

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-5735

PROVIDENT COMMUNITY BANCSHARES, INC.

(Exact name of registrant as specified in its Charter)

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)

57-1001177  
(I.R.S. Employer  
Identification No.)

203 West Main Street, Union, South Carolina 29379  
(Address of Principal Executive Offices)

(864) 429-1864  
(Registrant's telephone number, including area code)

UNION FINANCIAL BANCSHARES, INC.

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

The Corporation had 1,866,731 shares, \$0.01 par value, of common stock issued and outstanding as of July 26, 2006.

# PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES

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**PROVIDENT COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES**  
**(FORMERLY UNION FINANCIAL BANCSHARES, INC.)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

1. Presentation of Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Provident Community Bancshares, Inc. (the “Corporation” or “Provident”) were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments which are, in the opinion of management, necessary for the fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. The results of operations for the six months ended June 30, 2006 are not necessarily indicative of the results which may be expected for the entire calendar year. Certain amounts in the prior year’s financial statements have been reclassified to conform with current year classifications.

**Recently Issued Accounting Standards**

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

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140.” This Statement amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This Statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The Corporation does not believe that the adoption of SFAS No. 155 will have a material impact on its financial position, results of operations and cash flows.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” This Statement amends FASB No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose its subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale

securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006. The Corporation believes the adoption of SFAS No. 156 will not have a material impact on its financial position, results of operations or cash flows.

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

## 2. Income Per Share

Basic income per share amounts for the three and six months ended June 30, 2006 and 2005 were computed based on the weighted average number of common shares outstanding during the period. Diluted income per share adjusts for the dilutive effect of outstanding common stock options during the periods utilizing the treasury stock method. Common stock equivalents included in the diluted earnings per share calculation for the six months ended June 30, 2006 and 2005 were 22,875 and 62,822, respectively.

## 3. Assets Pledged

Approximately \$68,219,000 and \$83,170,000 of debt securities at June 30, 2006 and December 31, 2005, respectively, were pledged by Provident Community Bank, N.A. (the "Bank") as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements. The Bank pledges as collateral for Federal Home Loan Bank advances the Bank's Federal Home Loan Bank stock and has entered into a blanket collateral agreement with the Federal Home Loan Bank whereby the Bank maintains, free of other encumbrances, qualifying mortgages (as defined) with unpaid principal balances equal to, when discounted at 75% of the unpaid principal balances, 100% of total advances. As part of the total assets pledged, the Bank will also pledge securities to cover additional advances from the Federal Home Loan Bank that exceed the qualifying mortgages balance along with security repurchase lines with various brokerage houses.

## 4. Contingencies and Loan Commitments

In the ordinary course of business, the Bank enters into financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These instruments expose the Bank to credit risk in excess of the amount recognized on the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Total credit exposure at June 30, 2006 related to these items is summarized below:

<u>Loan Commitments:</u>	<u>Contract Amount</u>
Approved loan commitments	\$ 2,215,000
Unadvanced portions of loans and credit lines	<u>44,891,000</u>
Total loan commitments	<u>\$ 47,106,000</u>

Loan commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held is primarily residential and commercial property. Commitments outstanding at June 30, 2006 consisted of fixed and adjustable rate loans at rates ranging from 6.5% to 8.5%. Commitments to originate loans generally expire within 30 to 60 days.

Commitments to fund loans, including credit lines (principally variable rate, consumer lines secured by real estate and overdraft protection) totaled approximately \$106,085,000 at June 30, 2006. Of these lines, the outstanding loan balances totaled approximately \$61,194,000.

#### 5. Floating Rate Junior Subordinated Deferrable Interest Debentures

A summary of the Subordinated Deferrable Interest Debentures issued and outstanding follows:

<u>Name</u>	<u>Amount Outstanding at June 30,</u>		<u>Rate</u>	<u>Prepayment Option Date</u>	<u>Maturity</u>	<u>Distribution Payment Frequency</u>
	<u>2006</u>	<u>2005</u>				
Union Financial Statutory Trust I	\$8,000,000	\$8,000,000	8.99%	December 18, 2006	December 18, 2031	Quarterly

#### 6. Stock-Based Compensation

On January 1, 2006, the Company adopted 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 account for compensation costs under its stock option plans. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no

compensation costs were recognized for the Company's stock options because the option exercise price in its plans equals the market price on the date of grant. Prior to January 1, 2006, the Company only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123®) had been utilized.

In adopting SFAS No. 123®), the Company elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant. The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts).

	Six Months Ended	
	June 30,	
	2006	2005
Net income as reported	\$ 1,338	\$ 1,088
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.	24	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(24)	(96)
Pro forma net income including stock-based compensation cost based on fair-value method	\$ 1,338	\$ 992
Earnings per share:		
Basic—as reported	\$ 0.71	\$ 0.57
Basic—pro forma	\$ 0.71	\$ 0.52
Diluted—as reported	\$ 0.70	\$ 0.55
Diluted—pro forma	\$ 0.70	\$ 0.50

#### Subsequent Event

On July 21, 2006, the Corporation completed a private placement of \$4 million in trust preferred securities. In connection with the sale of the trust preferred securities, the Corporation issued \$4,124,000 aggregate principal amount of Fixed/Floating Rate Junior Subordinated Debt Securities due 2036. The Company intends to use the proceeds from the issuance of the trust preferred securities for general corporate purposes and to increase the regulatory capital of the Bank. The trust preferred securities will bear a rate equal to 7.393% for the first five years following the offering. After the first five years, the securities will bear a rate equal to 174 basis points over the three-month LIBOR. The Subordinated Debt Securities bear an identical interest rate. The trust

preferred securities were issued by a statutory business trust formed by the Corporation and were sold in a private placement pursuant to an applicable exemption from registration under the Securities Act of 1933, as amended.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### Critical Accounting Policies

The Corporation has adopted various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of financial statements.

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

The Corporation believes the allowance for loan losses is a critical accounting policy that requires significant judgments and estimates used in the preparation of consolidated financial statements. Management reviews the level of the allowance on a monthly basis and establishes the provision for loan losses based on the nature and volume of the loan portfolio, overall portfolio quality, delinquency levels, a review of specific problem loans, loss experience, economic conditions, and other factors related to the collectibility of the loan portfolio. A portion of the allowance is established by segregating the loans by residential mortgage, commercial and consumer loans and assigning allocation percentages based on historical loss experience and delinquency trends. The applied allocation percentages are reevaluated at least annually to ensure their relevance in the current economic environment. Accordingly, increases in the size of the loan portfolio and the increased emphasis on commercial real estate and commercial business loans, which carry a higher degree of risk of default and, thus, a higher allocation percentage, increases the allowance. Additionally, a portion of the allowance is established based on the level of classified assets.

Although the Corporation believes that it uses the best information available to establish the allowance for loan losses, future additions to the allowance may be necessary based on estimates that are susceptible to change as a result of changes in economic conditions and other factors. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review the Corporation's allowance for loan losses. Such agency may require the Corporation to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination.

## Forward Looking Statements

Management's discussion and analysis of financial condition and results of operations and other portions of this Form 10-Q may contain certain "forward-looking statements" concerning the future operations of the Corporation and the Bank. These forward-looking statements are generally identified by the use of the words "believe," "expect," "intend," "anticipate," "estimate," "project," or similar expressions. Management intends to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Corporation of the protections of such safe harbor with respect to all forward-looking statements contained in this report to describe future plans and strategies. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could effect actual results include interest rate trends, the general economic climate in the Corporation's and the Bank's market area and the country as a whole, the ability of the Corporation and the Bank to control costs and expenses, competitive products and pricing, loan delinquency rates, the quality and composition of the loan and investment portfolios, changes in accounting principles and guidelines and changes in federal and state regulation. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements.

Except as required by applicable law or regulation, the Corporation does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward looking statements to reflect events or circumstances after the date of these statements or to reflect the occurrence of anticipated or unanticipated events.

## Financial Condition

### Assets

Total assets of the Corporation increased \$8,462,000, or 2.28%, to \$379,504,000 at June 30, 2006 from \$371,042,000 at December 31, 2005. Investments and mortgage-backed securities decreased approximately \$14,089,000, or 9.63%, from December 31, 2005 to June 30, 2006, due to the sale and maturity of securities. Proceeds from the maturity and sale of investment securities were utilized to fund growth in higher-yielding loans.

### Investment and Mortgage-backed Securities

Held to Maturity-Securities classified as held to maturity consisted of the following (in thousands):

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Municipal Securities	<u>\$3,193</u>	<u>\$3,165</u>	<u>\$3,204</u>	<u>\$3,247</u>

Available for Sale-Securities classified as available for sale consisted of the following (in thousands):

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Investment Securities:				
U.S. Agency Obligations	\$80,566	\$78,182	\$84,631	\$83,443
Municipal Securities	10,602	10,910	17,328	18,180
Other	<u>15,317</u>	<u>15,327</u>	<u>14,530</u>	<u>14,621</u>
Total Investment Securities	<u>106,485</u>	<u>104,419</u>	<u>116,489</u>	<u>116,244</u>
Mortgage-backed Securities:				
Fannie Mae	16,897	16,070	17,370	16,771
Ginnie Mae	60	62	67	69
Freddie Mac	3,799	3,779	4,572	4,579
Collateralized Mortgage Obligations	<u>4,834</u>	<u>4,671</u>	<u>5,523</u>	<u>5,416</u>
Total Mortgage-backed Securities	<u>25,590</u>	<u>24,582</u>	<u>27,532</u>	<u>26,835</u>
Total Available for Sale	<u>\$132,075</u>	<u>\$129,001</u>	<u>\$144,021</u>	<u>\$143,079</u>

Loans increased \$21,726,000, or 11.28%, to \$214,303,000 at June 30, 2006. The Corporation continues to focus on consumer and commercial lending with specialized loan officers and products.

Loans receivable consisted of the following (in thousands):

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Mortgage loans:		
Fixed rate residential	\$20,848	\$23,859
Adjustable-rate residential	10,701	12,701
Commercial real estate	51,489	45,665
Construction	<u>6,684</u>	<u>4,842</u>
Total mortgage loans	<u>89,722</u>	<u>87,067</u>
Commercial loans:		
Commercial non-real estate	43,591	39,453
Commercial lines of credit	<u>43,785</u>	<u>31,215</u>
Total commercial loans	<u>87,376</u>	<u>70,668</u>
Consumer loans:		
Home equity	17,047	16,427
Consumer and installment	26,505	23,067
Consumer lines of credit	<u>362</u>	<u>382</u>
Total consumer loans	<u>43,914</u>	<u>39,876</u>
Total loans	<u>221,012</u>	<u>197,611</u>
Less:		
Undisbursed portion of interim construction loans	(3,510)	(1,980)
Unamortized loan discount	(704)	(764)
Allowance for loan losses	(2,574)	(2,394)
Net deferred loan origination costs	<u>79</u>	<u>104</u>
Total, net	<u>\$214,303</u>	<u>\$192,577</u>
Weighted-average interest rate of loans	7.88%	7.64%

Other assets increased \$888,000, or 32.53%, to \$3,618,000, from December 31, 2005 to June 30, 2006, due to an increase in a net deferred tax receivable that was related to the mark to market adjustment for investments available for sale.

