McIntosh Bancshares Inc. and Subsidiaries

Consolidated Financial Statements

McIntosh Bancshares Inc. and Subsidiaries

December 31, 2007 and 2006

(with Report of Independent

Registered Public Accounting Firm)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
McIntosh Bancshares, Inc.
Jackson, Georgia

We have audited the consolidated balance sheets of McIntosh Bancshares, Inc. (the Company) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McIntosh Bancshares, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

PORTER KEADLE MOORE, LLP

Atlanta, Georgia
March 2, 2008

CONSOLIDATED BALANCE SHEETS

McIntosh Bancshares, Inc. and Subsidiaries

December 31, 2007 and 2006	**2007**	**2006**
Assets		
Cash and due from banks	$ 6,491,435	$ 7,728,855
Interest bearing deposits	6,727,673	5,265,092
Federal funds sold	8,124,000	13,485,000
Investment securities held to maturity (market value of $231,047 and $322,865)	235,512	323,115
Investment securities available for sale	75,850,582	85,524,588
Other investments	1,760,865	2,179,165
Loans	341,854,333	328,876,744
Less allowance for loan losses	(6,956,164)	(4,661,975)
Loans, net	334,898,169	324,214,769
Premises and equipment, net	7443,657	6,863,126
Other real estate	6,246,715	2,208,151
Accrued interest receivable	3,835,210	3,871,096
Bank owned life insurance	6,516,157	6,226,863
Other assets	4,324,605	3,623,327
Total assets	$462,454,580	$461,513,147
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Demand	$ 31,891,955	$ 36,729,933
Money market and NOW accounts	116,452,038	123,864,284
Savings	12,568,818	11,349,183
Time deposits of $100,000 or more	117,250,399	120,063,903
Time deposits	129,113,648	107,523,280
Total deposits	407,276,858	399,530,583
Other borrowed funds	12,461,379	21,000,000
Accrued interest payable and other liabilities	4,913,897	5,251,700
Total liabilities	424,652,134	425,782,283
Commitments		
Stockholders' equity:		
Common stock, par value $2.50; 10,000,000 shares authorized, 2,810,976 and 2,808,976 shares issued and outstanding	7,027,440	7,022,440
Surplus	5,686,589	5,573,780
Retained earnings	25,172,294	23,596,177
Accumulated other comprehensive loss	(83,877)	(461,533)
Total stockholders' equity	37,802,446	35,730,864
Total liabilities and stockholders' equity	$462,454,580	$461,513,147

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

McIntosh Bancshares, Inc. and Subsidiaries

For the Years Ended December 31, 2007 and 2006	2007	2006
Interest income		
Loans, including fees	$ 29,778,098	$ 27,882,409
Interest on investment securities:		
U.S. Treasury, U.S. Government agency and mortgage-backed securities	3,367,380	2,322,447
State, county and municipal	428,973	434,784
Other investments	157,774	169,428
Federal funds sold and other short-term investments	453,892	689,783
Total interest income	34,186,117	31,498,851
Interest expense		
Interest-bearing demand and money market	3,441,208	2,941,889
Savings	184,350	139,380
Time deposits of $100,000 or more	6,202,057	5,075,454
Other time deposits	5,923,425	4,185,178
Other	704,357	831,728
Total interest expense	16,455,397	13,173,629
Net interest income	17,730,720	18,325,222
Provision for loan losses	3,324,370	778,247
Net interest income after provision for loan losses	14,406,350	17,546,975
Other income		
Service charges	2,307,843	2,119,141
Investment securities gains	156,053	14,100
Increase in cash surrender value of life insurance	286,074	266,346
Other real estate owned gains (losses)	(23,164)	75,567
Fixed and repossessed asset gains (losses)	(7,772)	(5,927)
Other income	1,487,199	1,484,641
Total other income	4,206,233	3,953,868
Other expenses		
Salaries and employee benefits	9,582,292	9,093,800
Occupancy and equipment	1,744,790	1,674,716
Other operating	3,579,757	3,346,393
Total other expenses	14,906,839	14,114,909
Earnings before income taxes	3,705,744	7,385,934
Income tax expense	1,117,856	2,468,182
Net earnings	$ 2,587,888	$ 4,917,752
Basic earnings per common share based on average outstanding shares of 2,810,554 in 2007 and 2,798,610 in 2006	$ 0.92	$ 1.76
Diluted net earnings per common share based on average outstanding shares of 2,860,884 in 2007 and 2,832,012 in 2006	$ 0.90	$ 1.74
Dividends declared per share of common stock	$ 0.36	$ 0.30

