall as promptly as practicable prepare and mail to its shareholders such an amendment or supplement. Each of Purchaser and the Company agrees promptly to correct any information provided by it or on its behalf for use in the proxy statement if and to the extent that such information shall have become false or misleading in any material respect, and the Company shall, as promptly as practicable, prepare and mail to its shareholders an amendment or supplement to correct such information to the extent required by applicable Laws and regulations. The Company shall consult with Purchaser prior to filing any proxy statement, or any amendment or supplement thereto, and provide Purchaser with a reasonable opportunity to comment thereon. For the avoidance of doubt, the obligations of the Company to call and hold the Shareholder Meeting and to file, finalize and mail the proxy statement related thereto shall not be affected by the receipt of any Acquisition Proposal or by any Adverse Recommendation Change.

3.2 Access, Information and Confidentiality.

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(a) From the date hereof until the Closing Date, the Company and the Bank will permit Purchaser and Purchaser s officers, directors, employees, accountants, counsel, financial advisors, agents and other representatives to visit and inspect, at Purchaser s expense (subject to Section 6.2), the properties of the Company, the Bank and the Subsidiaries, to examine the corporate books and records and to discuss the affairs, finances and accounts of the Company, the Bank and the Subsidiaries with the officers, directors, employees, accountants, counsel, financial advisors, agents and other representatives of the Company (the Company Representatives ), all upon reasonable advance notice and at such reasonable times and as often as Purchaser may reasonably request. Any investigation pursuant to this Section 3.2 shall be conducted during normal business hours and in such manner as not to interfere unreasonably with the conduct of the business of the Company, the Bank or any Subsidiary, and nothing herein shall require any Company Representative to disclose any information to the extent (1) prohibited by applicable Law or regulation, or (2) that such disclosure would reasonably be expected to cause a violation of any agreement to which the Company, the Bank or such Company Representative is a party as of the date of this Agreement or would cause a material risk of a loss of privilege to the Company, the Bank or any Subsidiary (provided that the Company and the Bank shall use commercially reasonable efforts to make appropriate substitute disclosure arrangements that would not cause such a violation under circumstances where such restrictions apply).

(b) All information furnished by the Company, the Bank or any Subsidiary to Purchaser or any of its representatives pursuant hereto shall be subject to, and Purchaser shall hold all such information in confidence in accordance with, the provisions of the confidentiality agreement between North American Financial Holdings, Inc. and the Company dated September 28, 2010 (the Confidentiality Agreement ).

3.3 Conduct of the Business. Each of the Company and the Bank agree that, prior to the earlier of the Closing Date and the termination of this Agreement pursuant to Section 5.1, except as Previously Disclosed in Section 3.3 of the Company Disclosure Schedule or as otherwise expressly permitted or required by this Agreement, without the prior written consent of Purchaser (not to be unreasonably withheld, conditioned or delayed), it will not, and will cause each of the Subsidiaries not to:

(1) Ordinary Course. Fail to carry on its business in the ordinary and usual course of business and in all material respects consistent with past practice or fail to use reasonable best efforts to maintain and preserve its business (including its organization, assets, properties, goodwill and insurance coverage) and to preserve its current business relationships with customers, strategic partners, suppliers, distributors and others with whom it has significant business dealings.

(2) Operations. Enter into any new line of business or materially change its lending, investment, underwriting, risk and asset liability management, and other banking and operating policies in effect as of December 31, 2010, except as required by applicable Law or policies imposed by any Governmental Entity.

(3) Deposits. Alter materially its interest rate or fee pricing policies with respect to depository accounts of the Bank or waive any material fees with respect thereto, in each case except as required by applicable Law or policies imposed by any Governmental Entity.

(4) Capital Expenditures. Make any capital expenditures on information technology or systems or in excess of $100,000 individually or $1,000,000 in the aggregate in any fiscal quarter, other than as required pursuant to Previously Disclosed commitments already entered into.

(5) Material Contracts. Except as permitted by Section 4.5(a), terminate, enter into, amend, modify (including by way of interpretation) or renew any contract that would be a Company Significant Agreement if entered into prior to the date hereof, other than in the ordinary course of business and consistent with past practice.

(6) Capital Stock. Issue, sell or otherwise permit to become outstanding, or dispose of or encumber or pledge, or authorize or propose the creation of, any additional shares of its stock or any additional options or other rights, grants or awards with respect to the Common Stock, and any shares of Common Stock issued pursuant to the exercise of stock options, warrants or vesting of restricted stock, in each case only to the extent outstanding as of the date of this Agreement and set forth in Section 2.2(b) of the Company Disclosure Schedule.

(7) Dividends, Distributions, Repurchases. Make, declare, pay or set aside for payment any dividend on or in respect of, or declare or make any distribution on any shares of its capital stock (other than dividends from its wholly owned Subsidiaries to it or another of its wholly owned Subsidiaries) or directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire, any shares of its stock or any options or other rights, grants or awards with respect to the Common Stock or other securities other than (i) the repurchase or cancellation of restricted stock or other shares of Common Stock in accordance with the terms of the applicable award agreements or similar arrangements to satisfy withholding obligations upon the vesting of restricted stock, stock appreciation rights or the exercise of options or (ii) the acceptance of shares of Common Stock as payment of the exercise price of options or for withholding taxes incurred in connection with the exercise of options provided that nothing herein shall prohibit the making, declaration, payment, or setting aside for payment of dividends or distributions with respect to the Series A Preferred or the Trust Preferred Securities in accordance with the terms thereof.

(8) Dispositions. Sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of its material assets, deposits, business or properties, except for sales, transfers, mortgages, encumbrances or other dispositions or discontinuances (including without limitation dispositions of problem assets or mortgage loans held for sale which are sold at or above the value reflected for such assets or loans on the Company s books as of the date hereof) in the ordinary and usual course of business consistent with past practice and in a transaction that individually or taken together with all other such transactions is not material to it and the Subsidiaries, taken as a whole.

(9) Incurrence of Indebtedness. Incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for the obligations of, any other person, except in the ordinary and usual course of business and consistent with past practice.

(10) Extensions of Credit and Interest Rate Instruments. Make, renew or amend (except in the ordinary and usual course of business and consistent with past practice where there has been no material change in the relationship with the borrower or in an attempt to mitigate loss with respect to the borrower) any extension of credit in excess of $2,500,000 for any new extension of credit and $7,500,000 for any renewal of an existing extension of credit in accordance with the Bank s policies (except for commitments in writing made prior to the date of this Agreement and disclosed to Purchaser prior to the execution of this Agreement) or enter into, renew or amend any interest rate swaps, caps, floors or option agreements or other interest rate risk management arrangements, whether entered into for the account of it or for the account of a

customer of it or one of the Subsidiaries, except in the ordinary and usual course of business and consistent with past practice.

(11) Acquisitions. Acquire (other than by way of foreclosures, deeds in lieu of foreclosure, acquisitions of control in a fiduciary or similar capacity, acquisitions of loans or participation interests, or in satisfaction of debts previously contracted in good faith, in each case in the ordinary and usual course of business and consistent with past practice) all or any portion of the assets, business, deposits or properties of any other person.

(12) Banking Offices. File any application to establish, or to relocate or terminate the operations of, any banking office.

(13) Constituent Documents. Except for such amendments as have been proposed in the Company s proxy statement on Form DEF14A filed with the SEC on April 8, 2011, amend its certificate of incorporation or bylaws or similar organizational documents.

(14) Accounting Practices. Implement or adopt any change in its accounting principles, practices or methodologies, other than as may be required by GAAP (or any interpretation thereof), or applicable accounting requirements of a Governmental Entity or by Law.

(15) Tax Matters. Make, change or revoke any Tax accounting method or Tax election, prepare any Tax Returns inconsistent in any material respect with past practice, file any amended Tax Return, consent to any extension or waiver of any statute of limitations with respect to Tax, enter into any closing agreement, settle any material Tax claim or assessment, or surrender any right to claim a refund of Taxes.

(16) Claims. Settle any action, suit, claim or proceeding against it, except for an action, suit, claim or proceeding that is settled in the ordinary and usual course of business and consistent with past practice in an amount or for consideration not in excess of $150,000 individually or $1,500,000 in the aggregate and that would not impose any material restriction on the business of the Company, the Bank or the Subsidiaries or, after the Closing, Purchaser or any of its Affiliates.

(17) Compensation. Terminate, enter into, amend, modify (including by way of interpretation) or renew any employment, officer, consulting, severance, change in control or similar contract, agreement or arrangement with any director, officer, employee or consultant, or grant any salary or wage increase or increase any employee benefit, including incentive or bonus payments (or, with respect to any of the preceding, communicate any intention to take such action) or pay to any such individual any amount or benefit not due, except to make changes that are required by applicable Law or by the terms of a Benefit Plan existing as of the date hereof and disclosed on Section 2.2(s)(1)(A) of the Company Disclosure Schedule.

(18) Benefit Arrangements. Terminate, enter into, establish, adopt, amend, modify (including by way of interpretation), make new grants or awards under or renew any Benefit Plan (or any arrangement that would following the applicable action be a Benefit Plan), amend the terms of any outstanding equity-based award, take any action to accelerate the vesting,

exercisability or payment (or fund or secure the payment) of stock options, restricted stock or other compensation or benefits payable thereunder or add any new participants to any non-qualified retirement plans (or, with respect to any of the preceding, communicate any intention to take such action), except as required by applicable Law or by the terms of a Benefit Plan existing as of the date hereof and disclosed on Section 2.2(s)(1)(A) of the Company Disclosure Schedule.

(19) Labor Matters. Effectuate (1) a plant closing (as defined in the Worker Adjustment and Retraining Notification Act of 1988, and any other similar applicable foreign, state, or local Laws relating to plant closings and layoffs)affecting any site of employment or one or more facilities or operating units within any site of employment of the Company, the Bank or any of the Subsidiaries; (2) a mass layoff as defined in such Laws affecting any site of employment of the Company, the Bank or any of the Subsidiaries; or (3) any similar action under such Laws requiring notice to employees in the event of an employment loss or layoff.

(20) Intellectual Property. (1) Grant, extend, amend (except as required in the diligent prosecution of the Proprietary Rights owned (beneficially, and of record where applicable) by or developed for the Company, the Bank and the Subsidiaries), waive, or modify any material rights in or to, sell, assign, lease, transfer, license, let lapse, abandon, cancel, or otherwise dispose of, or extend or exercise any option to sell, assign, lease, transfer, license, or otherwise dispose of, any Proprietary Rights, or (2) fail to exercise a right of renewal or extension under any material agreement under which the Company, the Bank or any of the Subsidiaries is licensed or otherwise permitted by a third party to use any Proprietary Rights (other than shrink wrap or click through licenses).

(21) Communication. Make any written or oral communications to the officers or employees of the Company, the Bank or any of the Subsidiaries pertaining to compensation or benefit matters that are affected by the transactions contemplated by this Agreement without providing Purchaser with a copy or written description of the intended communication and a reasonable period of time to review and comment on such communication; provided, however, that the foregoing shall not prevent senior management or human resources personnel of the Company, the Bank or any Subsidiary from orally answering questions of individual employees pertaining to compensation or benefit matters with respect to such individual employee that are affected by the transactions contemplated by this Agreement on an individual basis with such employee.

(22) Related Party Transactions. Engage in (or modify in a manner adverse to the Company, the Bank or the Subsidiaries) any transactions (except for any ordinary course banking relationships permitted under applicable Law) with any Affiliate of the Company or any director or officer (senior vice president or above) of the Company, the Bank or the Subsidiaries (or any Affiliate of any such person).

(23) Receivership or Liquidation. Commence a voluntary procedure for reorganization, arrangement, adjustment, relief or composition of indebtedness or bankruptcy, receivership or a similar proceeding, or consent to the entry of an order for relief in an involuntary procedure for reorganization, arrangement, adjustment, relief or composition of indebtedness or bankruptcy, receivership or a similar proceeding or consent to the appointment of a receiver, liquidator, custodian or trustee, in each case, with respect to the Company, the Bank or any of the Subsidiaries, or any other liquidation or dissolution of the Company, the Bank or any of the Subsidiaries.

(24) Credit Policy; Underwriting. Make or permit any material exceptions or changes to the Company s or the Bank s credit, underwriting, lending, investment, risk and asset-liability management and other material banking or operating policies in effect as of the date hereof except as to update these policies to conform to recent regulatory or accounting guidance or to update these policies to address recently identified internal audit or regulatory examination deficiencies, in each case to reduce the Bank s risk exposure.

(25) Adverse Actions. Notwithstanding any other provision hereof, knowingly take any action that is reasonably likely to materially impair its ability to perform its obligations under this Agreement or to consummate the transactions contemplated hereby, except as required by applicable Law or this Agreement.

(26) Commitments. Enter into any contract with respect to, or otherwise agree or commit to do, any of the foregoing.

3.4 Acquisition Proposals.

(a) No Solicitation or Negotiation. The Company and the Bank agree that none of the Company, the Bank or any of the Subsidiaries or any of the officers or directors of the Company, the Bank or any of the Subsidiaries shall, and that they shall instruct and use their reasonable best efforts to cause their and the Subsidiaries employees, investment bankers, attorneys, accountants and other advisors or representatives (such directors, officers, employees, investment bankers, attorneys, accountants and other advisors or representatives, collectively, Representatives ) not to (it being understood and agreed that any violation of the restrictions set forth in this Section 3.4 by a Representative, whether or not such Representative is so authorized and whether or not such Representative is purporting to act on behalf of the Company, the Bank or any Subsidiary or otherwise, shall be deemed to be a breach of this Agreement by the Company and the Bank), directly or indirectly:

(1) initiate, solicit or knowingly facilitate or encourage any inquiries or the making of any proposal or offer that constitutes, or could reasonably be expected to lead to, any Acquisition Proposal;

(2) make or authorize any statement, recommendation or solicitation in support of any Acquisition Proposal;

(3) engage in, continue or otherwise participate in any discussions or negotiations or enter into an agreement regarding, or provide any non-public information or data to any person relating to, any Acquisition Proposal; or

(4) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal.

Notwithstanding the foregoing, at any time prior to obtaining the approval of the Shareholder Proposal (other than the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal ), in response to a bona fide written Acquisition Proposal that the Board of Directors of the Company determines in good faith (after consultation with outside counsel and a financial advisor of nationally recognized reputation) constitutes or is reasonably likely to lead to a Superior Proposal, and which Acquisition Proposal was not

solicited after the date of this Agreement and was made after the date of this Agreement and prior to the Shareholder Meeting and did not otherwise result from a breach of this Section 3.4(a), the Company and the Bank may, subject to compliance with Section 3.4(f), (x) furnish information with respect to the Company and the Bank to the person making such Acquisition Proposal (provided that all such information has previously been provided to the Purchaser or is provided to the Purchaser prior to or substantially concurrent with the time it is provided to such person) pursuant to a customary confidentiality agreement not less restrictive of such person than the Confidentiality Agreement (other than with respect to standstill provisions), and (y) participate in discussions regarding the terms of such Acquisition Proposal and the negotiation of such terms with, and only with, the person making such Acquisition Proposal.

(b) Change in Recommendation. Except as set forth below, neither the Board of Directors of the Company nor any committee thereof shall (i) (A) withdraw (or modify in any manner adverse to the Purchaser), or propose publicly to withdraw (or modify in any manner adverse to the Purchaser), the Company Recommendation or any other approval, recommendation or declaration of advisability by the Board of Directors of the Company or any such committee thereof with respect to this Agreement or (B) approve, recommend or declare advisable, or propose publicly to approve, recommend or declare advisable, any Acquisition Proposal (any action in this clause (i) being referred to as a Adverse Recommendation Change ) or (ii) approve, recommend or declare advisable, or propose publicly to approve, recommend or declare advisable, or allow the Company, the Bank, or any of their Affiliates to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, option agreement, joint venture agreement, alliance agreement, partnership agreement or other agreement or arrangement (an Acquisition Agreement ) constituting or related to, or that is intended to or would reasonably be expected to lead to, any Acquisition Proposal, or requiring, or reasonably expected to cause, the Company or the Bank to abandon, terminate, delay or fail to consummate, or that would otherwise impede, interfere with or be inconsistent with, the transactions contemplated by this Agreement, or requiring, or reasonably expected to cause, the Company or the Bank to fail to comply with this Agreement (other than a confidentiality agreement referred to in Section 3.4(a)). Notwithstanding the foregoing, at any time prior to obtaining the approval of the Shareholder Proposal (other than the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal ), the Board of Directors of the Company may make an Adverse Recommendation Change in favor of a Superior Proposal if the Board of Directors of the Company determines in good faith (after consultation with outside counsel and a financial advisor of nationally recognized reputation) that the failure to do so would be a breach of its fiduciary duties under applicable Law; provided, however, that the Company shall not be entitled to exercise its right to make an Adverse Recommendation Change until after the second Business Day following the Purchaser s receipt of written notice (a Notice of Recommendation Change ) from the Company advising the Purchaser that the Board of Directors of the Company intends to take such action and specifying the reasons therefor, including the terms and conditions of the Superior Proposal that is the basis of the proposed action by the Board of Directors of the Company (it being understood and agreed that any amendment to any material term of such Superior Proposal shall require a new Notice of Recommendation Change and a new two business-day period). In determining whether to make an Adverse Recommendation Change, the Board of Directors of the Company shall take into account any changes to the terms of this Agreement proposed by the Purchaser in response to a Notice of Recommendation Change or otherwise.

(c) Definitions. For purposes of this Agreement, the term Acquisition Proposal means (1) any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, rights offering, share exchange, business combination or similar transaction involving the Company, the Bank or any of the Subsidiaries and (2) any acquisition by any person resulting in, or proposal or offer, that, if consummated, would result in any person becoming the beneficial owner, directly or indirectly, in one or a series of related transactions, of ten percent (10%) or more of the total voting power of any class of equity securities of the Company or the Bank or those of any of the Subsidiaries, or ten percent (10%) or more of the consolidated total assets (including, without limitation, equity securities of any subsidiaries) of the Company, in each case other than the transactions contemplated by this Agreement. For purposes of this Agreement, the term Superior Proposal means any bona fide written proposal or offer made by a third party or group pursuant to which

such third party or group would acquire, directly or indirectly more than 50% of the Common Stock or assets of the Company, the Bank, or their Subsidiaries (i) on terms which the Board of Directors of the Company determines in good faith (after consultation with the Company s outside legal counsel and its financial advisor) to be superior from a financial point of view to the holders of Common Stock than the transactions contemplated by this Agreement (including any changes proposed by the Purchaser to the terms of this Agreement) and (ii) that is reasonably likely to be completed, on a timely basis, taking into account all material financial, regulatory, legal and other aspects of such proposal on or before the date that the transactions contemplated by this Agreement are reasonably likely to be completed.

(d) Federal Securities Laws. Nothing contained in this Section 3.4 shall prohibit the Company from (i) taking and disclosing to its shareholders a position required by Rule 14e-2(a) or Rule 14d-9 promulgated under the Exchange Act or (ii) making any disclosure to its shareholders if the Board of Directors of the Company has determined in good faith, after consultation with outside legal counsel, that the failure to do so would be inconsistent with any applicable Law; provided, that the Board of Directors of the Company may not effect an Adverse Recommendation Change unless permitted to do so by Section 3.4(b); provided, however, that compliance with such Rule 14e-2(a) or Rule 14d-9 shall not in any way limit or modify the effect that any action taken pursuant to such rules has under any other provision of this Agreement, including under Article V hereof.