### Liabilities

Total liabilities increased \$9,618,000, or 2.78%, to \$355,327,000 at June 30, 2006 from \$345,709,000 at December 31, 2005. Deposits increased \$15,240,000, or 6.36%, to \$254,843,000 at June 30, 2006 from \$239,603,000 at December 31, 2005. The increase was due primarily to growth in lower cost demand accounts partially offset by a reduction in higher cost certificates of deposit accounts. The Corporation continues to target lower cost demand deposit accounts through media advertising.

Deposit accounts were as follows (in thousands):

<u>Account Type</u>	<u>June 30, 2006</u>			<u>December 31, 2005</u>		
	<u>Rate</u>	<u>Balance</u>	<u>%</u>	<u>Rate</u>	<u>Balance</u>	<u>%</u>
NOW accounts:						
Commercial non-interest-bearing	--	\$15,095	5.92%	--	\$14,651	6.11%
Non-commercial	2.57%	54,166	21.26%	1.93%	51,447	21.47%
Money market checking accounts	4.48%	24,961	9.79%	2.55%	14,414	6.02%
Regular savings	0.61%	<u>16,530</u>	<u>6.49%</u>	0.43%	<u>16,733</u>	<u>6.98%</u>
Total demand and savings deposits	2.76%	<u>110,752</u>	<u>43.46%</u>	1.50%	<u>97,245</u>	<u>40.58%</u>
Savings certificates:						
Up to 3.00%		37,539	14.73%		55,105	23.00%
3.01 %- 4.00%		42,082	16.51%		56,033	23.38%
4.01 %- 5.00%		46,781	18.36%		23,862	9.96%
5.01 %- 6.00%		12,159	4.77%		2,720	1.13%
6.01 %- 7.00%		23	0.01%		23	0.02%
7.01 %- 8.00%		--	0.00%		--	0.00%
Total savings certificates	3.55%	<u>138,584</u>	<u>54.38%</u>	2.75%	<u>137,743</u>	<u>57.49%</u>
Sweep accounts	<u>5.09%</u>	<u>5,507</u>	<u>2.16%</u>	<u>3.43%</u>	<u>4,615</u>	<u>1.93%</u>
Total deposit accounts	3.03%	<u>\$254,843</u>	<u>100.00%</u>	2.57%	<u>\$239,603</u>	<u>100.00%</u>

At June 30, 2006 and December 31, 2005, the Bank had \$59,400,000 and \$75,715,000, respectively, of advances outstanding from the FHLB. The maturity of the advances from the FHLB is as follows (in thousands):

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Wtd</u>	<u>Avg Rate</u>	<u>Wtd</u>	<u>Avg Rate</u>
Contractual Maturity:				
Within one year - fixed rate	\$ --	-- %	\$10,000	2.35%
Within one year - adjustable rate	27,900	5.44%	23,215	4.08%
After one but within three years - fixed rate	3,000	3.35%	3,000	3.35%
After one but within three years - adjustable rate	12,500	4.69%	5,000	3.79%
After three but within five years - adjustable rate	--	-- %	7,500	5.30%
Greater than five years - adjustable rate	<u>16,000</u>	4.45%	<u>27,000</u>	4.24%
Total advances	<u>\$59,400</u>	4.91%	<u>\$75,715</u>	3.98%

The Bank pledges as collateral for the advances its FHLB stock and investment securities and has entered into a blanket collateral agreement with the FHLB whereby the Bank maintains, free of other encumbrances, qualifying loans (as defined) with unpaid principal balances equal to, when discounted at 50% to 80% of the unpaid principal balances, 100% of total advances.

Borrowings from the Federal Home Loan Bank (the "FHLB") decreased \$16,315,000, or 21.55%, to \$59,400,000 at June 30, 2006 from \$75,715,000 at December 31, 2005. Securities sold under agreement to repurchase increased \$10,000,000 to \$30,000,000 at June 30, 2006 from \$20,000,000 at December 31, 2005. During this period, securities sold under agreement to repurchase provided a lower cost funding alternative to Federal Home Loan Bank advances. Borrowings were reduced with deposit growth and reductions in investments and mortgage-backed securities. Other liabilities increased \$542,000 to \$2,133,000 at June 30, 2006 from \$1,591,000 at December 31, 2005, due primarily to an increase in outstanding loan fundings.

### Shareholders' Equity

Shareholders' equity decreased \$1,156,000, or 4.56%, to \$24,177,000 at June 30, 2006 from \$25,333,000 at December 31, 2005 due to the repurchase of 44,573 shares at a cost of \$792,000, dividend payments of \$0.21 per share at a cost of \$399,000 and a \$1,386,000 increase in unrealized losses on securities available for sale, offset by net income of \$1,338,000.

### Liquidity

Liquidity is the ability to meet demand for loan disbursements, deposit withdrawals, repayment of debt, payment of interest on deposits and other operating expenses. The primary sources of liquidity are deposits, loan repayments, borrowings, maturity and sale of securities and interest payments.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The primary investing activities of the Corporation are the origination of commercial and consumer loans, and the purchase of investment and mortgage-backed securities. These activities are funded primarily by principal and interest payments on loans and investment securities, deposit growth, securities sold under agreements to repurchase and the utilization of FHLB advances.

At June 30, 2006, the Corporation's investment in agency and mortgage-backed securities totaled \$132,194,000, nearly all of which is available for sale. Approximately \$68,219,000 and \$83,170,000 of debt securities at June 30, 2006 and December 31, 2005, respectively, were pledged by the Bank as collateral to secure deposits of the State of South Carolina, and Union, Laurens and York counties along with additional borrowings and repurchase agreements.

Additionally, outstanding loan commitments (including commitments to fund credit lines) totaled \$106,085,000 at June 30, 2006. Management of the Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation closely monitors its liquidity position on a daily basis. Certificates of deposit, which are scheduled to mature in one year or less from June 30, 2006, totaled \$103,048,000. The Corporation relies primarily on competitive rates, customer service, and long-standing relationships with customers to retain deposits. From time to time, the Corporation will also

offer special products to its customers to increase retention and to attract new deposits. Based upon the Corporation's experience with deposit retention and current retention strategies, management believes that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of such deposits will remain with the Corporation. If the Corporation requires funds beyond its ability to generate them internally, additional sources of funds are available through FHLB advances, securities sold under agreements to repurchase and lines of credit. At June 30, 2006, the Corporation had outstanding \$59,400,000 of FHLB borrowings and \$30,000,000 of securities sold under agreements to repurchase. At June 30, 2006, the Corporation had unused short-term lines of credit to purchase federal funds from unrelated banks totaling \$17,000,000 and the ability to borrow an additional \$7,500,000 from FHLB and secured borrowing lines. Lines of credit are available on a one-to-ten day basis for general purposes of the Corporation. All of the lenders have reserved the right to withdraw these lines at their option.

### Capital Management

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

Quantitative measures established by regulations to ensure capital adequacy require the Bank and the Corporation to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of June 30, 2006, that the Bank and the Corporation meet the capital adequacy requirements to which they are subject.

As of June 30, 2006, the Bank was "well capitalized" under the regulatory framework for prompt corrective action based on its capital ratio calculations. In order to be "well capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

Under present regulations of the Office of the Comptroller of the Currency, the Bank must have core capital (leverage requirement) equal to 4.0% of assets, of which 1.5% must be tangible capital, excluding intangible assets. The Bank must also maintain risk-based regulatory capital as a percent of risk weighted assets at least equal to 8.0%. In measuring compliance with capital standards, certain adjustments must be made to capital and total assets.

The following tables present the total risk-based, Tier 1 risk-based and Tier 1 leverage requirements for the Corporation and the Bank (dollars in thousands).

	<u>June 30, 2006</u>					
	<u>Actual</u>		<u>Regulatory Minimum</u>		<u>“Well Capitalized”</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	\$	%	\$	%	\$	%
Leverage ratio						
Corporation	30,917	8.39%	14,733	4.00%	n/a	n/a
Bank	30,566	8.32%	14,701	4.00%	18,377	5.00%
Tier 1 capital ratio						
Corporation	30,917	12.03%	10,279	4.00%	n/a	n/a
Bank	30,566	11.91%	10,268	4.00%	15,402	6.00%
Total risk-based capital ratio						
Corporation	33,492	13.03%	20,557	8.00%	n/a	n/a
Bank	33,141	12.91%	20,536	8.00%	25,670	10.00%

During fiscal 2003, the Corporation implemented a share repurchase program under which the Board of Directors of the Corporation authorized the repurchase of up to 5% of the outstanding shares or 98,000 shares. The program was expanded by an additional 5%, or 98,000 shares, in fiscal 2004 and by an additional 5%, or 95,000 shares in fiscal 2005. The shares are to be repurchased either through open market purchases or privately negotiated transactions and will be made from time to time depending on market conditions and other factors. Repurchased shares will be held in treasury and will be available for the Corporation’s benefit plans. During the six months ended June 30, 2006, the Corporation repurchased 44,573 shares. As of June 30, 2006, the Corporation had repurchased a total of 236,126 shares under these authorizations. Of the three authorizations, 54,874 shares remain to be purchased under the third authorization.

### **Off-Balance Sheet Risk**

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customer’s requests for funding and take the form of legally binding agreements to lend money to customers at predetermined interest rates for a specified period of time. Outstanding loan commitments (including commitments to fund credit lines) totaled \$106,085,000 at June 30, 2006. Each customer's credit worthiness is evaluated

on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on the credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, commercial and residential real estate. The credit risk on these commitments is managed by subjecting each customer to normal underwriting and risk management processes.

For the period ended June 30, 2006, the Corporation did not engage in any off-balance sheet transactions reasonably likely to have a material effect on its financial condition, results of operation and cash flows.