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

McIntosh Bancshares, Inc. and Subsidiaries

For the Years Ended December 31, 2007 and 2006	2007	2006
Net earnings	$ 2,587,888	$ 4,917,752
Other comprehensive income, net of income tax:		
Unrealized gains on securities available for sale		
Holding gain arising during period, net of tax of $230,417 in 2007 and $105,100 in 2006	447,281	204,017
Less: Reclassification adjustment for gains on sale of securities, net of tax of ($50,270)	(97,583)	—
Change in unfunded pension liability, net of tax of $14,402	27,958	—
Total other comprehensive income	377,656	204,017
Comprehensive income	$ 2,965,544	$ 5,121,769

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

McIntosh Bancshares, Inc. and Subsidiaries

For the Years Ended December 31, 2007 and 2006	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2005	$ 6,996,310	5,407,238	19,517,982	(116,397)	31,805,133
Net earnings	—	—	4,917,752	—	4,917,752
Change in unrealized gains/losses on securities available for sale	—	—	—	204,017	204,017
Change in unfunded pension obligation	—	—	—	(549,153)	(549,153)
Stock-based compensation	—	67,372	—	—	67,372
Cash dividend paid, $0.30 per share	—	—	(839,557)	—	(839,557)
Stock options exercised, 10,452 shares	26,130	99,170	—	—	125,300
Balance, December 31, 2006	$ 7,022,440	5,573,780	23,596,177	(461,533)	35,730,864
Net earnings	—	—	2,587,888	—	2,587,888
Change in unrealized gains/losses on securities available for sale	—	—	—	349,698	349,698
Change in unfunded pension obligation	—	—	—	27,958	27,958
Stock-based compensation	—	94,009	—	—	94,009
Cash dividend paid, $0.36 per share	—	—	(1,011,771)	—	(1,011,771)
Stock options exercised, 2,000 shares	5,000	18,800	—	—	23,800
Balance, December 31, 2007	$ 7,027,440	5,686,589	25,172,294	(83,877)	37,802,446

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

McIntosh Bancshares, Inc. and Subsidiaries

For the Years Ended December 31, 2007 and 2006	2007	2006
Cash flows from operating activities		
Net earnings	$ 2,587,888	$ 4,917,752
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, accretion and amortization	633,132	524,857
Gain on sales and calls of securities	(156,053)	(14,100)
Provision for loan losses	3,324,370	778,247
Stock-based compensation	94,009	67,372
Provision for deferred income taxes	(1,072,034)	(397,707)
(Gain) loss on sale of other real estate	23,164	(75,567)
Loss on fixed and repossessed asset disposal	7,772	5,927
Change in:		
Accrued interest receivable and other assets	(82,272)	(1,351,253)
Accrued interest payable and other liabilities	(295,443)	970,486
Net cash provided by operating activities	5,064,533	5,426,014
Cash flows from investing activities		
Proceeds from maturities and paydowns of securities available for sale	41,847,408	63,185,811
Proceeds from maturities and paydowns of securities held to maturity	100,000	202,000
Proceeds from redemption of other investments	1,896,800	135,000
Proceeds from sales of securities available for sale	335,326	—
Proceeds from sales of other real estate	2,855,029	972,340
Purchases of securities available for sale	(31,674,856)	(94,383,201)
Purchases of other investments	(1,478,500)	(130,600)
Additions to other real estate	(313,249)	(550,349)
Net change in loans	(20,611,278)	(48,027,328)
Purchases of premises and equipment	(1,376,735)	(1,374,289)
Net cash used by investing activities	(8,420,055)	(79,970,616)
Cash flows from financing activities		
Net change in deposits	7,746,275	84,002,236
Proceeds from exercise of stock options	23,800	125,300
Proceeds from other borrowed funds	15,611,379	—
Repayment of other borrowed funds	(24,150,000)	(5,000,000)
Dividends paid	(1,011,771)	(839,557)
Net cash provided (used) by financing activities	(1,780,317)	78,287,979
Net change in cash and cash equivalents	(5,135,839)	3,743,377
Cash and cash equivalents at beginning of period	26,478,947	22,735,570
Cash and cash equivalents at end of period	$ 21,343,108	$ 26,478,947
Supplemental schedule of noncash investing and financing activities		
Change in net unrealized gain/loss on investment securities available-for-sale, net of tax	$ 349,698	$ 204,017
Change in unfunded pension liability	$ 27,958	$ (549,153)
Transfer of loans to other real estate owned	$ 6,603,508	$ 2,603,348
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 16,257,535	$ 12,588,493
Income taxes	$ 2,374,954	$ 2,949,781

See accompanying notes to consolidated financial statements.

