NEW COMMERCE BANCORP
Form 10KSB
March 23, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

(Mark One)

_X_ Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2004

or

__ Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from __________ to ________

Commission file no. 000-26061

NEW COMMERCE BANCORP
(Name of Small Business Issuer in Its Charter)

South Carolina	58-2403844
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
501 New Commerce Court Greenville, South Carolina	29607
(Address of Principal Executive Offices)	(Zip Code)

(864) 297-6333
Issuer s Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act: None.
Securities registered pursuant to Section 12(g) of the Act: Common Stock.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes _X_ No____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer s revenues for the year ended December 31, 2004 were approximately $4,791,000.

As of March 14, 2005, there were 1,000,000 shares of Common Stock issued and outstanding. The aggregate market value of the Common Stock held by non-affiliates (shareholders holding less than 5% of the Common Stock, excluding directors and executive officers) of the company on March 14, 2005 was $13,089,027. This calculation is based upon an estimate of the fair market value of the Common Stock of $17.77 per share, which was the price of the last trade of which management is aware prior to this date. There is not an active trading market for the Common Stock and it is not possible to identify precisely the market value of the Common Stock.

Transitional Small Business Disclosure Format. (Check one): Yes ____ No_X_

DOCUMENTS INCORPORATED BY REFERENCE

None

Item 1. Description of Business

This Report contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and the Securities Exchange Act of 1934. These statements are based on many assumptions and estimates and are not guarantees of future performance. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control. The words may, would, could, will, expect, antic believe, intend, plan, and estimate, as well as similar expressions, are meant to identify such forward-looking statements. Potential risks and uncertainties include, but are not limited to, those described below under risk factors.

General

New Commerce BanCorp was incorporated to operate as a bank holding company pursuant to the Federal Bank Holding Company Act of 1956 and the South Carolina Banking and Branching Efficiency Act, and to purchase 100% of the issued and outstanding stock of New Commerce Bank, an association organized under the laws of the United States, to conduct a general banking business in the Golden Strip area of Greenville, South Carolina.

The bank engages in a commercial banking business from our main office located at 501 New Commerce Court, in Greenville, South Carolina and from our branch location at 1 Five Forks Plaza Court in Simpsonville, South Carolina (both located in Greenville County). The bank is a full service commercial bank without trust powers. We offer a full range of interest bearing and non-interest bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, certificates of deposit, commercial loans, real estate loans, home equity loans and consumer/installment loans. In addition, we provide such consumer services as U.S. Savings Bonds, travelers checks, cashiers checks, safe deposit boxes, bank by mail services, direct deposit, credit cards and automated teller machines.

Pending Merger

On December 16, 2004, we entered into a merger agreement with SCBT Financial Corporation (SCBT), which was amended on January 20, 2005. Under the amended agreement, SCBT Interim Corporation, a wholly-owned subsidiary of South Carolina Bank & Trust, N.A, will merge with and into New Commerce BanCorp. Immediately thereafter, New Commerce BanCorp and the New Commerce Bank will merge with and into South Carolina Bank & Trust, N.A., a wholly-owned subsidiary of SCBT. Under the agreement, our shareholders will receive $18.00 per share in cash of common stock. Holders of stock options and warrants will receive a cash payment equal to the spread between $18.00 per share and the exercise price per share of the stock covered by the option or warrant. The boards of directors of our company and SCBT have approved the merger agreement. The merger is subject to the approval of our shareholders, regulatory approvals, and other customary closing conditions. Closing is expected to occur in the second quarter of 2005.

Risk Factors

We cannot guarantee the consummation of the contemplated merger, and if we do not complete the merger our results of operations and financial condition will be adversely affected.

We will not be able to consummate the merger without the approval of certain state and federal regulatory agencies and our shareholders. Accordingly, we can give no assurances that those approvals will be obtained or that the acquisition will be completed. If we do not consummate the merger, our results of operations and financial condition will be adversely affected due to the costs we have incurred and time we have spent in preparing for the merger. It would also be harder for us to compete as a local, independent community bank after having announced that we intended to enter into this merger. Various factors, such as economic conditions, regulatory and legislative considerations, and competition, may also impede our future results.

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Our decisions regarding credit risk and reserves for loan losses may materially and adversely affect our business.

Making loans and other extensions of credit is an essential element of our business. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- o the duration of the credit;
- o credit risks of a particular customer;
- o changes in economic and industry conditions; and
- o in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. We periodically determine the amount of the allowance based on consideration of several factors, including:

- o an ongoing review of the quality, mix, and size of our overall loan portfolio;
- o our historical loan loss experience;
- o evaluation of economic conditions;
- o regular reviews of loan delinquencies and loan portfolio quality; and
- o the amount and quality of collateral, including guarantees, securing the loans.

There is no precise method of predicting credit losses; therefore, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income, and possibly our capital.

Lack of seasoning of our loan portfolio may increase the risk of credit defaults in the future.

Due to our short operating history, a large portion of the loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as seasoning. As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because our loan portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which would adversely affect our results of operations and financial condition.

An economic downturn, especially one affecting Greenville County area, could reduce our customer base, our level of deposits, and demand for financial products such as loans.

If the merger is not consummated, our success will significantly depend upon the growth in population, income levels, deposits, and housing starts in our market of Greenville County. If the community in which we operate does not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn would likely contribute to the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt our business. If an economic downturn occurs in the economy as a whole, or in the Greenville County area, borrowers may be less likely to repay their loans as scheduled. Moreover, the value of real estate or other collateral that may secure our loans could be adversely affected. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business.

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Changes in prevailing interest rates may reduce our profitability.

Our results of operations depend in large part upon the level of our net interest income, which is the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of our assets and liabilities, a significant change in interest rates could have a material adverse effect on our profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While we intend to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of our assets and liabilities, our efforts may not be effective and our financial condition and results of operations could suffer. After operating in a historically low interest rate environment, the Federal Reserve began raising short-term interest rates in the second quarter of 2004. Because we were liability sensitive at December 31, 2004, we generally would not benefit from a rising interest rate environment. However, no assurance can be given that the Federal Reserve will actually continue to raise interest rates or that the results we anticipate will actually occur.

We are dependent on key individuals, and the loss of one or more of these key individuals could curtail our growth and adversely affect our prospects.

Frank Wingate, our chairman and chief executive officer, has extensive and long-standing ties within our primary market area and substantial experience with our operations, and he has contributed significantly to our growth. If we lose the services of Mr. Wingate, he would be difficult to replace and our business and development could be materially and adversely affected.

Our success also depends, in part, on our continued ability to attract and retain experienced loan originators, as well as other management personnel. The loss of the services of several of such key personnel could adversely affect our growth strategy and prospects to the extent we are unable to replace such personnel.

We are subject to extensive regulation that could limit or restrict our activities.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission that are now applicable to us, have increased the scope, complexity, and cost of corporate governance, reporting, and disclosure practices. We have experienced, and we expect to continue to experience, greater compliance costs, including costs related to internal controls, as a result of the Sarbanes-Oxley Act.

Our continued pace of growth may require us to raise additional capital in the future if the merger is not consummated, but that capital may not be available when it is needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. To support our continued growth, we may need to raise additional capital if the merger is not consummated. Our ability to raise additional capital, if needed, will depend in part on conditions in the capital markets at that time, which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest could be diluted.

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We face strong competition for clients, which could prevent us from obtaining clients and may cause us to pay higher interest rates to attract clients.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national, and international financial institutions that operate offices in our primary market areas and elsewhere. We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our client base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. These institutions offer some services, such as extensive and established branch networks, that we do not provide. If the merger is not consummated, there is a risk that we will not be able to compete successfully with other financial institutions in our market, and that we may have to pay higher interest rates to attract deposits, resulting in reduced profitability. In addition, competitors that are not depository institutions are generally not subject to the extensive regulations that apply to us.

Marketing Focus

The bank draws a large percentage of its business from the cities of Simpsonville, Mauldin and Fountain Inn, as well as from the surrounding unincorporated areas. This area is located in the southeastern portion of Greenville County and is known locally as the Golden Strip. It is bounded by Interstate 85 to the north, Highway 25 to the west, Laurens County to the south, and Spartanburg County to the east. The Golden Strip s median household income, household growth, and population growth trends have consistently outpaced the rest of Greenville County and the State of South Carolina.

The bank targets its products and services to meet the needs of the area s customer base and is a full-service bank, focusing on providing small- to middle-market business loans, residential mortgages, and consumer loans to these customers. The primary service area represents a diverse market with a growing population and economy.

Location and Service Area

While the bank does not compete with large institutions for the primary banking relationships of large corporations, it does compete for niches in this business and for the consumer business of their employees. It also focuses on small- to medium-sized businesses and their employees. This includes retail, service, and wholesale distribution, manufacturing, and international businesses. The bank is active in providing residential mortgages; construction and permanent financing for commercial real estate, particularly owner occupied property; commercial business loans; and to a lesser extent acquisition and development loans for commercial and residential land developments.

Deposits

Our bank offers a full range of deposit services that typically are available in most banks and savings and loan associations, including checking accounts, commercial accounts, savings accounts, money market accounts and time deposits of various types. The transaction accounts and time certificates are tailored to our principal market area at rates competitive to those offered by other financial institutions in the Greenville County area. In addition, we offer certain retirement account services, such as individual retirement accounts. We solicit these accounts from individuals, businesses, associations, organizations, and governmental entities.

Lending Activities

General - The bank emphasizes a range of lending services, including real estate, commercial, and consumer loans to individuals and small- to medium-sized businesses and professional concerns that are located in or conduct a substantial portion of their business in our market area.

Real Estate Loans - Approximately 62% of our loan portfolio consists of loans that are secured by first or second mortgages on real estate. These loans generally fall into three categories: commercial real estate loans, construction and development loans, and residential real estate loans. Each of these categories is discussed in more detail below, including their specific risks. Also, our home equity lines are secured by real estate mortgages. However, they are not included in real estate loans, but rather are classified as consumer loans, which are discussed separately below. Interest rates for all categories may be fixed or variable. We may charge an origination fee for each loan.

The principal economic risk associated with any category of loans, including real estate loans, is the cash flow capability and creditworthiness of our borrowers. The risks associated with real estate loans vary with many economic factors, including employment levels and fluctuations in the value of real estate.

Commercial Real Estate Loans - Commercial real estate loans generally have terms of three to seven years, although payments may be structured on a longer amortization basis. Risks associated with commercial real estate loans include the general risk of the failure of each commercial borrower, which is different for each type of business and commercial entity. We evaluate each business on an individual basis and attempt to determine its business risks and credit profile. Our bank attempts to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio, established by independent appraisals, does not exceed 85%. Generally we require that debtor cash flow exceeds 120% of monthly debt service obligations. Typically, the bank reviews the personal financial statements of the principal owners and requires their personal guarantees. One purpose of these reviews is to reveal secondary sources of repayment and liquidity to support a loan request.

Construction and Development Real Estate Loans - We offer adjustable and fixed rate residential and commercial construction loans to builders and developers and to consumers who wish to build their own home. The terms of construction and development loans generally are limited to 12 months, although terms may be longer depending upon the type of construction project. Most loans mature and require payment in full upon the sale or occupancy of the property. Construction and development loans generally carry a higher degree of risk than long term financing of existing properties. Repayment depends on the ultimate completion of the project and usually on the sale of the property. Risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;
- rising interest rates which may prevent sale of the property; and
- failure to sell completed projects in a timely manner.

The bank attempts to reduce risk by obtaining personal guarantees where possible, and by keeping the loan-to-value ratio of the completed project below specified percentages. We also reduce the risk by selling participations in larger loans to other institutions when possible.

Residential Real Estate Loans - We originate conventional residential mortgage loans. Residential real estate loans generally have longer terms up to 30 years, so we typically make these loans through brokerage relationships with large wholesale mortgage companies. From time to time we originate loans on residential real estate and retain them in our portfolio. These loans have shorter terms, typically five years or less, although amortization terms may be longer, or they carry variable rates.

Commercial Loans - The bank makes loans for commercial purposes to various types of businesses. Equipment loans typically are for a term of five years or less at fixed or variable rates, with the loan fully amortized over the term and secured by the financed equipment and typically with a loan-to-value ratio of 80% or less. Working capital loans typically have terms not exceeding one year and are usually secured by accounts receivable, inventory, or personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal typically is repaid as the assets securing the loan are converted into cash, although we may make these loans with principal due at maturity. Trade letters of credit and foreign exchange are handled through a correspondent bank as agent for our bank.

Consumer Loans - The bank makes a variety of loans to individuals for personal and household purposes. Installment loans typically carry balances of less than $50,000 and are amortized over periods up to 60 months. Consumer loans may be offered on a single maturity basis where a specific source of repayment is available. The principal economic risk associated with consumer loans is the creditworthiness and cash flow of our borrowers.

We also offer home equity lines. The underwriting criteria for and the risks associated with home equity lines generally are the same as those for first mortgage loans. Home equity lines of credit typically have terms of 10 years or less, and may extend up to 100% of the available equity of each property.