(e) Existing Discussions. The Company and the Bank each agrees that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposal and, between the date hereof and the Closing, take such action as is necessary to enforce any standstill provisions or provisions of similar effect to which the Company is a party or of which the Company is a beneficiary. The Company and the Bank each agrees that it will take the necessary steps to promptly inform the individuals or entities referred to in the first sentence hereof of the obligations undertaken in this Section 3.4. The Company and the Bank each also agrees that it will promptly request each person that has heretofore executed a confidentiality agreement in connection with its consideration of acquiring the Company, the Bank or any of the Subsidiaries to return or destroy all confidential information heretofore furnished to such person by or on behalf of it or any of the Subsidiaries.

(f) Notice; Specific Performance. The Company and the Bank each agrees that it will promptly (and, in any event, within 24 hours) notify Purchaser if any inquiries, proposals or offers with respect to an Acquisition Proposal are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, the Company, the Bank or any Subsidiary or any of their respective Representatives indicating, in connection with such notice, the name of such person and the material terms and conditions of any proposals or offers (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements) and thereafter shall keep Purchaser informed, on a current basis, of the status and terms of any such proposals or offers (including any amendments thereto) and the status of any such discussions or negotiations, including any change in the Company s or the Bank s intentions as previously notified. Notwithstanding anything contained herein to the contrary, each of the Company and the Bank agrees that a non-exclusive right and remedy for noncompliance with this Section 3.4 is to have such provision specifically enforced by any court having equity jurisdiction; it being acknowledged and agreed that any such breach will cause irreparable injury to Purchaser and that money damages may not provide an adequate remedy to Purchaser.

3.5 Repurchase. The Company and the Bank shall use reasonable best efforts to facilitate the entry into and maintenance in effect of a definitive agreement with the Treasury providing for the Repurchase on the terms set forth in Exhibit B prior to the Closing; provided that Purchaser from and after the date hereof shall be responsible for all communications and/or negotiations with the Treasury in respect of such definitive agreement and neither the Company nor the Bank shall, without the prior written consent of Purchaser, contact or communicate with the Treasury in respect of the Repurchase. Purchaser shall provide the Company and the Bank with the reasonable opportunity to participate in substantive telephone conversations and meetings that Purchaser or its

representatives may have from time to time with the Treasury with respect to the Repurchase and shall advise the Company and the Bank of the material terms of any discussions between Purchaser and the Treasury. Subject to the foregoing, Purchaser will permit the Company to review in advance, and to the extent practicable, will consult with the Company with respect to, in each case subject to applicable Laws relating to the exchange of information, all the information and documentation relating to the Repurchase.

3.6 D&O Indemnification.

(a) On or before the Closing, the Company shall offer to enter into a Directors & Officers Indemnification Agreement, containing terms no less favorable than those set out in the Charter and the Company s bylaws as of the date hereof, with each director serving on its Board of Directors, including each of the Purchaser Designees and any other directors or officers of the Company, the Bank or any of the Subsidiaries designated by or affiliated with Purchaser in form and substance reasonably satisfactory to such individuals.

(b) From and after the Closing, to the extent permitted by applicable Law and in accordance with the Charter in effect as of the date hereof and the Company s bylaws in effect as of the date hereof, the Company (and any successor or assign thereof) shall and from and after any merger of the Company into Purchaser, to the extent permitted by applicable Law and in accordance with the Amended and Restated Articles of Incorporation of Purchaser and Amended and Restated Bylaws of Purchaser (which shall provide for indemnification and advancement rights no less favorable than those contained in the Charter in effect as of the date hereof and the Company s bylaws in effect as of the date hereof), the Purchaser (and any successor or assign thereof) shall, indemnify, defend and hold harmless, and provide advancement of defense costs and other expenses (including attorneys fees) to, each person who is now, or has been at any time prior to the date hereof or who becomes prior to the Closing, an officer or director of the Company or any of its subsidiaries against all losses, claims, damages, costs, expenses (including attorneys fees), liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person is or was a director or officer of the Company, the Bank or any of its Subsidiaries, and pertaining to any matter existing or occurring, or any acts or omissions occurring, at or prior to the Closing, whether asserted or claimed prior to, at or after the Closing (including matters, acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby). Notwithstanding anything in this Agreement to the contrary, prior to the Closing, the Company may purchase tail insurance coverage under its current policies of directors and officers liability insurance or a comparable policy from another insurer for a term not to exceed six years from the Closing with respect to claims arising from facts or events which occurred prior to the Closing; provided, however, that the total premium payment for such insurance shall not exceed three times the amount of the last premium paid by the Company in respect of such insurance prior to the date hereof; provided further that if the Company is unable to maintain such policy (or any substitute policy) as a result of the preceding proviso, the Company shall obtain as much comparable insurance as is available for such annual premium amount.

3.7 Notice of Developments. Each party to this Agreement will give prompt written notice to each of the other parties of any adverse development causing a breach of any of its own representations and warranties contained in Article II of this Agreement. No disclosure by any party pursuant to this Section 3.7 shall be deemed to amend or supplement the Disclosure Schedules or to prevent or cure any misrepresentation or breach of warranty.

**ARTICLE IV**
**ADDITIONAL AGREEMENTS**

4.1 Governance Matters.

(a) Prior to the Closing, the Company and the Bank shall use reasonable best efforts to cause the Resigning Directors to resign from their respective Boards of Directors and, if such Resigning Directors do not resign, the Company and the Bank shall take all requisite corporate action to remove such Resigning Directors or increase the size of their respective Boards of Directors to accommodate the appointment of each of the Purchaser Designees to their respective Boards of Directors effective as of the Closing, to elect or appoint each of the Purchaser Designees to their respective Boards of Directors effective as of the Closing, and to permit the Purchaser Designees to constitute a majority of each of their respective Boards of Directors immediately after the Closing.

(b) Following the Closing, the Purchaser, the Company and the Bank shall take all requisite action to re-elect two members of the Company s board as of the date hereof designated by the Purchaser (the Nominees ) to the Company s, the Bank s and the Purchaser s Boards of Directors until the consolidation of the Company and the Bank with the other bank holding companies and banks controlled by the Purchaser, at which time the Purchaser shall take all requisite action to elect the Nominees to such consolidated bank and bank holding company Boards of Directors.

(c) Following the Closing, the Purchaser, the Company and the Bank shall take all requisite action to (i) establish a Loan Portfolio Committee (the Loan Portfolio Committee ) as a committee of the Board of Directors of the Bank, which Loan Portfolio Committee shall monitor and review the status of the Bank s loan portfolio and any the level of credit losses, payments, collections and savings realized in such portfolio and (ii) elect or appoint Stephen M. Rownd as the chairman of the Loan Portfolio Committee.

4.2 Legend. (a) Purchaser agrees that all certificates or other instruments representing the Purchased Shares will bear a legend substantially to the following effect:

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR SECURITIES LAWS OF ANY STATE AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT RELATING THERETO IS IN EFFECT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT OR SUCH LAWS.

(b) Upon request of Purchaser, upon receipt by the Company of an opinion of counsel reasonably satisfactory to the Company to the effect that such legend is no longer required under the Securities Act and applicable state Laws, the Company shall promptly cause the legend set forth above to be removed from any certificate for any securities purchased pursuant to this Agreement (or issued upon exercise thereof).

4.3 Exchange Listing. The Company shall promptly use its reasonable best efforts to cause the Purchased Shares to be approved for listing on the NASDAQ or such other nationally recognized securities exchange on which the Common Stock may be listed, if any, subject to official notice of issuance, as promptly as practicable, and in any event before the Closing if permitted by the rules of the NASDAQ.

4.4 Registration Rights. Prior to the Closing, the Company shall enter into the Registration Rights Agreement with Purchaser in substantially the form attached as Exhibit C (the Registration Rights Agreement ).

4.5 Employees. It is the intention of Purchaser to maintain in place the management team of the Bank, subject to the establishment of, and acceptance of, performance criteria in accordance with the Purchaser s anticipated business plan. Notwithstanding the foregoing, nothing in this Agreement, including this Section 4.5,

shall be construed to guarantee or extend any offer of employment to, or to prevent the termination of employment of any employee or the amendment or termination of any particular Benefit Plan to the extent permitted by its terms.

4.6 Reservation for Issuance. The Company will reserve that number of shares of Common Stock sufficient for issuance of the Purchased Shares; provided that solely to the extent the Company is unable to reserve such number of shares under the Charter the Company will reserve such sufficient number of shares of Common Stock following the approval of the Shareholder Proposal (other than the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal ) pursuant to Section 3.1(b).

4.7 Additional Investment. Following the Closing and until the Bank is combined with another bank controlled by the Purchaser, in the event that the tier 1 leverage ratio of either the Company or the Bank falls below 10% (or such other capital ratio as may be required to be maintained by applicable Governmental Entities), the Purchaser will be permitted to purchase a sufficient quantity of shares of Common Stock from the Company to cause the Company or the Bank (as applicable) to meet such capital ratio. The purchase price for any shares of Common Stock purchased pursuant to the preceding sentence shall be equal to the lesser of (i) $1.81 per share of Common Stock and (ii) the Company s tangible book value per share of Common Stock as of end of the then most recently completed fiscal quarter.

## ARTICLE V
## TERMINATION

5.1 Termination. This Agreement may be terminated prior to the Closing:

(a) by mutual written agreement of the Company, the Bank and Purchaser;

(b) by Purchaser, upon written notice to the Company and the Bank, or by the Company, upon written notice to Purchaser, in the event that the Closing Date does not occur on or before the date that is 150 calendar days from the date hereof; provided, however, that the respective rights to terminate this Agreement pursuant to this Section 5.1(b) shall not be available to any party whose failure, in any material respect, (or, in the case of the Company, the failure of the Bank) to fulfill any obligation under this Agreement shall have been the proximate cause of, or shall have resulted in, the failure of the Closing Date to occur on or prior to such date;

(c) by the Company or Purchaser, upon written notice to the other, in the event that any Governmental Entity shall have issued any order, decree or injunction or taken any other action restraining, enjoining or prohibiting any of the transactions contemplated by this Agreement, and such order, decree, injunction or other action shall have become final and nonappealable;

(d) by Purchaser or the Company, if Purchaser or any of its Affiliates, or the Company, receives written notice from or is otherwise advised by a Governmental Entity that it will not grant (or intends to rescind or revoke if previously approved) any Required Approval or receives written notice from such Governmental Entity that it will not grant such Required Approval on the terms contemplated by this Agreement without imposing any Burdensome Condition, provided that, (A) prior to Purchaser terminating this Agreement, Purchaser shall have complied with its obligations under Section 3.1(a) in all material respects, and (B) prior to the Company terminating this Agreement, the Company shall have complied with its obligations under Section 3.1(a) in all material respects;

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(e) by the Company, if neither the Company nor the Bank is in material breach of any of the terms of this Agreement, and there has been a breach of any representation, warranty, covenant or agreement made by Purchaser in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that the condition set forth in Section 1.2(c)(3)(A) or (B) would not be satisfied and such breach is not curable or, if curable, is not cured within thirty (30) days after written notice thereof is given by the Company to Purchaser;

(f) by Purchaser, if Purchaser is not in material breach of any of the terms of this Agreement, and there has been a breach of any representation, warranty, covenant or agreement made by the Company or the Bank in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that the condition set forth in Section 1.2(c)(2)(A) or (B) would not be satisfied and such breach is not curable or, if curable, is not cured within thirty (30) days after written notice thereof is given by Purchaser to the Company and the Bank;

(g) by Purchaser on or prior to the day before the date of the Shareholder Meeting (as may be adjourned or postponed), if the Company or the Bank shall have breached the covenants contained in Section 3.4 hereof or if the Company s Board of Directors shall have made any Adverse Recommendation Change; and

(h) by Purchaser or the Company, if the approval of the Shareholder Proposal (other than the proposal set forth in clause (1)(iii) of the definition of Shareholder Proposal ) is not obtained at the Shareholder Meeting.

5.2 Effects of Termination. In the event of any termination of this Agreement as provided in Section 5.1, subject to Section 5.3, this Agreement (other than Section 3.2(b) and Articles V and VI, which shall remain in full force and effect) shall forthwith become wholly void and of no further force and effect; provided that nothing herein shall relieve any party from liability (x) for fraud or (y) except to the extent set forth in the third sentence of Section 5.3(d) in the case an expense reimbursement is payable by Purchaser, for intentional breach of this Agreement.

5.3 Fees.

(a) If, after the date hereof, an Acquisition Proposal is made to the Company, the Bank, any Subsidiary, or the Company s shareholders generally, or becomes public and thereafter this Agreement is terminated pursuant to Section 5.1(f) on the basis of a breach of a covenant or agreement made by the Company or the Bank in this Agreement, Section 5.1(g) or Section 5.1(h), the Company and the Bank shall be jointly and severally obligated to pay to Purchaser (1) an amount equal to the Expense Reimbursement and, in the case of such a termination pursuant to Section 5.1(g) because the Company s Board of Directors shall have made any Adverse Recommendation Change, 50% of the Termination Fee, promptly, but in any event not later than two (2) business days, following such termination and (2), in the case of a termination referred to in this subsection, if within twelve months after such termination the Company and/or the Bank enters into a definitive agreement to effect, or consummates, an Acquisition Proposal, an amount equal to the Termination Fee minus the portion of the Termination Fee already paid by the Company to Purchaser pursuant to the preceding clause (1) promptly, but in any event not later than two (2) business days, following the consummation of such Acquisition Proposal.

(b)

(1) If this Agreement is terminated pursuant to Section 5.1(e) due to a breach of a covenant, Purchaser shall be obligated to pay to the Company an amount equal to eight million dollars ($8,000,000) in respect of the Company s and the Bank s out-of-pocket expenses incurred in connection with this Agreement and the transactions contemplated hereby promptly, but in any event not later than two (2) business days, following such termination.

(2) If this Agreement is terminated pursuant to Section 5.1(f) due to a breach of a covenant other than in circumstances where fees are payable pursuant to 5.3(a), the Company and the Bank shall be jointly and severally obligated to pay to Purchaser an amount equal to the Expense Reimbursement promptly, but in any event no later than two (2) business days, following such termination.

(c) Termination Fee means an amount in cash equal to eight million dollars ($8,000,000), which Termination Fee shall be paid by wire transfer of immediately available funds to the account or accounts designated by Purchaser at the time specified in this Section 5.3. Expense Reimbursement means an amount in cash equal to seven hundred and fifty thousand dollars ($750,000) in respect of Purchaser s out-of-pocket expenses incurred in connection with due diligence, the negotiation and preparation of this Agreement. To the extent not paid when due, any amount payable pursuant to this Section 5.3 shall accrue interest at a rate equal to eighteen percent (18%) per annum or, if lower, the maximum rate allowable by Law.

(d) Each of the Company, the Bank and Purchaser acknowledges that the agreements contained in this Section 5.3 are an integral part of the transactions contemplated by this Agreement. The amounts payable pursuant to Section 5.3 hereof constitute liquidated damages and not a penalty and shall be the sole monetary remedy in the event a Termination Fee or Expense Reimbursement paid in connection with a termination of this Agreement on the bases specified in Section 5.3 hereof. The amounts payable pursuant to Section 5.3 hereof constitute liquidated damages and not a penalty and shall be the sole remedy in the event an expense reimbursement by Purchaser is paid in connection with a termination of this Agreement on the bases specified in Section 5.3 hereof. In the event that the Company or the Bank shall fail to make any payment pursuant to this Section 5.3 when due, the Company and the Bank shall be jointly and severally obligated to reimburse Purchaser for all reasonable expenses actually incurred or accrued by Purchaser (including reasonable expenses of counsel) in connection with the collection under and enforcement of this Section 5.3. In the event Purchaser fails to make any payment pursuant to this Section 5.3 when due, Purchaser shall be obligated to reimburse the Company and the Bank for all reasonable expenses actually incurred or accrued by the Company and the Bank (including reasonable expenses of counsel) in connection with the collection under and enforcement of this Section 5.3.

## ARTICLE VI
## MISCELLANEOUS

6.1 No Survival. None of the representations and warranties set forth in this Agreement shall survive the Closing. Except as otherwise provided herein, all covenants and agreements contained herein, other than those which by their terms are to be performed in whole or in part after the Closing Date, shall terminate as of the Closing Date.

6.2 Expenses. Subject to Section 5.3, each of the parties will bear and pay all other costs and expenses incurred by it or on its behalf in connection with the transactions contemplated pursuant to this Agreement; except that if the Closing occurs, the Company and the Bank shall jointly and severally be obligated to reimburse Purchaser, without duplication, for all of its reasonable out-of-pocket expenses incurred in connection with due diligence, the negotiation and preparation of this Agreement and undertaking of the transactions contemplated

pursuant to this Agreement (including all stamp and other Taxes payable with respect to the issuance of the Purchased Stock, the Option and CVRs, filing fees, fees and expenses of attorneys, consultants and accounting and financial advisers incurred by or on behalf of Purchaser or its Affiliates in connection with the transactions contemplated pursuant to this Agreement) (the Closing Expense Reimbursement ).

6.3 Amendment; Waiver. No amendment or waiver of any provision of this Agreement will be effective with respect to any party unless made in writing and signed by an officer or a duly authorized representative of such party. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The conditions to each party s obligation to consummate the Closing are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable Law. No waiver of any party to this Agreement, as the case may be, will be effective unless it is in a writing signed by a duly authorized officer of the waiving party that makes express reference to the provision or provisions subject to such waiver. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by Law.

6.4 Counterparts and Facsimile. For the convenience of the parties hereto, this Agreement may be executed in any number of separate counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts will together constitute the same agreement. Executed signature pages to this Agreement may be delivered by facsimile or pdf and such facsimiles or pdfs will be deemed as sufficient as if actual signature pages had been delivered.

6.5 Governing Law. This Agreement will be governed by and construed in accordance with the Laws of the State of Delaware applicable to contracts made and to be performed entirely within such State. The parties hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the federal courts of the United States of America located in the State of Delaware, or, if jurisdiction in such federal courts is not available, the courts of the State of Delaware, for any actions, suits or proceedings arising out of or relating to this Agreement and the transactions contemplated hereby.