1 Summary of Significant Accounting Policies

McIntosh Bancshares, Inc. and subsidiaries provide a full range of banking and bank-related services to individual and corporate customers in the Georgia counties of Butts, Jasper and Henry and surrounding areas. McIntosh Bancshares, Inc. and subsidiaries are subject to competition from other financial institutions and are also subject to the regulations of certain governmental agencies and undergo periodic examinations by those regulatory authorities.

The accounting and reporting policies of McIntosh Bancshares, Inc. and subsidiaries conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a summary of the significant accounting policies.

Basis of Presentation

The consolidated financial statements include the accounts of McIntosh Bancshares, Inc (the “Parent Company”) and its wholly-owned subsidiaries, McIntosh State Bank (the “Bank”) and McIntosh Financial Services, Inc., collectively known as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the market valuation reserve on investment securities available for sale. Management believes that the allowance for loan losses is adequate and the market valuation reserve is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with the Federal Home Loan Bank (FHLB) and a broker-dealer, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Investment Securities

The Company classifies its securities in one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in held-to-maturity are classified as available-for-sale.

Investment securities held to maturity are reported at cost, adjusted for amortization of premium and accretion of discount. Investment securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of stockholders’ equity, net of the related tax effect. Other investments are reported at cost and, accordingly, earnings are reported when interest is accrued or when dividends are received.

Premiums and discounts on all noncallable investment securities are amortized and accreted, respectively, to interest income on the straight-line and interest methods over the period to the maturity of the related investment. Premiums on callable investment securities are amortized to interest income on a straight-line method over the period to the call date of the related investment. Discounts on callable investment securities are accreted to interest income on a straight-line method over the period to maturity of the related investment. Premiums and discounts on mortgage-backed securities are amortized and accreted, respectively, to interest income using level yield over the period to maturity of the related security, taking into consideration assumed prepayment patterns.

A decline in the market value of any available for sale or held to maturity investment below cost that is deemed other than temporary is charged to earnings and establishes a new cost basis for the security.

Gains or losses on disposition are computed using the specific identification method for all securities except equity investments. Gains or losses on disposition of equity investments are computed using the average cost method.

1 Summary of Significant Accounting Policies, Continued

Loans

Loans are reported at the gross amount outstanding net of the valuation allowance for loan losses. Interest income is generally recognized over the terms of the loans based on the principal amount outstanding. Loan origination fees and direct origination costs, which are approximately the same on most loans, are recognized at the time the loan is recorded on the books. If the collectibility of interest appears doubtful, accrual is discontinued. Accrued interest, which appears doubtful of collection, is reversed against interest income if accrued in the current year or charged to the allowance for loan losses if accrued in prior years. Payments received on non-accrual loans are recorded as a reduction to the loan's balance. Accrual of interest is resumed if management believes a borrower's financial position has improved.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Interest income from impaired loans is recognized when received.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible. The Bank's practice is to charge-off loans when they become 120 days past due or are rated loss. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans and takes into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans.

Management's quantitative and qualitative assessment of allowance adequacy considers loans identified with more than the normal risk of repayment or impaired credits, a historical loss experience factor by loan category, and a qualitative factor considering national, regional, and local economic conditions, industry specific prospects, and collateral and margin estimates by loan category. For loans considered impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. Historical loss experience applies to performing loans where management is unaware of specific circumstances that would lead it to believe collectability of principal and interest is in doubt. Qualitative factors are applied to cover uncertainties that could affect management's estimate of probable losses and reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general loan losses in the portfolio.

Periodic revisions are made to the allowance when circumstances which necessitate such revisions become known. Recognized losses are charged to the allowance for loan losses, while subsequent recoveries are added to the allowance.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation. For financial reporting purposes, depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets which range from three to forty years. Expenditures for maintenance and repairs are charged to operations as incurred, while major renewals and betterments are capitalized. For federal tax reporting purposes, depreciation is computed using primarily accelerated methods.

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and reclassified loans wherein other real estate owned was financed by the Bank. Other real estate owned is initially recorded at the lower of cost or fair value less estimated disposal costs. Any write-down to fair value up to 90 days after transfer to other real estate owned is charged to the allowance for loan losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and valuation adjustments subsequent to 90 days of transfer are expensed. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

1 Summary of Significant Accounting Policies, Continued

Income Taxes, (continued)

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

In May 2007, the Financial Accounting Standards Board (FASB) amended FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes.* FIN 48 requires that the Company determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Company has reviewed its tax planning and provisioning, and believes that no uncertain tax positions existed during the years presented.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets purchased in a business combination. Goodwill is required to be tested annually for impairment, or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings. The carrying amount of goodwill, which is included in other assets in the accompanying consolidated balance sheets, totaled $600,743 at December 31, 2007 and 2006. During 2007 and 2006, there was no charge to earnings for impairment of goodwill.