Loan Approval and Review - The bank s loan approval policies provide for various levels of officer lending authority. When the amount of aggregate loans to a single borrower exceeds that individual officer s lending authority, the loan request will be considered and approved by an officer with a higher lending limit or the Management Loan Committee. Any loan in excess of the Management Loan Committee s lending limit, which currently is $600,000, must be approved by the loan committee of the Board of Directors (Board Loan Committee), whose lending limit is $900,000. Additionally, certain loans must be approved by the Board of Directors. Such loans include loans in excess of the Board Loan Committee s lending authority and loans to directors. The bank will not make any loans to any director, officer, or employee of the bank unless the loan is made on terms not more favorable to such person than would be available to a person not affiliated with us.

Credit Administration - We have a credit administration function which is designed to manage the risks associated with our lending activities. This function reviews past due loans, risk rating, documentation, and policy exceptions, among other duties. Reports are generated and provided to management and the Board of Directors on a regular basis. We also use outside consulting firms for internal auditing and loan reviews. The internal auditing firm reviews our loans for regulatory compliance and reviews internal and operational controls of our lending activities. The loan review consultants review loans for proper underwriting and policy compliance. These consultants report directly to the audit committee of the Board of Directors. As part of its regular examination process, the Office of the Comptroller of the Currency reviews our lending activities, including loan underwriting and loan quality. See the discussion below under Supervision and Regulation New Commerce Bank.

Lending Limits - Our bank s lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower s relationship to the bank), in general the bank s internal target limit for loan exposure to any borrower is $750,000, although occasionally, the bank will extend credit up to, but not exceeding the legal lending limit. This limit will increase or decrease as our bank s capital increases or decreases. In order to meet the needs of customers with borrowing needs in excess of our internal lending limit, we maintain relationships with other banks which purchase participating interests in larger loans.

Other Banking Services

Other banking services include commercial cash management services, commercial and deposit pick-up services. In addition, we provide services such as internet banking; a toll-free, 24-hour telephone voice response system; drive up ATMs; safe deposit boxes; travelers checks; direct deposit of payroll and social security checks; and automatic drafts for various accounts. The bank is associated with the STAR and Cirrus ATM networks that may be used by our customers throughout the country. The bank waives the foreign ATM charge on customer withdrawals of $50 or more from other bank ATM s. The bank also offers a debit card, VISA credit cards through a correspondent bank, and merchant bankcard services through a correspondent bank.

Competition

Competition in our bank s primary service area is intense. As of June 2004, there were approximately 153 banking offices representing 25 financial institutions operating in Greenville County, holding approximately $7.4 billion in deposits.

Financial institutions primarily compete with one another for loans and deposits. Primary methods of competition include interest rates on deposits and loans, service charges on deposit accounts and the designing of unique financial services products. We are competing with financial institutions which have much greater financial resources than we have, and which may be able to offer more and unique services and possibly better terms to their customers. However, we believe that we are attracting sufficient loans and deposits to enable us to compete effectively with other area financial institutions. The bank believes it has the advantage of being locally owned and managed, enabling it to benefit from the high visibility and excellent business contacts of its organizers and local, timely loan decisions.

Employees

As of March 14, 2005, we had 21 full-time employees and 5 part-time employees.

Supervision and Regulation General

Both the company and the bank are subject to extensive state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on our business and prospects. Beginning with the enactment of the Financial Institutions Reform Recovery and Enforcement Act in 1989 and followed by the FDIC Improvement Act in 1991 and the Gramm-Leach-Bliley Act in 1999, numerous additional regulatory requirements have been placed on the banking industry in the past several years, and additional changes have been proposed. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

The following discussion is not intended to be a complete list of all the activities regulated by the banking laws or of the impact of such laws and regulations on our operations. It is intended only to briefly summarize some material provisions.

USA PATRIOT Act of 2002 - In October 2002, the USA PATRIOT Act of 2002 was enacted in response to the terrorist attacks in New York, Pennsylvania, and Washington D.C. that occurred on September 11, 2001. The PATRIOT Act is intended to strengthen U.S. law enforcement s and the intelligence communities abilities to work cohesively to combat terrorism on a variety of fronts. The potential impact of the PATRIOT Act on financial institutions is significant and wide ranging. The PATRIOT Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties who may be involved in terrorism or money laundering.

Check 21 - On October 28, 2003, President Bush signed into law the Check Clearing for the 21st Century Act, also known as Check 21. The new law gives substitute checks, such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individual agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring recrediting of funds to an individual s account on the next business day after a consumer proves that the financial institution has erred.

This new legislation will likely affect bank capital spending as many financial institutions assess whether technological or operational changes are necessary to stay competitive and take advantage of the new opportunities presented by Check 21.

Supervision and Regulation New Commerce BanCorp

We own 100% of the outstanding capital stock of the bank, and therefore we are considered to be a bank holding company under the federal Bank Holding Company Act of 1956 and the South Carolina Banking and Branching Efficiency Act.

The Bank Holding Company Act. Under the Bank Holding Company Act, we are subject to periodic examination by the Federal Reserve and are required to file periodic reports of our operations and any additional information that the Federal Reserve may require. Our activities at the bank and holding company levels are limited to:

- banking and managing or controlling banks;
- furnishing services to or performing services for our subsidiaries; and
- engaging in other activities that the Federal Reserve determines to be so closely related to banking and managing or controlling banks as to be a proper incident thereto.

Investments, Control, and Activities. With certain limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring substantially all the assets of any bank;
- acquiring direct or indirect ownership or control of any voting shares of any bank if after the acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or
- merging or consolidating with another bank holding company.

In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with regulations promulgated thereunder, require Federal Reserve approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the 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 the Securities Exchange Act of 1934. The regulations provide a procedure for rebutting control when ownership of any class of voting securities is below 25%.

Under the Bank Holding Company Act, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in, nonbanking activities unless the Federal Reserve Board, by order or regulation, has found those activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve Board has determined by regulation to be proper incidents to the business of a bank holding company include:

- making or servicing loans and certain types of leases;

- engaging in certain insurance and discount brokerage activities;
- performing certain data processing services;
- acting in certain circumstances as a fiduciary or investment or financial adviser;
- owning savings associations; and
- making investments in certain corporations or projects designed primarily to promote community welfare.

The Federal Reserve Board imposes certain capital requirements on the company under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of qualifying capital to risk-weighted assets. These requirements are described below under - New Commerce Bank Capital Regulations. Subject to our capital requirements and certain other restrictions, we are able to borrow money to make a capital contribution to the bank, and these loans may be repaid from dividends paid from the bank to the company. Our ability to pay dividends will be subject to regulatory restrictions as described below in - New Commerce Bank Dividends. We are also able to raise capital for contribution to the bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

Source of Strength; Cross-Guarantee. In accordance with Federal Reserve Board policy, we are expected to act as a source of financial strength to the bank and to commit resources to support the bank in circumstances in which we might not otherwise do so. Under the Bank Holding Company Act, the Federal Reserve Board may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary, other than a nonbank subsidiary of a bank, upon the Federal Reserve Board s determination that such activity or control constitutes a serious risk to the financial soundness or stability of any depository institution subsidiary of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiaries if the agency determines that divestiture may aid the depository institution s financial condition.

The Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act was signed into law on November 12, 1999. Among other things, the Act repealed the restrictions on banks affiliating with securities firms contained in sections 20 and 32 of the Glass-Steagall Act. The Act also permits bank holding companies that become financial holding companies to engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities. The Act also authorizes activities that are complementary to financial activities. We have not elected to become a financial holding company.

The Act is intended, in part, to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, the Act may have the result of increasing the amount of competition that we face from larger institutions and other types of companies. In fact, it is not possible to predict the full effect that the Act will have on us.

South Carolina State Regulation. As a South Carolina bank holding company under the South Carolina Banking and Branching Efficiency Act, we are subject to limitations on sale or merger and to regulation by the South Carolina Board of Financial Institutions. We are not required to obtain the approval of the Board prior to acquiring the capital stock of a national bank, but we must notify them at least 15 days prior to doing so. We must receive the Board s approval prior to engaging in the acquisition of a South Carolina state chartered bank or another South Carolina bank holding company.

Supervision and Regulation - New Commerce Bank

The bank operates as a national banking association incorporated under the laws of the United States and subject to examination by the Office of the Comptroller of the Currency. Deposits in the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum amount, which is generally $100,000 per depositor subject to the aggregation rule.

The Office of the Comptroller of the Currency and the FDIC regulate or monitor virtually all areas of the bank s operations, including

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;

- interest rates payable on deposits;
- interest rates or fees chargeable on loans;
- establishment of branches;
- corporate reorganizations;
- maintenance of books and records; and
- adequacy of staff training to carry on safe lending and deposit gathering practices.

The Office of the Comptroller of the Currency requires the bank to maintain specified capital ratios and imposes limitations on the bank s aggregate investment in real estate, bank premises, and furniture and fixtures. The Office of the Comptroller of the Currency also requires the bank to prepare annual reports on the bank s financial condition and to conduct an annual audit of its financial affairs in compliance with its minimum standards and procedures.

Under the FDIC Improvement Act, all insured institutions must undergo regular on-site examinations by their appropriate banking agency. The cost of examinations of insured depository institutions and any affiliates may be assessed by the appropriate agency against each institution or affiliate as it deems necessary or appropriate. Insured institutions are required to submit annual reports to the FDIC, their federal regulatory agency, and state supervisor when applicable. The FDIC Improvement Act directs the FDIC to develop a method for insured depository institutions to provide supplemental disclosure of the estimated fair market value of assets and liabilities, to the extent feasible and practicable, in any balance sheet, financial statement, report of condition or any other report of any insured depository institution. The FDIC Improvement Act also requires the federal banking regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating, among other things, to the following:

- internal controls;
- information systems and audit systems;
- loan documentation;
- credit underwriting;
- interest rate risk exposure; and
- asset quality.

National banks and their holding companies which have been chartered or registered or have undergone a change in control within the past two years or which have been deemed by the Office of the Comptroller of the Currency or the Federal Reserve Board to be troubled institutions must give the Office of the Comptroller of the Currency or the Federal Reserve Board 30 days prior notice of the appointment of any senior executive officer or director. Within the 30 day period, the Office of the Comptroller of the Currency or the Federal Reserve Board, as the case may be, may approve or disapprove any such appointment.

Deposit Insurance - The FDIC has adopted a risk-based assessment system for determining an insured depository institutions insurance assessment rate. The system takes into account the risks attributable to different categories and concentrations of assets and liabilities. An institution is placed into one of three capital categories: (1) well capitalized; (2) adequately capitalized; or (3) undercapitalized. The FDIC also assigns an institution to one of three supervisory subgroups, based on the FDIC s determination of the institution s financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per $100 of deposits, depending on the institution s capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the $780 million in annual interest payments on the $8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. The FDIC assessment rate on our bank deposits currently is zero but may change in the future. The FDIC may increase or decrease the assessment rate schedule on a semiannual basis. An increase in the BIF assessment rate could have a material adverse effect on our earnings, depending on the amount of the increase.

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.

Transactions with Affiliates and Insiders - The bank is subject to the provisions of Section 23A of the Federal Reserve Act, which places limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the bank s capital and surplus and, as to all affiliates combined, to 20% of the bank s capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the taking of low quality assets.

The bank also is subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. The bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

The Federal Reserve Board has recently issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the Federal Reserve Act and interpretative guidance with respect to affiliate transactions. Regulation W incorporates the exemption from the affiliate transaction rules but expands the exemption to cover the purchase of any type of loan or extension of credit from an affiliate. In addition, under Regulation W:

- a bank and its subsidiaries may not purchase a low-quality asset from an affiliate;
- covered transactions and other specified transactions between a bank or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices; and
- with some exceptions, each loan or extension of credit by a bank to an affiliate must be secured by collateral with a market value ranging from 100% to 130%, depending on the type of collateral, of the amount of the loan or extension of credit.

Regulation W generally excludes all non-bank and non-savings association subsidiaries of banks from treatment as affiliates, except to the extent that the Federal Reserve Board decides to treat these subsidiaries as affiliates. Concurrently with the adoption of Regulation W, the Federal Reserve Board has proposed a regulation which would further limit the amount of loans that could be purchased by a bank from an affiliate to not more than 100% of the bank s capital and surplus. This regulation has not yet been adopted.

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Dividends - A national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one-tenth of the bank s net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the Office of the Comptroller of the Currency is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

Branching - National banks are required by the National Bank Act to adhere to branch office banking laws applicable to state banks in the states in which they are located. Under current South Carolina law, the bank may open branch offices throughout South Carolina with the prior approval of the Office of the Comptroller of the Currency. In addition, with prior regulatory approval, the bank is able to acquire existing banking operations in South Carolina. Furthermore, federal legislation permits interstate branching, including out-of-state acquisitions by bank holding companies, interstate branching by banks if allowed by state law, and interstate merging by banks. South Carolina law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Community Reinvestment Act - The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, or the Office of the Comptroller of the Currency, shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on our bank.