6.6 Notices. Any notice, request, instruction or other document to be given hereunder by any party to another will be in writing and will be deemed to have been duly given (a) on the date of delivery if delivered personally or by telecopy or facsimile, upon confirmation of receipt, (b) on the first business day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the second business day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

(a) If to Purchaser:

North American Financial Holdings, Inc.
4725 Piedmont Row Drive
Charlotte, North Carolina 28210
Attention: Christopher G. Marshall
Telephone: (704) 554-5901
Fax: (704) 964-2442

with a copy to (which copy alone shall not constitute notice):

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York 10019
Attention: David E. Shapiro
Telephone: (212) 403-1000
Fax: (212) 403-2000

(b) If to the Company or the Bank:

Green Bankshares, Inc.
100 North Main Street
Greeneville, Tennessee 37743
Attention: Stephen M. Rownd
Telephone: (423) 278-3323
Fax: (866) 550-2336

with a copy to (which copy alone shall not constitute notice):

Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, Tennessee 37201
Attention: D. Scott Holley
Telephone: (615) 742-7721
Fax: (615) 742-2813

6.7 Entire Agreement, Assignment. (a) This Agreement (including the Exhibits, Schedules and Disclosure Schedules hereto) constitutes the entire agreement, and except for the Confidentiality Agreement, supersedes all other prior agreements, understandings, representations and warranties, both written and oral, among the parties, with respect to the subject matter hereof; and (b) this Agreement will not be assignable by operation of Law or otherwise (any attempted assignment in contravention hereof being null and void); provided that Purchaser may assign its rights and obligations under this Agreement to any person, but only if immediately after the Closing, North American Financial Holdings, Inc. and/or its Affiliates shall collectively own at least a majority of the pro forma outstanding Common Stock of the Company; provided further, that no such assignment shall relieve Purchaser of its obligations hereunder.

6.8 Interpretation; Other Definitions. Wherever required by the context of this Agreement, the singular shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa, and references to any agreement, document or instrument shall be deemed to refer to such agreement, document or instrument as amended, supplemented or modified from time to time. All article, section, paragraph or clause references not attributed to a particular document shall be references to such parts of this Agreement, and all exhibit, annex and schedule references not attributed to a particular document shall be references to such exhibits, annexes and schedules to this Agreement. The disclosure of any matter or item in the Company Disclosure Schedule shall not be deemed to constitute an acknowledgement that such matter or item is required to be disclosed therein or is a material exception to a representation, warranty, covenant or condition set forth in this Agreement and shall not be used as a basis for interpreting the terms material, materially, materiality, Material Adverse Effect or any word or phrase of similar import and does not mean that such matter or item would, with any other matter or item, have or be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect. Certain matters have been disclosed in the Company Disclosure Schedule for informational purposes only. In addition, the following terms are ascribed the following meanings:

(a) the term Affiliate means, with respect to any person, any person directly or indirectly controlling, controlled by or under common control with, such other person. For purposes of this definition, control (including, with correlative meanings, the terms controlled by and under common control with ) when used with respect to any person, means the possession, directly or indirectly, of the power to cause the direction of management or policies of such person, whether through the ownership of voting securities by contract or otherwise;

(b) the word or is not exclusive;

(c) the words including, includes, included and include are deemed to be followed by the words without limita and

(d) the terms herein, hereof and hereunder and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision;

(e) business day means any day except Saturday, Sunday and any day that shall be a legal holiday or a day on which banking institutions in the State of New York or in the State of Tennessee generally are authorized or required by Law or other governmental action to close;

(f) person has the meaning given to it in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act; and

(g) a person shall be deemed to beneficially own any securities of which such person is considered to be a beneficial owner under Rule 13d-3 under the Exchange Act.

6.9 Captions. The article, section, paragraph and clause captions herein are for convenience of reference only, do not constitute part of this Agreement and will not be deemed to limit or otherwise affect any of the provisions hereof.

6.10 Severability. If any provision of this Agreement or the application thereof to any person (including the officers and directors of the parties hereto) or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, will remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

6.11 No Third Party Beneficiaries. Nothing contained in this Agreement, express or implied, including Section 4.5 hereof, is intended to confer upon any person other than the parties hereto, any benefit, right or remedies, except that the provisions of Sections 3.6, 4.1(b) and 4.1(c) shall inure to the benefit of the persons referred to in such Sections.

6.12 Time of Essence. Time is of the essence in the performance of each and every term of this Agreement.

6.13 Certain Adjustments. Without limiting the generality of Purchaser s rights and remedies under this Agreement, if the representations and warranties set forth in Section 2.2(b) shall not be true and correct as of the Closing Date, the number of shares of Common Stock to be purchased hereunder, and the number of shares of Common Stock for which the Option is exercisable, shall be, at Purchaser s option, proportionately adjusted to provide Purchaser the same economic effect as contemplated by this Agreement in the absence of such failure to be true and correct.

6.14 Public Announcements. Subject to each party s disclosure obligations imposed by Law or the rules of any stock exchange upon which its securities are listed, the parties hereto will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement and any of the transactions contemplated by this Agreement, and none of the Company, the Bank or Purchaser will make any such news release or public disclosure without first consulting with the other two parties, and, in each case, also receiving the other s consent (which shall not be unreasonably withheld or delayed) and each party

shall coordinate with the party whose consent is required with respect to any such news release or public disclosure.

6.15 Specific Performance; Limitation on Damages.

(a) The Company and the Bank agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed by them in accordance with their specific terms. It is accordingly agreed that Purchaser shall be entitled to specific performance of the terms hereof, this being in addition to any other remedies to which Purchaser is entitled at law or equity. Notwithstanding anything to the contrary herein, in no event shall Purchaser be responsible to the Company or the Bank for any consequential, special or punitive damages or any fees or expenses other than pursuant to Section 5.3(b)(1).

(b) Notwithstanding anything to the contrary in this Agreement, the parties acknowledge that neither the Company nor the Bank shall be entitled to an injunction or injunctions to prevent breaches of this Agreement by Purchaser or any remedy to enforce specifically the terms and provisions of this Agreement.

[*Remainder of Page Intentionally Left Blank*]

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IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first herein above written.

GREEN BANKSHARES, INC.

By: /s/ Stephen M. Rownd
Name: Stephen M. Rownd
Title: Chairman and CEO

GREENBANK

By: /s/ Stephen M. Rownd
Name: Stephen M. Rownd
Title: Chairman and CEO

[*Signature Page to Investment Agreement*]

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IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first herein above written.

NORTH AMERICAN FINANCIAL HOLDINGS, INC.

By: /s/ Christopher G. Marshall
Name: Christopher G. Marshall
Title: EVP, CFO

[*Signature Page to Investment Agreement*]

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**Schedule A**

| **Name of Subsidiary** | **State or Other Jurisdiction of Incorporation/Organization** |
|---|---|
| *Company Subsidiaries* | |
| Greene County Capital Trust I | Delaware |
| Greene County Capital Trust II | Delaware |
| GreenBank Capital Trust I | Delaware |
| Civitas Statutory Trust I | Delaware |
| Cumberland Capital Statutory Trust II | Connecticut |
| *Bank Subsidiaries* | |
| Superior Financial Services, Inc. | Tennessee |
| GCB Acceptance Corporation | Tennessee |
| Fairway Title Company | Tennessee |
| GB Holdings, LLC | Tennessee |

Schedule A

**Exhibit A**

**Form of Contingent Value Rights**
**Exhibit A**
**Term Sheet for Contingent Value Rights**

| | |
|---|---|
| **Recipients** | Immediately prior to the Closing, existing shareholders of the Company as of a predetermined record date mutually agreeable to the Purchaser and the Company will be issued one right (a CVR ) for each share of Common Stock owned by such shareholder. Each CVR would entitle the holder to a cash payment based on the amount of Credit Losses (as defined below) prior to the Maturity Date up to a maximum of $0.75 per CVR in the aggregate. |
| **Maturity Date** | 5 years from the Closing Date |
| **Settlement Obligation at Maturity** | If the amount of Credit Losses is less than the Stipulated Amount, the Issuer will pay to holders of the CVRs, within 60 days of the Maturity Date, an amount equal to:<br><br>(A) If the difference between the Stipulated Amount and the amount of Credit Losses expressed on a per CVR basis (such difference, the Loss Shortfall ) is less than or equal to $0.50, then 100% of the Loss Shortfall; and<br><br>(B) If the Loss Shortfall is greater than $0.50, then $0.50 plus 50% of the excess of the Loss Shortfall over $0.50 with a maximum of $0.75 per CVR.<br><br>If the amount of Credit Losses equals or exceeds the Stipulated Amount (as defined below), the CVRs will expire and the Company shall not be required to make any payment with respect to them. |
| **Credit Losses** | Credit Losses means the Charge-Offs for any loans existing as of the date hereof for the period commencing on the date hereof and ending on the Maturity Date less any recoveries in respect of such Charge-Offs. |
| **Stipulated Amount** | $178,000,000. |
| **Determinations** | All determinations with respect to Credit Losses calculations for purposes of the CVRs and amounts payable in respect of the CVRs shall be made by the Loan Portfolio Committee of the Company s Board of Directors in its sole discretion. |
| **Early Redemption** | The Company may redeem the CVRs at any time at a price of $0.75 per CVR. |
| **Voting rights** | Any modifications of the terms of the CVRs that are adverse to the holders will require the consent of the holders of a majority of the |

| | |
|---|---|
| | CVRs. Otherwise, no voting rights attach to the CVRs. |
| **Dividend rights** | None. |
| **Merger, Acquisition or Change in Control** | In the event that the Company experiences a Change in Control, all rights under the CVRs shall be redeemed upon closing at $0.75 per CVR. |

Exhibit A-1

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| | |
|---|---|
| **Change in Control** | A Change in Control shall mean any transaction resulting in the holders of the equity interests of the Parent immediately prior to such transaction owning, directly or indirectly, less than 50% of the equity interests of the Parent immediately following such transaction. For purposes of the preceding sentence, the Parent shall mean the ultimate holder that directly or indirectly owns or controls, by share ownership, contract or otherwise, a majority of the equity interests of the Company. |
| **Transferability; Attachment; Death** | The rights of a holder of a CVR may not be assigned or transferred except by will or the laws of descent or distribution. The CVR shall not be subject, in whole or in part, to attachment, execution, or levy of any kind, and any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of the CVR shall be void. If a holder of a CVR should die, the designee, legal representative, or legatee, the successor trustee of such holder s inter vivos trust or the person who acquired the right to the CVR by reason of the death of such holder (individually, a Successor ) shall succeed to such holder s rights with respect to the CVR. |

Exhibit A-2

**Exhibit B**

**Terms of Repurchase**

Purchaser shall have entered into a binding definitive agreement with the Treasury to purchase substantially contemporaneous with the Closing, on terms and conditions consistent with those disclosed to the Company s Board of Directors by Purchaser s representatives on April 26, 2011, all of the outstanding shares of the Series A Preferred (including all obligations with respect to accrued but unpaid dividends on the Series A Preferred) and the Treasury Warrants. For the avoidance of doubt, at the Closing, such agreement shall remain in full force and effect.



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**Exhibit C**

**Form of Registration Rights Agreement**

Exhibit C

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**Exhibit D**

**Subsequent Transactions**

Merger of the Bank

The Bank and a Subsidiary of the Purchaser (the Purchaser Entity ) propose to engage in a merger transaction pursuant to an agreement and plan of merger on terms and conditions reasonably satisfactory to Purchaser, the Company and the Bank in which merger transaction each share of capital stock of the Bank will be exchanged for shares of capital stock of the Purchaser Entity at an exchange ratio that is equal to the ratio of the tangible book value per share of the Bank to the tangible book value per share of the Purchaser Entity. In the event that the financial terms of such merger transaction are materially different than as set forth in the preceding sentence such that they are not within the approval of the Board of Directors of the Bank and the Company as of the date hereof, the Board of Directors of the Bank and the Board of Directors of the Company following the Closing shall approve the terms of such merger prior to its consummation.

Merger of the Company

Subsequent to the merger of the Bank and the Purchaser Entity, the Purchaser intends to cause the Company to merge with and into Purchaser in a stock-for-stock transaction on terms and conditions reasonably satisfactory to Purchaser in which transaction the Purchaser expects the merger to be effected based on the ratio of the relative tangible book values per share of the Purchaser and the Company. In the event that the financial terms of such merger transaction are materially different than as set forth in the preceding sentence such that they are not within the approval of the Board of Directors of the Company as of the date hereof, the Board of Directors of the Company after the Closing shall approve the terms of such merger prior to its consummation.

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**Appendix B**

**ARTICLES OF AMENDMENT
TO THE CHARTER
OF
GREEN BANKSHARES, INC.**

In accordance with the provisions of Section 48-20-106 of the Tennessee Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment (the Articles of Amendment ) to its Charter (the Charter ):

1. Name of Corporation. The name of the Corporation is Green Bankshares, Inc.
2. Section 6 of the Charter is hereby deleted in its entirety and replaced with the following:

6. The maximum number of shares which the Corporation shall have the authority to issue is:

a) One Hundred Thirty (130) shares of Organizational Common Stock with a par value of Ten Dollars ($10.00) per share, which stock shall be callable by the Corporation at any time at the par value thereof by action of a majority of the Board of Directors.

b) Three hundred million (300,000,000) shares of Common Stock, with a par value of $0.01 per share. Each share of Common Stock shall be entitled to one vote. No holder of any Common Stock of the Corporation, now or hereafter authorized, shall have any right, as such holder, to purchase, subscribe for or otherwise acquire any shares of stock of the Corporation, or any securities or obligations convertible into, or exchangeable for, or any right, warrant or option to purchase, any shares of any class which the Corporation may at any time hereafter issue or sell, whether now or hereafter authorized, but any and all such stock, securities, obligations, rights, warrants or options may be issued and disposed of by the Board of Directors to such persons, firms or corporations, and for such lawful consideration and on such terms as the Board of Directors in its discretion may, from time to time, determine, without first offering the same to the shareholders of the Corporation.

c) One million (1,000,000) shares of preferred stock, no par value per share. The preferred stock may be issued by the Corporation from time to time in one or more series and in such amounts as may be determined by the Board of Directors. The designations, voting rights, amounts of preference upon distribution of assets, rates of dividends, premiums of redemption, conversion rights and other variations, if any, the qualifications, limitations or restrictions thereof, if any, of the preferred stock, and of each series thereof, shall be such as are fixed by the Board of Directors, authority so to do being hereby expressly granted, and as are stated and expressed in a resolution or resolutions adopted by the Board of Directors providing for the issue of such series of preferred stock.

3. Except as amended by these Articles of Amendment, the Charter of the Corporation shall remain in full force and effect.
4. Adoption. These Articles of Amendment were duly adopted by the Board of Directors on May 5, 2011, and by the shareholders of the Corporation on ________, 2011.
5. Effective Date. These Articles of Amendment will be effective when filed with the Secretary of State.

Date: __________, 2011

GREEN BANKSHARES, INC.

By:
Name: Stephen M. Rownd
Title: Chief Executive Officer

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**Appendix C**

**ARTICLES OF AMENDMENT**
**TO THE CHARTER**
**OF**
**GREEN BANKSHARES, INC.**

In accordance with the provisions of Section 48-20-106 of the Tennessee Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment (the Articles of Amendment ) to its Charter (the Charter ):

1. Name of Corporation. The name of the Corporation is Green Bankshares, Inc.
2. Article 9 of the Amended and Restated Charter is amended to replace Section 9(c)(4) with the following:

(4) Interested Shareholder means any Person (as defined herein) or member of a Group of Persons (as defined herein) who or which, together with any Affiliate or Associate (as defined herein) of such Person or member, Beneficially Owns (within the meaning of Subsection c(3) above) ten percent or more of the outstanding Voting Stock of the Corporation; provided, that, neither North American Financial Holdings, Inc., its Subsidiaries, Affiliates, Associates nor any of their respective successors or assigns, shall at any time be deemed to be an Interested Shareholder for purposes of this Section 9.

3. Except as amended by these Articles of Amendment, the Charter of the Corporation shall remain in full force and effect.
4. Adoption. These Articles of Amendment were duly adopted by the Board of Directors on May 5, 2011, and by the shareholders of the Corporation on ________, 2011.
5. Effective Date. These Articles of Amendment will be effective when filed with the Secretary of State.

Date: __________, 2011

GREEN BANKSHARES, INC.

By:
Name: Stephen M. Rownd
Title: Chief Executive Officer

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**Appendix D**
**ARTICLES OF AMENDMENT**
**TO THE CHARTER**
**OF**
**GREEN BANKSHARES, INC.**

In accordance with the provisions of Section 48-20-106 of the Tennessee Business Corporation Act, the undersigned corporation adopts the following Articles of Amendment (the Articles of Amendment ) to its Charter (the Charter ):

1. Name of Corporation. The name of the Corporation is Green Bankshares, Inc.
2. Section 8(j) of the Charter is hereby deleted in its entirety and replaced with the following:
   (j). (Intentionally omitted)
3. Except as amended by these Articles of Amendment, the Charter of the Corporation shall remain in full force and effect.
4. Adoption. These Articles of Amendment were duly adopted by the Board of Directors on May 5, 2011, and by the shareholders of the Corporation on ________, 2011.
5. Effective Date. These Articles of Amendment will be effective when filed with the Secretary of State.

Date: __________, 2011

GREEN BANKSHARES, INC.

By:
Name: Stephen M. Rownd
Title: Chief Executive Officer

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**Appendix E**
**MERGER AGREEMENT**
**AGREEMENT OF MERGER OF**
**GREENBANK**
**WITH AND INTO**
**NAFH NATIONAL BANK**

This Agreement of Merger (the Agreement ) dated as of ________, 2011, adopted and made by and between **NAFH NATIONAL BANK** ( NAFH Bank ), a national banking association with its main office located in Miami, Florida, and **GREENBANK** ( GreenBank ), a Tennessee state chartered nonmember bank, each acting pursuant to resolutions adopted by the vote of a majority of its directors in accordance with 12 U.S.C. § 215a.

**WITNESSETH:**

**WHEREAS**, GreenBank is a Tennessee state chartered nonmember bank, the authorized capital stock of which consists of 129,000 shares of common stock, with a par value of $10.00 each, and all of the issued and outstanding shares of which are owned as of the date hereof directly by Green Bankshares, Inc. ( Green ); and

**WHEREAS**, NAFH is a national banking association organized and existing under the laws of the United States, the authorized capital stock of which consists of 1,000 shares of common stock, with a par value of $1.00 each, and all of the issued and outstanding shares of which are owned as of the date hereof by North American Financial Holdings, Inc. ( NAFH ) and its subsidiary, TIB Financial Corp.; and

**WHEREAS**, NAFH and Green have entered into an Investment Agreement, dated as of May 5, 2011 (the Investment Agreement ), pursuant to which NAFH will acquire approximately 90.09% of the outstanding common stock of Green (the Acquisition ); and

**WHEREAS**, the shareholders of each of NAFH Bank and GreenBank wish to merge GreenBank into NAFH Bank (the Bank Merger ) subsequent to the Acquisition; and

**WHEREAS**, the respective Boards of Directors of GreenBank and NAFH Bank deem the merger of GreenBank with and into NAFH Bank, which shall occur simultaneously with the Acquisition, under and pursuant to the terms and conditions herein set forth or referred to, desirable and in the best interest of the respective banks, and the Boards of Directors of GreenBank and NAFH Bank have authorized and approved the execution and delivery of this Agreement by their respective officers;

**NOW, THEREFORE**, in consideration of the premises and of the mutual agreements herein contained, the parties hereto do hereby agree as follows:

**I. BANK MERGER**

Subject to the terms and conditions of this Agreement, on the Effective Date (as hereinafter defined), following the Acquisition, on a date to be determined by NAFH Bank, GreenBank shall be merged with and into NAFH Bank pursuant to the provisions of, and with the effect provided in, 12 U.S.C. § 215a. On the Effective Date, the separate existence of GreenBank shall cease, and NAFH Bank, as the surviving entity, shall continue unaffected and unimpaired by the Bank Merger, and shall be liable for all of the liabilities of GreenBank, including liabilities arising from the operation of a trust department, existing at the Effective Date (NAFH Bank being hereinafter sometimes referred to as the Surviving Bank ). The business of the Surviving Bank shall be that of a national banking association and shall be conducted at its main office and legally established branches.