## **Results of operations for the three months ended June 30, 2006 and 2005**

### General

Net income increased \$90,000, or 16.39%, to \$639,000 for the three months ended June 30, 2006 as compared to \$549,000 for the same period in 2005 as increases in net interest income and non-interest income and a reduction in the provision for loan losses were partially offset by an increase in non-interest expense.

### Interest Income

Interest income increased \$1,061,000, or 22.54%, to \$5,769,000 for the three months ended June 30, 2006 as compared to the same period in 2005. Interest income on loans increased by 35.77%, or \$1,088,000, to \$4,130,000 for the three months ended June 30, 2006 from \$3,042,000 for the three months ended June 30, 2005, due primarily to increasing market interest rates along with a higher average balance of loans with a higher average rate due to our increased emphasis on commercial and consumer loan originations. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities decreased \$27,000, or 1.62%, for the three months ended June 30, 2006 to \$1,639,000 from \$1,666,000 during the same period in 2005 due to lower average balances offset by higher yields from higher market interest rates.

### Interest Expense

Interest expense increased \$880,000, or 39.86%, to \$3,088,000 for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. Interest expense on deposit accounts increased \$623,000, or 48.60%, to \$1,905,000 for the three months ended June 30, 2006 from \$1,282,000 during the same period in 2005 due to higher average balances and cost of deposits as a result of higher market rates. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits in order to reduce overall funding costs. Interest expense on borrowings increased \$218,000, or 27.74%, for the three months ended June 30, 2006 as compared to the same period in the previous year due to higher market interest rates, offset by lower average balances. Interest expense on floating rate junior subordinated deferrable interest debentures increased \$39,000, or 27.86%, to \$179,000 for the three months ended June 30, 2006 from \$140,000 during the same period in 2005 due to higher market interest rates.

### Provision for Loan Losses

During the three months ended June 30, 2006, the provision for loan losses was \$135,000 as compared to \$341,000 for the same period in the previous year with a decrease in classified loans partially offset by loan growth. Classified loans decreased \$1,064,000 from \$3,388,000 at December 31, 2005 to \$2,324,000 at June 30, 2006. Loans 30-89 days past due and still accruing was \$3,708,000 at June 30, 2006 compared to \$1,909,000 at December 31, 2005. The delinquent loans for the three months ended June 30, 2006 increased \$1,799,000 from December 31, 2005 due primarily to an increase in 3 delinquencies for commercial loans. Since the quarter end, approximately 50% of the commercial loans have been brought current. During the three months ended June 30, 2006, bad debt charge-offs, net of recoveries, was \$102,000 as compared to \$46,000 for the same period in the previous year.

### Non-Interest Income

Total non-interest income increased \$54,000, or 8.02%, to \$727,000 for the three months ended June 30, 2006 from \$673,000 for the same period in the previous year. Fees from financial services increased \$84,000, or 13.0%, to \$730,000 for the three months ended June 30, 2006 from \$646,000 for the same period in the previous year. The increase was from an increase in transaction accounts along with higher consumer and commercial loan fees from an increase in average outstanding loan balances.

### Non-Interest Expense

For the three months ended June 30, 2006, total non-interest expense increased \$283,000, or 13.54%, to \$2,373,000 from \$2,090,000 for the same period in 2005. Compensation and employee benefits increased \$162,000, or 16.48%, to \$1,145,000 for the three months ended June 30, 2006 from \$983,000 for the same period in 2005 due primarily to higher compensation and benefits costs for normal merit salary increases and additional staff due to the opening of a new banking center location in Simpsonville, South Carolina in March, 2006. Advertising/public relations expense increased \$37,000, or 160.87%, to \$60,000 for the three months ended June 30, 2006 from \$23,000 for the same period in 2005 due primarily to product and promotion expenses for the new banking center location. Loan operations expense decreased \$21,000, or 60.0%, to \$14,000 for the three months ended June 30, 2006 from \$35,000 for the same period in 2005, due to lower costs associated with loan foreclosures. Items processing expense increased \$20,000, or 68.97%, to \$49,000 for the three months ended June 30, 2006 from \$29,000 for the same period in 2005 due to transaction accounts increasing to \$94.5 million at June 30, 2006 from \$81.7 million at June 30, 2005. The Corporation continues to target lower cost demand deposit accounts through media advertising versus traditional higher cost certificates of deposits. Telephone expense increased \$13,000, or 34.21%, to \$51,000 for the three months ended June 30, 2006 from \$38,000 for the same period in 2005 due to higher expense from two new banking center openings. Other expense increased \$65,000, or 34.21%, to \$255,000 for the three months ended June 30, 2006 from \$190,000 for the same period in 2005 due to higher loan expense from increased production and higher forms and supplies expense from two new banking center openings.

## Results of operations for the six months ended June 30, 2006 and 2005

### General

Net income increased \$250,000, or 22.98%, to \$1,338,000 for the six months ended June 30, 2006 as compared to \$1,088,000 for the same period in 2005 as increases in net interest income and non-interest income and a reduction in the provision for loan losses were partially offset by an increase in non-interest expense.

### Average Yields and Rates

(dollars in thousands)

	<u>Period Ended June 30,</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Average</u>		<u>Average</u>	<u>Average</u>		<u>Average</u>
	<u>Balance</u>	<u>Interest</u>	<u>Yield/Cost</u>	<u>Balance</u>	<u>Interest</u>	<u>Yield/Cost</u>
Interest-earning assets:						
Loans (1)	\$201,029	\$7,919	7.88%	\$173,824	\$5,865	6.75%
Mortgage-backed securities	26,916	560	4.16%	36,137	744	4.12%
Investment securities	111,556	2,583	4.63%	115,456	2,346	4.06%
Other interest-earning assets	<u>5,321</u>	<u>134</u>	<u>5.04%</u>	<u>13,714</u>	<u>163</u>	<u>2.38%</u>
Total interest-earning assets	344,822	<u>11,196</u>	<u>6.49%</u>	339,131	<u>9,118</u>	<u>5.38%</u>
Non-interest-earning assets	<u>26,769</u>			<u>23,806</u>		
Total assets	<u>\$371,591</u>			<u>\$362,937</u>		
Interest-bearing liabilities:						
Deposits	247,871	3,610	2.91%	232,387	2,421	2.08%
Floating rate junior subordinated deferrable interest debentures	8,247	347	8.42%	8,247	267	6.48%
FHLB advances and other borrowings	<u>87,877</u>	<u>1,904</u>	<u>4.33%</u>	<u>94,770</u>	<u>1,481</u>	<u>3.13%</u>
Total interest-bearing liabilities	343,995	<u>5,861</u>	<u>3.41%</u>	335,404	<u>4,169</u>	<u>2.49%</u>
Non-interest-bearing liabilities	<u>2,163</u>			<u>2,085</u>		
Total liabilities	346,158			337,489		
Shareholders' equity	<u>25,433</u>			<u>25,448</u>		
Total liabilities and shareholders' equity	<u>\$371,591</u>			<u>\$362,937</u>		
Net interest income/spread		<u>\$5,335</u>	3.08%		<u>\$4,949</u>	2.89%
Net yield on earning assets			3.09%			2.92%

(1) Average balances of loans include non-accrual loans.

### Interest Income

Interest income increased \$2,078,000, or 22.79%, to \$11,196,000 for the six months ended June 30, 2006 as compared to the same period in 2005. Interest income on loans increased by 35.02%, or \$2,054,000, to \$7,919,000 for the six months ended June 30, 2006 from \$5,865,000 for the six months ended June 30, 2005, due primarily to increasing market interest rates along with a higher average balance of loans with a higher average rate due to our increased emphasis on commercial and consumer loan originations. Interest on deposits and federal funds sold, combined with interest and dividends on investment and mortgage-backed securities increased \$24,000, or 0.74%, for the six months ended June 30, 2006 to \$3,277,000 from \$3,253,000 during the same period in 2005 due to higher yields, from higher market interest rates, offset by lower average balances.

### Interest Expense

Interest expense increased \$1,692,000, or 40.59%, to \$5,861,000 for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. Interest expense on deposit accounts increased \$1,189,000, or 49.11%, to \$3,610,000 for the six months ended June 30, 2006 from \$2,421,000 during the same period in 2005 due to higher averages balances and cost of deposits as a result of higher market rates. The Corporation continues to target lower cost demand deposit accounts versus traditional higher cost certificates of deposits. Interest expense on borrowings increased \$423,000, or 28.56%, for the six months ended June 30, 2006 as compared to the same period in the previous year due to higher market interest rates, offset by lower average balances. Interest expense on floating rate junior subordinated deferrable interest debentures increased \$80,000, or 29.96%, to \$347,000 for the six months ended June 30, 2006 from \$267,000 during the same period in 2005 due to higher market interest rates.

### Provision for Loan Losses

During the six months ended June 30, 2006, the provision for loan losses was \$310,000 as compared to \$548,000 for the same period in the previous year with a decrease in classified loans partially offset by loan growth. The provision also reflects the Corporation's continued movement from longer term, fixed rate residential mortgage loans to shorter term, floating rate consumer and commercial loans. Consumer and commercial loans carry higher risk weighted rates in the reserve calculation as compared to residential mortgage loans. Real estate acquired in foreclosure and loans classified as substandard and doubtful decreased \$1,064,000 from \$3,388,000 at December 31, 2005 to \$2,324,000 at June 30, 2006. During the six months ended June 30, 2006, bad debt charge-offs, net of recoveries, was \$130,000 as compared to \$108,000 for the same period in the previous year. The Corporation's loan loss allowance at June 30, 2006 was approximately 1.19% of the Corporation's outstanding loan portfolio and 178.38% of non-performing loans compared to 1.23% of the Corporation's outstanding loan portfolio and 162.86% of non-performing loans at December 31, 2005.

The changes in the allowance for loan losses consisted of the following (in thousands):

Balance at beginning of period	\$2,394
Provision for loan losses	310
Charge-offs, net	<u>(130)</u>
Balance at end of period	<u>\$2,574</u>

The following table sets forth information with respect to the Bank's non-performing assets at the dates indicated (dollars in thousands):

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Non-accruing loans which are contractually past due 90 days or more:		
Real estate	\$ 438	\$ 461
Commercial	263	436
Consumer	<u>450</u>	<u>349</u>
Total	<u>\$1,151</u>	<u>\$ 1,246</u>
Percentage of loans receivable	<u>0.52%</u>	<u>0.64%</u>
Percentage of allowance for loan losses to total loans outstanding	<u>1.19%</u>	<u>1.23%</u>
Allowance for loan losses	<u>\$2,574</u>	<u>\$2,394</u>
Real estate acquired through foreclosure and repossessed assets	<u>\$ 407</u>	<u>\$ 224</u>

The allowance for loan loss calculation includes a segmentation of loan categories subdivided by residential mortgage, commercial and consumer loans. Each category is rated for all loans including performing groups. The weight assigned to each performing group is developed from previous loan loss experience and as the loss experience changes, the category weight is adjusted accordingly. In addition to loan loss experience, management's evaluation of the loan portfolio includes the market value of the underlying collateral, growth and composition of the loan portfolio, delinquency trends and economic conditions. Management evaluates the carrying value of loans periodically and the allowance for loan loss calculation will adjust accordingly.