The Gramm-Leach-Bliley Act - Under the Gramm-Leach-Bliley Act, subject to certain conditions imposed by their respective banking regulators, national and state-chartered banks are permitted to form financial subsidiaries that may conduct financial or incidental activities, thereby permitting bank subsidiaries to engage in certain activities that previously were impermissible. The Gramm-Leach-Bliley Act imposes several safeguards and restrictions on financial subsidiaries, including that the parent bank s equity investment in the financial subsidiary be deducted from the bank s assets and tangible equity for purposes of calculating the bank s capital adequacy. In addition, the Gramm-Leach-Bliley Act imposes new restrictions on transactions between a bank and its financial subsidiaries similar to restrictions applicable to transactions between banks and nonbank affiliates.

The Gramm-Leach-Bliley Act also contains provisions regarding consumer privacy. These provisions require financial institutions to disclose their policy for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market an institution s own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing, or other marketing to the consumer.

Other Regulations - Interest and other charges collected or contracted for by the bank are subject to state usury laws and federal laws concerning interest rates. The bank s loan operations are also subject to federal laws applicable to credit transactions, such as:

- o the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- o the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- o the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- o the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- o the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- o the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the bank also are subject to:

- o the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- o the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that Act, which governs automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Capital Regulations - The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks and bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios in excess of the minimums. We have not received any notice indicating that either New Commerce BanCorp or New Commerce Bank is subject to higher capital requirements. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital includes common shareholders equity, qualifying perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan and lease losses. Tier 2 capital includes the excess of any preferred stock not included in Tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock, and general reserves for loan and lease losses up to 1.25% of risk-weighted assets.

Under these guidelines, banks and bank holding companies assets are given risk-weights of 0%, 20%, 50%, or 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight applies. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property and, under certain circumstances, residential construction loans, both of which carry a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% rating, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% rating.

The federal bank regulatory authorities also have implemented a leverage ratio, which is equal to Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank holding company may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 3%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points.

The FDIC Improvement Act established a new capital-based regulatory scheme designed to promote early intervention for troubled banks, which requires the FDIC to choose the least expensive resolution of bank failures. The new capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. To qualify as a well capitalized institution, a bank must have a leverage ratio of no less than 5%, a Tier 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. Currently, we qualify as well capitalized.

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Under the FDIC Improvement Act regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution increases, and the permissible activities of the institution decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to do some or all of the following:

- submit a capital restoration plan;
- raise additional capital;
- restrict their growth, deposit interest rates, and other activities;
- improve their management;
- eliminate management fees; or
- divest themselves of all or a part of their operations.

These capital guidelines can affect us in several ways. If we grow at a rapid pace, our capital may be depleted too quickly, and a capital infusion from our holding company may be necessary which could impact our ability to pay dividends. Our capital levels currently are adequate; however, rapid growth, poor loan portfolio performance, poor earnings performance, or a combination of these factors could change our capital position in a relatively short period of time. If we fail to meet these capital requirements, our bank would be required to develop and file a plan with the Office of the Comptroller of the Currency describing the means and a schedule for achieving the minimum capital requirements. In addition, our bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless our bank could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time. A bank that is not well capitalized is also subject to certain limitations relating to so-called brokered deposits. Bank holding companies controlling financial institutions can be called upon to boost the institutions capital and to partially guarantee the institutions performance under their capital restoration plans.

Enforcement Powers - The Financial Institutions Reform Recovery and Enforcement Act expanded and increased civil and criminal penalties available for use by the federal regulatory agencies against depository institutions and certain institution-affiliated parties. Institution-affiliated parties primarily include management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution s affairs. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as $1,000,000 a day for such violations. Criminal penalties for some financial institution crimes have been increased to twenty years. In addition, regulators are provided with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, banking agencies power to issue cease-and-desist orders were expanded. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Effect of Governmental Monetary Policies - Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank s monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

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Proposed Legislation and Regulatory Action. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation s financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Item 2. Description of Property

The headquarters for the company and the bank are located at 501 New Commerce Court, at the intersection of East Butler Road and I-385, in Greenville, South Carolina. This 12,089 square foot facility, situated on approximately 2 acres, was completed in May 2000 at a cost of approximately $1.5 million and is owned by the bank. This facility houses a full-service branch as well as the company s administrative and operations staff. The bank s first branch was opened in June 2000 at 1 Five Forks Plaza Court at the intersection of Woodruff and Batesville Roads in Simpsonville, South Carolina. This 3,050 square foot facility is situated on approximately 1 acre and is owned by the bank. The branch was completed at a cost of approximately $595,000. In October 1999, the company purchased a building at 111 North Main Street in Mauldin, South Carolina for $403,000 to be used for future expansion. In April 2001, we leased the building for a lease term of five years.

Item 3. Legal Proceedings.

We are not a party to, nor are any of our properties subject to, any material legal proceedings, other than routine litigation incidental to our business.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

The common stock of New Commerce BanCorp is quoted on the OTC Bulletin Board under the symbol NCBS.OB .

As of February 3, 2004, New Commerce BanCorp had 1,000,000 shares outstanding and 416 shareholders of record (does not include the number of persons or entities that hold stock in nominee or street name). To date, the company has not repurchased any shares if its stock.

To date, the Company has not paid cash dividends on its common stock and currently has no plans to do so in the future. The ability of the Company to pay cash dividends is dependent upon receiving cash dividends from the Bank. However, South Carolina and federal banking regulations restrict the amount of cash dividends that can be paid to the Company from the Bank. See Dividends in the section entitled Supervision and Regulation New Commerce Bank .

The following table sets forth the high and low bid prices as quoted on the OTC Bulletin Board during the periods indicated. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commissions, and may not represent actual transactions.

	2004		2003	
	High	**Low**	**High**	**Low**
First quarter	$11.65	$ 9.95	$ 9.35	$ 9.15
Second quarter	$11.25	$10.00	$ 9.31	$ 9.17
Third quarter	$10.25	$10.05	$ 9.50	$ 9.31
Fourth quarter	$17.66	$10.20	$10.35	$ 9.40

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Item 6. Management's Discussion and Analysis or Plan of Operation.

Financial Highlights

The following table sets forth certain selected financial data concerning New Commerce BanCorp and subsidiary as of and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000. This information should be read in conjunction with the consolidated financial statements, the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this report. (Dollar amounts are in thousands, except per share data.)

	2004	2003	2002	2001	2000

	2004	2003	2002	2001	2000
Summary of Operations:					
Net interest income	**$ 2,975**	$ 2,259	$ 1,971	$ 1,638	$ 1,205
Provision for loan losses	**1,078**	272	110	118	116
Non-interest income	**532**	647	408	243	115
Non-interest expense	**3,130**	2,498	2,207	2,046	1,690
Income (loss) before income tax provision (benefit)	**(701)**	136	62	(283)	(486)
Income tax provision (benefit)	**(263)**	50	24	(95)	(148)
Net income (loss)	**$ (438)**	$ 86	$ 38	$ (188)	$ (338)
Per Share Data:					
Basic earnings (loss) per share	**$ (0.44)**	$ 0.09	$ 0.04	$ (0.19)	$ (0.34)
Diluted earnings (loss) per share	**(0.44)**	0.08	0.04	(0.19)	(0.34)
Book value per share of common stock	**8.20**	8.67	8.84	8.76	8.81
Balance Sheet Data:					
Total assets	**$ 96,435**	$ 85,044	$ 63,633	$ 51,631	$ 40,278
Federal funds sold	**6,008**	5,614	3,342	1,026	-
Investment securities	**15,575**	14,140	14,023	15,690	13,620
Net loans	**67,457**	57,318	37,938	28,542	19,193
Total earning assets	**90,729**	78,230	56,282	45,966	33,380
Deposits	**80,502**	71,876	47,522	37,564	31,168
Federal Home Loan Bank advances	**6,750**	3,750	4,725	-	-
Other short-term borrowings	**-**	-	-	4,854	100
Shareholders' equity	**8,196**	8,669	8,839	8,758	8,808
Other Data:					
Return on assets	**(0.49)%**	0.12%	0.07%	(0.41)%	(1.00)%
Return on equity	**(5.19)**	0.98	0.43	(2.14)	(3.79)
Net interest margin	**3.61**	3.61	4.06	4.13	4.41
Gross loans to deposits - average	**86.04**	87.30	81.08	70.31	67.20
Allowance for loan losses to loans	**1.33**	1.25	1.28	1.40	1.50
Net charge-offs to average loans	**1.41**	0.08	0.07	0.02	0.12
Nonperforming assets	**0.57**	0.92	0.00	0.00	0.00
Shareholders' equity to total assets (average)	**9.47**	12.72	16.03	18.92	26.27
Shareholders' equity to total assets (year end)	**8.50**	10.19	13.89	16.96	21.87
Capital ratios (Bank only):					
Tier 1 risk-based capital	**9.93**	10.50	14.47	17.47	26.30
Total risk-based capital	**11.10**	11.56	15.47	18.47	27.36
Leverage ratio	**8.36**	9.44	11.85	14.71	19.52

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis is intended to assist the reader in understanding the financial condition and results of operations of New Commerce BanCorp and subsidiary. This commentary should be read in conjunction with the financial statements and the related notes and other statistical information included in this report.

OVERVIEW

New Commerce BanCorp was incorporated in South Carolina on July 22, 1998 to operate as a bank holding company pursuant to the Federal Bank Holding Company Act of 1956 and the South Carolina Bank Holding Company Act, and to own and control all of the capital stock of New Commerce Bank, a nationally chartered commercial bank. New Commerce Bank conducts a general banking business in the Golden Strip area of Greenville, South Carolina. The bank currently has two full-service offices and provides banking services to individuals and businesses, including accepting demand and time deposits and making commercial and consumer loans.

CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of our financial statements. Certain accounting policies involve significant judgments and assumptions by management. These judgments have a material impact on the carrying value of certain assets and liabilities. Management judgments and assumptions are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of these judgments, actual results could differ and could have a material impact on the carrying values of assets and liabilities and the results of operations. We believe that the allowance for loan losses methodology represents a significant accounting policy, which requires the most critical judgments and estimates used in preparation of our consolidated financial statements. Some of the more critical judgments supporting the amount of our allowance for loan losses include judgments about the creditworthiness of borrowers, the estimated value of the underlying collateral, the assumptions about cash flow, determination of loss factors for estimating credit losses, the impact of current events, and conditions, and other factors impacting the level of probable inherent losses. Under different conditions or using different assumptions, the actual amount of credit losses incurred by us may be different from management s estimates provided in our consolidated financial statements. Refer to the Results of Operations Provision for Loan Losses as well as the Balance Sheet Review Loans and Allowance for Loan Losses discussions below.

OFF-BALANCE SHEET RISK

In the ordinary course of business, we are a party to various contractual commitments not reflected on our balance sheet. These instruments represent unfunded commitments, not outstanding balances. Therefore, the risk associated with these financial instruments is referred to as off-balance sheet risk. Financial instruments with off-balance sheet risk that we have outstanding consist of (1) commitments to extend credit and (2) standby letters of credit. Both involve elements of credit and interest rate risk not reflected on the balance sheet. We use the same credit and collateral policies in making these commitments as we do for on-balance sheet instruments.

Commitments to extend credit are legally binding agreements to lend money to a customer as long as there is no violation of any material condition established in the contract. All of our commitments have predetermined interest rates and fixed expiration dates. At December 31, 2004, our commitments to extend credit totaled approximately $13.6 million and represented the unfunded portion of equity, working capital and general lines of credit. The unfunded portions have the same contractual terms reflected in the original note and security agreement. At December 31, 2004, approximately 45% of our total commitments had expiration dates of one year or less, approximately 20% had expiration dates of one to five years, and approximately 35% had expiration dates of greater then five years. The majority of the commitments expiring after five years represented available balances on equity lines of credit.

At December 31, 2004, our outstanding standby letters of credit totaled approximately $546,000 with expiration dates of one year or less. These letters of credit are assurances to third parties that they will not incur a loss if our customer fails to meet its contractual obligation. Past experience indicates that many of these commitments to extend credit will expire unused. However, as described in Liquidity and Capital Resources below, we believe that we have adequate sources of liquidity to meet these obligations should the need arise. We are not involved in any other off-balance sheet contractual relationships or transactions, which could result in liquidity needs or impact earnings significantly nor do we have unconsolidated related entities.

RESULTS OF OPERATIONS

Overview

The net loss for the year ended December 31, 2004 was $438,265, or $0.44 per diluted share, compared to net income of $85,794, or $0.08 per diluted share, for the year ended December 31, 2003. This was a $524,059, or $0.52 per diluted share, decline in net income and diluted earnings per share, respectively, from the prior year. This decrease in our earnings resulted primarily from an increase in the provision for loan losses resulting from loan charge-offs and an increase in non-interest expenses offset partially by an increase in net interest income.