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## II. ARTICLES OF ASSOCIATION AND BY-LAWS

The Articles of Association and the By-Laws of NAFH Bank in effect immediately prior to the Effective Date shall be the Articles of Association and the By-Laws of the Surviving Bank, in each case until amended in accordance with applicable law. The Articles of Association of NAFH Bank as in effect immediately prior to the Effective Date are set forth as Exhibit A hereto and incorporated by reference.

## III. BOARD OF DIRECTORS

On the Effective Date, the Board of Directors of the Surviving Bank shall consist of those persons serving as directors of NAFH Bank immediately prior to the Effective Date as well as two individuals who are currently directors of GreenBank will also join the board of NAFH Bank. These individuals have not yet been designated.

## IV. CAPITAL

The shares of capital stock of NAFH Bank issued and outstanding immediately prior to the Effective Date shall, on and after the Effective Date, continue to be issued and outstanding.

The shares of capital stock of GreenBank issued and outstanding immediately prior to the Effective Date shall, on the Effective Date, be converted into the right to receive [ ] fully paid and nonassessable shares of capital stock of NAFH Bank (the Merger Consideration ). As of the Effective Date, all such shares of GreenBank capital stock shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist. Promptly following the Effective Date, the Surviving Bank shall deliver certificates representing the Merger Consideration to the former holder(s) of outstanding shares of GreenBank capital stock.

## V. EFFECTIVE DATE OF THE BANK MERGER

The Bank Merger shall be effective at the time and on the date specified in the certificate issued by the Office of the Comptroller of the Currency with respect thereto or, if such certificate cannot theretofore be obtained, on the date of consummation determined by NAFH Bank (such date and time being herein referred to as the Effective Date ).

## VI. MAIN OFFICE

The main office of the Surviving Bank shall be 9366 South Dixie Highway, Miami, Florida 33156.

## VII. FURTHER ASSURANCES

If at any time the Surviving Bank shall consider or be advised that any further assignments, conveyances or assurances are necessary or desirable to vest, perfect or confirm in the Surviving Bank title to any property or rights of GreenBank, or otherwise carry out the provisions hereof, the proper officers and directors of GreenBank, as of the Effective Date, and thereafter the officers of the Surviving Bank acting on behalf of GreenBank shall execute and deliver any and all proper assignments, conveyances and assurances, and do all things necessary or desirable to vest, perfect or confirm title to such property or rights in the Surviving Bank and otherwise carry out the provisions hereof. This Agreement shall be ratified and confirmed by the shareholders of GreenBank and NAFH Bank.

## VIII. TERMINATION

Anything contained in this Agreement to the contrary notwithstanding, this Agreement may be terminated by the mutual consent of the parties hereto and shall terminate automatically with no further action by either party in the event that the Investment Agreement is terminated in accordance with its terms.

## IX. COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed in counterparts by their duly authorized officers and attested by their officers thereunto duly authorized, all as of the day and year first above written.

| ATTEST: | **NAFH NATIONAL BANK** |
|---|---|
| Name: | Name: |
| Title: | Title: |
| ATTEST: | **GREENBANK** |
| Name: | Name: |
| Title: | Title: |

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**Appendix F**

**CERTAIN INFORMATION REGARDING GREEN BANKSHARES, INC. AND GREENBANK**

**BUSINESS**

**Presentation of Amounts**

**All dollar amounts set forth below, other than share and per-share amounts, are in thousands unless otherwise noted. Unless this Appendix F indicates otherwise or the context otherwise requires, the terms we, our, us, the Company or Green Bankshares as used herein refer to Green Bankshares, Inc. and its subsidiari including GreenBank, which we sometimes refer to as GreenBank, the Bank or our Bank .**

**Green Bankshares, Inc.**

We are the third-largest bank holding company headquartered in Tennessee, with $2.4 billion in assets as of December 31, 2010. Incorporated in 1985, Green Bankshares is the parent of GreenBank (the Bank ) and owns 100% of the capital stock of the Bank. The primary business of the Company is operating the Bank.

As a bank holding company, we are subject to regulation by the Board of Governors of the Federal Reserve System, or the Federal Reserve Board (the FRB ). We are required to file reports with the Federal Reserve Bank of Atlanta (the FRB-Atlanta ) and are subject to regular examinations by that agency. Shares of our common stock are traded on the NASDAQ Global Select Market under the trading symbol GRNB.

At December 31, 2010, the Company maintained a main office in Greeneville, Tennessee and 64 full-service bank branches (of which eleven are leased operating premises), a location for mortgage banking and nine separate locations operated by the Bank s subsidiaries.

The Company s assets consist primarily of its investment in the Bank and liquid investments. Its primary activities are conducted through the Bank. At December 31, 2010, the Company s consolidated total assets were $2,406,040, its consolidated net loans were $1,745,378, its total deposits were $1,976,854 and its total shareholders equity was $143,897.

The Company s net income, or net loss, is dependent primarily on the earnings, or loss, of its wholly-owned subsidiary, GreenBank and its level of net income, or net loss. GreenBank s net income, or net loss, is dependent upon its level of net interest income, which is the difference between the interest income earned on its loans and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities plus the Bank s non-interest income, the sum of which is either partially, or fully, offset by the amount of the Bank s loan loss provision plus the Bank s total operating expenses.

***Lending Activities:***

**General**: The Bank s lending activities reflect its community banking philosophy, emphasizing secured loans to individuals and businesses in its primary market areas.

**Commercial Real Estate Lending**: Commercial real estate loans are loans originated by the Bank that are secured by commercial real estate and includes commercial real estate construction loans to developers, mainly to borrowers based in its primary markets.

**Residential Real Estate Lending**: The Bank originates traditional one-to-four family, owner occupied, residential mortgages secured by property located in its primary market area. Further detail on consumer residential real estate lending may be found on page F-5 of this Appendix F.

**Commercial Business Lending**: Commercial business loans are loans originated by the Bank that are generally secured by various types of business assets including inventory, receivables, equipment, financial instruments and

commercial real estate. In limited cases, loans may be made on an unsecured basis. Commercial business loans are used for a variety of purposes including working capital and financing the purchase of equipment.

The Bank concentrates on originating commercial business loans to middle-market companies with borrowing requirements of less than $25 million. Substantially all of the Bank s commercial business loans outstanding at December 31, 2010, were to borrowers based in its primary markets.

**Consumer Lending**: The Bank makes consumer loans for personal, family or household purposes, such as debt consolidation, automobiles, vacations and education. Consumer lending loans are typically secured by personal property but may also be unsecured personal loans. They may also be made on a revolving line of credit or fixed-term basis.

***Investment Activities:***

The Bank has authority to invest in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies and U.S. Government sponsored enterprises, deposits of insured banks and federal funds. The Bank s investments do not include commercial paper, asset-backed commercial paper, asset-backed securities secured by credit cards, or car loans. The Bank also does not participate in structured investment vehicles. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the returns on loans and leases. The Bank must also meet reserve requirements of the FRB, which are imposed based on amounts on deposit in various deposit categories.

***Sources of Funds:***

**Deposits**: Deposits are the primary source of the Bank s funds for use in lending and for other general business purposes. Deposit inflows and outflows are significantly influenced by economic and competitive conditions, interest rates, money market conditions and other factors, including depositor confidence. Consumer, small business and commercial deposits are attracted principally from within the Bank s primary market areas through the offering of a broad selection of deposit instruments including consumer, small business and commercial demand deposit accounts, interest-bearing checking accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans.

The Bank s marketing strategy emphasizes attracting core deposits held in checking, savings, money- market and certificate of deposit accounts. These accounts are a source of low-interest cost funds and in some cases, provide significant fee income. The composition of the Bank s deposits has a significant impact on the overall cost of funds. At December 31, 2010, interest-bearing deposits comprised 92% of total deposits, as compared with 91% at December 31, 2009.

**Borrowings**: Borrowings may be used to compensate for reductions in deposit inflows or net deposit outflows, or to support expanded lending activities. These borrowings include Federal Home Loan Bank ( FHLB ) advances, repurchase agreements, federal funds and other borrowings.

The Bank, as a member of the FHLB system, is required to own a minimum level of FHLB stock and is authorized to apply for advances on the security of such stock, mortgage-backed securities, loans secured by real estate and other assets (principally securities which are obligations of, or guaranteed by, the United States Government), provided certain standards related to creditworthiness have been met. FHLB advances are made pursuant to several different credit programs. Each credit program has its own interest rates and range of maturities. The FHLB prescribes the acceptable uses to which the advances pursuant to each program may be made as well as limitations on the size of advances. In addition to the program limitations, the amounts of advances for which an institution may be eligible are generally based on the FHLB s assessment of the institution s creditworthiness.

As an additional source of funds, the Bank may sell securities subject to its obligation to repurchase these securities (repurchase agreements) with major customers utilizing government securities or mortgage-backed securities as collateral. Generally, securities with a value in excess of the amount borrowed are required to be maintained as collateral to a repurchase agreement.

Information concerning the Bank s FHLB advances, repurchase agreements, junior subordinated notes (trust preferred) and other borrowings is set forth in Management s Discussion and Analysis of Financial Condition and

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Results of Operations Liquidity and Capital Resources and in Note 8 of Notes to Consolidated Financial Statements.

We are significantly impacted by prevailing economic conditions, competition and the monetary, fiscal and regulatory policies of governmental agencies. Lending activities are influenced by the general credit needs of individuals and small and medium-sized businesses in the Company s market areas, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily the rates paid on competing funding alternatives, account maturities and the levels of personal income and savings in the Company s market areas.

Our principal executive offices are located at 100 North Main Street, Greeneville, Tennessee 37743-4992 and our telephone number at these offices is (423) 639-5111. Our internet address is www.greenbankusa.com. Please note that our website is provided as an inactive textual reference and the information on our website is not incorporated by reference herein.

**GreenBank and its Subsidiaries**

Our Bank is a Tennessee-chartered commercial bank established in 1890 which has its principal executive offices in Greeneville, Tennessee. The principal business of the Bank consists of attracting deposits from the general public and investing those funds, together with funds generated from operations and from principal and interest payments on loans, primarily in commercial and residential real estate loans, commercial loans and installment consumer loans. At December 31, 2010, the Bank had 63 Tennessee-based full-service banking offices located in Greene, Blount, Cocke, Hamblen, Hawkins, Knox, Loudon, McMinn, Monroe, Sullivan, and Washington Counties in East Tennessee and in Davidson, Lawrence, Macon, Montgomery, Rutherford, Smith, Sumner and Williamson Counties in Middle Tennessee. The Bank also operates two other full service branches one located in nearby Madison County, North Carolina and the other in nearby Bristol, Virginia. Further, the Bank operates a mortgage banking operation in Knox County, Tennessee.

Our Bank also offers other financial services through three wholly-owned subsidiaries. Through Superior Financial Services, Inc. ( Superior Financial ), the Bank operates eight consumer finance company offices located in Greene, Blount, Hamblen, Washington, Sullivan, Sevier, Knox and Bradley Counties, Tennessee. Through GCB Acceptance Corporation ( GCB Acceptance ), the Bank operates a sub-prime automobile lending company with a sole office in Johnson City, Tennessee. Through Fairway Title Co., the Bank operates a title company headquartered in Knox County, Tennessee. At December 31, 2010, these three subsidiaries had total combined assets of $42,995 and total combined loans, net of unearned interest and loan loss reserve, of $40,671.

As described in more detail below, deposits of our Bank are insured by the Deposit Insurance Fund ( DIF ) of the Federal Deposit Insurance Corporation ( FDIC ). Our Bank is subject to comprehensive regulation, examination and supervision by the Tennessee Department of Financial Institutions (the TDFI ), the FRB and the FDIC.

**Business Strategy**

In 2011, the Company expects that its primary business strategy will be on managing through the current asset quality issues affecting the Company s performance and strengthening the Company s capital position, including, if necessary, through the issuance of additional equity securities. Accordingly, the Company expects that over the short term, given the current economic environment and high levels of nonperforming assets, there will be little to no loan growth until the current economic environment in the Company s markets stabilizes and the economy begins to improve.

The Company s intermediate term prospects depend principally on the Company s ability to deal with the asset quality issues currently facing the Company and the Company s ability to raise capital in amounts sufficient to allow the Company and the Bank to achieve capital levels in excess of those required by federal banking regulations and the informal commitments that the Bank has made to the TDFI and FDIC described in more detail below.

The Bank had historically operated under a single bank charter while conducting business under 18 bank brands with a distinct community-based brand in almost every market. On March 31, 2007 the Bank announced that it had changed all brand names to GreenBank throughout all the communities it serves to better enhance recognition and customer convenience. The Bank continues to offer local decision making through the presence of its regional executives in each of its markets, while maintaining a cost effective organizational structure in its back office and support areas.

The Bank focuses its lending efforts predominately on individuals and small to medium-sized businesses while it generates deposits primarily from individuals in its local communities. To aid in deposit generation efforts, the Bank offers its customers extended hours of operation during the week as well as Saturday and Sunday banking in many of its markets. The Bank also offers free online banking along with its High Performance Checking Program which since its inception has generated a significant number of core transaction accounts.

In addition to the Company s business model, which is described herein, the Company is continuously investigating and analyzing other lines and areas of business. Conversely, the Company frequently evaluates and analyzes the profitability, risk factors and viability of its various business lines and segments and, depending upon the results of these evaluations and analyses, may conclude to exit certain segments and/or business lines. Further, in conjunction with these ongoing evaluations and analyses, the Company may decide to sell, merge or close certain branch facilities.

**Lending Activities**

General. The loan portfolio of the Company is comprised of commercial real estate, residential real estate, commercial and consumer loans. Such loans are primarily originated within the Company s market areas of East and Middle Tennessee and are generally secured by residential or commercial real estate or business or personal property located in its market footprint.

Loan Composition. Given the on-going challenging economic environment which began during the second half of 2007 as the recession emerged and the resulting precipitous decline in residential real estate construction values through 2010, the Company significantly reduced its commercial real estate concentration levels, as noted in the table below for each of the periods presented at December 31:

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Commercial real estate | $ 1,080,805 | $ 1,306,398 | $ 1,430,225 | $ 1,549,457 | $ 921,190 |
| Residential real estate | 378,783 | 392,365 | 397,922 | 398,779 | 281,629 |
| Commercial | 222,927 | 274,346 | 315,099 | 320,264 | 258,998 |
| Consumer | 75,498 | 83,382 | 89,733 | 97,635 | 87,111 |
| Other | 1,913 | 2,117 | 4,656 | 3,871 | 2,203 |
| Unearned interest | (14,548) | (14,801) | (14,245) | (13,630) | (11,502) |
| Loans, net of unearned interest | $ 1,745,378 | $ 2,043,807 | $ 2,223,390 | $ 2,356,376 | $ 1,539,629 |
| Allowance for loan losses | $ (66,830) | $ (50,161) | $ (48,811) | $ (34,111) | $ (22,302) |

In addition to the segment information listed above, the Company monitors commercial real estate speculative and construction by purpose code as noted in the loan migration table below for each of the periods presented:

**Higher Risk Loan Migration Table:**

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Speculative 1-4 family residential real estate | | | | | |
| Acquisition and development | $ 131,669 | $ 185,087 | $ 242,343 | $ 285,592 | $ 159,760 |
| Lot warehouse | 42,796 | 66,104 | 79,555 | 104,201 | 64,429 |

| | | | | | |
|---|---|---|---|---|---|
| Commercial 1-4 family residential | 31,511 | 70,434 | 160,786 | 279,680 | 134,390 |
| Sub-total | 205,976 | 321,625 | 482,684 | 669,473 | 358,579 |
| Construction | | | | | |
| Commercial vacant land | 77,081 | 101,679 | 103,160 | 69,298 | 37,461 |
| Commercial construction non-owner occupied | 63,881 | 164,887 | 144,344 | 157,374 | 80,032 |
| Commercial construction owner occupied | 5,407 | 28,213 | 55,305 | 58,814 | 37,515 |

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Consumer residential construction | 14,161 | 19,073 | 27,632 | 38,231 | 25,279 |
| Sub-total | 160,530 | 313,852 | 330,441 | 323,717 | 180,287 |
| Total speculative and construction | $ 366,506 | $ 635,477 | $ 813,125 | $ 993,190 | $ 538,866 |

Loan Maturities. The following table reflects at December 31, 2010 the dollar amount of loans maturing based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and loans having no stated maturity are reported as due in one year or less.

| | Due in One Year or Less | Due After One Year Through Five Years | Due After Five Years | Total |
|---|---|---|---|---|
| Commercial real estate | $ 437,374 | $ 613,259 | $ 30,172 | $ 1,080,805 |
| Residential real estate [1] | 42,826 | 93,735 | 235,732 | 372,293 |
| Commercial | 148,500 | 68,752 | 5,675 | 222,927 |
| Consumer [1] | 19,110 | 45,815 | 2,515 | 67,440 |
| Other | 1,629 | 236 | 48 | 1,913 |
| Total | $ 649,439 | $ 821,797 | $ 274,142 | $ 1,745,378 |

(1) Net of unearned interest

The following table sets forth the dollar amount of the loans maturing subsequent to the year ended December 31, 2011 distinguished between those with predetermined interest rates and those with floating, or variable, interest rates.

| | Fixed Rate | Variable Rate | Total |
|---|---|---|---|
| Commercial real estate | $ 432,141 | $ 211,290 | $ 643,431 |
| Residential real estate | 111,198 | 218,269 | 329,467 |
| Commercial | 46,740 | 27,687 | 74,427 |
| Consumer | 47,696 | 634 | 48,330 |
| Other | 236 | 48 | 284 |
| Total | $ 638,011 | $ 457,928 | $ 1,095,939 |

Commercial Real Estate Loans. The Company has significantly curtailed the origination of residential real estate construction and development loans over the past three years as noted in the higher risk loan migration table above. The Company had historically originated commercial real estate loans, including residential real estate construction and development loans, generally to existing business customers, secured by real estate located in the Company s market area. At December 31, 2010, commercial real estate loans totaled $1,080,805, or 62%, of the Company s net loan portfolio. Commercial real estate loans were generally underwritten by addressing cash flow (debt service coverage), primary and secondary source of repayment, financial strength of any guarantor, and strength of the tenant (if any), liquidity, leverage, management experience, ownership structure, economic conditions and collateral. Generally, the Company would loan up to 80-85% of the value of improved property, 65% of the value of raw land

and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

Residential Real Estate. The Company also originates one-to-four family, owner-occupied residential mortgage loans secured by property located in the Company s primary market areas. The majority of the Company s residential mortgage loans consists of loans secured by owner-occupied, single-family residences. At December 31, 2010, the Company had $378,783, or 21%, of its net loan portfolio in residential real estate loans, net of unearned income. Residential real estate loans generally have a loan-to-value ratio of 85% or less. These loans are underwritten by giving consideration to the ability to pay, stability of employment, source of income, credit history and loan-to-value ratio. Home equity loans make up approximately 52% of residential real estate loans. Home equity loans may have higher loan-to-value ratios when the borrower s repayment capacity and credit history conform to underwriting standards. Superior Financial extends sub-prime mortgages to borrowers who generally

have a higher risk of default than mortgages extended by the Bank. Sub-prime mortgages totaled $11,742, or 3%, of the Company s residential real estate loans, net of unearned income, at December 31, 2010.