#### Non-Interest Income

Total non-interest income increased \$163,000, or 13.04%, to \$1,413,000 for the six months ended June 30, 2006 from \$1,250,000 for the same period in the previous year. Fees from financial services increased \$172,000, or 14.47%, to \$1,361,000 for the six months ended June 30, 2006 from \$1,189,000 for the same period in the previous year. The increase was due to higher service fees as a result of an increase in transaction accounts.

### Non-Interest Expense

For the six months ended June 30, 2006, total non-interest expense increased \$368,000, or 8.78%, to \$4,560,000 from \$4,192,000 for the same period in 2005. Compensation and employee benefits increased \$233,000, or 11.66%, to \$2,231,000 for the six months ended June 30, 2006 from \$1,998,000 for the same period in 2005 due primarily to higher compensation and benefits costs for normal merit salary increases and additional staff due to the opening of a new banking center location in Simpsonville, South Carolina in March, 2006. Occupancy and equipment expense decreased \$18,000, or 1.75%, to \$1,013,000 for the six months ended June 30, 2006 from \$1,031,000 for the same period in 2005 due to primarily to lower depreciation expense. Professional services expense increased \$34,000, or 17.99%, to \$223,000 for the six months ended June 30, 2006 from \$189,000 for the same period in 2005 due to higher legal expenses primarily due to the changing the name of the holding company during the first quarter of 2006. Advertising/public relations expense increased \$36,000, or 59.02%, to \$97,000 for the six months ended June 30, 2006 from \$61,000 for the same period in 2005 due primarily to product and promotion expenses for the new banking center location. Loan operations expense decreased \$48,000, or 62.34%, to \$29,000 for the six months ended June 30, 2006 from \$77,000 for the same period in 2005, due to lower costs associated with foreclosures. Items processing expense increased \$39,000, or 63.93%, to \$100,000 for the six months ended June 30, 2006 from \$61,000 for the same period in 2005 due to transaction accounts increasing to \$94.5 million at June 30, 2006 from \$81.7 million at June 30, 2005. The Corporation continues to target lower cost demand deposit accounts through media advertising versus traditional higher cost certificates of deposits. Other expense increased \$88,000, or 24.72%, to \$444,000 for the six months ended June 30, 2006 from \$356,000 for the same period in 2005 due to higher loan expense from increased production and higher forms and supplies expense from two new banking center openings.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Corporation is committed to following a program of asset and liability management in an effort to manage the fluctuations in earnings caused by movements in interest rates. A significant portion of the Corporation's income results from the spread between the yield realized on its interest-earning assets and the rate of interest paid on its deposits and other borrowings. Differences in the timing and volume of repricing assets versus the timing and volume of repricing liabilities expose the Corporation to interest rate risk. Management's policies are directed at minimizing the impact on earnings of movements in interest rates.

The Corporation's Asset/Liability Committee makes pricing and marketing decisions on deposit and loan products in conjunction with managing the Corporation's interest rate risk. In addition, the Asset/Liability Committee reviews the Corporation's securities portfolio, FHLB advances and other borrowings as well as the Corporation's asset and liability policies.

The primary objective of Asset/Liability management at the Corporation is to manage interest rate risk and achieve reasonable stability in net interest income throughout interest rate cycles in order to maintain adequate liquidity. This is achieved by maintaining the proper balance of rate-sensitive earning assets and rate-sensitive costing liabilities. The relationship of rate-sensitive earning assets

to rate-sensitive costing liabilities is the principal factor in projecting the effect that fluctuating interest rates will have on future net interest income. Rate-sensitive assets and interest-bearing liabilities are those that can be repriced to current market rates within a relatively short time period. Management monitors the rate sensitivity of earning assets and interest-bearing liabilities over the entire life of these instruments.

The Corporation has established policies and monitors results to control interest rate sensitivity. Although the Corporation utilizes measures such as static gap, which is simply the measurement of the difference between interest-sensitive assets and interest-sensitive liabilities repricing for a particular time period, just as important a process is the evaluation of how particular assets and liabilities are impacted by changes in interest rates or selected indices as they reprice. Asset/liability modeling techniques are utilized by the Corporation to assess varying interest rate and balance sheet mix assumptions.

**Net Interest Income Simulation Analysis.** We analyze our interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest sensitive.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations utilizing interest rate shocks are completed quarterly and presented to the Asset/Liability Committee. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The interest rate shocks are compared to board approved policy limits and are reviewed by the Asset/Liability Committee on a quarterly basis. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management’s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next twelve month period using interest income simulation. The simulation uses projected repricing of assets and liabilities on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise.

The following table reflects changes in estimated net interest income from rate shocks of (+) or (-) 100 and 200 basis points in a rising and falling interest rate environment for the Corporation.

<u>Change in Rates (Basis Points)</u>	<u>At June 30, 2006</u>	<u>At December 31, 2005</u>
+200	+6.49%	+5.88%
+100	+3.35%	+3.24%
-100	-4.43%	-4.97%
-200	-8.42%	-7.72%

The Corporation improved slightly in rising interest rate environments for the period ending June 30, 2006 as compared to the period ending December 31, 2005 due primarily to significant growth in prime based loan products.

The 200 and 100 basis point change in rates in the above table is assumed to occur evenly over the following twelve months. Based on the scenario above, net interest income would be positively affected in the twelve-month periods if rates rose by 100 and 200 basis points, but would be adversely affected if rates declined by 100 and 200 basis points.

#### **Item 4. Controls and Procedures**

The Corporation's management, including the Corporation's principal executive officer and principal financial officer, have evaluated the effectiveness of the Corporation's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Corporation's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Corporation's internal control over financial reporting identified in connection with the evaluation required by Rule 13(a)-15(e) that occurred during the Corporation's last fiscal quarter that has materially affected or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Corporation is not involved in any legal proceedings. The Bank is involved in various claims and legal actions arising in the normal course of business. Management believes that these proceedings are immaterial to the Corporation's financial condition and results of operations.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides certain information with regard to shares repurchased by the Corporation during the second quarter of 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per share	(c) Total Number of Shares Purchased as part of Publicly Announced Programs	(d) Maximum Number of Shares that may be purchased under Program
April 1, 2006 through April 30, 2006	--	--	--	87,095
May 1, 2006 through May 31, 2006	441	\$17.99	441	86,654
June 1, 2006 through June 30, 2006	31,780	\$17.68	31,780	54,874
Total	32,221	\$17.69	32,221	N/A

In November 2004, the Corporation implemented a share repurchase program under which the Corporation may repurchase up to 5% of the outstanding shares or 98,000 shares. In May 2005, the program was expanded by an additional 5% or 95,000 shares. The repurchase program will continue until it is completed or terminated by the Board of Directors.

**Item 3.** Defaults upon Senior Securities

Not applicable.

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

The Annual Meeting of the Stockholders of the Corporation was held on April 19, 2006. The results of the vote on the matters presented at the meeting is as follows:

- 1> The following individuals were elected as directors, each for a three-year term by the following vote:

	<u>Votes For</u>	<u>Votes Withheld</u>
Louis M. Jordan	1,282,112	224,387
Dwight V. Neese	1,199,536	306,963
Philip C. Wilkins	1,209,611	296,888

- 2> The appointment of Elliott Davis, LLC, as auditors for the Corporation for the year ending December 31, 2006 was ratified by the stockholders by the following vote:

For 1,497,638      Against 4,000      Abstain 4,861

- 3> A vote was taken to approve the Provident Community Bancshares, Inc. 2006 Equity Incentive Plan and the vote was as follows:

For 848,875      Against 268,946      Abstain 26,231

**Item 5.** Other Information

None

**Item 6.** Exhibits

3(a) Amended and Restated Certificate of Incorporation

3(b) Bylaws

31(a) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31(b) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32(a) Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32(b) Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROVIDENT COMMUNITY BANCSHARES, INC.**  
**(Registrant)**

Date: August 8, 2006

By: /s/ Dwight V. Neese  
Dwight V. Neese, CEO

Date: August 8, 2006

By: /s/ Richard H. Flake  
Richard H. Flake, CFO

**AMENDED AND RESTATED**

**CERTIFICATE OF INCORPORATION**

**OF**

**PROVIDENT COMMUNITY BANCSHARES, INC.**

*Adopted in accordance with the provisions  
of §242 and §245 of the General Corporation Law  
of the State of Delaware*

Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware (the “DGCL”), the undersigned, being the President and Chief Executive Officer of Provident Community Bancshares, Inc., a Delaware corporation (the “Corporation”), does hereby certify as follows:

1. The present name of the corporation is Provident Community Bancshares, Inc. The Corporation was originally incorporated under the name Union Financial Bancshares, Inc. The date of filing of its original Certificate of Incorporation with the Secretary of State was April 20, 1994.

2. This Amended and Restated Certificate of Incorporation amends, restates and integrates the provisions of the Certificate of Incorporation of the Corporation and does not further amend the provisions of the Corporation’s Certificate of Incorporation as heretofore amended and there is no discrepancy between the amended provisions and the provisions of the restated certificate. The restated certificate has been duly adopted in accordance with the provisions of Sections 242 and 245 of the DGCL by the Board of Directors and stockholders of the Corporation.

3. The text of the Amended and Restated Certificate of Incorporation is hereby amended and restated to read herein as set forth in full:

**ARTICLE I**

**Name**

The name of the corporation is Provident Community Bancshares, Inc. (herein the “Corporation”).

**ARTICLE II**

**Registered Office**

The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street, Corporation Trust Center, in the City of Wilmington, County of New Castle. The name of the Corporation’s registered agent at such address is The Corporation Trust Company.

### **ARTICLE III**

#### **Powers**

The purpose for which the Corporation is organized is to act as a savings and loan holding company and to transact all other lawful business for which corporations may be incorporated pursuant to the laws of the State of Delaware. The Corporation shall have all the powers of a corporation organized under the General Corporation Law of the State of Delaware.

### **ARTICLE IV**

#### **Term**

The Corporation is to have perpetual existence.