Net income for the year ended December 31, 2003 was $85,794, or $0.08 per diluted share, compared to net income of $37,528, or $0.04 per diluted share, for the year ended December 31, 2002. This was a $48,266, or $0.04 per diluted share, improvement in the net income and diluted earnings per share, respectively, over the prior year. This improvement in our earnings resulted primarily from an increase in the volume of earning assets and an increase in non-interest income. These factors which increased earnings were offset partially by a decrease in our net interest margin.

Net Interest Income

The largest component of our income is net interest income, the difference between the income earned on assets and the interest expense on deposits and borrowings used to support such assets. Net interest margin is determined by dividing the annual net interest income by average earning assets.

For the year ended December 31, 2004, net interest income was $2.98 million, which represented a 32% increase from $2.26 million earned in the year ended December 31, 2003. The improvement in 2004 was attributable principally to an increase in the volume of earning assets, particularly in loans, and a decrease in the rate paid on our interest-bearing liabilities. The increase in the volume of earning assets was offset partially by an increase in the volume of interest-bearing liabilities, as well as a decrease in the yield on our earning assets. Net interest margin was 3.61% for 2004 and 2003.

For the year ended December 31, 2003 net interest income was $2.26 million, which represented a 15% increase from $1.97 million earned in the year ended December 31, 2002. The improvement in 2003 was attributable principally to an increase in the volume of earning assets, particularly in loans, and a decrease in the rate paid on our interest-bearing liabilities. The increase in the volume of earning assets was offset partially by an increase in the volume of interest-bearing liabilities, as well as a decrease in the yield on our earning assets. Net interest margin for 2003 was 3.61% compared to 4.06% in 2002.

See further details of the changes in and components of net interest income following under the headings: Interest Income, Interest Expense, Average Balances, Yields, and Rates, and Rate/Volume Analysis.

Interest Income

Interest income totaled $4.26 million in 2004 compared to $3.28 million in 2003, an increase of 30%. This increase resulted from the net effect of increased outstanding balances and a decrease in the yield of earning assets. Average earning assets were $82.4 million for 2004, with an average yield of 5.17%. In 2003, average earning assets and average yield were $62.5 million and 5.24%, respectively.

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Loan interest income for the year ended December 31, 2004 totaled $3.47 million, compared to $2.58 million in 2003. The annualized average yield on loans was 5.45% in 2004, compared to 5.40% in 2003. The increase in yield in 2004 as compared to 2003 is primarily the result of the impact of increases in prime rate in 2004 on our variable rate loan portfolio. Average balances of loans increased to $63.6 million during the year ended December 31, 2004, an increase of $15.8 million over the average of $47.8 million during the year ended December 31, 2003.

Interest earned on investment securities amounted to $732,827 in 2004 as compared to $655,917 earned in 2003, an increase of $76,910. The increase resulted from an increase in the amount of investment securities held on average during 2004 offset partially by a decrease in their average yield. The average balance of investment securities was $15.5 million in 2004, an increase of $2.9 million from the average balance of $12.6 million in 2003. Investment securities yielded 4.72% during the year ended December 31, 2004, compared to 5.20% during the previous year. This difference principally was the result of purchases of securities in 2004 that had a lower yield than the average yield on the other securities held in the portfolio.

Interest income totaled $3.28 million in 2003 compared to $2.97 million in 2002, an increase of 10%. This increase resulted from the net effect of increased outstanding balances and a decrease in the yield of earning assets. Average earning assets were $62.5 million for 2003, with an average yield of 5.24%. In 2002, average earning assets and average yield were $48.5 million and 6.12%, respectively.

Loan interest income for the year ended December 31, 2003 totaled $2.6 million, compared to $2.1 million in 2002. The annualized average yield on loans was 5.40% in 2003, compared to 6.32% in 2002. The decrease in yield in 2003 as compared to 2002 is primarily the result of the impact of decreases in prime rate in 2003 and late 2002 on our variable rate loan portfolio. In addition, our variable rate loan portfolio increased to 76% of total loans at December 31, 2003 as compared to 72% at December 31, 2002. Due to the lower interest-rate risk inherent in variable-rate loans, their yield was on average less than that of fixed-rate loans. Turnover in our fixed rate portfolio also contributed to the decrease in yield, as the yield on fixed rate loans in 2003 reflected the decreases in interest rates in 2001, 2002, and 2003. Average balances of loans increased to $47.8 million during the year ended December 31, 2003, an increase of $15.3 million over the average of $32.5 million during the year ended December 31, 2002. The increase in average balances offset the impact of the decrease in yield on interest income.

Interest earned on investment securities amounted to $655,917 in 2003 as compared to $876,674 earned in 2002, a decrease of $220,757. The decrease resulted from a decrease in the amount of investment securities held on average during 2003 as well as a decrease in their average yield. The average balance of investment securities was $12.6 million in 2003, a decrease of $1.8 million from the average balance of $14.4 million in 2002. Investment securities yielded 5.20% during the year ended December 31, 2003, compared to 6.09% during the previous year. This difference resulted from the effect of sales of securities held in the portfolio during 2003 and 2002 that had a higher yield than the average yield on the balance of the portfolio. In some cases, new securities with lower yields were purchased with proceeds of the sales. Also, accelerated principal repayments on mortgage-related securities resulted in the lowering of our yield on investment securities as the proceeds of the repayments were reinvested at lower rates. Further, accelerated principal repayments on mortgage-related securities accelerated the amortization of purchase premiums, which in turn lowered their yields. The accelerated principal repayments on mortgage-related securities are largely the result of the refinancing of the underlying mortgages due to the lower prevailing mortgage interest rates at the time. See Non-Interest Income for further discussion of sales of investment securities.

Interest Expense

Interest expense totaled $1.28 million in 2004 compared to $1.02 million in 2003. This increase resulted from the effect of increased outstanding balances of interest-bearing liabilities, offset partially by a decrease in their average cost. Average interest-bearing liabilities were $69.3 million with an average cost of 1.85% in 2004, compared to $52.4 million and 1.94%, respectively in 2003.

Interest expense on deposits totaled $1,089,478 in 2004 compared to $881,887 in 2003. Average interest-bearing deposits were $63.5 million with an average cost of 1.72% in 2004, compared to $47.8 million and 1.85%, respectively in 2003. Although market interest rates increased in 2004, the impact of the market rate increases were not fully reflected in our average cost of deposits in 2004. This is due to the lagging effect of certificates of deposits which reprice at market rates as they mature according to their contractual terms.

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Interest expense totaled $1.02 million in 2003 and $1.00 million in 2002. There was an increase in outstanding balances of interest-bearing liabilities. However, the impact of the increased balances on interest expense was almost entirely offset by a decrease in their average cost. Average interest-bearing liabilities were $52.4 million with an average cost of 1.94% in 2003, compared to $40.7 million and 2.45%, respectively in 2002.

Interest expense on deposits totaled $881,887 in 2003 compared to $861,469 in 2002. Average interest-bearing deposits were $47.8 million with an average cost of 1.85% in 2003, compared to $35.3 million and 2.44%, respectively in 2002. The decrease in cost resulted from decreases in rates paid on all accounts due to the continued declining interest rate environment of 2003.

Average Balances, Yields and Rates

The following table presents average earning assets and interest-bearing liabilities, net interest income and margin, and weighted average yields and rates on earning assets and interest-bearing liabilities for the years ended December 31, 2004 and 2003. Yields and rates are derived by dividing annual income or expense by the average balance of the corresponding asset or liability.

	2004			2003		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning assets:						
Loans	**$ 63,596,221**	**$ 3,466,529**	**5.45%**	$ 47,767,812	$ 2,580,516	5.40%
Investment securities	**15,535,775**	**732,827**	**4.72**	12,624,654	655,917	5.20
Federal funds sold	**2,712,739**	**35,264**	**1.30**	1,664,244	18,873	1.13
FHLB and FRB stock	**528,282**	**23,713**	**4.49**	452,749	21,304	4.71

	2004			2003		
Total interest-earning assets	**82,373,017**	**4,258,333**	**5.17**	62,509,459	3,276,610	5.24
Non-earning assets	**6,699,562**			6,324,864		
Total assets	**$ 89,072,579**			$ 68,834,323		
Interest-bearing liabilities:						
Deposits:						
Interest checking	**$ 4,313,278**	**24,531**	**0.57**	$ 3,718,767	25,573	0.69
Savings accounts	**896,440**	**4,460**	**0.50**	789,165	4,827	0.61
Money market accounts	**12,687,146**	**180,566**	**1.42**	13,135,058	165,472	1.26
Time deposits	**45,594,896**	**879,921**	**1.93**	30,133,862	686,015	2.28
FHLB advances	**5,615,437**	**189,199**	**3.37**	4,219,589	129,883	3.08
Federal funds purchased	**194,945**	**4,350**	**2.23**	394,338	5,915	1.50
Total interest-bearing liabilities	**69,302,142**	**1,283,027**	**1.85**	52,390,779	1,017,685	1.94
Non-interest-bearing liabilities	**11,080,418**			7,658,171		
Total liabilities	**$ 80,382,560**			$ 60,048,950		
Net interest income and margin		**$ 2,975,306**	**3.61%**		$ 2,258,925	3.61%

Rate/Volume Analysis

Net interest income can be analyzed in terms of the impact of changing rates and changing volume. The following table shows the effects which changes in the levels of earning assets and interest-bearing liabilities and associated yields and rates had on interest income and interest expense for 2004 and 2003. Information is provided with respect to: (i) effects attributable to changes in rate (changes in rate multiplied by prior volume); and (ii) effects attributable to changes in volume (changes in volume multiplied by prior rate). The net change attributable to the combined impact of rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

	2004 compared to 2003			2003 compared to 2002		
	Net Change in Interest Income/ Expense	Attributable to: Volume	Rate	Net Change in Interest Income/ Expense	Attributable to: Volume	Rate
Earning assets:						
Loans	**$ 886,013**	**$ 858,932**	**$ 27,081**	$ 525,107	$ 892,857	$ (367,750)
Investment securities	**76,910**	**144,283**	**(67,373)**	(220,757)	(99,402)	(121,355)
Federal funds sold	**16,391**	**12,760**	**3,631**	5,239	5,192	47
FHLB and FRB stock	**2,409**	**3,472**	**(1,063)**	(1,172)	4,268	(5,440)
Total earning assets	**981,723**	**1,019,447**	**(37,724)**	308,417	802,915	(494,498)
Interest-bearing liabilities:						

	2004 compared to 2003			2003 compared to 2002		
Deposits:						
Interest checking	**(1,042)**	**3,735**	**(4,777)**	(4,879)	5,253	(10,132)
Savings accounts	**(367)**	**595**	**(962)**	(1,751)	2,544	(4,295)
Money market accounts	**15,094**	**(6,009)**	**21,103**	(56,181)	(1,392)	(54,789)
Time deposits	**193,906**	**325,178**	**(131,272)**	83,229	322,084	(238,855)
Repurchase agreements	**-**	**-**	**-**	(69,929)	(34,965)	(34,964)
FHLB advances	**59,316**	**44,998**	**14,318**	76,167	72,497	3,670
Federal funds purchased	**(1,565)**	**(3,720)**	**2,155**	(6,587)	(3,564)	(3,023)
Total interest-bearing liabilities	**265,342**	**364,777**	**(99,435)**	20,069	362,457	(342,388)
Net interest income	**$ 716,381**	**$ 654,670**	**$ 61,711**	$ 288,348	$ 440,458	$ (152,110)

Provision for Loan Losses

The provision for loan losses is the charge to operating earnings that we believe to be necessary to maintain the allowance for loan losses at an adequate level. The amount charged to the provision is based on a review of past-due loans and delinquency trends, actual losses, classified and criticized loans, loan portfolio growth, concentrations of credit, economic conditions, historical charge-off activity and internal credit risk ratings. Loan charge-offs and recoveries are charged or credited directly to the allowance. The provision for loan losses was $1,077,734, $271,632, and $110,093 for the years ended December 31, 2004, 2003 and 2002, respectively. See Balance Sheet Review Loans and Allowance for Loan Losses.

Non-Interest Income

Non-interest income for the year ended December 31, 2004 was $532,356, a decrease of $114,662, or 18% compared to $647,018 in 2003. The principal component of this decrease is the decrease in gain on sale of securities which was $16,400 in 2004 compared to $125,261 in 2003, a decrease of $108,861 over the prior year. The decrease was because there was less volume of securities transactions in 2004. We sell securities from time to time for various reasons including liquidity needs, changes in credit quality, and market valuation factors.