The Company sells most of its one-to-four family mortgage loans in the secondary market to Freddie Mac and other mortgage investors through the Bank s mortgage banking operation. Sales of such loans to Freddie Mac and other mortgage investors totaled $47,881 and $43,050 during 2010 and 2009, respectively, and the related mortgage servicing rights were sold together with the loans. All mortgage loans sales are without recourse and all notes are endorsed to the investor stating without recourse. Certain contingencies do come into play for early prepayment or early payment defaults and would involve a refund of the yield spread premium earned on the transaction given certain events of default. During 2010, no refunds or events of default occurred.

Commercial Loans. Commercial loans are made for a variety of business purposes, including working capital, inventory and equipment and capital expansion. At December 31, 2010, commercial loans outstanding totaled $222,927, or 13%, of the Company s net loan portfolio. Such loans are usually amortized over one to seven years and generally mature within five years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, financial strength of any guarantor, liquidity, leverage, management experience, ownership structure, economic conditions and industry-specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed between 70% and 80% of accounts receivable less than 90 days past due. If other collateral is taken to support the loan, the loan to value of accounts receivable may approach 85%. Inventory financing will range between 50% and 60% depending on the borrower and nature of the inventory. The Company requires a first lien position for such loans. These types of loans are generally considered to be a higher credit risk than other loans originated by the Company.

Consumer Loans. At December 31, 2010, the Company s consumer loan portfolio, net of unearned income, totaled $67,440, or 4%, of the Company s total net loan portfolio. The Company s consumer loan portfolio is composed of secured and unsecured loans originated by the Bank, Superior Financial and GCB Acceptance. The consumer loans of the Bank generally have a higher risk of default than other loans originated by the Bank. Further, consumer loans originated by Superior Financial and GCB Acceptance, which are finance companies rather than banks, generally have a greater risk of default than such loans originated by commercial banks and, accordingly, carry a higher interest rate. Superior Financial and GCB Acceptance consumer loans totaled approximately $32,194, or 48%, of the Company s installment consumer loans, net of unearned income, at December 31, 2010. The performance of consumer loans will be affected by the local and regional economy as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

Past Due, Special Mention, Classified and Nonaccrual Loans. The Company classifies its loans of concern into three categories: past due loans, special mention loans and classified loans (both accruing and non-accruing interest).

When management determines that a loan is no longer performing and that collection of interest appears doubtful, the loan is placed on nonaccrual status. All loans that are 90 days past due are considered nonaccrual unless they are adequately secured and there is reasonable assurance of full collection of principal and interest. Management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on nonaccrual status. Nonaccrual loans that are 120 days past due without assurance of repayment are charged off against the allowance for loan losses.

The Company may elect to formally restructure a loan due to the weakening credit status of a borrower so that the restructuring may facilitate a repayment plan that minimizes the potential losses that the Company may have to otherwise incur. At December 31, 2010 and 2009, the Company had $49,537 and $16,061 of restructured loans of which $9,597 and $4,429 were classified as non-accrual and the remaining were performing.

The following table sets forth information with respect to the Company s nonperforming assets at the dates indicated.

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Loans accounted for on a non-accrual basis | $ 143,707 | $ 75,411 | $ 30,926 | $ 32,060 | $ 3,479 |
| Accruing loans which are contractually past due 90 days or more as to interest or principal payments | 2,112 | 147 | 509 | 18 | 28 |
| Total non-performing loans | 145,819 | 75,558 | 31,435 | 32,078 | 3,507 |
| Real estate owned: | | | | | |
| Foreclosures | 59,965 | 56,952 | 44,964 | 4,401 | 1,445 |
| Other real estate held and repossessed assets | 130 | 216 | 407 | 458 | 243 |
| Total non-performing assets | $ 205,914 | $ 132,726 | $ 76,806 | $ 36,937 | $ 5,195 |
| Restructured loans not included above | $ 39,940 | $ 11,632 | $ | $ | $ |

Total non-performing assets increased by $73,188 from December 31, 2009 to December 31, 2010. This increase was principally driven by deterioration in the economy during 2010 which was reflected principally in the Company s residential real estate construction and development portfolio. In 2010, the Company devoted significant attention to our asset quality issues, including having segregated these assets within our Special Assets Group so that we may diligently work through the resolution of each on an asset-by-asset basis. The Special Assets Group meets monthly to discuss the performance of the portfolio and specific relationships with emphasis on the underperforming assets. The Special Assets Group is responsible for the resolution of problem credits by creating action plans, which could include foreclosure, restructuring the loan, issuing demand letters or other actions. If nonaccrual loans at December 31, 2010 had been current according to their original terms and had been outstanding throughout 2010, or since origination if originated during the year, interest income on these loans in 2010 would have been approximately $5,948. Interest actually recognized on these loans during 2010 was $4,843. Interest income not recognized on restructured loans was not significant for 2010.

OREO increased by $2,927 from December 31, 2009 to December 31, 2010. The real estate consists of 122 properties, of which 49 are 1-4 family residential properties with a carrying value of $3,966; 38 are construction development of 1-4 residential properties with a carrying value of $37,481; two are multi-family residential properties with a carrying value of $648; four are parcels of commercial vacant land with a carrying value of $3,192; 23 are vacant 1-4 family residential lots with a carrying value of $7,038; five are commercial buildings with a carrying value of $5,321; and one is a commercial construction project with a carrying value of $2,318. Management has recorded these properties at estimated fair market value, based on current appraisals, less estimated selling costs. Other repossessed assets decreased from $216 at December 31, 2009 to $130 at December 31, 2010. The decrease is due primarily to the disposition of repossessed automobiles at one of the Company s subsidiaries.

The recorded investment of impaired loans, defined under Accounting Standards Codification ( ASC ) Topic ASC 310 as loans which, based upon current information and events, it is considered probable that the Company will be unable to collect all amounts of contractual interest and principal as scheduled in the loan agreement, increased by $70,753 from $115,238 at December 31, 2009 to $185,991 at December 31, 2010. The related allowance on the recorded investment of impaired loans also increased by $19,097 from $5,737 at December 31, 2009 to $24,834 at December 31, 2010. Under accounting guidance for impaired loans, the impairment is probable if the future events indicate that the Bank will not collect principal and interest in accordance with contractual terms. Impaired loans are included in non-performing loans. This increase is primarily attributable to the continued deterioration throughout

2010 in residential real estate construction loans located in the Company s urban markets. The recorded investment of impaired loans of $185,991 at December 31, 2010 and $115,238 at December 31, 2009 are net of balances previously charged-off of $36,574 and $27,937 respectively.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level which management believes is adequate to absorb all probable losses on loans then present in the loan portfolio. The amount of the allowance is affected by: (1) loan charge-offs, which decrease the allowance; (2) recoveries on loans previously charged-off, which increase the allowance; and (3) the provision for possible loan losses charged against income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries, and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions, including residential real estate prices and transaction volume in the Company s market areas, in an effort to evaluate portfolio

risks. In evaluating residential real estate market conditions, the Company s internal policies require new appraisals on adversely rated collateral dependent loans to be obtained at least annually. On a quarterly basis, the Company receives a written report from an independent nationally recognized organization which provides updated valuation trends, by price point and by zip code, for each of the major markets in which the Company is conducting business. The information is then used in the Company s impairment analysis of collateral dependent loans. If actual losses exceed the amount of the allowance for loan losses, earnings of the Company could be adversely affected. The amount of the provision is based on management s judgment of those risks. During the year ended December 31, 2010, the Company s provision for loan losses increased by $20,861 to $71,107 from $50,246 for the year ended December 31, 2009 and the allowance for loan losses increased by $16,669 to $66,830 at December 31, 2010 from $50,161 at December 31, 2009.

The elevated allowance for loan losses was attributable primarily to continuing weakened economic conditions experienced in the Company s urban markets, principally the Nashville and Knoxville markets, beginning in the fourth quarter of 2007 and continuing through 2010, accompanied by deteriorating credit quality associated primarily with residential real estate construction and development loans in these markets. The allowance for loan losses as a percentage of total loans was 3.83% at the end of 2010 versus 2.45% at December 31, 2009. The loan loss reserves reflected the higher level of non-performing banking assets, and losses inherent in this segment of the Company s business, as noted in Notes 3 and 17 of Notes to Consolidated Financial Statements. Although Management believes that the allowance for loan losses is adequate to cover estimated losses inherent in the portfolio, there can be no assurances that additional reserves may not be required in the future.

The following is a summary of activity in the allowance for loan losses for the periods indicated:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Balance at beginning of year | $ 50,161 | $ 48,811 | $ 34,111 | $ 22,302 | $ 19,739 |
| Reserve acquired in acquisition | | | | 9,022 | |
| Subtotal | 50,161 | 48,811 | 34,111 | 31,324 | 19,739 |
| Charge-offs: | | | | | |
| Commercial real estate | (48,617) | (40,893) | (28,759) | (7,516) | (494) |
| Commercial | (3,210) | (6,941) | (6,177) | (2,065) | (879) |
| Subtotal | (51,827) | (47,834) | (34,936) | (9,581) | (1,373) |
| Residential real estate | (3,102) | (3,176) | (2,275) | (840) | (947) |
| Consumer | (2,889) | (3,880) | (4,058) | (3,050) | (2,009) |
| Other | | | | | (28) |
| Total charge-offs | (57,818) | (54,890) | (41,269) | (13,471) | (4,357) |
| Recoveries: | | | | | |
| Commercial real estate | 1,301 | 3,066 | 1,691 | 289 | 17 |
| Commercial | 909 | 1,669 | 221 | 227 | 171 |
| Subtotal | 2,210 | 4,735 | 1,912 | 516 | 188 |
| Residential real estate | 287 | 402 | 138 | 213 | 284 |
| Consumer | 882 | 853 | 1,106 | 1,038 | 936 |
| Other | 1 | 4 | 3 | 8 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| Total recoveries | 3,380 | 5,994 | 3,159 | 1,775 | 1,413 |
| Net charge-offs | (54,438) | (48,896) | (38,110) | (11,696) | (2,944) |
| Provision for loan losses | 71,107 | 50,246 | 52,810 | 14,483 | 5,507 |
| Balance at end of year | $ 66,830 | $ 50,161 | $ 48,811 | $ 34,111 | $ 22,302 |
| Ratio of net charge-offs to average loans outstanding, net of unearned discount, during the period | 2.84% | 2.25% | 1.63% | .57% | .20% |
| Ratio of allowance for loan losses to non-performing loans | 45.83% | 66.39% | 155.28% | 106.34% | 635.93% |
| Ratio of allowance for loan losses to total loans, net of unearned income | 3.83% | 2.45% | 2.20% | 1.45% | 1.45% |

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*Breakdown of allowance for loan losses by portfolio segment.* The following table presents an allocation among the listed loan categories of the Company s allowance for loan losses at the dates indicated and the percentage of loans in each category to the total amount of loans at the respective year-ends:

| | At December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
| Balance at end of period applicable to: | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans | Amount | Percent of loans in each category to total loans |
| Commercial real estate | $ 54,203 | 61.93% | $ 36,527 | 63.93% | $ 35,714 | 64.33% | $ 20,489 | 65.38% | $ 10,619 | 59.38% |
| Residential real estate | 4,431 | 21.33% | 4,350 | 18.88% | 3,669 | 17.63% | 2,395 | 16.83% | 1,639 | 18.16% |
| Commercial | 5,080 | 12.78% | 5,840 | 13.42% | 6,479 | 14.17% | 7,575 | 13.51% | 6,645 | 16.70% |
| Consumer | 3,108 | 3.86% | 3,437 | 3.67% | 2,927 | 3.66% | 3,635 | 4.12% | 3,384 | 5.62% |
| Other | 8 | 0.11% | 7 | 0.10% | 22 | 0.21% | 17 | 0.16% | 15 | 0.14% |
| Totals | $ 66,830 | 100.00% | $ 50,161 | 100.00% | $ 48,811 | 100.00% | $ 34,111 | 100.00% | $ 22,302 | 100.00% |

**Investment Activities**

General. The Company maintains a portfolio of investments for general liquidity purposes and to cover minimum pledging requirements for municipal deposits and borrowings.

Securities by Category. The following table sets forth the carrying value of the securities, by major categories, held by the Company at December 31, 2010, 2009 and 2008:

| | At December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Securities Held to Maturity: | | | |
| State and political subdivisions | $ 215 | $ 251 | $ 404 |
| Other securities | 250 | 375 | 253 |
| Total | $ 465 | $ 626 | $ 657 |
| Securities Available for Sale: | | | |
| U.S. government agencies | $ 83,299 | $ 52,048 | $ 98,806 |
| State and political subdivisions | 31,501 | 32,192 | 31,804 |
| Collateralized mortgage obligations | 67,575 | 44,677 | 68,373 |
| Mortgage-backed securities | 17,964 | 16,892 | 2,086 |
| Trust preferred securities | 1,663 | 1,915 | 2,493 |
| Total | $ 202,002 | $ 147,724 | $ 203,562 |

Maturity Distributions of Securities. The following table sets forth the distributions of maturities of securities at amortized cost as of December 31, 2010:

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| | Due in One Year or Less | Due After One Year through Five Years | Due After Five Years through 10 Years | Due After 10 Years | Total |
|---|---|---|---|---|---|
| Securities Held to Maturity: | | | | | |
| State and political subdivisions | $ 215 | $ | $ | $ | $ 215 |
| Other securities | 250 | | | | 250 |
| Securities Available for Sale: | | | | | |
| U.S. government agencies | | | 39,004 | 45,102 | 84,106 |
| State and political subdivisions | 1,005 | 4,067 | 21,986 | 4,133 | 31,191 |
| Collateralized mortgage obligations | | 651 | 1,584 | 63,809 | 66,044 |
| Mortgage-backed securities | | 5,989 | 4,012 | 7,167 | 17,168 |
| Trust preferred securities | | | | 1,850 | 1,850 |
| Subtotal | $ 1,470 | $ 10,707 | $ 66,586 | $ 122,061 | $ 200,824 |
| Market value adjustment on available for sale securities | 3 | 535 | 554 | 553 | 1,645 |
| Total | $ 1,473 | $ 11,242 | $ 67,140 | $ 122,614 | $ 202,469 |
| Weighted average yield (a) | 7.08% | 4.83% | 3.94% | 3.44% | 3.75% |

(a) Weighted average yields on tax-exempt obligations have been computed on a fully taxable-equivalent basis using a tax rate of 35%.

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

**Deposits**

Deposits are the primary source of funds for the Company. Such deposits consist of noninterest bearing and interest-bearing demand deposit accounts, regular savings deposits, Money Market accounts and market rate certificates of deposit. Deposits are attracted from individuals, partnerships and corporations in the Company s market areas. In addition, the Company obtains deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions. The Company s Asset/Liability Management Policy permits the acceptance of limited amounts of brokered deposits. At December 31, 2010 the percentage of the Company s brokered deposits to total deposits was 0.07%, which was within the limits of the Asset/Liability Management Policy. The Company s brokered deposits were also within the limits of the Asset/Liability Management Policy at December 31, 2009 and 2008, respectively.

The following table sets forth the average balances and average interest rates based on daily balances for deposits for the periods indicated:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2008 | |
| | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid | Average Balance | Average Rate Paid |
| Types of deposits (all in domestic offices): | | | | | | |
| Noninterest bearing demand deposits | $ 166,814 | | $ 162,765 | | $ 187,058 | |
| Interest-bearing demand deposits | 881,978 | 1.01% | 700,586 | 1.30% | 577,024 | 1.57% |
| Savings deposits | 98,900 | 1.02% | 83,549 | 1.13% | 68,612 | .77% |
| Time deposits | 841,458 | 2.20% | 1,166,640 | 3.06% | 1,317,362 | 3.68% |
| Total deposits | $ 1,989,150 | | $ 2,113,540 | | $ 2,150,056 | |

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The following table indicates the amount of the Company s certificates of deposit and brokered certificates of deposit of $100 or more by time remaining until maturity as of December 31, 2010:

| Maturity Period | Certificates of Deposits |
|---|---|
| Three months or less | $ 41,190 |
| Over three through six months | 43,741 |
| Over six through twelve months | 112,097 |
| Over twelve months | 112,673 |
| Total | $ 309,701 |

**Competition**

The Company seeks to compete effectively through its reliance on local commercial activity; personal contacts by its directors, officers, other employees and shareholders; personalized services; and its reputation in the communities it serves.

According to data as of June 30, 2010 published by SNL Financial LC and using information from the FDIC, the Bank ranked as the largest independent commercial bank headquartered in East Tennessee, and its major market areas include Greene, Blount, Davidson, Hamblen, Hawkins, Knox, Lawrence, Loudon, Macon, McMinn, Montgomery, Rutherford, Smith, Sullivan, Sumner, Washington and Williamson Counties, Tennessee and portions of Cocke and Monroe Counties, Tennessee. In Greene County, in which the Company enjoyed its largest deposit share as of June 30, 2010, there were seven commercial banks and one savings bank, operating 26 branches and holding an aggregate of approximately $1.0 billion in deposits as of June 30, 2010. The following table sets forth the Bank s deposit share, excluding credit unions, in each county in which it has a full-service branch(s) as of June 30, 2010, according to data published by the FDIC:

| County | Deposit Share |
|---|---|
| Greene, TN | 28.72% |
| Hawkins, TN | 19.36% |
| Lawrence, TN | 17.53% |
| Smith, TN | 10.58% |
| Sumner, TN | 10.12% |
| Hamblen, TN | 8.78% |
| Blount, TN | 8.15% |
| Cocke, TN | 8.15% |
| Macon, TN | 7.10% |
| Madison, NC | 6.66% |
| Montgomery, TN | 6.36% |
| Loudon, TN | 6.00% |
| Washington, TN | 5.91% |
| McMinn, TN | 5.63% |
| Bristol, VA[1] | 4.39% |
| Sullivan, TN | 2.82% |
| Williamson, TN | 2.80% |
| Rutherford, TN | 2.62% |
| Monroe, TN | 1.49% |
| Knox, TN | 0.82% |
| Davidson, TN | 0.79% |

[1] Bristol, VA is deemed a city.

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**Employees**

As of December 31, 2010 the Company employed 730 full-time equivalent employees. None of the Company s employees are presently represented by a union or covered under a collective bargaining agreement. Management considers relations with employees to be good.