### **ARTICLE V**

#### **Capital Stock**

The aggregate number of shares of all classes of capital stock which the Corporation has authority to issue is 5,500,000 of which 5,000,000 are to be shares of common stock, \$.01 par value per share, and of which 500,000 are to be shares of serial preferred stock, \$.01 par value per share. The shares may be issued by the Corporation from time to time as approved by the board of directors of the Corporation without the approval of stockholders except as otherwise provided in this Article VII or the rules of a national securities exchange, if applicable. The consideration for the issuance of the shares shall be paid to or received by the Corporation in full before their issuance and shall not be less than the par value per share. The consideration for the issuance of the shares shall be cash, services rendered, personal property (tangible or intangible), real property, leases of real property or any combination of the foregoing. In the absence of actual fraud in the transaction, the judgment of the board of directors as to the value of such consideration shall be conclusive. Upon payment of such consideration such shares shall be deemed to be fully paid and nonassessable. In the case of a stock dividend, the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of shares as a stock dividend shall be deemed to be the consideration for their issuance.

A description of the different classes and series (if any) of the Corporation's capital stock, and a statement of the relative powers, designations, preferences and rights of the shares of each class and series (if any) of capital stock, and the qualifications, limitations or restrictions thereof, are as follows:

A. Common Stock. Except as provided in this Certificate, the holders of the common stock shall exclusively possess all voting power. Each holder of shares of common stock shall be entitled to one vote for each share held by such holders.

Whenever there shall have been paid, or declared and set aside for payment, to the holders of the outstanding shares of any class of stock having preference over the common stock as to the payment of dividends, the full amount of dividends and sinking fund or retirement fund or other retirement payments, if any, to which such holders are respectively entitled in preference to the common stock, then dividends may be paid on the common stock, and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends, but only when as declared by the board of directors of the Corporation.

In the event of any liquidation, dissolution or winding up of the Corporation, after there shall have been paid, or declared and set aside for payment, to the holders of the outstanding shares of any class having preference over the common stock in any such event, the full preferential amounts to which they are respectively entitled, the holders of the common stock and of any class or series of stock entitled to participate therewith, in whole or in part, as to

distribution of assets shall be entitled, after payment or provision for payment of all debts and liabilities of the Corporation, to receive the remaining assets of the Corporation available for distribution, in cash or in kind.

Each share of common stock shall have the same relative powers, preferences and rights as, and shall be identical in all respects with, all the other shares of common stock of the Corporation.

B. Serial Preferred Stock. Except as provided in this Certificate, the board of directors of the Corporation is authorized, by resolution or resolutions from time to time adopted, to provide for the issuance of serial preferred stock in series and to fix and state the powers, designations, preferences and relative, participating, optional or other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof, including, but not limited to determination of any of the following:

1. the distinctive serial designation and the number of shares constituting such series;
2. the dividend rates or the amount of dividends to be paid on the shares of such series, whether dividends shall be cumulative and, if so, from which date or dates, the payment date or dates for dividends, and the participating or other special rights, if any, with respect to dividends;
3. the voting powers, full or limited, if any, of the shares of such series;
4. whether the shares of such series shall be redeemable and, if so, the price or prices at which, and the terms and conditions upon which such shares may be redeemed;
5. the amount or amounts payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation;
6. whether the shares of such series shall be entitled to the benefits of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and, if so entitled, the amount of such fund and the manner of its application, including the price or prices at which such shares may be redeemed or purchased through the application of such funds;
7. whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation and, if so convertible or exchangeable, the conversion price or prices, or the rate or rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;
8. the subscription or purchase price and form of consideration for which the shares of such series shall be issued; and
9. whether the shares of such series which are redeemed or converted shall have the status of authorized but unissued shares of serial preferred stock and whether such shares may be reissued as shares of the same or any other series of serial preferred stock.

Each share of each series of serial preferred stock shall have the same relative powers, preferences and rights as, and shall be identical in all respects with, all the other shares of the Corporation of the same series.

## **ARTICLE VI**

### **Preemptive Rights**

No holder of any of the shares of any class or series of stock or of options, warrants or other rights to purchase shares of any class or series of stock or of other securities of the Corporation shall have any preemptive right to purchase or subscribe for any unissued stock of any class or series, or any unissued bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for stock of any class or series or carrying any right to purchase stock of any class or series; but any such unissued stock, bonds, certificates of indebtedness, debentures or other securities convertible into or exchangeable for stock or carrying any right to purchase stock may be issued pursuant to resolution of the board of directors of the Corporation to such persons, firms, corporations or associations, whether or not holders thereof, and upon such terms as may be deemed advisable by the board of directors in the exercise of its sole discretion.

## **ARTICLE VII**

### **Repurchase of Shares**

The Corporation may from time to time, pursuant to authorization by the board of directors of the Corporation and without action by the stockholders, purchase or otherwise acquire shares of any class, bonds, debentures, notes, scrip, warrants, obligations, evidences of indebtedness, or other securities of the Corporation in such manner, upon such terms, and in such amounts as the board of directors shall determine; subject, however, to such limitations or restrictions, if any, as are contained in the express terms of any class of shares of the Corporation outstanding at the time of the purchase or acquisition in question or as are imposed by law.

## **ARTICLE VIII**

### **Meetings of Stockholders; Cumulative Voting**

A. Notwithstanding any other provision of this Certificate or the Bylaws of the Corporation, no action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

B. Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time by the board of directors of the Corporation, or by a committee of the board of directors which has been duly designated by the board of directors and whose powers and authorities, as provided in a resolution of the board of directors or in the Bylaws of the Corporation, include the power and authority to call such meetings, but such special meetings may not be called by any other person or persons.

C. There shall be no cumulative voting by stockholders of any class or series in the election of directors of the Corporation.

D. Meetings of stockholders may be held at such place as the Bylaws may provide.

## ARTICLE IX

### Notice for Nominations and Proposals

A. Nominations for the election of directors and proposals for any new business to be taken up at any annual or special meeting of stockholders may be made by the board of directors of the Corporation or by any stockholder of the Corporation entitled to vote generally in the election of directors. In order for a stockholder of the Corporation to make any such nominations and/or proposals, he or she shall give notice thereof in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than thirty days nor more than sixty days prior to any such meeting; provided, however, that if less than thirty-one days' notice of the meeting is given to stockholders, such written notice shall be delivered or mailed, as prescribed, to the Secretary of the Corporation not later than the close of the tenth day following the day on which notice of the meeting was mailed to stockholders. Each such notice given by a stockholder with respect to nominations for election of directors shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominees, (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee, (iv) such other information as would be required to be included in a proxy statement soliciting proxies for the election of the proposed nominee pursuant to Regulation 14A of the Securities Exchange Act of 1934, including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected, and (v) as to the stockholder giving such notice (a) his name and address as they appear on the Corporation's books, and (y) the class and number of shares of the Corporation which are beneficially owned by such stockholder. In addition, the stockholder making such nomination shall promptly provide any other information reasonably requested by the Corporation.

B. Each such notice given by a stockholder to the Secretary with respect to business proposals to bring before a meeting shall set forth in writing as to each matter: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business; (iii) the class and number of shares of the Corporation which are beneficially owned by the stockholder; and (iv) any material interest of the stockholder in such business. Notwithstanding anything in this Certificate to the contrary, no business shall be conducted at the meeting except in accordance with the procedures set forth in this Article.

C. The Chairman of the annual or special meeting of stockholders may, if the facts warrant, determine and declare to the meeting that a nomination or proposal was not made in accordance with the foregoing procedure, and, if he should so determine, he shall so declare to the meeting and the defective nomination or proposal shall be disregarded and laid over for action at the next succeeding adjourned, special or annual meeting of the stockholders taking place thirty days or more thereafter. This provision shall not require the holding of any adjourned or special meeting of stockholders for the purpose of considering such defective nomination or proposal.

## ARTICLE X

### Directors

A. Number; Vacancies. The number of directors of the Corporation shall be such number, not less than 5 nor more than 25 (exclusive of directors, if any, to be elected by holders of preferred stock of the Corporation, voting separately as a class), as shall be provided from time to time in or in accordance with the bylaws, provided that no decrease in the number of directors shall have the effect of shortening the term of any incumbent director, and provided further that no action shall be taken to decrease or increase the number of directors from time to time unless at least two-thirds of the directors then in office shall concur in said action. Vacancies in the board of directors of the Corporation, however caused, and newly created directorships shall be filled by a vote of two-thirds of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of the class to which the director has been chosen expires and when the director's successor is elected and qualified.

B. Classified Board. The board of directors of the Corporation shall be divided into three classes of directors which shall be designated Class I, Class II and Class III. The members of each class shall be elected for a term of three years and until their successors are elected and qualified. Such classes shall be as nearly equal in number as the then total number of directors constituting the entire board of directors shall permit, with the terms of office of all members of one class expiring each year. Subject to the provisions of Article XII.A., should the number of directors not be equally divisible by three, the excess director or directors shall be assigned to Classes II or III as follows: (i) if there shall be an excess of one directorship over a number equally divisible by three, such extra directorship shall be classified in Class III; and (ii) if there be an excess of two directorships over a number equally divisible by three, one shall be classified in Class II and the other in Class III. At the first annual meeting of stockholders, directors in Class I shall be elected to hold office for a term expiring at the third succeeding annual meeting thereafter. At the second annual meeting of stockholders, directors of Class II shall be elected to hold office for a term expiring at the third succeeding meeting thereafter. At the third annual meeting of stockholders, directors of Class III shall be elected to hold office for a term expiring at the third succeeding meeting thereafter. Thereafter, at each succeeding annual meeting, directors of each class shall be elected for three year terms. Notwithstanding the foregoing, the director whose term shall expire at any annual meeting shall continue to serve until such time as his successor shall have been duly elected and shall have qualified unless his position on the board of directors shall have been abolished by action taken to reduce the size of the board of directors prior to said meeting.

Should the number of directors of the Corporation be reduced, the directorship(s) eliminated shall be allocated among classes as appropriate so that the number of directors in each class is as specified in the immediately preceding paragraph. The board of directors shall designate, by the name of the incumbent(s), the position(s) to be abolished. Notwithstanding the foregoing, no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Should the number of directors of the Corporation be increased, the additional directorships shall be allocated among classes as appropriate so that the number of directors in each class is as specified in the immediately preceding paragraph.

Whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the board of directors shall consist of said directors so elected in addition to the number of directors fixed as provided above in this Article XI. Notwithstanding the foregoing, and except as otherwise may be required by law, whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

## **ARTICLE XI**

### **Removal of Directors**

Notwithstanding any other provision of this Certificate or the Bylaws of the Corporation, any director or the entire board of directors of the Corporation may be removed, at any time, but only for cause and only by the affirmative vote of the holders of at least 80% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose. Notwithstanding the foregoing, whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the preceding provisions of this Article XIII shall not apply with respect to the director or directors elected by such holders of preferred stock.