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Non-interest income for the year ended December 31, 2003 was $647,018, an increase of $238,606, or 58% compared to $408,412 in 2002. The largest component of this increase was the increase in service charges on deposit accounts which was $243,740 in 2003 compared to $130,953 in 2002, an increase of $112,787. This increase was the result of increased deposit account fees associated with the growth in deposit accounts and fee income attributable to the implementation of an overdraft protection product on our checking accounts during 2003. Mortgage brokerage income was $220,283 in 2003 compared to $142,267 in 2002, an increase of $78,016. This increase was indicative of the refinancing and purchase money activity associated with the continued declining interest rate environment that existed in much of 2003. Gain on sale of investments was $125,261 in 2003 compared to $87,826 in 2002, an increase of $37,435 over the prior year.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2004 was $3,130,693, compared to $2,498,519 in the previous year. The largest component of this increase of $632,174, or 25%, was in salaries and benefits which is the largest component of non-interest expense. Salaries and benefits increased by $337,229 to $1,691,901 in 2004 from $1,354,672 in 2003. This increase is principally the result of the hiring of a senior credit officer, an additional commercial lender and other additional staff since the prior year. Additionally, in connection with the signing of the merger agreement (discussed earlier), there were bonuses to the company s chief executive officer and chief financial officer paid or accrued in the aggregate amount of $120,000 in 2004. Data processing increased by $63,356 to $256,290 in 2004 from $192,934 in 2003 as the result of enhancements to the company s computer system. Marketing increased by $48,612 to $128,983 in 2004 from $80,371 in 2003. This increase is the result of the retention of a new marketing firm in 2004 who assisted us in developing advertising programs. Other expense increased by $134,661 to $509,053 in 2004 from $374,392 in 2003, which was due principally to expenses of approximately $120,000 in 2004 for legal and financial advisory services related to the pending merger.

Non-interest expense for the year ended December 31, 2003 was $2,498,519, compared to $2,206,868 in the previous year. The largest component of this increase of $291,651, or 13%, was in salaries and benefits which is the largest component of non-interest expense. Salaries and benefits increased by $139,226 to $1,354,672 in 2003 from $1,215,446 in 2002. This increase is the result of annual raises and the hiring of additional staff since the prior year as well as an increase in commissions paid on mortgage loan originations in 2003 due to increased mortgage origination income as previously discussed. Marketing increased by $44,322 to $80,371 in 2003 from $36,049 in 2002. This increase is the result of the retention of a marketing consultant in 2003 to assist us in developing new marketing material and several print media and direct mail marketing campaigns. Other expense increased by $53,871 to $374,392 in 2003 from $320,521 in 2002, which was due principally to expenses related to start-up costs, administrative costs, and losses associated with the overdraft protection product implemented in 2003, increased accounting and auditing expenses, and other increases associated with the growth of the Company.

BALANCE SHEET REVIEW

At December 31, 2004, assets totaled $96.4 million, an increase of $11.4 million, or 13% from $85.0 million at December 31, 2003. The increase was comprised principally of an increase in net loans, and to a lesser extent, federal funds sold and investment securities. Total liabilities increased by $11.9 million, or 16%, to $88.2 million at December 31, 2004 from $76.4 million at December 31, 2003. The increase in liabilities was comprised primarily of an increase in deposits and to a lesser extent, advances from the Federal Home Loan Bank.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and due from banks and federal funds sold. These are short-term, highly liquid balances that are used to fund operations, including projected funding of loans. These balances totaled $7.4 million at December 31, 2004 as compared to $8.2 million at December 31, 2003.

Investment Securities

At December 31, 2004, investment securities totaled $15.6 million and represented 17% of earning assets compared to a total of $14.1 million or 18% of earning assets at December 31, 2003. We invest primarily in U.S. Government agency securities, government-sponsored agency securities, mortgage-backed securities, collateralized mortgage obligations and corporate bonds.

Contractual maturities and yields on our investment securities at December 31, 2004 and 2003 are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Security Type	Within One Year	Yield	After One but Within Five Years	Yield	After Five but Within Ten Years	Yield	After Ten Years	Yield
December 31, 2004:								
Federal agency	$ -	-%	$ 1,491,010	3.87%	$ -	-%	$ -	-%
Mortgage-backed	1,356,532	4.25	4,137,407	4.29	2,884,194	4.46	2,100,663	4.71
Collateralized mortgage obligations	197,606	4.25	871,026	4.09	235,690	4.06	-	-
Corporate	1,297,620	7.13	1,002,649	6.65	-	-	-	-
Total	$ 2,851,758		$ 7,502,092		$ 3,119,884		$ 2,100,663	
December 31, 2003:								
Federal agency	$ -	-%	$ 1,488,315	3.41%	$ -	-%	$ -	-%
Mortgage-backed	1,047,831	5.29	3,372,339	4.13	2,584,045	4.05	1,830,215	4.17
Collateralized mortgage obligations	88,210	4.29	591,852	4.28	283,370	4.28	-	-
Corporate	-	-	2,297,419	6.92	-	-	500,000	9.00

		After One	After Five	
Total	$ 1,136,041	$ 7,749,925	$ 2,867,415	$ 2,330,215

In June 2004, we sold most of our held-to-maturity securities to obtain cash for a capital contribution to our bank. As a result of the sale of these securities, as required by accounting standards, we reassessed our intention to hold the only other investment security classified as held-to-maturity and we transferred that security to the available-for-sale category. The security had a cost basis of $500,000 and a market value of $485,000 at the date of transfer. We reported the unrealized holding loss (net of applicable income taxes) on the date of transfer in other comprehensive income. This security was sold in October 2004 for $500,000.

The Bank, as a member institution, is required to own certain stock investments in the Federal Home Loan Bank of Atlanta (FHLB) and the Federal Reserve Bank (FRB). No ready market exists for these stocks and they have no quoted market values. However, redemptions of these stocks historically have been at par value, therefore they are carried at cost. These stocks generally are pledged against any borrowings from these institutions. These investments are shown on the balance sheet in separate captions.

Loans and Allowance for Loan Losses

Outstanding loans represent the largest component of earning assets. At December 31, 2004 outstanding loans totaled $68.5 million, an increase of $10.3 million, or 18%, over the $58.1 million reported at December 31, 2003. Outstanding loans represented 75% and 74% of total earning assets, at December 31, 2004 and 2003, respectively.

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The following table summarizes the composition of the loan portfolio at December 31, 2004 and 2003.

	2004		2003	
	Amount	Percent	Amount	Percent
Commercial	**$ 10,988,430**	**16.1%**	$ 10,839,018	18.7%
Real estate - construction	**6,786,567**	**9.9**	1,808,757	3.1
Real estate - mortgage	**42,153,041**	**61.5**	37,552,982	64.6
Consumer	**8,525,652**	**12.5**	7,904,374	13.6
Total loans	**68,453,690**	**100.0%**	58,105,131	100.0%
Allowance for loan losses	**(912,000)**		(725,527)	
Deferred loan costs, net	**(84,619)**		(61,438)	
Net loans	**$ 67,457,071**		$ 57,318,166	

There are risks inherent in making loans, including risks with respect to the period of time over which loans may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers, and risks resulting from uncertainties about the future value of collateral on loans. To address these risks, we have developed policies and procedures to identify and evaluate the overall quality of our credit portfolio and the timely identification of potentially problem loans.

We maintain an allowance for loan losses, which we establish through charges in the form of a provision for loan losses on our statement of operations. We charge loan losses and credit recoveries directly to this allowance. We attempt to maintain the allowance at a level that will be adequate to provide for potential losses in our loan portfolio.

Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not prove to be accurate. We consider a number of factors in determining the level of this allowance, including the total amount of outstanding loans, the amount of past due loans, historic loan loss experience, general economic conditions and the assessment of risk elements in our portfolio. The assessment of risk in our portfolio includes the identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of problem loans. We use a classification system to identify and evaluate loans that are currently problematic and those that we believe have the potential to be problematic in the future (collectively referred to as classified loans). Periodically, we adjust the amount of the allowance based on changing circumstances. Our evaluation of the allowance for loan losses is inherently subjective as it requires estimates that are susceptible to significant change. Our losses will undoubtedly vary from our estimates, and there is a possibility that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time. Further, the allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

As discussed in Results of Operations Provision for Loan Losses, the loan loss provision for the year ended December 31, 2004 was $1,077,734 as compared to $271,632 for the year ended December 31, 2003, an increase of $806,102. The principal component of the increase was provision made for loan losses in the amount of $700,000 in the third quarter of 2004 related to an aggregate principal balance of approximately $1.3 million of loans to two commercial borrowers secured by real estate, inventory and accounts receivable which were determined to have become impaired. As of September 30, 2004, approximately $810,000 of the principal balance of these loans was written off to the allowance for loan losses.

Generally, loans are placed on non-accrual status when they become 90 days past due, or when management believes that the borrower s financial condition is such that collection of the loan is doubtful. Interest stops accruing when a loan is placed on non-accrual status. Payments of interest on these loans are recognized when received.

The following is an analysis of non-performing loans at December 31, 2004 and 2003.

	2004	**2003**
Non-accrual loans:		
Commercial	$ -	$ 72,100
Real estate - mortgage	390,040	464,000
Total non-accrual loans	$ 390,040	$ 536,100

The non-accrual loans identified above are included in the total of our classified loans. The total of classified loans at December 31, 2004 and 2003 were $5,874,300 and $1,098,200, respectively. We are not aware of any other potentially problem loans beyond the loans included in the total of our classified loans.

Below is an analysis of the allowance for loan losses for the years ended December 31, 2004 and 2003.

	2004	**2003**
Allowance for loan losses, beginning of year	**$ 725,527**	$ 492,000
Provision for loan losses	**1,077,734**	271,632
Charge-offs:		
Consumer loans	**-**	(5,349)
Commercial loans	**(785,366)**	-
Real estate - mortgage	**(141,523)**	(32,756)
Total charge-offs	**(926,889)**	(38,105)
Recoveries:		
Commercial loans	**8,277**	-
Real estate - mortgage	**27,351**	-
Total recoveries	**35,628**	-

	2004	2003
Net charge offs	**(891,261)**	(38,105)
Allowance for loan losses, end of year	$ **912,000**	$ 725,527
Allowance for loan losses to loans outstanding	**1.33%**	1.25%
Net charge-offs to average loans	**1.41%**	0.08%

The following table allocates the allowance for loan losses by loan category at December 31, 2004 and 2003. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	2004		2003	
	Amount	**Percent of Loans in Category to Total Loans**	**Amount**	**Percent of Loans in Category to Total Loans**
Commercial	$ **192,276**	**21.1%**	$ 234,104	18.7%
Real estate - construction	**96,213**	**10.5**	21,700	3.1
Real estate - mortgage	**586,249**	**64.3**	429,924	64.6
Consumer	**37,262**	**4.1**	39,799	13.6
Total allowance for loan losses	$ **912,000**	**100.0%**	$ 725,527	100.0%

There was no other real estate owned or repossessed collateral at December 31, 2004 and 2003.

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The following table summarizes loan maturities, by type, at December 31, 2004 and 2003. The information in the table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewals of such loans are subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected below depending on prime rate movement and because borrowers have the right to prepay obligations with or without prepayment penalties.

	One Year or Less	**After One but Within Five Years**	**After Five Years**	**Total**
December 31, 2004:				
Commercial	**$ 5,596,319**	**$ 4,016,654**	**$ 1,375,457**	**$ 10,988,430**
Real estate - construction	**4,488,193**	**1,624,647**	**673,727**	**6,786,567**
Real estate - mortgage	**9,138,737**	**31,156,112**	**1,858,192**	**42,153,041**
Consumer	**734,311**	**1,530,290**	**6,261,051**	**8,525,652**
Total loans	**$ 19,957,560**	**$ 38,327,703**	**$ 10,168,427**	**$ 68,453,690**
Loans maturing after one year with:				
Fixed interest rates				**$ 13,284,887**
Floating interest rates				**$ 35,211,243**

		After One		
December 31, 2003:				
Commercial	$ 6,305,010	$ 3,115,169	$ 1,418,839	$ 10,839,018
Real estate - construction	756,445	1,052,312	--	1,808,757
Real estate - mortgage	8,156,834	28,812,270	583,878	37,552,982
Consumer	1,184,357	1,374,376	5,345,641	7,904,374
Total loans	$ 16,402,646	$ 34,354,127	$ 7,348,358	$ 58,105,131
Loans maturing after one year with:				
Fixed interest rates				$ 10,109,267
Floating interest rates				$ 31,593,218

Deposits

Deposits are our primary source of funds for loans and investments. Total deposits were $80.5 million at December 31, 2004, an increase of $8.6 million, or 12%, over the $71.9 million reported at December 31, 2003. The following is a table of deposits by category at December 31, 2004 and 2003.