**Regulation, Supervision and Governmental Policy**

The following is a brief summary of certain statutes, rules and regulations affecting the Company and the Bank. A number of other statutes and regulations have an impact on their operations. These laws and regulations are generally intended to protect depositors and borrowers, not shareholders. The following discussion describes the material elements of the regulatory framework that currently apply. In July 2010, the Dodd-Frank Act was signed into law, incorporating numerous financial institution regulatory reforms. Many of these reforms will be implemented over the course of 2011 through regulations to be adopted by various federal banking and securities regulations. The following summary of applicable statutes and regulations does not purport to be complete and is qualified in its entirety by reference to such statutes and regulations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements far-reaching reforms of major elements of the financial landscape, particularly for larger financial institutions. Many of its most far-reaching provisions do not directly impact community-based institutions like the Company. For instance, provisions that regulate derivative transactions and limit derivatives trading activity of federally-insured institutions, enhance supervision of systemically significant institutions, impose new regulatory authority over hedge funds, limit proprietary trading by banks, and phase-out the eligibility of trust preferred securities for Tier 1 capital are among the provisions that do not directly impact the Company either because of exemptions for institutions below a certain asset size or because of the nature of the Company s operations. Those provisions that will impact the Company include the following:

Changing the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminating the ceiling and increasing the size of the floor of the DIF, and offsetting the impact of the increase in the minimum floor on institutions with less than $10 billion in assets;

Making permanent the $250,000 limit for federal deposit insurance, increasing the cash limit of Securities Investor Protection Corporation protection to $250,000 and providing unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions;

Repealing the federal prohibition on payment of interest on demand deposits, thereby permitting depositing institutions to pay interest on business transaction and other accounts;

Centralizing responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing federal consumer protection laws, although banks below $10 billion in assets will continue to be examined and supervised for compliance with these laws by their federal banking regulator;

Restricting the preemption of state law by federal law and disallowing national bank subsidiaries from availing themselves of such preemption;

Imposing new requirements for mortgage lending, including new minimum underwriting standards, prohibitions on certain yield-spread compensation to mortgage originators, special consumer protections for mortgage loans that do not meet certain provision qualifications, prohibitions and limitations on certain mortgage terms and various new mandated disclosures to mortgage borrowers;

Applying the same leverage and risk based capital requirements that apply to insured depository institutions to holding companies, although the Company s currently outstanding subordinated debentures (but not new issuances) will continue to qualify as Tier 1 capital, subject to existing limitations on the amount that may so qualify;

Permitting national and state banks to establish de novo interstate branches at any location where a bank based in that state could establish a branch, and requiring that bank holding companies and banks be well capitalized and well managed in order to acquire banks located outside their home state;

Imposing new limits on affiliated transactions and causing derivative transactions to be subject to lending limits; and

Implementing corporate governance revisions, including with regard to executive compensation and proxy access to shareholders, that apply to all public companies not just financial institutions.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, and their impact on the Company or the financial industry is difficult to predict before such regulations are adopted.

Bank Holding Company Regulation. The Company is registered as a bank holding company under the Bank Holding Company Act (the Holding Company Act ) and, as such, is subject to supervision, regulation and examination by the Board of Governors of the FRB.

*Acquisitions and Mergers*. Under the Holding Company Act, a bank holding company must obtain the prior approval of the FRB before (1) acquiring direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company would directly or indirectly own or control more than 5% of such shares; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company. Also, any company must obtain approval of the FRB prior to acquiring control of the Company or the Bank. For purposes of the Holding Company Act, control is defined as ownership of more than 25% of any class of voting securities of a bank holding company or bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the a bank holding company or bank. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

The bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or

No other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under Section 12 of the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

The Change in Bank Control Act and the related regulations of the FRB require any person or persons acting in concert (except for companies required to make application under the Holding Company Act), to file a written notice with the FRB before such person or persons may acquire control of a bank holding company or bank. The Change in Bank Control Act defines control as the power, directly or indirectly, to vote 25% or more of any voting securities or to direct the management or policies of a bank holding company or an insured bank.

Bank holding companies like the Company are currently prohibited from engaging in activities other than banking and activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. The FRB s regulations contain a list of permissible nonbanking activities that are closely related to banking or managing or controlling banks. A bank holding company must file an application or notice with the FRB prior to acquiring more than 5% of the voting shares of a company engaged in such activities. The Gramm-Leach-Bliley Act of 1999 (the GLB Act ), however, greatly broadened the scope of activities permissible for bank holding companies. The GLB Act permits bank holding companies, upon election and classification as financial holding companies, to engage in a broad variety of activities financial in nature. The Company has not filed an election with the FRB to be a financial holding company, but may choose to do so in the future.

*Capital Requirements*. The Company is also subject to FRB guidelines that require bank holding companies to maintain specified minimum ratios of capital to total assets and capital to risk-weighted assets. The Dodd-Frank Act extended additional capital requirements to bank holding companies on a consolidated basis. See Capital Requirements.

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*Dividends*. The FRB has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The FRB has issued a policy statement expressing its view that a bank holding company should pay cash dividends only to the extent that the company s net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company s capital needs, asset quality, and overall financial condition.

The Company is a legal entity separate and distinct from the Bank. Over time, the principal source of the Company s cash flow, including cash flow to pay interest to its holders of trust preferred securities and dividends to holders of the Series A preferred stock the Company issued to the U.S. Treasury in connection with the Capital Purchase Program ( CPP ) and to the Company s common stock shareholders, will be dividends that the Bank pays to the Company as its sole shareholder. Under Tennessee law, the Company is not permitted to pay dividends if, after giving effect to such payment, the Company would not be able to pay its debts as they become due in the normal course of business or the Company s total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if the Company were dissolving. In addition, in deciding whether or not to declare a dividend of any particular size, the Company s board of directors must consider the Company s current and prospective capital, liquidity, and other needs.

In addition to the limitations on the Company s ability to pay dividends under Tennessee law, the Company s ability to pay dividends on its common stock is also limited by the Company s participation in the CPP, by certain statutory or regulatory limitations and by an informal commitment the Company has made to the FRB-Atlanta that it will not pay dividends on its common or preferred stock (or interest on its subordinated debentures) without the prior approval of the FRB-Atlanta. The Company also informally committed to the FRB-Atlanta that it will not incur any indebtedness or repurchase any shares of its capital stock without the prior approval of the FRB-Atlanta. Prior to December 23, 2011, unless the Company has redeemed the Series A preferred stock issued to the U.S. Treasury in the CPP or the U.S. Treasury has transferred the Series A preferred stock to a third party, the consent of the U.S. Treasury must be received before the Company can declare or pay any dividend or make any distribution on the Company s common stock in excess of $0.13 per quarter. Furthermore, if the Company is not current in the payment of quarterly dividends on the Series A preferred stock, it cannot pay dividends on its common stock. These dividend restrictions resulting from the Company s participation in the CPP are in addition to those resulting from the Company s informal commitment to the FRB-Atlanta.

Statutory and regulatory limitations also apply to the Bank s payment of dividends to the Company. Under Tennessee law, the Bank can only pay dividends to the Company in an amount equal to or less than the total amount of its net income for that year combined with retained net income for the preceding two years. Payment of dividends in excess of this amount requires the consent of the Commissioner of the TDFI (the Commissioner ). Because the Bank incurred a loss in both 2010 and 2009, dividends from the Bank to the Company, including, if necessary, dividends to support the Company s payment of interest on its subordinated debt and dividends on the Series A preferred stock it sold to the U.S. Treasury will require prior approval by the Commissioner.

The payment of dividends by the Bank and the Company may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ), a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. Recent supervisory guidance from the FRB indicates that bank holding companies that are participants in the CPP that are experiencing financial difficulty generally should eliminate, reduce or defer dividends on Tier 1 capital instruments including trust preferred securities, preferred stock or common stock, if the holding company needs to conserve capital for safe and sound operation and to serve as a source of strength to its subsidiaries.

On November 9, 2010, following consultation with the FRB-Atlanta, the Company notified the U.S. Treasury that the Company was suspending the payment of regular quarterly cash dividends on the Series A preferred stock issued to the U.S. Treasury The dividends, which are cumulative, will continue to be reported as a preferred dividend

requirement that is deducted from net income for financial statement purposes. Additionally, following consultation with the FRB-Atlanta, the Company has exercised its rights to defer regularly scheduled interest payments on all of its issues of junior subordinated notes having an outstanding principal amount of $88.6

million, relating to outstanding trust preferred securities ( TRUPs ). Under the terms of the trust documents, the Company may defer payments of interest for up to 20 consecutive quarterly periods without triggering an event of default. During a deferral period, the Company may not pay dividends on its common or preferred stock or interest on indebtedness that ranks *pari passu* or junior to the subordinated debentures. The regular scheduled interest payments will continue to be accrued for payment in the future and reported as an expense for financial statement purposes. Together, the deferral of interest payments on TRUPs and suspension of dividend payments to the U.S. Treasury will preserve about $5.1 million per year in cash flow.

*Support of Banking Subsidiaries*. Under the Dodd-Frank Act, and previously under FRB policy, the Company is expected to act as a source of financial strength to the Bank and, where required, to commit resources to support the Bank. This support can be required at times when it would not be in the best interest of the Company s shareholders or creditors to provide it. Further, if the Bank s capital levels were to fall below minimum regulatory guidelines, the Bank would need to develop a capital plan to increase its capital levels and the Company would be required to guarantee the Bank s compliance with the capital plan in order for such plan to be accepted by the federal regulatory authority. In the event of the Company s bankruptcy, any commitment by the Company to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Under the cross guarantee provisions of the Federal Deposit Insurance Act (the FDI Act ), any FDIC-insured subsidiary of the Company such as the Bank could be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of any other FDIC-insured subsidiary also controlled by the Company or (ii) any assistance provided by the FDIC to any FDIC-insured subsidiary of the Company in danger of default.

*Transactions with Affiliates*. The Federal Reserve Act, as amended by Regulation W, imposes legal restrictions on the quality and amount of credit that a bank holding company or its non-bank subsidiaries ( affiliates ) may obtain from bank subsidiaries of the holding company. For instance, these restrictions generally require that any such extensions of credit by a bank to its affiliates be on non-preferential terms and be secured by designated amounts of specified collateral. Further, a bank s ability to lend to its affiliates is limited to 10% per affiliate (20% in the aggregate to all affiliates) of the bank s capital and surplus.

*Bank Regulation*. As a federally-insured, Tennessee banking institution, the Bank is subject to regulation, supervision and regular examination by the TDFI and the FDIC. Tennessee and federal banking laws and regulations control, among other things, required reserves, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, and establishment of branches and other aspects of the Bank s operations. Supervision, regulation and examination of the Company and the Bank by the bank regulatory agencies are intended primarily for the protection of depositors rather than for the Company s security holders.

*Extensions of Credit*. Under joint regulations of the federal banking agencies, including the FDIC, banks must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards, including loan-to-value limits that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. A bank s real estate lending policy must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the Interagency Guidelines ) that have been adopted by the federal banking regulators. The Interagency Guidelines, among other things, call upon depository institutions to establish internal loan-to-value limits for real estate loans that are not in excess of the loan-to-value limits specified in the Interagency Guidelines for the various types of real estate loans. The Interagency Guidelines state that it may be appropriate in individual cases to originate or purchase loans with loan-to-value ratios in excess of the supervisory loan-to-value limits. The aggregate amount of loans in excess of the supervisory loan-to-value limits, however, should not exceed 100% of total capital, and the total of such loans secured by commercial, agricultural, multifamily and other non-one-to-four family residential properties should not exceed 30% of total capital.

*Federal Deposit Insurance*. The deposits of the Bank are insured by the FDIC to the maximum extent provided by law, and the Bank is subject to FDIC deposit insurance assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different

categories and concentrations of assets and liabilities. In early 2006, Congress passed the Federal Deposit Insurance Reform Act of 2005, which made certain changes to the Federal deposit insurance program. These changes included

merging the Bank Insurance Fund and the Savings Association Insurance Fund, increasing retirement account coverage to $250,000 and providing for inflationary adjustments to general coverage beginning in 2010, providing the FDIC with authority to set the fund s reserve ratio within a specified range, and requiring dividends to banks if the reserve ratio exceeds certain levels. The statute grants banks an assessment credit based on their share of the assessment base on December 31, 1996, and the amount of the credit can be used to reduce assessments in any year subject to certain limitations.

Under the Dodd-Frank Act, the FDIC was required to adopt regulations that would base deposit insurance assessments on total assets less capital rather than deposit liabilities and to include off-balance sheet liabilities of institutions and their affiliates in risk-based assessments.

The Emergency Economic Stabilization Act of 2008 ( EESA ) provided for a temporary increase in the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. This increased level of basic deposit insurance was made permanent by the Dodd-Frank Act. In addition, on October 14, 2008, the FDIC instituted temporary unlimited FDIC coverage of non-interest bearing deposit transaction accounts. Following passage of the Dodd-Frank Act, an institution can provide full coverage on non-interest bearing transaction accounts until December 31, 2012. The Dodd-Frank Act also repealed the prohibition on paying interest on demand transaction accounts, but did not extend unlimited insurance protection for these accounts.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

*Safety and Soundness Standards*. The FDICIA required the federal bank regulatory agencies to prescribe, by regulation, non-capital safety and soundness standards for all insured depository institutions and depository institution holding companies. The FDIC and the other federal banking agencies have adopted guidelines prescribing safety and soundness standards pursuant to FDICIA. The safety and soundness guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. Among other things, the guidelines require banks to maintain appropriate systems and practices to identify and manage risks and exposures identified in the guidelines.

*Participation in the Capital Purchase Program of the Troubled Asset Relief Program.* On October 3, 2008, the EESA became law. Under the Troubled Asset Relief Program ( TARP ) authorized by EESA, the U.S. Treasury established the CPP providing for the purchase of senior preferred shares of qualifying U.S. controlled banks, savings associations and certain bank and savings and loan holding companies. On December 23, 2008, the Company sold 72,278 shares of Series A preferred stock and warrants to acquire 635,504 shares of common stock to the U.S. Treasury pursuant to the CPP for aggregate consideration of $83 million. As a result of the Company s participation in the CPP, the Company agreed to certain limitations on executive compensation. On February 17, 2009, President Obama signed into law The American Recovery and Reinvestment Act of 2009 ( ARRA ), more commonly known as the economic stimulus or economic recovery package. ARRA, which amends EESA, includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. Under ARRA, the Company is subject to additional and more extensive executive compensation limitations and corporate governance requirements. ARRA also permits the Company to redeem the preferred shares it sold to the U.S. Treasury without penalty and without the need to raise new capital, subject to the U.S. Treasury s consultation with the Company s and the Bank s appropriate regulatory agency.

For as long as the U.S. Treasury owns any debt or equity securities of the Company issued in connection with the CPP, the Company will be required to take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply in all respects with Section 111(b) of the EESA, as amended by the ARRA, and the regulations issued and in effect thereunder, including the interim final rule related to executive compensation and corporate governance issued by the U.S. Treasury on June 15, 2009 (the IFR ). This means that, among other things, while the U.S. Treasury owns debt or equity securities issued by the Company in connection with the CPP, the Company must:

Ensure that the incentive compensation programs for its senior executive officers do not encourage unnecessary and excessive risks that threaten the value of the Company;

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Implement a required clawback of any bonus or incentive compensation paid to the Company s senior executive officers and the next twenty most highly compensated employees based on materially inaccurate financial statements or any other materially inaccurate performance metric;

Not make any bonus, incentive or retention payment to any of the Company s five most highly compensated employees, except as permitted under the IFR;

Not make any golden parachute payment (as defined in the IFR) to any of the Company s senior executive officers or next five most highly compensated employees; and

Agree not to deduct for tax purposes executive compensation in excess of $500,000 in any one fiscal year for each of the Company s senior executive officers.

*Capital Requirements*. Both the Company and the Bank are required to comply with the capital adequacy standards established by the FRB, in the Company s case, and the FDIC, in the case of the Bank. The FRB has established a risk-based and a leverage measure of capital adequacy for bank holding companies, like the Company. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the FRB for bank holding companies. In addition, the FDIC and TDFI may require state banks that are not members of the FRB, like the Bank, to maintain capital at levels higher than those required by general regulatory requirements.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum statutory guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and other specified intangible assets. The Series A preferred stock that the Company sold to the U.S. Treasury in connection with the CPP and the TRUPs each qualifies as Tier 1 capital, and as described below will continue to qualify as Tier 1 capital following passage of the Dodd-Frank Act. Under statutory guidelines, Tier 1 capital must equal at least 4% of risk-weighted assets. Tier 2 capital generally consists of subordinated debt, other preferred stock, and a limited amount of loan loss reserves. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the FRB s risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. The guidelines also provide that bank holding companies experiencing high internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Furthermore, the FRB has indicated that it will consider a bank holding company s Tier 1 capital leverage, after deducting all intangibles, and other indicators of capital strength in evaluating proposals for expansion or new activities.

In late 2010, the Basel Committee on Banking Supervision issued Basel III, a new capital framework for banks and bank holding companies. If implemented in the United States, Basel III will impose a stricter definition of capital, with more focus on common equity. At this time, the Company does not know whether Basel III will be implemented in the United States, and if so implemented whether it will be applicable to the Company and the Bank, because by its terms it is applicable only to internationally active banks. But, if Basel III is implemented in the United States and becomes applicable to the Company, the Company and the Bank would likely be subject to higher minimum capital ratios than those to which the Company and the Bank are currently subject.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution (like those that the Bank has informally agreed with the TDFI and FDIC that it will maintain) could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its

business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

Additionally, the Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into one of which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company s obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution and a lower capital category based on supervisory factors other than capital. As of December 31, 2010, the Bank would be considered well capitalized under the FDIC s prompt corrective action provisions; however, the Bank has informally committed to the TDFI and the FDIC that it will maintain a Tier 1 leverage ratio of not less than 10% and a Total risk-based capital ratio of not less than 14%. Because of the significant losses that the Bank incurred in the second half of 2010, the Bank s capital levels fell below these required minimum levels at December 31, 2010. At December 31, 2010, the Bank s Tier 1 leverage ratio was 8.88% and its ratio of Total capital to risk-weighted assets was 13.22%.

Because the Bank s capital levels at December 31, 2010 were below those that the Bank had informally committed to its primary regulators that it would maintain, the Bank was required to submit a Capital Action Plan to its primary regulators.

The Dodd-Frank Act contains a number of provisions dealing with capital adequacy of insured depository institutions and their holding companies, and for the most part will result in insured depository institutions and their holding companies being subject to more stringent capital requirements. Under the so-called Collins Amendment to the Dodd-Frank Act, federal regulators were directed to establish minimum leverage and risk-based capital requirements for, among other entities, banks and bank holding companies on a consolidated basis. These minimum requirements can t be less than the generally applicable leverage and risk-based capital requirements established for insured depository institutions nor quantitatively lower than the leverage and risk-based capital requirements established for insured depository institutions that were in effect as of the date that the Dodd-Frank Act was enacted. These requirements in effect create capital level floors for bank holding companies similar to those in place currently for insured depository institutions. The Collins Amendment also excludes trust preferred securities issued after May 19, 2010 from being included in Tier 1 capital unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, and such securities will be phased out of Tier 1 capital treatment for bank holding companies with over $15 billion in total assets over a three-year period beginning in 2013. The Collins Amendment did not exclude preferred stock issued to the U.S. Treasury through the CPP from Tier 1 capital treatment. Accordingly, the Company s TRUPs and Series A preferred stock issued to the U.S. Treasury through the CPP will continue to qualify as Tier 1 capital.