## ARTICLE XII

### Acquisition of Capital Stock

A. Voting Restrictions. Any person that acquires the beneficial ownership of more than 10% of any class of equity security of the Corporation without the prior approval by a two-thirds vote of the continuing Directors, as defined in Article XV, then the record holders of voting stock of the Corporation beneficially owned by such acquiring person shall have only the voting rights set forth in this paragraph A on any matter requiring their vote or consent. With respect to each vote in excess of 10% of the voting power of the outstanding shares of voting stock of the Corporation which such record holders would otherwise be entitled to cast without giving effect to this paragraph A, the record holders in the aggregate shall be entitled to cast only one-hundredth of a vote, and the aggregate voting power of such record holders, so limited for all shares of voting stock of the Corporation beneficially owned by such acquiring person, shall be allocated proportionately among such record holders. For each such record holder, this allocation shall be accomplished by multiplying the aggregate voting power, as so limited, of the outstanding shares of voting stock of the Corporation beneficially owned by such acquiring person by a fraction whose numerator is the number of votes represented by the shares of voting stock of the Corporation and whose denominator is the total number of votes represented by the shares of voting stock of the Corporation that are beneficially owned by such acquiring person. A person who is a record owner of shares of voting stock of the Corporation that are beneficially owned simultaneously by more than one person shall have, with respect to such shares, the right to cast the least number of votes that such person would be entitled to cast under this paragraph A by virtue of such shares being so beneficially owned by any of such acquiring persons.

B. Definitions. The term “person” means an individual, a group acting in concert, a corporation, a partnership, an association, a joint stock company, a trust, an unincorporated organization or similar company, a syndicate or any other group acting in concert formed for the purpose of acquiring, holding or disposing of securities of the Corporation. The term “acquire” includes every type of acquisition, whether effected by purchase, exchange, operation of law or otherwise. The term “group acting in concert” includes (a) knowing participation in a joint activity or conscious parallel action towards a common goal whether or not pursuant to an express agreement, and (b) a combination or pooling of voting or other interest in the Corporation’s outstanding shares for a common purpose, pursuant to any contract, understanding, relationship, agreement or other arrangement, whether written or otherwise. The term “beneficial ownership” shall have the meaning defined in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on the date of filing of this Certificate.

C. Exclusion for Employee Benefit Plans, Directors, Officers, Employees and Certain Proxies. The restrictions contained in this Article XIV shall not apply to (i) any underwriter or member of an underwriting or selling group involving a public sale or resale of securities of the Corporation or a subsidiary thereof; provided, however, that upon completion of the sale or resale of such securities, no such underwriter or member of such selling group is a beneficial owner of more than 10% of any class of equity security of the Corporation, (ii) any proxy granted to one or more Continuing Directors, as defined in Article XV, by a stockholder of the Corporation or (iii) any employee benefit plans of the Corporation. In addition, the Continuing Directors of the Corporation, the officers and employees of the Corporation and its subsidiaries, the directors of subsidiaries of the Corporation, the employee benefit plans of the Corporation and its subsidiaries, entities organized or established by the Corporation or any subsidiary thereof pursuant to the terms of such plans and trustees and fiduciaries with respect to such plans acting in such capacity shall not be deemed to be a group with respect to their beneficial ownership or voting stock of the Corporation solely by virtue of their being directors, officers or employees of the Corporation or a subsidiary thereof or by virtue of the Continuing Directors of the Corporation, the officers and employees of the Corporation and its subsidiaries and the directors of subsidiaries of the Corporation being fiduciaries or beneficiaries of an employee benefit plan of the Corporation or a subsidiary of the Corporation. Notwithstanding the foregoing, no director, officer or employee of the Corporation or any of its subsidiaries or group of any of them shall be exempt from the provisions of this Article XIV should any such person or group become a beneficial owner of more than 10% of any class or equity security of the Corporation.

D. Determinations. A majority of the Continuing Directors, as defined in Article XV of this Certificate shall have the power to construe and apply the provisions of the Article and to make all determinations necessary or

desirable to implement such provisions, including but not limited to matters with respect to (a) the number of shares beneficially owned by any person, (b) whether a person has an agreement, arrangement, or understanding with another as to the matters referred to in the definition of beneficial ownership, (c) the application of any other definition or operative provision of this Article XIV to the given facts or (d) any other matter relating to the applicability or effect of this Article XIV. Any constructions, applications, or determinations made by the Continuing Directors pursuant to this Article XIV in good faith and on the basis of such information and assistance as was then reasonably available for such purpose shall be conclusive and binding upon the Corporation and its stockholders.

### ARTICLE XIII

#### Approval of Certain Business Combinations

The stockholder vote required to approve Business Combinations (as hereinafter defined) shall be as set forth in this section.

A. (1) Except as otherwise expressly provided in this Article XV, the affirmative vote of the holders of (i) at least 80% of the outstanding shares entitled to vote thereon (and, if any class or series of shares is entitled to vote thereon separately, the affirmative vote of the holders of at least 80% of the outstanding shares of each such class or series), and (ii) at least a majority of the outstanding shares entitled to vote thereon, not including shares deemed beneficially owned by a Related Person (as hereinafter defined), shall be required in order to authorize any of the following:

(a) any merger or consolidation of the Corporation with or into a Related Person (as hereinafter defined);

(b) any sale, lease, exchange, transfer or other disposition, including without limitation, a mortgage, or any other security device, of all or any Substantial Part (as hereinafter defined) of the assets of the Corporation (including without limitation any voting securities of a subsidiary) or of a subsidiary, to a Related Person;

(c) any merger or consolidation of a Related Person with or into the Corporation or a subsidiary of the Corporation;

(d) any sale, lease, exchange, transfer or other disposition of all or any Substantial Part of the assets of a Related Person to the Corporation or a subsidiary of the Corporation;

(e) the issuance of any securities of the Corporation or a subsidiary of the Corporation to a Related Person;

(f) the acquisition by the Corporation or a subsidiary of the Corporation of any securities of a Related Person;

(g) any reclassification of the common stock of the Corporation, or any recapitalization involving the common stock of the Corporation; and

(h) any agreement, contract or other arrangement providing for any of the transactions described in this Article.

(2) Such affirmative vote shall be required notwithstanding any other provision of this Certificate, any provision of law, or any agreement with any regulatory agency or national securities exchange which might otherwise permit a lesser vote or no vote.

(3) The term "Business Combination" as used in this Article XV shall mean any transaction which is referred to in any one or more of subparagraphs A(1)(a) through (h) above.

B. The provisions of paragraph A shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by any other provision of this Certificate, any provision of law, or any agreement with any regulatory agency or national securities exchange, if the Business Combination shall have been approved by a two-thirds vote of the Continuing Directors (as hereinafter defined); provided, however, that such approval shall only be effective if obtained at a meeting at which a Continuing Director Quorum (as hereinafter defined) is present.

C. For the purposes of this Article XV the following definitions apply:

(1) The term “Related Person” shall mean and include (a) any individual, corporation, partnership or other person or entity which together with its “affiliates” (as that term is defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934), “beneficially owns” (as that term is defined in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934) in the aggregate 10% or more of the outstanding shares of the common stock of the Corporation; and (b) any “affiliate” (as that term is defined in Rule 12b-2 under the Securities Exchange Act of 1934) of any such individual, corporation, partnership or other person or entity. Without limitation, any shares of the common stock of the Corporation which any Related Person has the right to acquire pursuant to any agreement, or upon exercise or conversion rights, warrants or options, or otherwise, shall be deemed “beneficially owned” by such Related Person.

(2) The term “Substantial Part” shall mean more than 25% of the total assets of the Corporation, as of the end of its most recent fiscal year ending prior to the time the determination is made.

(3) The term “Continuing Director” shall mean any member of the board of directors of the Corporation who is unaffiliated with the Related Person and was a member of the board prior to the time that the Related Person became a Related Person, and any successor of a Continuing Director who is unaffiliated with the Related Person and is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board.

(4) The term “Continuing Director Quorum” shall mean two-thirds of the Continuing Directors capable of exercising the powers conferred on them.

## **ARTICLE XIV**

### **Evaluation of Business Combinations**

In connection with the exercise of its judgment in determining what is in the best interests of the Corporation and of the stockholders, when evaluating a Business Combination (as defined in Article XV) or a tender or exchange offer, the board of directors of the Corporation shall, in addition to considering the adequacy of the amount to be paid in connection with any such transaction, consider all of the following factors and any other factors which it deems relevant; (i) the social and economic effects of the transaction on the Corporation and its subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its subsidiaries operate or are located; (ii) the business and financial condition and earnings prospects of the acquiring person or entity, including, but not limited to, debt service and other existing financial obligations, financial obligations to be incurred in connection with the acquisition and other likely financial obligations of the acquiring person or entity and the possible effect of such conditions upon the Corporation and its subsidiaries and the other elements of the communities in which the Corporation and its subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring person or entity and its or their management.

## ARTICLE XV

### Indemnification

- A. Persons. The Corporation shall indemnify, to the extent provided in paragraphs B, D or F:
1. any person who is or was a director, officer, employee, of the Corporation; and
  2. any person who serves or served at the Corporation's request as a director, officer, employee, agent, partner or trustee of another corporation, partnership, joint venture, trust or other enterprise.
- B. Extent -- Derivative Suits. In case of a threatened, pending or completed action or suit by or in the right of the Corporation against a person named in paragraph A by reason of his holding a position named in paragraph A, the Corporation shall indemnify him if he satisfies the standard in paragraph C, for expenses (including attorneys' fees but excluding amounts paid in settlement) actually and reasonably incurred by him in connection with the defense or settlement of the action or suit.
- C. Standard -- Derivative Suits. In case of a threatened, pending or completed action or suit by or in the right of the Corporation, a person named in paragraph A shall be indemnified only if:
1. he is successful on the merits or otherwise; or
  2. he acted in good faith in the transaction which is the subject of the suit or action, and in a manner he reasonably believed to be in, or not opposed to, the best interest of the Corporation, including, but not limited to, the taking of any and all actions in connection with the Corporation's response to any tender offer or any offer or proposal of another party to engage in a Business Combination (as defined in Article XV) not approved by the board of directors. However, he shall not be indemnified in respect of any claim, issue or matter as to which he has been adjudged liable to the Corporation unless (and only to the extent that) the court in which the suit was brought shall determine, upon application, that despite the adjudication but in view of all the circumstances, he is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper.
- D. Extent -- Nonderivative Suits. In case of a threatened, pending or completed suit, action or proceeding (whether civil, criminal, administrative or investigative), other than a suit by or in the right of the Corporation, together hereafter referred to as a nonderivative suit, against a person named in paragraph A by reason of his holding a position named in paragraph A, the Corporation shall indemnify him if he satisfies the standard in paragraph E, for amounts actually and reasonably incurred by him in connection with the defense or settlement of the nonderivative suit, including, but not limited to (i) expenses (including attorneys' fees), (ii) amounts paid in settlement, (iii) judgments, and (iv) fines.
- E. Standard -- Nonderivative Suits. In case of a nonderivative suit, a person named in paragraph A shall be indemnified only if:
1. he is successful on the merits or otherwise; or
  2. he acted in good faith in the transaction which is the subject of the nonderivative suit and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, including, but not limited to, the taking of any and all actions in connection with the Corporation's response to any tender offer or any offer or proposal of another party to engage in a Business Combination (as defined in Article XV of this Certificate) not approved by the board of directors and, with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful. The termination of a nonderivative suit by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, in itself, create a presumption that the person failed to satisfy the standard of this paragraph E.2.