	2004		2003	
	Amount	Percent of Total	Amount	Percent of Total
Non-interest bearing	**$ 11,038,297**	**13.7%**	$ 12,117,998	16.9%
Interest bearing checking	**4,727,892**	**5.9**	4,650,485	6.5
Money market	**16,446,820**	**20.4**	13,254,094	18.4
Savings	**958,610**	**1.2**	931,551	1.3
Time deposits less than $100,000	**12,971,003**	**16.1**	12,640,640	17.6
Time deposits of $100,000 or more	**34,358,978**	**42.7**	28,281,187	39.3
Total deposits	**$ 80,501,600**	**100.0%**	$ 71,875,955	100.0%

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Core deposits, which consist of local demand deposits and time deposits of less than $100,000, provide a relatively stable funding source for our lending and investing activities. Our core deposits totaled $42.7 million, or 53% of total deposits, at December 31, 2004 compared to $39.9 million, or 55% of total deposits, at December 31, 2003. Time deposit balances over $100,000 and deposits obtained from outside the market area are not considered core deposits because their retention can be expected to be heavily influenced by rates offered at renewal. At December 31, 2004, the total of deposits outside of the bank s primary market totaled $28.6 million. Due to the developed national market for certificates of deposit, we anticipate being able to either renew or replace the deposits obtained outside of the market area when they mature, however, no assurance can be given that we will be able to replace these deposits with the same terms.

The maturity distribution of our time deposits of $100,000 or more at December 31, 2004 is shown in the following table.

Three months or less	**$ 18,354,733**
Over three through six months	**13,284,083**
Over six through twelve months	**1,995,066**
Over twelve months	**725,096**
Total	**$ 34,358,978**

Other Borrowings

We maintain federal funds lines of credit with correspondent banks to meet short-term liquidity needs. Also, as a member of the FHLB, we have access to borrowings through various FHLB programs. At December 31, 2004 and 2003, there were no short-term borrowings outstanding. At December 31, 2004, there were $6.7 million of FHLB advances outstanding at fixed rates of 2.44% 3.78% (with a weighted average rate of 3.41%) having maturities ranging from approximately 8 months to 53 months. One of the advances (with an outstanding balance of $3.0 million) is convertible at the option of the FHLB to three-month LIBOR if three-month LIBOR exceeds 7% in the five business days preceding May 30, 2006. There were investment securities with a market value of approximately $7.8 million pledged as collateral on the FHLB advances.

At December 31, 2003, there were $3.8 million of FHLB advances outstanding at fixed rates of 2.65% 3.78% (with a weighted average rate of 3.22%) having maturities ranging from approximately 8 months to 3 years and there were investment securities with a market value of approximately $5.1 million pledged as collateral. See Liquidity and Capital Resources for additional details of our borrowing arrangements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control. We must maintain adequate liquidity to respond to short-term deposit withdrawals, maturities of short-term borrowings, loan demand and payment of operating expenses.

At December 31, 2004, our liquid assets, consisting of cash and due from banks and federal funds sold, net of drafts outstanding totaled $6.9 million. Investment securities that have not been pledged as security for deposits and other borrowings, classified as available for sale, provide a secondary source of liquidity because they can be converted to cash in a timely manner. These non-pledged securities had a market value of $4.4 million at December 31, 2004. Our ability to raise additional deposits and to borrow funds also serves as an additional liquidity resource. Our regulatory capital ratios are at levels that support continued leveraging through expansion of our deposit base and additional borrowings. We maintain federal funds lines of credit totaling $10.4 million with correspondent banks. Advances under these agreements are unsecured and are limited to terms ranging from 5 to 30 days. These banks have reserved the right to withdraw these lines at their option. We have an approved credit limit of approximately $19.3 million with the FHLB, with $12.5 million unused at December 31, 2004. Further advances from the FHLB are limited to available collateral acceptable to the FHLB which at December 31, 2004 amounted to $12.2 million, consisting of qualifying loans, non-pledged investment securities and FHLB stock.

Until the completion of the merger, we plan to meet our future cash needs through maturities of loans, maturities and cash flows from investment securities, expansion of our deposit base, and other borrowings.

At December 31, 2004, unfunded commitments to extend credit were approximately $13.6 million and outstanding letters of credit were $546,324. No material capital expenditures are planned in 2005.

The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0 % to 100 %. The Federal Reserve guidelines also contain an exemption from the capital requirements for bank holding companies with less than $150 million in consolidated assets. Because New Commerce BanCorp has less than $150 million in assets, it currently is not subject to these guidelines. However, New Commerce Bank falls under these rules as set by bank regulatory agencies.

Under the capital adequacy guidelines, capital is classified into two tiers. Tier 1 capital consists of common shareholders equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. Tier 2 capital consists of the general reserve for loan losses subject to certain limitations.

The qualifying capital base for purposes of the risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The bank is also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

The bank exceeded the minimum capital requirements set by the regulatory agencies at December 31, 2004 and 2003. The following is a table that reflects the leverage and risk-based regulatory capital ratios of the bank at December 31, 2004 and 2003.

	2004		2003	
	Actual	**Minimum**	**Actual**	**Minimum**
Total capital (to risk-weighted assets)	**11.1%**	**8.0%**	11.6%	8.0%
Tier 1 capital (to risk-weighted assets)	**9.9**	**4.0**	10.5	4.0
Tier 1 capital (to average assets)	**8.4**	**4.0**	9.4	4.0

INTEREST RATE SENSITIVITY

Interest rate sensitivity is defined as the exposure to variability in net interest income resulting from changes in market-based interest rates. Asset/liability management is the process by which we monitor and control the mix, maturities and interest sensitivity of our assets and liabilities. Asset/liability management seeks to ensure adequate liquidity and capital while maintaining an appropriate balance between interest-sensitive assets and liabilities to minimize potentially adverse impacts on earnings from changes in market interest rates. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability.

As a part of our measurement of interest rate sensitivity, we use a gap analysis, which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given time period. However, since interest rates and yields on various interest sensitive assets and liabilities do not all adjust in the same degree when there is a change in prevailing interest rates (such as prime rate), the traditional gap analysis is only a general indicator of rate sensitivity and net interest income volatility. Also, net interest income may be impacted by other significant factors in a given interest rate environment, including changes in the volume and mix of earning assets and interest-bearing liabilities. Therefore, we also contract with a third-party to assist in the preparation of a rate sensitivity model which applies rate sensitivity measures to assets and liabilities that will reprice within one year at assumed upward and downward shifts in prime rate. From our latest analysis, we have estimated that net interest income over a one-year time frame generally would decrease with a decrease in prime rate and increase with an increase in prime rate. The estimates, using a 100 basis point shift in prime rate downward and upward, shows an effect on net interest income of approximately minus $310,000 and plus $263,000, respectively. These numbers are to be taken as general indications only, in that they were derived from a methodology that utilizes numerous assumptions about sensitivities of various assets and liabilities to changes in interest rates. These estimates are used as a guide by management, recognizing that model risk is always present whenever assumptions of the future must be made. Actual results may differ from the estimates should there be changes in interest rates.

Interest sensitivity is monitored and managed by our management and a committee consisting of certain members of management and our board of directors. We believe that the current level of interest sensitivity is acceptable and manageable considering our business plan, capital level and other factors.

The following table presents our gap analysis as of December 31, 2004 and 2003. The difference between rate-sensitive assets and rate sensitive liabilities is shown below as the period interest-sensitive gap.

	Within Three Months	After Three but Within Twelve Months	After One but Within Five Years	After Five Years	Total

		After Three			
December 31, 2004:					
Earning assets:					
Loans, gross	**$ 52,441,131**	**$ 1,675,004**	**$ 12,237,050**	**$ 2,100,505**	**$ 68,453,690**
Investment securities	**1,883,118**	**2,449,208**	**6,021,524**	**5,220,547**	**15,574,397**
Federal funds sold	**6,008,171**	**-**	**-**	**-**	**6,008,171**
FHLB and FRB stock	**692,450**	**-**	**-**	**-**	**692,450**
Total earning assets	**61,024,870**	**4,124,212**	**18,258,574**	**7,321,052**	**90,728,708**
Interest-bearing liabilities:					
Deposits:					
Interest checking	**4,727,892**	**-**	**-**	**-**	**4,727,892**
Savings accounts	**958,610**	**-**	**-**	**-**	**958,610**
Money market accounts	**16,446,820**	**-**	**-**	**-**	**16,446,820**
Time deposits	**23,584,068**	**19,494,261**	**4,251,652**	**-**	**47,329,981**
FHLB advances	-	**2,500,000**	**4,250,000**	**-**	**6,750,000**
Total interest-bearing liabilities	**45,717,390**	**21,994,261**	**8,501,652**	**-**	**76,213,303**
Period interest-sensitive gap	**$ 15,307,480**	**$ (17,870,049)**	**$ 9,756,922**	**$ 7,321,052**	**$ 14,515,405**
Cumulative interest-sensitive gap	**$ 15,307,480**	**$ (2,562,569)**	**$ 7,194,353**	**$ 14,515,405**	
Ratio of cumulative interest-sensitive gap to earning assets	**16.9%**	**(2.8)%**	**7.9%**	**16.0%**	
December 31, 2003:					
Earning assets:					
Loans, gross	$ 44,244,125	$ 2,775,033	$ 10,763,416	$ 322,557	$ 58,105,131
Investment securities	1,109,094	1,316,290	6,460,582	5,197,630	14,083,596
Federal funds sold	5,613,657	-	-	-	5,613,657
FHLB and FRB stock	433,150	-	-	-	433,150
Total earning assets	51,400,026	4,091,323	17,223,998	5,520,187	78,235,534
Interest-bearing liabilities:					
Deposits:					
Interest checking	4,650,485	-	-	-	4,650,485
Savings accounts	931,551	-	-	-	931,551
Money market accounts	13,254,094	-	-	-	13,254,094
Time deposits	15,292,264	20,446,443	5,183,120	-	40,921,827
FHLB advances	-	1,250,000	2,500,000	-	3,750,000
Total interest-bearing liabilities	34,128,394	21,696,443	7,683,120	-	63,507,957
Period interest-sensitive gap	$ 17,271,632	$ (17,605,120)	$ 9,540,878	$ 5,520,187	$ 14,727,577
Cumulative interest-sensitive gap	$ 17,271,632	$ (333,488)	$ 9,207,390	$ 14,727,577	
Ratio of cumulative interest-sensitive gap to earning assets	22.1%	(0.4)%	11.8%	18.8%	

IMPACT OF INFLATION

The assets and liabilities of financial institutions such as ours are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and changing prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously, we seek to manage the relationships between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those, which may result from inflation.

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards and pronouncements of a recent nature are discussed in Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies. Other accounting standards that have been issued or proposed by authoritative standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Item 7. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
New Commerce BanCorp and Subsidiary
Greenville, South Carolina

We have audited the accompanying consolidated balance sheets of ***New Commerce BanCorp and Subsidiary*** (the Company) as of December 31, 2004 and 2003 and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for each of the years in the three year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***New Commerce BanCorp and Subsidiary*** at December 31, 2004 and 2003 and the results of their operations and cash flows for each of the years in the three year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Elliott Davis, LLC
Elliott Davis, LLC
Greenville, South Carolina
January 28, 2005

NEW COMMERCE BANCORP AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2004 and 2003

	2004	2003
Assets:		
Cash and due from banks	$ **1,394,040**	$ 2,605,113
Federal funds sold	**6,008,171**	5,613,657
Total cash and cash equivalents	**7,402,211**	8,218,770
Investment securities, available for sale	**15,574,682**	13,180,671
Investment securities, held to maturity (fair value of $987,890)	**-**	959,035
Federal Reserve Bank stock	**220,650**	220,650
Federal Home Loan Bank stock	**471,800**	212,500
Loans, net	**67,457,071**	57,318,166
Property and equipment, net	**4,163,713**	4,200,681
Accrued interest receivable	**349,877**	301,723
Other assets	**795,484**	431,932
Total assets	$ **96,435,488**	$ 85,044,128
Liabilities and Shareholders' Equity:		
Liabilities:		
Deposits	$ **80,501,600**	$ 71,875,955
Advances from Federal Home Loan Bank	**6,750,000**	3,750,000
Drafts outstanding	**527,661**	439,704
Other liabilities	**460,292**	309,102
Total liabilities	**88,239,553**	76,374,761
Shareholders' Equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, no shares issued	**-**	-
Common stock, $.01 par value, 10,000,000 shares authorized, 1,000,000 issued and outstanding	**10,000**	10,000
Additional paid-in capital	**9,741,658**	9,741,658
Accumulated deficit	**(1,555,903)**	(1,117,638)
Accumulated other comprehensive income	**180**	35,347
Total shareholders' equity	**8,195,935**	8,669,367
Total liabilities and shareholders' equity	$ **96,435,488**	$ 85,044,128

See accompanying notes to consolidated financial statements.