More information concerning the Company s, and the Bank s, regulatory capital ratios at December 31, 2010 is included in Note 12 to the Notes to Consolidated Financial Statements included elsewhere in this Appendix F.

Legislative, Legal and Regulatory Developments. The banking industry is generally subject to extensive regulatory oversight. The Company, as a publicly held bank holding company, and the Bank, as a state-chartered

bank with deposits insured by the FDIC, are subject to a number of laws and regulations. Many of these laws and regulations have undergone significant change in recent years. In July 2010, the U.S. Congress passed, and President Obama signed into law, the Dodd-Frank Act, which includes significant consumer protection provisions related to residential mortgage loans that is likely to increase our regulatory compliance costs. These laws and regulations impose restrictions on activities, minimum capital requirements, lending and deposit restrictions and numerous other requirements. Future changes to these laws and regulations, and other new financial services laws and regulations, are likely and cannot be predicted with certainty. With the enactments of EESA, AARA and the Dodd-Frank Act and the significant amount of regulations that are to come from the passage of that legislation, the nature and extent of the future legislative and regulatory changes affecting financial institutions and the resulting impact on those institutions is very unpredictable at this time. The Dodd-Frank Act, in particular, will require that a significant number of new regulations be adopted by various financial regulatory agencies over 2011 and 2012.

*USA Patriot Act*. The President of the United States signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the Patriot Act ), into law on October 26, 2001. The Patriot Act establishes a wide variety of new and enhanced ways of combating international terrorism. The provisions that affect banks (and other financial institutions) most directly are contained in Title III of the act. In general, Title III amended existing law primarily the Bank Secrecy Act to provide the Secretary of U.S. Treasury and other departments and agencies of the federal government with enhanced authority to identify, deter, and punish international money laundering and other crimes.

Among other things, the Patriot Act prohibits financial institutions from doing business with foreign shell banks and requires increased due diligence for private banking transactions and correspondent accounts for foreign banks. In addition, financial institutions will have to follow new minimum verification of identity standards for all new accounts and will be permitted to share information with law enforcement authorities under circumstances that were not previously permitted. These and other provisions of the Patriot Act became effective at varying times and the Treasury and various federal banking agencies are responsible for issuing regulations to implement the new law.

**Additional Information**

The Company maintains a website at www.greenbankusa.com and is not including the information contained on this website as a part of, or incorporating it by reference into, this Appendix F. The Company makes available free of charge (other than an investor s own internet access charges) through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the SEC.

**PROPERTIES**

At December 31, 2010, the Company maintained a main office in Greeneville, Tennessee in a building it owns, 65 full-service bank branches (of which 54 are owned premises and 11 are leased premises) and a building for mortgage lending operations which it owns. In addition, the Bank s subsidiaries operate from nine separate locations, all of which are leased.

**LEGAL PROCEEDINGS.**

*Securities Class Action*. On November 18, 2010, a shareholder of the Company filed a putative class action lawsuit (styled *Bill Burgraff v. Green Bankshares, Inc., et al., U.S. District Court, Eastern District of Tennessee, Northeastern Division, Case No. 2:10-cv-00253*) against the Company and certain of its current and former officers in the United States District Court for the Eastern District of Tennessee in Greeneville, Tennessee on behalf of all persons that acquired shares of the Company s common stock between January 19, 2010 and November 9, 2010. On January 18, 2011, a separate shareholder of the Company filed a putative class action lawsuit (styled *Brian Molnar v. Green Bankshares, Inc., et al., U.S. District Court, Eastern District of Tennessee, Northeastern Division, Case No. 2:11-cv-00014*) against the Company and certain of its current and former officers in the same court on behalf of all persons that acquired shares of the Company s common stock between January 19, 2010 and October 20, 2010. These lawsuits were filed following, and relate to the drop in value of the Company s common stock price after, the Company announced its third quarter performance results on October 20, 2010. The Burgraff case also complains of the Company s decision on November 9, 2010, to suspend payment of certain quarterly cash dividends.

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The plaintiffs allege that defendants made false and/or misleading statements or failed to disclose that the Company was purportedly overvaluing collateral of certain loans; failing to timely take impairment charges of these certain loans; failing to properly account for loan charge-offs; lacking adequate internal and financial controls; and providing false and misleading financial results. The plaintiffs have asserted federal securities laws claims against all defendants for alleged violations of Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act ) and Rule 10b-5 promulgated thereunder. The plaintiffs have also asserted control person liability claims against the individual defendants named in the complaints pursuant to Section 20(a) of the Exchange Act.

The two cases were consolidated on February 4, 2011. On February 11, 2011, the Court appointed movant Jeffrey Blomgren as lead plaintiff. On May 3, 2011, Plaintiff filed an amended and consolidated complaint alleging a class period of January 19, 2010 to November 9, 2010. On July 11, 2011, Defendants filed a motion to dismiss the consolidated amended complaint. Plaintiff has until August 29, 2011 to file an opposition to that motion.

The Company and the individual named defendants collectively intend to vigorously defend themselves against these allegations.

*North American Transaction*. On May 12, 2011, a shareholder of the Company filed a putative class action lawsuit (styled *Betty Smith v. Green Bankshares, Inc. et al., Case No. 11-625-III, Davidson County, Tennessee, Chancery Court*) against the Company, the Bank, the Company s Board of Directors (Steven M. Rownd, Robert K. Leonard, Martha M. Bachman, Bruce Campbell, W.T. Daniels, Samuel E. Lynch, Bill Mooningham, John Tolsma, Kenneth R. Vaught, and Charles E. Whitfield, Jr.) and North American on behalf of all persons holding common stock of the Company. This complaint, which has been subsequently amended, was filed following the Company s public announcement on May 5, 2011 of its entering into the Investment Agreement with North American and relates to the proposed investment in the Company by North American.

The amended complaint alleges that the individual defendants breached their fiduciary duties by accepting a sale price for the shares to be sold to North American that was unfair to the Company s shareholders and by issuing a proxy statement that contained material omissions. The complaint also alleges that the Company, the Bank and North American aided and abetted these breaches of fiduciary duty. It seeks injunctive relief and/or rescission of the proposed investment by North American and fees and expenses in an unspecified amount.

On May 25, 2011, another shareholder of the Company filed a similar putative class action lawsuit (styled *Mark McClinton v. Green Bankshares, Inc. et al., Case No. 11-CV-284ktl, Greene County Circuit Court, Greeneville, Tennessee*) against the Company, the Company s Board of Directors and North American on behalf of all persons holding the Company s common stock. The complaint similarly alleges that the individual defendants breached their fiduciary duties to the Company by agreeing to sell shares to North American at a price unfair to the Company s shareholders. The complaint also alleges that the Company and North American aided and abetted these breaches of fiduciary duty. It seeks and injunction and/or rescission of North American s investment in the Company and fees and expenses in an unspecified amount.

On June 16, 2011, another shareholder of the Company filed a putative class action lawsuit (styled *Thomas W. Cook Jr. v. Green Bankshares, Inc. et al., Civil Action No. 2:11-cv-00176, United States District Court for the Eastern District of Tennessee, Greeneville*) against the Company, the Company s Board of Directors and North American on behalf of all persons holding the Company s common stock. The complaint alleges that the individual defendants breached their fiduciary duties to the Company by failing to maximize shareholder value in the proposed transaction with North American. The complaint also alleges that the Company and the individual defendants violated the securities laws by issuing a Preliminary Proxy Statement that contains alleged material misstatements and omissions. The complaint also alleges that the Company and North American aided and abetted the breaches of fiduciary duty. It seeks an injunction and/or rescission of North American s investment in the Company, monetary damages and fees and expenses in an unspecified amount.

On July 6, 2011, another shareholder of the Company filed a lawsuit (styled *Barbara N. Ballard v. Stephen M. Rownd, et al., Civil Action No. 2:11-cv-00201, United States District Court for the Eastern District of Tennessee, Greeneville*) against the Company, the Company s Board of Directors and North American asserting an individual claim that alleges that the individual defendants violated the securities laws by issuing a Preliminary Proxy Statement that contains alleged material misstatements and omissions. The complaint also alleges a class action claim on behalf

of all persons holding the Company s common stock against the individual defendants for breach of fiduciary duty based on these same alleged material misstatements and omissions. The complaint also alleges

that the Company and North American aided and abetted the breaches of fiduciary duty. It seeks an injunction and/or rescission of North American s investment in the Company and fees and expenses in an unspecified amount.

On July 26, 2011, the parties to the four North American transaction-related class action lawsuits reached an agreement in principle to resolve those four lawsuits on the basis of the inclusion of certain additional disclosures regarding the North American transaction in the proxy statement which this appendix accompanies. The proposed settlement is subject to, among other things, court approval.

The Company and the individual defendants collectively intend to vigorously defend themselves against these class action allegations.

*General*. The Company and its subsidiaries are subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these pending claims and legal proceedings will not have a material adverse effect on the Company s results of operations.

**MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

On February 28, 2011, Green Bankshares had 13,188,896 shares of common stock outstanding. The Company s shares are traded on The Nasdaq Global Select Market, under the symbol GRNB . As of February 28, 2011, the Company estimates that it had approximately 5,200 shareholders, including approximately 2,600 shareholders of record and approximately 2,600 beneficial owners holding shares in nominee or street name.

The following table shows the high and low sales price and closing price for the Company s common stock as reported by The Nasdaq Global Select Market for 2010 and 2009. The table also sets forth the dividends per share paid each quarter during 2010 and 2009.

| | High/Low Sales Price During Quarter | Closing Price | Dividends Paid Per Share |
|---|---|---|---|
| **2010:** | | | |
| First quarter | $ 9.48 / 3.52 | $ 8.16 | $ |
| Second quarter | 15.04 / 7.96 | 12.77 | |
| Third quarter | 13.11 / 6.58 | 6.79 | |
| Fourth quarter | 7.73 / 2.39 | 3.20 | |
| | | | $ |
| **2009:** | | | |
| First quarter | $ 14.71 / 4.51 | $ 8.80 | $ 0.13 |
| Second quarter | 9.73 / 4.14 | 4.48 | |
| Third quarter | 6.83 / 3.25 | 5.00 | |
| Fourth quarter | 5.48 / 3.51 | 3.55 | |
| | | | $ 0.13 |

Holders of the Company s common stock are entitled to receive dividends when, as and if declared by the Company s board of directors out of funds legally available for dividends. Historically, the Company has paid quarterly cash dividends on its common stock. On June 2, 2009 the Company announced that due to the uncertain nature of the current economic environment that it was suspending the payment of cash dividends to common shareholders in order to prudently preserve capital levels. In the fourth quarter of 2010, the Company informally committed to the FRB-Atlanta that it would not pay dividends on its common or preferred stock without the prior approval of the FRB-Atlanta. The Company s ability to pay dividends to its shareholders in the future will depend on

its earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the Company s ability to service any equity or debt obligations senior to its common stock, including its outstanding trust preferred securities and accompanying junior subordinated debentures, and other factors deemed relevant by the Company s board of directors. In addition, in order to pay dividends to shareholders, the Company must receive cash dividends from the Bank. As a result, the Company s ability to pay future dividends will depend upon the earnings of the Bank, its financial condition and its need for funds.

Moreover, there are a number of federal and state banking policies and regulations that restrict the Bank s ability to pay dividends to the Company and the Company s ability to pay dividends to its shareholders. In particular, because the Bank is a depository institution and its deposits are insured by the FDIC, it may not pay dividends or distribute capital assets if it is in default on any assessment due to the FDIC. In addition, the Tennessee Banking

Act prohibits the Bank from declaring dividends in excess of net income for the calendar year in which the dividend is declared plus retained net income for the preceding two years without the approval of the Commissioner of the Tennessee Department of Financial Institutions. Because of the losses incurred by the Bank in 2010 and 2009, the Bank will need to receive the approval of the Commissioner of the TDFI before if pays dividends to the Company. Also, the Bank is subject to regulations which impose certain minimum regulatory capital and minimum state law earnings requirements that affect the amount of cash available for distribution to the Company.

In addition, as long as shares of Series A preferred stock are outstanding, no dividends may be paid on our common stock unless all dividends on the Series A preferred stock have been paid in full and in no event may dividends on our common stock exceed $0.13 per quarter without the consent of the U.S. Treasury for the first three years following our sale of Series A preferred stock to the U.S. Treasury. Lastly, under Federal Reserve policy, the Company is required to maintain adequate regulatory capital, is expected to serve as a source of financial strength to the Bank and to commit resources to support the Bank. These policies and regulations may have the effect of reducing or eliminating the amount of dividends that the Company can declare and pay to its shareholders in the future. For information regarding restrictions on the payment of dividends by the Bank to the Company, see  Management s Discussion and Analysis of Financial Condition and Results of Operations  Liquidity and Capital Resources  and  Business  Regulation, Supervision and Governmental Policy  Dividends  in this Appendix F. See also Note 12 of Notes of Consolidated Financial Statements.

The Company made no repurchases of its common stock during the quarter ended December 31, 2010.

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## SELECTED FINANCIAL DATA

| | 2010 | 2009 | 2008 | 2007[1] | 2006 |
|---|---|---|---|---|---|
| | (in thousands, except per share data, ratios and percentages) | | | | |
| Total interest income | $ 120,864 | $ 138,456 | $ 170,516 | $ 176,626 | $ 117,357 |
| Total interest expense | 37,271 | 57,931 | 75,491 | 81,973 | 45,400 |
| Net interest income | 83,593 | 80,525 | 95,025 | 94,653 | 71,957 |
| Provision for loan losses | (71,107) | (50,246) | (52,810) | (14,483) | (5,507) |
| Net interest income after provision for loan losses | 12,486 | 30,279 | 42,215 | 80,170 | 66,450 |
| Noninterest income | 32,544 | 31,578 | 33,614 | 27,602 | 20,710 |
| Noninterest expense | (110,815) | (229,587) | (85,837) | (69,252) | (52,708) |
| Income (loss) before income taxes | (65,785) | (167,730) | (10,008) | 38,520 | 34,452 |
| Income tax (expense) benefit | (14,910) | 17,036 | 4,648 | (14,146) | (13,190) |
| Net income (loss) | (80,695) | (150,694) | (5,360) | 24,374 | 21,262 |
| Preferred stock dividend and accretion of discount on warrants | (5,001) | (4,982) | (92) | | |
| Net income (loss) available to common shareholders | $ (85,696) | $ (155,676) | $ (5,452) | $ 24,374 | $ 21,262 |
| **Per Share Data:** | | | | | |
| Net income (loss) available to common shareholders, basic | $ (6.54) | $ (11.91) | $ (0.42) | $ 2.07 | $ 2.17 |
| Net income (loss) available to common shareholders, assuming dilution | $ (6.54) | $ (11.91) | $ (0.42) | $ 2.07 | $ 2.14 |
| Net income (loss) available to common shareholders, assuming dilution adjusted for goodwill impairment charge[7] | $ (6.54) | $ (1.40) | $ (0.42) | $ 2.07 | $ 2.14 |
| Dividends declared | $ 0.00 | $ 0.13 | $ 0.52 | $ 0.68 | $ 0.64 |
| Common book value[2][7] | $ 5.75 | $ 12.15 | $ 24.09 | $ 24.94 | $ 18.80 |
| Tangible common book value[3][7] | $ 5.23 | $ 11.44 | $ 12.23 | $ 12.73 | $ 14.87 |
| **Financial Condition Data:** | | | | | |
| Assets | $ 2,406,040 | $ 2,619,139 | $ 2,944,671 | $ 2,947,741 | $ 1,772,654 |
| Loans, net of unearned interest | $ 1,745,378 | $ 2,043,807 | $ 2,223,390 | $ 2,356,376 | $ 1,539,629 |
| Cash and investments | $ 504,559 | $ 378,785 | $ 410,344 | $ 314,615 | $ 91,997 |
| Federal funds sold | $ 4,856 | $ 3,793 | $ 5,263 | $ | $ 25,983 |
| Deposits | $ 1,976,854 | $ 2,084,096 | $ 2,184,147 | $ 1,986,793 | $ 1,332,505 |
| FHLB advances and notes payable | $ 158,653 | $ 171,999 | $ 229,349 | $ 318,690 | $ 177,571 |
| Subordinated debentures | $ 88,662 | $ 88,662 | $ 88,662 | $ 88,662 | $ 13,403 |
| Federal funds purchased and repurchase agreements | $ 19,413 | $ 24,449 | $ 35,302 | $ 194,525 | $ 42,165 |
| Shareholders equity | $ 143,897 | $ 226,769 | $ 381,231 | $ 322,477 | $ 184,471 |
| Common shareholders equity[2][7] | $ 75,776 | $ 160,034 | $ 315,885 | $ 322,477 | $ 184,471 |
| Tangible common shareholders equity[3][7] | $ 69,025 | $ 150,699 | $ 160,411 | $ 164,650 | $ 145,931 |
| Tangible shareholders equity[4][7] | $ 137,146 | $ 217,434 | $ 225,757 | $ 164,650 | $ 145,931 |

| Selected Ratios: | | | | | |
|---|---|---|---|---|---|
| Interest rate spread | 3.79% | 3.19% | 3.48% | 3.83% | 4.32% |
| Net interest margin(6) | 3.86% | 3.34% | 3.70% | 4.25% | 4.77% |
| Total tangible equity to tangible assets(4)(5)(7) | 5.72% | 8.33% | 8.09% | 5.90% | 8.42% |
| Tangible common equity to tangible assets(3)(5)(7) | 2.88% | 5.77% | 5.75% | 5.90% | 8.42% |
| Return on average assets | (3.41)% | (5.59)% | (0.18)% | 0.98% | 1.28% |
| Return on average equity | (38.56)% | (50.44)% | (1.64)% | 8.96% | 11.91% |
| Return on average common equity(2)(7) | (55.35)% | (64.25)% | (1.65)% | 8.96% | 11.91% |
| Return on average common tangible equity(3)(7) | (58.32)% | (96.77)% | (3.14)% | 15.41% | 15.25% |
| Average equity to average assets | 8.85% | 11.09% | 11.24% | 10.91% | 10.78% |
| Dividend payout ratio | N/M | N/M | N/M | 32.85% | 29.49% |
| Ratio of nonperforming assets to total assets assets | 8.56% | 5.07% | 2.61% | 1.25% | 0.29% |
| Ratio of allowance for loan losses to nonperforming loans | 45.83% | 66.39% | 155.28% | 106.34% | 635.93% |
| Ratio of allowance for loan losses to total loans, net of unearned income loans | 3.83% | 2.45% | 2.20% | 1.45% | 1.45% |

1 Information for the 2007 fiscal year includes the operations of CVBG, with which the Company merged on May 18, 2007.

[2] Common shareholders equity is shareholders equity less preferred stock.