F. Determination That Standard Has Been Met. A determination that the standard of paragraph C or E has been satisfied may be made by a court, or, except as stated in paragraph C.2 (second sentence), the determination may be made by:

1. the board of directors by a majority vote of a quorum consisting of directors of the Corporation who were not parties to the action, suit or proceeding; or
2. independent legal counsel (appointed by a majority of the disinterested directors of the Corporation, whether or not a quorum) in a written opinion; or
3. the stockholders of the Corporation.

G. Proration. Anyone making a determination under paragraph F may determine that a person has met the standard as to some matters but not as to others, and may reasonably prorate amounts to be indemnified.

H. Advance Payment. The Corporation may pay in advance any expenses (including attorneys' fees) which may become subject to indemnification under paragraphs A through G if (i) the board of directors authorizes the specific payment; and (ii) the person receiving the payment undertakes in writing to repay the same if it is ultimately determined that he is not entitled to indemnification by the Corporation under paragraphs A through G.

I. Nonexclusive. The indemnification and advance of expenses provided by paragraphs A through H shall not be exclusive of any other rights to which a person may be entitled by law, bylaw, agreement, vote of stockholders or disinterested directors, or otherwise.

J. Continuation. The indemnification provided by this Article XVII shall be deemed to be a contract between the Corporation and the persons entitled to indemnification thereunder, and any repeal or modification of this Article XVII shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. The indemnification and advance payment provided by paragraphs A through H shall continue as to a person who has ceased to hold a position named in paragraph A and shall inure to his heirs, executors and administrators.

K. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who holds or who has held any position named in paragraph A, against any liability incurred by him in any such position, or arising out of his status as such, whether or not the Corporation would have power to indemnify him against such liability under paragraphs A through H.

L. Savings Clause. If this Article XVII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee, and agent of the Corporation as to costs, charges, and expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement with respect to any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, including an action by or in the right of the Corporation to the full extent permitted by any applicable portion of this Article XVII that shall not have been invalidated and to the full extent permitted by applicable law.

## ARTICLE XVI

### **Elimination of Directors' Liability**

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except: (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not made in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which a director derived an improper personal benefit. If the General

Corporation Law of the State of Delaware is amended after the date of filing of this Certificate to further eliminate or limit the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

## **ARTICLE XVII**

### **Amendment of Bylaws**

In furtherance and not in limitation of the powers conferred by statute, the board of directors of the Corporation is expressly authorized to make, repeal, alter, amend and rescind the Bylaws of the Corporation by a two-thirds vote of the board. Notwithstanding any other provision of this Certificate or the Bylaws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law), the Bylaws shall not be adopted, repealed, altered, amended or rescinded by the stockholders of the Corporation except by the vote of the holders of not less than 80% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose (provided that notice of such proposed adoption, repeal, alteration, amendment or rescission is included in the notice of such meeting), or, as set forth above, by the board of directors.

## **ARTICLE XVIII**

### **Amendment of Certificate of Incorporation**

The Corporation reserves the right to repeal, alter, amend or rescind any provision contained in this Certificate in the manner now or hereafter prescribed by law, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in Articles X, XI, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX and this Article XX may not be repealed, altered, amended or rescinded in any respect unless the same is approved by the affirmative vote of the holders of not less than 80% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as a single class) cast at a meeting of the stockholders called for that purpose (provided that notice of such proposed adoption, repeal, alteration, amendment or rescission is included in the notice of such meeting).

IN WITNESS WHEREOF, the undersigned has caused this Amended and Restated Certificate of Incorporation to be executed as of this 16 day of May, 2006.

PROVIDENT COMMUNITY BANCSHARES, INC.

By: /s/ Dwight V. Neese  
Name: Dwight V. Neese  
Title: President and Chief Executive Officer

00276202.DOC

**AMENDED AND RESTATED**  
**BYLAWS**  
**OF**  
**PROVIDENT COMMUNITY BANCSHARES, INC.**

**ARTICLE I**

**Home Office**

The home office of Provident Community Bancshares, Inc. (herein the "Corporation") shall be at 203 West Main Street, Union, South Carolina. The Corporation may also have offices at such other places within or without the State of South Carolina as the board of directors shall from time to time determine.

**ARTICLE II**

**Stockholders**

SECTION 1. Place of Meetings. All annual and special meetings of stockholders shall be held at the home office of the Corporation or at such other place within or without the State in which the home office of the Corporation is located as the board of directors may determine and as designated in the notice of such meeting.

SECTION 2. Annual Meeting. A meeting of the stockholders of the Corporation for the election of directors and for the transaction of any other business of the Corporation shall be held annually at such date and time as the board of directors may determine.

SECTION 3. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called at any time by the majority of the board of directors or by a committee of the board of directors in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 4. Conduct of Meetings. Annual and special meetings shall be conducted in accordance with the rules and procedures established by the board of directors. The board of directors shall designate, when present, either the chairman of the board or president to preside at such meetings.

SECTION 5. Notice of Meetings. Written notice stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called shall be mailed by the secretary or the officer performing his duties, not less than ten days nor more than sixty days before the meeting to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books or records of the Corporation as of the record date prescribed in Section 6 of this Article II, with postage thereon prepaid. If a stockholder be present at a meeting, or in writing waive notice thereof before or after the meeting, notice of the meeting to such stockholder shall be unnecessary. When any stockholders' meeting, either annual or special, is adjourned for thirty days, notice of the adjourned meeting shall be given as in the case of an original meeting. It shall not be necessary to give any notice of the time and place of any meeting adjourned for less than thirty days or of the business to be transacted at such adjourned meeting, other than an announcement at the meeting at which such adjournment is taken.

SECTION 6. Fixing of Record Date. For the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders, or any adjournment thereof, or stockholders entitled to receive payment

of any dividend, or in order to make a determination of stockholders for any other proper purpose, the board of directors shall fix in advance a date as the record date for any such determination of stockholders. Such date in any case shall be not more than sixty days, and in case of a meeting of stockholders, not less than ten days prior to the date on which the particular action, requiring such determination of stockholders, is to be taken. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

SECTION 7. Voting Lists. The officer or agent, having charge of the stock transfer books for shares of the Corporation shall make, at least ten days before each meeting of shareholders, a complete record of the stockholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. The record, for a period of ten days before such meeting, shall be kept on file at the principal office of the Corporation, and shall be subject to inspection by any shareholder for any purpose germane to the meeting at any time during usual business hours. Such record shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder for any purpose germane to the meeting during the whole time of the meeting. The original stock transfer books shall be prima facie evidence as to who are the stockholders entitled to examine such record or transfer books or to vote at any meeting of stockholders.

SECTION 8. Quorum. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 9. Proxies. At all meetings of stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney in fact. Proxies solicited on behalf of the management shall be voted as directed by the stockholder or, in the absence of such direction, as determined by a majority of the board of directors. No proxy shall be valid after eleven months from the date of its execution unless otherwise provided in the proxy.

SECTION 10. Voting. At each election for directors every stockholder entitled to vote at such election shall be entitled to one vote for each share of stock held by him. Unless otherwise provided in the Certificate of Incorporation, by Statute, or by these Bylaws, a majority of those votes cast by stockholders at a lawful meeting shall be sufficient to pass on a transaction or matter.

SECTION 11. Voting of Shares in the Name of Two or More Persons. When ownership of stock stands in the name of two or more persons, in the absence of written directions to the Corporation to the contrary, at any meeting of the stockholders of the Corporation any one or more of such stockholders may cast, in person or by proxy, all votes to which such ownership is entitled. In the event an attempt is made to cast conflicting votes, in person or by proxy, by the several persons in whose name shares of stock stand, the vote or votes to which these persons are entitled shall be cast as directed by a majority of those holding such stock and present in person or by proxy at such meeting, but no votes shall be cast for such stock if a majority cannot agree.

SECTION 12. Voting of Shares by Certain Holders. Shares standing in the name of another corporation may be voted by any officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the

control of a receiver may be voted by such receiver without the transfer thereof into his name if authority to do so is contained in an appropriate order of the court or other public authority by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee and thereafter the pledgee shall be entitled to vote the shares so transferred.

Neither treasury shares of its own stock held by the Corporation, nor shares held by another corporation, if a majority of the shares entitled to vote for the election of directors of such other corporation are held by the Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time for purposes of any meeting.

SECTION 13. Inspectors of Election. In advance of any meeting of stockholders, the board of directors may appoint any persons, other than nominees for office, as inspectors of election to act at such meeting or any adjournment thereof. The number of inspectors shall be either one or three. If the board of directors so appoints either one or three inspectors, that appointment shall not be altered at the meeting. If inspectors of election are not so appointed, the chairman of the board or the president may make such appointment at the meeting. In case any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the board of directors in advance of the meeting or at the meeting by the chairman of the board or the president.

Unless otherwise prescribed by applicable law, the duties of such inspectors shall include: determining the number of shares of stock and the voting power of each share, the shares of stock represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies; receiving votes, ballots or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes or consents; determining the result; and such acts as may be proper to conduct the election or vote with fairness to all stockholders.