NEW COMMERCE BANCORP AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
Interest Income:			
Interest and fees on loans	**$ 3,466,529**	$ 2,580,516	$ 2,055,409
Investment securities	**756,540**	677,221	899,150
Federal funds sold	**35,264**	18,873	13,634
Total interest income	**4,258,333**	3,276,610	2,968,193
Interest Expense:			
Deposits	**1,089,478**	881,887	861,469
Securities sold under agreements to repurchase	**-**	-	69,929
Advances from Federal Home Loan Bank	**189,199**	129,883	53,716
Federal funds purchased	**4,350**	5,915	12,502
Total interest expense	**1,283,027**	1,017,685	997,616
Net Interest Income	**2,975,306**	2,258,925	1,970,577
Provision for Loan Losses	**1,077,734**	271,632	110,093
Net Interest Income After Provision for Loan Losses	**1,897,572**	1,987,293	1,860,484
Non-Interest Income:			
Service fees on deposit accounts	**254,048**	243,740	130,953
Mortgage brokerage income	**180,288**	220,283	142,267
Gain on sale of investment securities	**16,400**	125,261	87,826
Other	**81,620**	57,734	47,366
Total non-interest income	**532,356**	647,018	408,412
Non-Interest Expense:			
Salaries and benefits	**1,691,901**	1,354,672	1,215,446
Occupancy, furniture and equipment	**425,867**	388,550	355,956
Data processing	**256,290**	192,934	184,876
Marketing	**128,983**	80,371	36,049
Printing, supplies and postage	**118,599**	107,600	94,020
Other operating	**509,053**	374,392	320,521
Total non-interest expense	**3,130,693**	2,498,519	2,206,868
Income (Loss) Before Income Taxes	**(700,765)**	135,792	62,028
Income Tax Provision (Benefit)	**(262,500)**	49,998	24,500
Net Income (Loss)	**$ (438,265)**	$ 85,794	$ 37,528
Basic Earnings (Loss) per Share	**$ (0.44)**	$ 0.09	$ 0.04
Diluted Earnings (Loss) per Share	**$ (0.44)**	$ 0.08	$ 0.04

	2004	2003	2002
Weighted Average Shares Outstanding - Basic	**1,000,000**	1,000,000	1,000,000
Weighted Average Shares Outstanding - Diluted	**1,000,000**	1,018,961	1,014,473

See accompanying notes to consolidated financial statements.

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NEW COMMERCE BANCORP AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

Years Ended December 31, 2004, 2003 and 2002

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance, December 31, 2001	1,000,000	$ 10,000	$ 9,741,658	(1,240,960)	$ 247,494	$ 8,758,192
Net income	-	-	-	37,528	-	37,528
Other comprehensive income, net of tax:						
Unrealized gains on securities available for sale, net of tax effect of $76,135	-	-	-	-	98,715	-
Reclassification of net gain on securities available for sale included in net income, net of tax effect of $32,496	-	-	-	-	(55,330)	-
Other comprehensive income					43,385	43,385
Comprehensive income	-	-	-	-	-	80,913
Balance, December 31, 2002	1,000,000	10,000	9,741,658	(1,203,432)	290,879	8,839,105
Net income	-	-	-	85,794	-	85,794
Other comprehensive income, net of tax:						
Unrealized losses on securities available for sale, net of tax effect of $103,728	-	-	-	-	(176,618)	-
Reclassification of net gain on securities available for sale included in net income, net of tax effect of $46,347	-	-	-	-	(78,914)	-
Other comprehensive loss					(255,532)	(255,532)
Comprehensive loss	-	-	-	-	-	(169,738)

					Accumulated	
Balance, December 31, 2003	**1,000,000**	**10,000**	**9,741,658**	**(1,117,638)**	**35,347**	**8,669,367**
Net loss	**-**	**-**	**-**	**(438,265)**	**-**	**(438,265)**
Other comprehensive income, net of tax:						
Unrealized losses on securities available for sale, net of tax effect of $20,654	**-**	**-**	**-**	**-**	**(35,167)**	**(35,167)**
Comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(473,432)**
Balance, December 31, 2004	**1,000,000**	**$ 10,000**	**$ 9,741,658**	**$ (1,555,903)**	**$ 180**	**$ 8,195,935**

See accompanying notes to consolidated financial statements.

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NEW COMMERCE BANCORP AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2004, 2003 and 2002

	2004	**2003**	**2002**
Operating Activities:			
Net income (loss)	**$ (438,265)**	$ 85,794	$ 37,528
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	**1,077,734**	271,632	110,093
Deferred income tax provision (benefit)	**(280,045)**	40,626	22,800
Depreciation and amortization	**225,763**	199,459	123,305
Gain on sale of investment securities available for sale	**-**	(125,261)	(87,826)
Gain on sale of investment securities held to maturity	**(16,400)**	-	-
Loss on disposal of property and equipment	**-**	-	22,269
(Increase) decrease in other assets	**(29,007)**	(31,260)	44,600
Increase (decrease) in other liabilities	**151,190**	51,673	(45,851)
Net cash provided by operating activities	**690,970**	492,663	226,918
Investing Activities:			
Increase in loans, net	**(11,298,639)**	(19,652,261)	(9,505,467)
Purchase of investment securities available for sale	**(4,945,462)**	(9,597,326)	(7,842,977)
Purchase of investment securities held to maturity	**-**	-	(698,688)
Redemption of Federal Reserve Bank stock	**-**	16,600	-
(Purchase) redemption of Federal Home Loan Bank stock	**(259,300)**	37,500	(184,600)
Principal payments received on investment securities:			
Held to maturity	**79,482**	344,703	140,989
Available for sale	**1,681,451**	3,144,369	2,674,051
Proceeds from sale, maturity or call of investment securities available for sale	**1,300,000**	5,694,766	7,607,672
Proceeds from sale of investment securities held to maturity	**399,209**	-	-
Purchase of property and equipment	**(177,872)**	(150,924)	(50,128)

	2004	2003	2002
Net cash used for investing activities	**(13,221,131)**	(20,162,573)	(7,859,148)
Financing Activities:			
Increase in deposits, net	**8,625,645**	24,353,950	9,958,407
Advances from Federal Home Loan Bank	**5,500,000**	900,000	5,000,000
Repayment of advances from Federal Home Loan Bank	**(2,500,000)**	(1,875,000)	(275,000)
Net decrease in securities sold under repurchase agreements	**-**	-	(4,854,000)
Increase (decrease) in drafts outstanding	**87,957**	(1,849,856)	2,138,073
Net cash provided by financing activities	**11,713,602**	21,529,094	11,967,480
Net (Decrease) Increase in Cash and Cash Equivalents	**(816,559)**	1,859,184	4,335,250
Cash and Cash Equivalents, Beginning of Year	**8,218,770**	6,359,586	2,024,336
Cash and Cash Equivalents, End of Year	$ **7,402,211**	$ 8,218,770	$ 6,359,586
Supplemental Disclosures of Cash Flow Information:			
Cash Paid For:			
Interest	$ **1,214,334**	$ 987,040	$ 993,542
Income Taxes	$ **6,400**	$ 1,908	$ -
Transfer from loans to other real estate owned (other assets)	$ **82,000**	$ -	$ -

See accompanying notes to consolidated financial statements.

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NEW COMMERCE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - New Commerce BanCorp (the Holding Company), was incorporated under the laws of the State of South Carolina in 1998 for the purpose of operating as a bank holding company for New Commerce Bank (the Bank). The Bank provides full commercial banking services to customers and is subject to regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Holding Company is subject to the regulation of the Federal Reserve Board.

Basis of Presentation - The consolidated financial statements include the accounts of the Holding Company and its wholly-owned subsidiary, the Bank (collectively referred to as the Company). All significant intercompany balances and transactions have been eliminated. The accounting and reporting policies conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. The Company uses the accrual basis of accounting.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates.

Nature of Operations and Concentrations of Credit Risk - The Company s principal business activities are conducted through the Bank, which is engaged in the business of accepting demand and time deposits and providing loans to individuals and businesses. The Company s business is limited primarily to Greenville and adjacent counties in the northwestern area of South Carolina. The Company has a diversified loan portfolio and the borrowers ability to repay their loans is not dependent upon any specific economic sector.

Disclosure Regarding Segments - The Company reports as one operating segment, as the chief operating decision-maker reviews the results of operations of the Company as a single enterprise.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, short-term interest bearing deposits and federal funds sold. Cash and cash equivalents have an original maturity of three months or less.

Investment Securities - Investments in debt and equity securities are classified into three categories:

Available for Sale Securities: These are debt and equity securities which are not classified as either held to maturity or as trading securities. These securities are reported at fair market value. Unrealized gains and losses are reported, net of income taxes, as a separate component of shareholders equity, net of income taxes.

Held to Maturity Securities: These are debt securities which the Company has the intent and ability to hold until maturity. These securities are stated at cost, adjusted for amortization of premiums and the accretion of discounts. The Company had no held to maturity securities at December 31, 2004.

Trading Securities: These are debt and equity securities which are bought and held principally for the purpose of selling in the near term. Trading securities are reported at fair market value, and related unrealized gains and losses are recognized in the income statement. The Company has no trading securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains or losses on dispositions of investment securities are determined on a trade date basis and are based on the differences between the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are amortized or accreted into interest income by a method that approximates a level yield.

The Bank, as a member institution, is required to own certain stock investments in the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). No ready market exists for these stocks and they have no quoted market values. However, redemptions of these stocks historically have been at par value, therefore they are carried at cost. These stocks generally are pledged against any borrowings from these institutions.

Loans, Interest, and Fee Income on Loans - Loans are stated at the principal balance outstanding and reduced by the allowance for loan losses and net deferred loan origination fees. Loan origination fees and certain direct loan origination costs are deferred and the net amount is accreted as an adjustment of the related loan s yield over the contractual life of the loan. Interest income is recognized over the term of the loan based on the contractual interest rate and the principal balance outstanding.

Loans generally are placed on non-accrual status when principal or interest becomes ninety days past due, or when payment in full is not anticipated. Interest payments received after a loan is placed in non-accrual status are applied as principal reductions until such time the loan is returned to accrual status. Generally, a loan is returned to accrual status when the loan is brought current and the collectibility of principal and interest no longer is in doubt.

Allowance for Loan Losses - The Company provides for loan losses using the allowance method. Provisions for loan losses are added to the allowance through charges to operating expenses. Loans which are determined to be uncollectible are charged against the allowance and recoveries on loans previously charged off are added to the allowance. The provision for loan losses is the amount deemed appropriate by management to establish an adequate allowance to meet the present and foreseeable risk characteristics of the current loan portfolio. Management s judgment is based on periodic and regular evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses, delinquency trends, and prevailing and anticipated economic conditions. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

A loan is considered to be impaired when full payment according to the terms of the loan agreement is not probable or when the terms of a loan are modified. The fair value of impaired loans may be determined based upon the present value of expected cash flows discounted at the loan s effective interest rate, the market price of the loan, if available, or value of the underlying collateral if the loan is collateral-dependent. If a loan is determined to be impaired, a portion of the allowance for loan losses is allocated specifically to each impaired loan. When the ultimate collectibility of an impaired loan s principal is in doubt, wholly or partially, all cash receipts are applied to principal. Once the reported principal balance has been reduced to zero, future cash receipts are applied to interest income, to the extent that any interest has been foregone. Further cash receipts are recorded as recoveries of any amounts previously charged off.

NEW COMMERCE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs are charged to operations, while major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in income from operations.

Drafts Outstanding - The Company invests any excess funds on a daily basis by depositing the excess in other banks. The amount invested includes amounts outstanding for disbursement checks, and accordingly, outstanding checks are reported as a liability.

Advertising - Advertising, promotional, and other business development costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent.

Income Taxes - The asset and liability approach is utilized to account for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying values and the tax bases of assets and liabilities, as well as net operating loss carry forwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. A current tax asset or liability is recognized for taxes that are presently payable.

Stock-Based Compensation - The Company has two stock-based employee compensation plans which are described more fully in Note 14. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income (loss), as all stock options and warrants granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) per share as if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Years Ended December 31,		
	2004	**2003**	**2002**
Net income (loss) as reported	**$ (438,265)**	$ 85,794	$ 37,528
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effect	**36,855**	34,573	30,732

	Years Ended December 31,		
Pro forma net income (loss)	**$ (475,120)**	$ 51,221	$ 6,796
Earnings (loss) per share:			
Basic as reported	**$ (0.44)**	$ 0.09	$ 0.04
Diluted as reported	**$ (0.44)**	$ 0.08	$ 0.04
Basic and diluted - pro forma	**$ (0.48)**	$ 0.05	$ 0.01

NEW COMMERCE BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2004, 2003 and 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings (Loss) Per Share - Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares consist solely of dilutive stock options determined by the treasury stock method using the average market price of the shares during the period. Potential common shares for the years ended December 31, 2004, 2003 and 2002 were 0, 18,961, and 14,473, respectively.

Comprehensive Income (Loss) - Comprehensive income (loss) consists of net income (loss) and net unrealized gains and losses on investment securities available for sale and is presented in the consolidated statements of shareholders equity and comprehensive income.

Reclassifications - Certain amounts previously reported have been reclassified to conform to the current presentation of these consolidated financial statements. These reclassifications had no effect on previously reported net income (loss) or shareholders equity.