[3] Tangible common shareholders equity is shareholders equity less goodwill, other intangible assets and preferred stock.

[4] Tangible shareholders equity is shareholders equity less goodwill and other intangible assets.

[5] Tangible assets is total assets less goodwill and other intangible assets.

[6] Net interest margin is the net yield on interest earning assets and is the difference between the Fully Taxable Equivalent yield earned on interest-earning assets less the effective cost of supporting liabilities.

[7] Please refer to the GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures section following Selected Financial Data for more information, including a reconciliation of this non-GAAP financial measure.

**GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures**

Certain financial information included in the selected financial data is determined by methods other than in accordance with accounting principles generally accepted within the United States ( GAAP ). These non-GAAP financial measures are net income (loss) per share assuming dilution adjusted for goodwill impairment charge, common shareholders equity, tangible assets, tangible shareholders equity, tangible common book value per share tangible common shareholders equity, return on average common equity, and return on average common tangible equity. The Company s management, the entire financial services sector, bank stock analysts, and bank regulators use these non-GAAP measures in their analysis of the Company s performance.

Net income (loss) per share available to common shareholders assuming dilution adjusted for goodwill impairment charge is defined as net income (loss) per share available to common shareholders reduced by goodwill impairment charge, net of tax.

Common shareholders equity is shareholders equity less preferred stock.

Tangible assets are total assets less goodwill and other intangible assets.

Tangible shareholders equity is shareholders equity less goodwill and other intangible assets.

Tangible common book value per share is defined as total equity reduced by recorded goodwill, other intangible assets and preferred stock divided by total common shares outstanding. This measure discloses changes from period-to-period in book value per share exclusive of changes in intangible assets and preferred stock. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing the tangible assets of a company. Companies utilizing purchase accounting in a business combination, as required by GAAP, must record goodwill related to such transactions.

Tangible common shareholders equity is shareholders equity less goodwill, other intangible assets and preferred stock.

Return on average common equity is defined as net income (loss) available to common shareholders for the period divided by average equity reduced by average preferred stock.

Return on average common tangible equity is defined as net income (loss) available to common shareholders for the period divided by average equity reduced by average goodwill, other intangible assets and preferred stock.

These disclosures should not be viewed as a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures which may be presented by other companies.

The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures:

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| | At and for the Fiscal Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Total shareholders equity | $ 143,897 | $ 226,769 | $ 381,231 | $ 322,477 | $ 184,471 |
| Less: Preferred stock | (68,121) | (66,735) | (65,346) | | |
| **Common shareholders equity** | $ 75,776 | $ 160,034 | $ 315,855 | $ 322,477 | $ 184,471 |
| Total shareholders equity | $ 143,897 | $ 226,769 | $ 381,231 | $ 322,477 | $ 184,471 |
| Less: | | | | | |
| Goodwill | | | (143,389) | (143,140) | (31,327) |
| Core Deposit and other intangibles | (6,751) | (9,335) | (12,085) | (14,687) | (7,213) |
| Preferred stock | (68,121) | (66,735) | (65,346) | | |
| **Tangible common shareholders equity** | $ 69,025 | $ 150,699 | $ 160,411 | $ 1 64,650 | $ 145,931 |
| Total shareholders equity | $ 143,897 | $ 226,769 | $ 381,231 | $ 322,477 | $ 184,471 |
| Less: | | | | | |
| Goodwill | | | (143,389) | (143,140) | (31,327) |
| Core Deposit and other intangibles | (6,751) | (9,335) | (12,085) | (14,687) | (7,213) |
| **Tangible shareholders equity** | $ 137,146 | $ 217,434 | $ 225,757 | $ 164,650 | $ 145,931 |
| Total assets | $ 2,406,040 | $ 2,619,139 | $ 2,944,671 | $ 2,947,741 | $ 1,772,654 |
| Less: | | | | | |
| Goodwill | | | (143,389) | (143,140) | (31,327) |
| Core Deposit and other intangibles | (6,751) | (9,335) | (12,085) | (14,687) | (7,213) |
| **Tangible assets** | $ 2,399,289 | $ 2,609,804 | $ 2,789,197 | $ 2,789,914 | $ 1,734,114 |
| Common book value per share | $ 5.75 | $ 12.15 | $ 24.09 | $ 24.94 | $ 18.80 |
| Effect of intangible assets | $ (0.52) | $ (0.71) | $ (11.86) | $ (12.21) | $ (3.93) |
| Tangible common book value per share | $ 5.23 | $ 11.44 | $ 12.23 | $ 12.73 | $ 14.87 |
| Return on average common equity | (55.35)% | (64.25)% | (1.65)% | 8.96% | 11.91% |
| Effect of intangible assets | (2.97)% | (32.52)% | (1.49)% | 6.45% | 3.34% |
| Return on average common tangible equity | (58.32)% | (96.77)% | (3.14)% | 15.41% | 15.25% |

The table below presents computations and other financial information excluding the goodwill impairment charge that the Company incurred in 2009. The goodwill impairment charge is included in the financial results presented in accordance with GAAP. The Company believes that the exclusion of the goodwill impairment in expressing net operating income (loss), operating expenses and earnings (loss) per diluted share data provides a more meaningful base for period to period comparisons which will assist investors in analyzing the operating results of the Company. The Company utilizes these non-GAAP financial measures to compare the operating performance with comparable periods in prior years and with internally prepared projections. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Company has policies in place to address goodwill impairment from other normal operating expenses to ensure that the Company s operating results are properly reflected for period to period comparisons.

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| | For the Fiscal Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Total non-interest expense | $ 110,815 | $ 229,587 | $ 85,837 | $ 69,252 | $ 52,708 |
| Goodwill impairment charge | | (143,389) | | | |
| **Operating expenses** | $ 110,815 | $ 86,198 | $ 85,837 | $ 69,252 | $ 52,708 |
| Net income (loss) available to common shareholders | $ (85,696) | $ (155,676) | $ (5,452) | $ 24,374 | $ 21,262 |
| Goodwill impairment charge, net of tax of $5,975 | | 137,414 | | | |
| **Net operating income (loss) available to common shareholders** | $ (85,696) | $ (18,262) | $ (5,452) | $ 24,374 | $ 21,262 |
| **Per Diluted Share:** | | | | | |
| Net income (loss) available to common shareholders | $ (6.54) | $ (11.91) | $ (0.42) | $ 2.07 | $ 2.14 |
| Goodwill impairment charge, net of tax of $5,975 | | 10.51 | | | |
| **Net operating income (loss)** | $ (6.54) | $ (1.40) | $ (0.42) | $ 2.07 | $ 2.14 |

## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

The Company reported a net loss available to common shareholders of $85,696 for the full year 2010 compared with a net loss available to common shareholders of $155,676 for the full year 2009. The loss for the year 2010 was primarily attributable to an increase in credit costs, including both a higher loan loss provision and elevated costs associated with the disposition and revaluation of OREO related assets along with the effects of the continued weaknesses in the economy through 2010. This weakness was manifested primarily in the Company s residential real estate construction and development portfolio. As a result, the Company s provision for loan losses for the full year 2010 remained elevated at $71,107 compared to $50,246 in 2009 and $52,810 in 2008. Additionally, Other Real Estate Owned ( OREO ) charges totaled $29,895 in 2010 compared with $8,156 for 2009 and $7,028 in 2008. As the economy in the Company s market areas continued to struggle to improve during 2010, net loan charge-offs rose to $54,438 in 2010 compared with net loan charge-offs of $48,896 in 2009 and $38,110 in 2008. On a diluted per share basis, the net operating loss available to common shareholders in 2010 was $6.54 compared with a net operating loss in 2009, excluding the goodwill impairment charge, of $1.40 (please see GAAP Reconciliation and Management Explanations of Non-GAAP Financial Measures above for more information) and a net operating loss available to common shareholders of $0.42 for 2008. The net loss available to common shareholders on a diluted per share basis for 2010 was $6.54 and including the goodwill impairment charge, on a diluted per share basis the net loss available to common shareholders for 2009 was $11.91 compared with a net loss available to common shareholders of $0.42 for 2008.

Net interest income for 2010 was $83,593 compared with $80,525 in 2009 including the impact of interest reversals of $2,965 in 2010 and $2,606 in 2009. Despite the decline in average earning assets, the improvement in net interest income was due to the Company experiencing the benefit of interest rate floors built into loan agreements beginning in 2009 plus the re-pricing of interest bearing liabilities in a lower market interest rate environment in 2010. As a result, the Company experienced a widening in its net interest margin from 3.34% in 2009 to 3.86% in 2010. Noninterest income improved modestly from $31,578 in 2009 to $32,544 in 2010 principally as a result of higher fee income generated from the sales of annuity and investment products. Operating expenses for 2010 totaled $110,815 in 2010 compared with $229,587 in 2009, or $86,198, excluding the goodwill impairment charge of $143,389 (please see GAAP Reconciliation and Management Explanations of Non-GAAP Financial Measures above for more information). The increase in operating expenses of $24,617 (excluding the goodwill impairment charge taken in 2009 of $143,389) was principally driven by the increased costs associated with the losses incurred on the revaluations and dispositions of OREO related assets.

### Critical Accounting Policies and Estimates

The Company s consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Management continually evaluates the Company s accounting policies and estimates it uses to prepare the consolidated financial statements. In general, management s estimates are based on current and projected economic conditions, historical experience, information from regulators and third party professionals and various assumptions that are believed to be reasonable under the then existing set of facts and circumstances. Actual results could differ from those estimates made by management.

The Company believes its critical accounting policies and estimates include the valuation of the allowance for loan losses and the fair value of financial instruments and other accounts, including OREO. Based on management s calculation, an allowance of $66,830, or 3.83%, of total loans, net of unearned interest was an adequate estimate of losses inherent in the loan portfolio as of December 31, 2010. This estimate resulted in a provision for loan losses on the income statement of $71,107 during 2010. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, the allowance for loan losses

and provision for loan losses on the income statement could be materially affected. For further discussion of the

allowance for loan losses and a detailed description of the methodology management uses in determining the adequacy of the allowance, see Business Lending Activities Allowance for Loan Losses located above, and Changes in Results of Operations Provision for Loan Losses located below.

The consolidated financial statements include certain accounting and disclosures that require management to make estimates about fair values. Estimates of fair value are used in the accounting for securities available for sale, loans held for sale, goodwill, other intangible assets, OREO and acquisition purchase accounting adjustments. Estimates of fair values are used in disclosures regarding securities held to maturity, stock compensation, commitments, and the fair values of financial instruments. Fair values are estimated using relevant market information and other assumptions such as interest rates, credit risk, prepayments and other factors. The fair values of financial instruments are subject to change as influenced by market conditions.

The Company believes its critical accounting policies and estimates also include the valuation of the allowance for the net DTA. A valuation allowance is recognized for a net DTA if, based on the weight of available evidence, it is more-likely-than-not that some portion or the entire DTA will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making such judgments, significant weight is given to evidence that can be objectively verified. As a result of the increased credit losses, the Company entered into a three-year cumulative pre-tax loss position (excluding the goodwill impairment charge recognized in the first quarter of 2009) as of December 31, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset which is difficult to overcome.

The Company s estimate of the realization of its net DTA was based on the scheduled reversal of deferred tax liabilities and taxable income available in prior carry back years, and tax planning strategies. Based on management s calculation, a valuation allowance of $43,455, or 95.2% of the net DTA, was an adequate estimate as of December 31, 2010. This estimate resulted in a valuation allowance for the net DTA in the income statement of $43,455 for the period ended December 31, 2010. Once profitability has been restored for a reasonable time, generally considered four consecutive quarters, and such profitability is considered sustainable, the valuation allowance would be reversed. Reversal of the valuation allowance requires a great deal of judgment and will be based on the circumstances that exist as of that future date.

The consolidated financial statements include certain accounting disclosures that require management to make estimates about fair values. Independent third party valuations are used for securities available for sale and securities held to maturity as well as acquisition purchase accounting adjustments. Third party valuations are inputs, but are not solely determinative of value. Estimates of fair value are used in the accounting for loans held for sale, goodwill and other intangible assets. Estimates of fair values are used in disclosures regarding stock compensation, commitments, and the fair values of financial instruments. Fair values are estimated using relevant market information and other assumptions such as interest rates, credit risk, prepayments and other factors. The fair values of financial instruments are subject to change as influenced by market conditions.

**Changes in Results of Operations**

Net loss. The net loss available to common shareholders was $85,696 in 2010 and $155,676 for 2009. The net loss for the year 2009 was primarily attributable to a non-cash charge taken for the impairment of goodwill of $137,414, net of tax of $5,975 and the continued weaknesses in the economy through 2009. Excluding the goodwill impairment charge, net of tax, of $137,414 the Company s net operating loss was $18,262 for 2009 (please see GAAP Reconciliation and Management Explanations of Non-GAAP Financial Measures above for more information). When comparing the net operating loss of $85,696 in 2010 to the net operating loss of $18,262, excluding the goodwill impairment charge, for 2009 the principal reasons for the increased loss in 2010 were credit related costs that continued to escalate in 2010 driven by both a higher loan loss provision coupled with rising costs associated with the maintenance, disposition and revaluation of OREO along with continued deterioration in economic conditions in our markets. These costs were partially offset by improvements in both net interest income and non-interest income.

The net loss available to common shareholders for 2009 was $155,676 compared to a net loss of $5,452 in 2008. The net loss for the year 2009 was primarily attributable to a non-cash charge taken for the impairment of goodwill of $137,414, net of tax of $5,975 and the continued weaknesses in the economy through 2009. Excluding the goodwill

impairment charge, net of tax, of $137,414 the Company s net operating loss was $18,262 for 2009

(please see GAAP Reconciliation and Management Explanations of Non-GAAP Financial Measures above for more information). The increase in the net operating loss between 2009 and 2008 was primarily attributable to a decline in net interest income of $14,500 from $95,025 in 2008 to $80,525 in 2009 due to narrowing interest rate spreads and deteriorating economic conditions throughout 2009 impacting residential real estate construction lending plus a decline in net securities gains of $2,222 between periods due to higher other-than-temporary impairment charges taken in 2009.

Net Interest Income. The largest source of earnings for the Company is net interest income, which is the difference between interest income on earning assets and interest paid on deposits and other interest-bearing liabilities. The primary factors that affect net interest income are changes in volumes and rates on earning assets and interest-bearing liabilities, which are affected in part by management s anticipatory responses to changes in interest rates through asset/liability management. Despite deleveraging average earning assets of the Company by $247,978 from 2009 to 2010, net interest income improved from $80,525 in 2009 to $83,593 in 2010 as interest rate floors were triggered in loan agreements and interest-bearing liabilities were re-priced in a lower interest rate market environment. As a result of the re-pricing characteristics of the balance sheet plus a modest increase of $4,049 in average non-interest bearing demand deposits, the Company s net interest margin rose from 3.34% in 2009 to 3.86% in 2010. Average loan balances in 2010 were $1,833,865 compared with $2,096,181 in 2009 and this reduction was principally responsible for the decline in average earning assets, partially offset by an increase in short-term investments as liquidity levels increased. Simultaneously, the Company reduced its large certificates of deposit as average balances declined by $325,182 and further eliminated $55,764 in borrowed funds.

During 2009, net interest income was $80,525 as compared to $95,025 in 2008. The Company experienced a decline in average balances of interest-earning assets, with average total interest-earning assets decreasing by $156,713, or 6%, to $2,433,476 in 2009 from $2,590,189 in 2008. Most of the decline occurred in loans, with average loan balances decreasing by $202,724, or 9%, to $2,096,181 in 2009 from $2,298,905 in 2008. The decrease was primarily due to the continued downturn in economic conditions throughout 2009 that resulted in lower loan demand and heightened levels of loan charge-offs. Average investment securities also decreased $83,966, or 31%, to $189,377 in 2009 from $273,343 in 2008 as the Company focused on de-levering the balance sheet and reducing excess liquidity. Average balances of total interest-bearing liabilities also decreased in 2009 from 2008, with average total interest-bearing deposit balances decreasing by $12,223, or 1%, to $1,950,775 in 2009 from $1,962,998 in 2008, and average securities sold under repurchase agreements and short-term borrowings, and subordinated debentures and FHLB advances and notes payable decreased by $111,132, or 25%, to $337,993 in 2009 from $449,125 in 2008. These decreases are primarily related to the reduction in securities sold under repurchase agreements and short-term borrowings along with the maturities and early payoffs of FHLB advances.

*Average Balances, Interest Rates and Yields.* Net interest income is affected by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ( interest rate spread ) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Company s interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. When the total of interest-earning assets approximates or exceeds the total of interest-bearing liabilities, any positive interest rate spread will generate net interest income. An indication of the effectiveness of an institution s net interest income management is its net yield on interest-earning assets, which is net interest income on a fully taxable equivalent basis divided by average interest-earning assets.

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The following table sets forth certain information relating to the Company s consolidated average interest-earning assets and interest-bearing liabilities and reflects the average fully taxable equivalent yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented.

| | 2010 | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| **Interest-earning assets:** | | | | | | | | | |
| Loans(1)(4) | | | | | | | | | |
| Real estate loans | $ 1,517,937 | $ 86,904 | 5.73% | $ 1,719,026 | $ 99,796 | 5.81% | $ 1,890,209 | $ 121,168 | 6.41% |
| Commercial loans | 250,126 | 14,358 | 5.74% | 295,913 | 16,284 | 5.50% | 319,131 | 20,020 | 6.27% |
| Consumer and other loans-net(2) | 65,802 | 8,963 | 13.62% | 81,242 | 9,660 | 11.89% | 89,565 | 10,516 | 11.74% |
| Fees on loans | | 3,563 | | | 3,532 | | | 3,979 | |
| Total loans (including fees) | $ 1,833,865 | $ 113,788 | 6.20% | $ 2,096,181 | $ 129,272 | 6.17% | $ 2,298,905 | $ 155,683 | 6.77% |
| Investment securities(3) | | | | | | | | | |
| Taxable | $ 137,148 | $ 4,937 | 3.60% | $ 144,881 | $ 7,035 | 4.86% | $ 227,710 | $ 12,770 | 5.61% |
| Tax-exempt(4) | 30,799 | 1,909 | 6.20% | 31,660 | 1,938 | 6.12% | 32,743 | 1,995 | 6.09% |
| FHLB and other stock | 12,734 | 530 | 4.16% | 12,836 | 573 | 4.46% | 12,890 | 647 | 5.02% |
| Total investment securities | $ 180,681 | $ 7,376 | 4.08% | $ 189,377 | $ 9,546 | 5.04% | $ 273,343 | $ 15,412 | 5.64% |
| Other short-term investments | 170,952 | 435 | 0.25% | 147,918 | 376 | 0.25% | 17,941 | 175 | 0.98% |
| Total interest-earning assets | $ 2,185,498 | $ 121,599 | 5.56% | $ 2,433,476 | $ 139,194 | 5.72% | $ 2,590,189 | $ 171,270 | 6.61% |
| **Noninterest-earning assets:** | | | | | | | | | |
| Cash and due from banks | $ 42,743 | | | $ 45,870 | | | $ 51,181 | |   |