SECTION 14. Nominating Committee. The board of directors shall act as a nominating committee for selecting the management nominees for election as directors. Except in the case of a nominee substituted as a result of the death or other incapacity of a management nominee, the nominating committee shall deliver written nominations to the secretary at least twenty days prior to the date of the annual meeting. Provided such committee makes such nominations, no nominations for directors except those made by the nominating committee shall be voted upon at the annual meeting unless other nominations by stockholders are made in writing and delivered to the secretary of the Corporation in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 15. New Business. Any new business to be taken up at the annual meeting shall be stated in writing and filed with the secretary of the Corporation in accordance with the provisions of the Corporation's Certificate of Incorporation. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, directors and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless stated and filed as provided in the Corporation's Certificate of Incorporation.

### ARTICLE III

#### Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be under the direction of its board of directors. The board of directors may also elect a chairman of the board from among its members. The board of directors shall designate, when present, either the chairman of the board or the president to preside at its meetings.

SECTION 2. Number, Term and Election. The board of directors shall initially consist of seven (7) members and shall be divided into three classes as nearly equal in number as possible. The members of each class shall be elected for a term of three years and until their successors are elected or qualified. One class shall be

elected by ballot annually. The board of directors shall be classified in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 3. Qualification. Each director shall at all times be the beneficial owner of not less than 100 shares of capital stock of the Corporation.

SECTION 4. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of stockholders. The board of directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 5. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board or the president, or by one-third of the directors. The persons authorized to call special meetings of the board of directors may fix any place in the State of South Carolina as the place for holding any special meeting of the board of directors called by such persons.

Members of the board of directors may participate in special meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person but directors will not receive any compensation for participation in meetings by conference telephone.

SECTION 6. Notice. Written notice of any special meeting shall be given to each director at least two days previous thereto delivered personally or by telegram or at least five days previous thereto delivered by mail at the address at which the director is most likely to be reached. Such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid if mailed or when delivered to the telegraph company if sent by telegram. Any director may waive notice of any meeting by a writing filed with the secretary. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

SECTION 7. Quorum. A majority of the number of directors fixed by Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the board of directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time. Notice of any adjourned meeting shall be given in the same manner as prescribed by Section 6 of this Article III.

SECTION 8. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors, unless a greater number is prescribed by these Bylaws, the Certificate of Incorporation, or the laws of Delaware.

SECTION 9. Action Without a Meeting. Any action required or permitted to be taken by the board of directors at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors.

SECTION 10. Resignation. Any director may resign at any time by sending a written notice of such resignation to the home office of the Corporation addressed to the chairman of the board or the president. Unless otherwise specified herein such resignation shall take effect upon receipt thereof by the chairman of the board or the president.

SECTION 11. Vacancies. Any vacancy occurring in the board of directors shall be filled in accordance with the provisions of the Corporation's Certificate of Incorporation. Any directorship to be filled by reason of an increase in the number of directors may be filled by the affirmative vote of two-thirds of the directors

then in office. The term of such director shall be in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 12. Removal of Directors. Any director or the entire board of directors may be removed only in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 13. Compensation. Directors, as such, may receive a stated fee for their services. By resolution of the board of directors, a reasonable fixed sum, and reasonable expenses of attendance, if any, may be allowed for actual attendance at each regular or special meeting of the board of directors. Members of either standing or special committees may be allowed such compensation for actual attendance at committee meetings as the board of directors may determine. Nothing herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving remuneration therefor.

SECTION 14. Presumption of Assent. A director of the Corporation who is present at a meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who votes in favor of such action.

SECTION 15. Advisory Directors. The board of directors may by resolution appoint advisory directors to the board, and shall have such authority and receive such compensation and reimbursement as the board of directors shall provide. Advisory director or directors emeriti shall not have the authority to participate by vote in the transaction of business.

SECTION 16. Age Limitation. No person of an age seventy-two years (72) or older will be eligible for election, reelection, appointment or reappointment to the board of directors of the Corporation. No director shall serve as such following the day of his or her seventy-second (72nd) birthday.

## **ARTICLE IV**

### **Committees of the Board of Directors**

The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, as they may determine to be necessary or appropriate for the conduct of the business of the Corporation, and may prescribe the duties, constitution and procedures thereof. Each committee shall consist of one or more directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

The board of directors shall have power, by the affirmative vote of a majority of the authorized number of directors, at any time to change the members of, to fill vacancies in, and to discharge any committee of the board. Any member of any such committee may resign at any time by giving notice to the Corporation provided, however, that notice to the board, the chairman of the board, the chief executive officer, the chairman of such committee, or the secretary shall be deemed to constitute notice to the Corporation. Such resignation shall take effect upon receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, acceptance of such resignation shall not be necessary to make it effective. Any member of any such committee may be removed at any time, either with or without cause, by the affirmative vote of a majority of the authorized number of directors at any meeting of the board called for that purpose.

## ARTICLE V

### Officers

SECTION 1. Positions. The officers of the Corporation shall be a president, one or more vice presidents, a secretary and a treasurer, each of whom shall be elected by the board of directors. The board of directors may also designate the chairman of the board as an officer. The president shall be the chief executive officer unless the board of directors designates the chairman of the board as chief executive officer. The offices of the secretary and treasurer may be held by the same person and a vice president may also be either the secretary or the treasurer. The board of directors may designate one or more vice presidents as executive vice president or senior vice president. The board of directors may also elect or authorize the appointment of such other officers as the business of the Corporation may require. The officers shall have such authority and perform such duties as the board of directors may from time to time authorize or determine. In the absence of action by the board of directors, the officers shall have such powers and duties as generally pertain to their respective offices.

SECTION 2. Election and Term of Office. The officers of the Corporation shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of the shareholders. If the election of officers is not held at such meeting, such election shall be held as soon thereafter as possible. Each officer shall hold office until his successor shall have been duly elected and qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Election or appointment of an officer, employee or agent shall not of itself create contract rights. The board of directors may authorize the Corporation to enter into an employment contract with any officer in accordance with state law; but no such contract shall impair the right of the board of directors to remove any officer at any time in accordance with Section 3 of this Article V.

SECTION 3. Removal. Any officer may be removed by vote of two-thirds of the board of directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal, other than for cause, shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term.

SECTION 5. Remuneration. The remuneration of the officers shall be fixed from time to time by the board of directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

## ARTICLE VI

### Contracts, Loans, Checks and Deposits

SECTION 1. Contracts. To the extent permitted by applicable law, and except as otherwise prescribed by the Corporation's Certificate of Incorporation or these Bylaws with respect to certificates for shares, the board of directors may authorize any officer, employee, or agent of the Corporation to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation. Such authority may be general or confined to specific instances.

SECTION 2. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by the board of directors. Such authority may be general or confined to specific instances.

SECTION 3. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by one or more officers, employees or agents of the Corporation in such manner as shall from time to time be determined by resolution of the board of directors.

SECTION 4. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in any of its duly authorized depositories as the board of directors may select.

## ARTICLE VII

### Certificates for Shares and Their Transfer

SECTION 1. Certificates for Shares. The shares of the Corporation shall be represented by certificates signed by the chairman of the board of directors or by the president or a vice president and by the treasurer or by the secretary of the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation. If any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before the certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of its issue.

SECTION 2. Form of Share Certificates. All certificates representing shares issued by the Corporation shall set forth upon the face or back that the Corporation will furnish to any shareholder upon request and without charge a full statement of the designations, preferences, limitations, and relative rights of the shares of each class authorized to be issued, the variations in the relative rights and preferences between the shares of each such series so far as the same have been fixed and determined, and the authority of the board of directors to fix and determine the relative rights and preferences of subsequent series.

Each certificate representing shares shall state upon the face thereof: that the Corporation is organized under the laws of the State of Delaware; the name of the person to whom issued; the number and class of shares; the date of issue; the designation of the series, if any, which such certificate represents; the par value of each share represented by such certificate, or a statement that the shares are without par value. Other matters in regard to the form of the certificates shall be determined by the board of directors.

SECTION 3. Payment for Shares. No certificate shall be issued for any shares until such share is fully paid.

SECTION 4. Form of Payment for Shares. The consideration for the issuance of shares shall be paid in accordance with the provisions of the Corporation's Certificate of Incorporation.

SECTION 5. Transfer of Shares. Transfer of shares of capital stock of the Corporation shall be made only on its stock transfer books. Authority for such transfer shall be given only by the holder of record thereof or by his legal representative, who shall furnish proper evidence of such authority, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporation. Such transfer shall be made only on surrender for cancellation of the certificate for such shares. The person in whose name shares of capital stock stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 6. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 7 of Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

SECTION 7. Lost Certificates. The board of directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate, or his legal representative, to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

SECTION 8. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as otherwise provided by law.

## **ARTICLE VIII**

### **Fiscal Year; Annual Audit**

The fiscal year of the Corporation shall end on the 31<sup>st</sup> day of December of each year. The Corporation shall be subject to an annual audit as of the end of its fiscal year by independent public accountants appointed by and responsible to the board of directors.

## **ARTICLE IX**

### **Dividends**

Subject to the provisions of the Certificate of Incorporation and applicable law, the board of directors may, at any regular or special meeting, declare dividends on the Corporation's outstanding capital stock. Dividends may be paid in cash, in property or in the Corporation's own stock.

## **ARTICLE X**

### **Corporate Seal**

The corporate seal of the Corporation shall be in such form as the board of directors shall prescribe.

## **ARTICLE XI**

### **Amendments**

In accordance with the Corporation's Certificate of Incorporation, these Bylaws may be repealed, altered, amended or rescinded by the stockholders of the Corporation only by vote of not less than 80% of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose (provided that notice of such proposed repeal, alteration, amendment or rescission is included in the notice of such meeting). In addition, the board of directors may repeal, alter, amend or rescind these Bylaws by vote of two-thirds of the board of directors at a legal meeting held in accordance with the provisions of these Bylaws.

Effective as of May 16, 2006.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission (the "Report"), I, Dwight V. Neese, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Dwight V. Neese  
Dwight V. Neese  
President and Chief Executive Officer

Date: August 8, 2006

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Provident Community Bancshares, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2006 as filed with the Securities and Exchange Commission (the "Report"), I, Richard H. Flake, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

/s/ Richard H. Flake

Richard H. Flake

Executive Vice President and Chief Financial Officer

Date: August 8, 2006

EXHIBIT 31 (a)  
CERTIFICATION

I, Dwight V. Neese, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2006

/s/ Dwight V. Neese  
Dwight V. Neese  
President and Chief Executive Officer

EXHIBIT 31 (b)  
CERTIFICATION

I, Richard H. Flake, certify that:

1. I have reviewed this Form 10-Q of Provident Community Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - © Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2006

/s/ Richard H. Flake

Richard H. Flake

Executive Vice President and Chief Financial Officer