Fair Values of Financial Instruments - The following methods and assumptions were used by the Company in estimating fair values of financial instruments recorded or disclosed in the financial statements.

Cash and Due from Banks: For these short-term instruments, the carrying amounts approximate their fair value.

Federal Funds Sold and Purchased: The carrying amounts of federal funds sold and purchased approximate their fair value due to their short maturities (generally daily maturities).

Investment Securities: Fair values for investment securities are based on quoted market prices, if a market exists. If no market exists, fair values are estimated based upon bids from securities dealers, trading of similar instruments or indices adjusted for known differences in security being valued and the security or index to which it is being compared.

FRB and FHLB Stock: No ready market exists for these stocks and they have no quoted market values. However, redemptions of these stocks historically have been at par value, therefore the cost basis is used as an estimate of their fair values.

Loans: For variable rate loans that reprice frequently and for loans that mature within one year, fair values are based on carrying values. Fair values for all other loans are estimated using discounted cash flow analyses, with interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated monthly maturities.

Advances from FHLB: Fair values for advances from FHLB are estimated using a discounted cash flow analysis, with interest rates currently being offered for remaining terms of the advances.

Accrued Interest Receivable and Payable and Drafts Outstanding: The carrying amounts of these items approximate their fair values due to the short period to settlement (three months or less).

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NEW COMMERCE BANCORP AND SUBSIDIARY
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Off-Balance Sheet Instruments: Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing. The total fair value of such instruments is not material.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and, therefore, cannot be determined with precision. Changes in assumptions could affect these estimates significantly.

Recently Issued Accounting Standards - In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) will require companies to measure all employee stock-based compensation awards using a fair value method and record such expense in its financial statements. In addition, the adoption of SFAS No. 123(R) requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective beginning as of the first interim or annual reporting period beginning after December 15, 2005. The Company is currently evaluating the impact that the adoption of SFAS No. 123(R) will have on its financial position, results of operations and cash flows. The cumulative effect of adoption, if any, will be measured and recognized in the statement of operations on the date of adoption.

Other accounting standards that have been issued or proposed by the standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

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NEW COMMERCE BANCORP AND SUBSIDIARY
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NOTE 2 - PENDING MERGER

On December 16, 2004, the Holding Company entered into a merger agreement with SCBT Financial Corporation (SCBT), which was amended on January 20, 2005. Under the amended agreement SCBT Interim Corporation, a wholly-owned subsidiary of South Carolina Bank & Trust, N.A, will merge with and into the Holding Company. Immediately thereafter, the Holding Company and the Bank will merge with and into South Carolina Bank & Trust, N.A., a wholly-owned subsidiary of SCBT. Under the Merger Agreement, shareholders of the Holding Company will receive $18.00 per share in cash of common stock. Holders of stock options and warrants will receive a cash payment equal to the spread between $18.00 per share and the exercise price per share of the stock covered by the option or warrant. The boards of directors of both the Holding Company and SCBT have approved the merger agreement. The merger is subject to the approval of the shareholders of the Holding Company, regulatory approvals, and other customary closing conditions. Closing is expected to occur in the second quarter of 2005. There are certain expenses which have been and will be incurred which are not contingent upon the closing of the transaction. These expenses are recognized as incurred and approximately $240,000 of such expenses were charged to earnings in 2004. Certain other expenses will be incurred only upon closing of the transaction, such as obligations under employment contracts, success fees to the Company s financial advisor, contract termination penalties, etc. As closing has not yet occurred, such expenses have not been recognized in these financial statements.

NOTE 3 - RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank is required to maintain average reserve balances, computed by applying prescribed percentages to its various types of deposits, either at the bank or on deposit with the FRB. At December 31, 2004 and 2003 these required reserves were met by vault cash.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities at December 31, 2004 and 2003 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2004				
Available for sale:				
Federal agency obligations	**$ 1,491,010**	**$ -**	**$ 10,443**	**$ 1,480,567**
Mortgage-backed securities	**10,478,795**	**80,640**	**131,037**	**10,428,398**
Collateralized mortgage obligations	**1,304,322**	**1,897**	**16,789**	**1,289,430**
Corporate bonds	**2,300,270**	**76,017**	**-**	**2,376,287**
Total available for sale	**$ 15,574,397**	**$ 158,554**	**$ 158,269**	**$ 15,574,682**
December 31, 2003				
Available for sale:				
Federal agency obligations	$ 1,288,951	$ 856	$ 462	$ 1,289,345
Mortgage-backed securities	8,574,759	12,033	131,940	8,454,852
Collateralized mortgage obligations	963,432	608	19,345	944,695
Corporate bonds	2,297,419	194,360	-	2,491,779
Total available for sale	$ 13,124,561	$ 207,857	$ 151,747	$ 13,180,671
Held to maturity:				
Federal agency obligations	$ 199,362	$ 7,579	$ -	$ 206,941
Mortgage-backed securities	259,673	24,041	-	283,714
Corporate bonds	500,000	-	2,765	497,235
Total held to maturity	$ 959,035	$ 31,620	$ 2,765	$ 987,890

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Notes to Consolidated Financial Statements
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NOTE 4 - INVESTMENT SECURITIES (Continued)

At December 31, 2004, there were securities with a fair value of $3.4 million pledged as collateral for public deposits and securities with a fair value of $7.8 million pledged as collateral for FHLB advances.

In 2004, certain held to maturity securities were sold to obtain cash for a capital contribution to the Bank. As a result of the sale of these securities, as required by accounting standards, management reassessed its intention to hold the only other investment security classified as held-to-maturity and transferred that security to the available-for-sale category. The security had a cost basis of $500,000 and a market value of $485,000 at the date of transfer. Subsequent to the transfer, the security was sold for $500,000.

The Company had gross realized gains on sales of investment securities in the amount of $16,400, $125,261, and $87,826 during the years ended December 31, 2004, 2003, and 2002, respectively. There were no realized losses during any period presented herein.

All of the Company s investments that were in an unrealized loss position at December 31, 2004 have been evaluated and deemed not to be other-than-temporarily impaired under relevant accounting principles. This determination was made by consideration of the nature of the investments and the causal factors of the unrealized losses. In all cases, the principal cause of the decline in market value was due to the increase in market interest rates subsequent to purchase of the securities. The unrealized losses are comprised of nine securities that have had continuous losses of less than 12 months and two securities that have had continuous losses 12 months or longer. None of the individual investment securities had an unrealized loss which exceeded 5% of its amortized cost.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004 are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Unrealized Losses	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
Federal agency obligations	**$ 10,443**	**$ 1,480,567**	**$ -**	**$ -**	**$ 10,443**	**$ 1,480,567**
Mortgage-backed securities	**24,618**	**3,795,752**	**106,419**	**3,195,052**	**131,037**	**6,990,804**
Collateralized mortgage obligations	**16,789**	**911,712**	**-**	**-**	**16,789**	**911,712**
Total	$ **51,850**	$ **6,188,031**	$ **106,419**	$ **3,195,052**	$ **158,269**	$ **9,383,083**

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NEW COMMERCE BANCORP AND SUBSIDIARY
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NOTE 5 - LOANS

Loans receivable at December 31, 2004 and 2003 consisted of the following:

	2004	**2003**
Commercial	**$ 10,988,430**	$ 10,839,018
Real estate - construction	**6,786,567**	1,808,757
Real estate - mortgage	**42,153,041**	37,552,982
Consumer	**8,525,652**	7,904,374
	68,453,690	58,105,131
Less:		
Allowance for loan losses	**912,000**	725,527
Deferred loan fees, net	**84,619**	61,438
Net loans	**$ 67,457,071**	$ 57,318,166

The changes in the allowance for loan losses consisted of the following for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Balance, beginning of year	**$ 725,527**	$ 492,000	$ 405,000
Provision for loan losses	**1,077,734**	271,632	110,093
Recoveries	**35,628**	-	-
Loans charged off	**(926,889)**	(38,105)	(23,093)
Balance, end of year	**$ 912,000**	$ 725,527	$ 492,000

At December 31, 2004 and 2003, the Company had loans totaling $390,040 and $536,100, respectively, that were in non-accrual status. Interest income that would have been recognized for the years ended December 31, 2004 and 2003 had these non-accrual loans been current in accordance with their contractual terms amounted to $14,075 and $22,003, respectively. The amount of interest included in interest income on such loans for the years ended December 31, 2004 and 2003 was $3,917 and $21,731, respectively. There were no non-accrual loans at December 31, 2002.

Impaired loans at December 2004 and 2003 were as follows:

	2004	2003
Impaired loans:		
No valuation allowance required	**$ 390,040**	$ 449,000
Valuation allowance required	**88,227**	463,036
	$ 478,267	$ 912,036
Valuation allowance	**$ 44,114**	$ 168,330

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Notes to Consolidated Financial Statements
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NOTE 5 - LOANS (Continued)

The average recorded investment in impaired loans was $523,363 and $955,496 for the years ended December 31, 2004 and 2003, respectively. Interest income recognized on impaired loans in the years ended December 31, 2004 and 2003 was $6,900 and $34,773, respectively. There were no impaired loans at December 31, 2002.

Certain directors, executive officers and companies with which they are affiliated (collectively referred to as insiders) are customers of and have banking transactions with the Bank in the ordinary course of business. Loans to insiders were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions.

Loan transactions with insiders during the years ended December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Balance, beginning of year	**$ 2,951,689**	$ 2,405,706
New loans	**762,234**	688,905
Less loan payments	**836,068**	142,922

	2004	2003
Balance, end of year	**$ 2,877,855**	$ 2,951,689

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Land	**$ 1,466,997**	$ 1,466,997
Building and improvements	**2,477,955**	2,477,205
Furniture and equipment	**1,047,027**	869,904
	4,991,979	4,814,106
Less accumulated depreciation	828,266	613,425
Property and equipment, net	**$ 4,163,713**	$ 4,200,681

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was $214,840, $183,063, and $162,918, respectively.

NOTE 7 - DEPOSITS

Deposit accounts at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Non-interest bearing deposits	**$ 11,038,297**	$ 12,117,998
Interest bearing deposits:		
Interest checking	**4,727,892**	4,650,485
Money market	**16,446,820**	13,254,094
Savings	**958,610**	931,551
Time, less than $100,000	**12,971,003**	12,640,640
Time, $100,000 and over	**34,358,978**	28,281,187
Total deposits	**$ 80,501,600**	$ 71,875,955

Deposits by insiders at December 31, 2004 and 2003 approximated $3,176,000 and $3,768,000, respectively.

Deposits from outside the Company s market area obtained through brokers amounted to $28,592,150,or approximately 36%, and $22,039,790, or approximately 31%, at December 31, 2004 and 2003, respectively.

At December 31, 2004 the scheduled maturities of time deposits were as follows:

2005	**$ 43,078,329**
2006	**3,209,523**
2007	**1,042,129**
Total time deposits	**$ 47,329,981**

Interest expense by type of deposit account for the years ended December 31, 2004, 2003 and 2002 is summarized as follows:

	2004	2003	2002
Interest checking	**$ 24,531**	$ 25,573	$ 30,452
Money market	**180,566**	165,472	221,653
Savings	**4,460**	4,827	6,579
Time	**879,921**	686,015	602,785
Interest expense	**$ 1,089,478**	$ 881,887	$ 861,469

NEW COMMERCE BANCORP AND SUBSIDIARY
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NOTE 8 - ADVANCES FROM FHLB

Advances from FHLB consisted of the following at December 31, 2004 and 2003:

	2004		2003	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Maturing within:				
1 year	**$ 2,500,000**	**2.84%**	$ 1,250,000	2.65%
2 years	**1,250,000**	**3.78**	1,250,000	3.24
3 years	**-**	**-**	1,250,000	3.78
5 years	**3,000,000**	**3.73**	-	-
Outstanding at end of year	**$ 6,750,000**	**3.41%**	$ 3,750,000	3.22%

At December 31, 2004, the FHLB advances were at fixed rates with original maturities ranging from one to five years. At December 31, 2004, one of the advances (with an outstanding balance of $3,000,000) is convertible at the option of the FHLB to three-month LIBOR if three-month LIBOR exceeds 7% in the five business days preceding May 30, 2006. Investment securities with a market value of approximately $7.8 million were pledged as collateral on the advances. At December 31, 2004, the Company had a total approved credit limit of approximately $19.3 million, subject to the Company s ability to pledge qualifying collateral.

NOTE 9 - OTHER BORROWINGS

The following sets forth certain information about securities sold under agreements to repurchase during the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002

Balance outstanding at end of year	$ -	$ -	$ -
Average balance for months outstanding	-	-	4,788,204
Maximum month-end balance during year	-	-	4,854,000
Average interest rate for months outstanding	-%	-%	2.37%
Average interest rate at end of year	-%	-%	-%
Investment securities underlying the agreements at year end:			
Carrying value	$ -		