Earnings Per Common Share

Earnings per common share has been computed based on the weighted average number of shares outstanding during the period, which totaled 2,810,554 and 2,798,610 for the years ended December 31, 2007 and 2006, respectively. The basic earnings per share calculation has been adjusted to reflect the impact of dilutive securities in the form of stock options. The basic and diluted earnings per share for 2007 and 2006 are as follows:

	Net Earnings	Common Share	Per Share Amount
For the Year Ended December 31, 2007			
Basic earnings per share	$ 2,587,888	2,810,554	$0.92
Effect of dilutive securities	—	50,330	(0.02)
Diluted earnings per share	$ 2,587,888	2,860,884	$0.90
For the Year Ended December 31, 2006			
Basic earnings per share	$ 4,917,752	2,798,610	$1.76
Effect of dilutive securities	—	33,402	(0.01)
Diluted earnings per share	$ 4,917,752	2,832,012	$1.75

Stock Dividend

The Company declared a 2-for-1 stock split effected in the form of a 100% stock dividend during 2007. Earnings per share and all stock option disclosures for the year ended December 31, 2006 have been retroactively adjusted for the increased number of shares of common stock.

Defined Benefit Pension Plan

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R).* FASB Statement No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

This Statement requires the Company to:

- Recognize the funded status of its defined benefit pension plan – measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation – in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation.

1 Summary of Significant Accounting Policies, Continued

Defined Benefit Pension Plan, (continued)

- Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions*, or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of Statements 87 and 106, if any, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.
- Measure defined benefit plan assets and obligations as of the date of the employers' fiscal year-end statement of financial position (with limited exceptions).
- Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligations.

While FASB Statement No. 158 amends FASB Statement No. 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FASB Statement No. 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and other related accounting literature, upon adoption of FASB Statement No. 158 and subsequently, the Company will continue to apply the provisions in FASB Statements No. 87, 88, and 106 in measuring plan assets and benefit obligations as of the date of its balance sheets and in determining the amount of net periodic benefit cost.

The Company adopted FASB Statement No. 158 for its fiscal year ended December 31, 2006 and recognized the funded status of its defined benefit pension plan. Upon adoption, the Company charged other comprehensive income, net of tax, $549,153 related to actuarial net gains or losses and prior service costs or credits that arose during the period but not recognized as components of net periodic benefit cost. Refer to footnote 9 for further information on the Company's defined benefit pension plan.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under the modified-prospective-method, compensation cost recognized for all share-based payments granted on or after January 1, 2006, is based on the grant-date fair value estimated in accordance with the provisions of FASB Statement No. 123(R). Refer to footnote 10 for more information about the Company's stock- based compensation program.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and unrecognized pension obligations, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Recent Accounting Pronouncements

In September 2006 and February 2007, the FASB issued Statements No. 157, *Fair Value Measurements* and No. 159*, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*, respectively. The effect of both of these Statements is to guide and allow for voluntary use of fair value accounting at the instrument level. These Statements are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected not to utilize fair value accounting.

In September 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* EITF Issue 06-4 addresses accounting for split-dollar life insurance arrangements after the employer purchases a life insurance policy on the covered employee. EITF Issue 06-4 states that an obligation arises as a result of a substantive agreement with an employee to provide future postretirement benefits. Under EITF Issue 06-4, the obligation is not settled upon entering into an insurance arrangement. Since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. EITF Issue 06-4 is effective for fiscal years beginning after December 15, 2007. The Company has evaluated the impact of the implementation of EITF Issue 06-4 and concluded that it has no material impact on the consolidated financial statements.

1 Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, (continued)

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

Reclassifications

Certain items in the consolidated financial statements for the year-ended December 31, 2006 have been reclassified with no effect on total assets, total income, or net change in cash and cash equivalents to be consistent with the classifications adopted for the year ended December 31, 2007.

2 Cash and Due from Banks

The Bank is required to maintain average reserve balances with the Federal Reserve Bank on deposit with national banks or in cash. At December 31, 2007 and 2006, the Bank's reserve requirement was approximately $176,000 and $188,000, respectively. The Bank maintained cash balances which were adequate to meet the requirements.

3 Investment Securities

Investment securities at December 31, 2007 and 2006 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities Held to Maturity, December 31, 2007				
States and political subdivisions	$ 235,512	—	(4,465)	231,047
Securities Held to Maturity, December 31, 2006				
States and political subdivisions	323,115	1,891	(2,141)	322,865
Securities Available for Sale, December 31, 2007				
U.S. Government-sponsored agencies	$42,645,853	677,561	(8,801)	43,314,613
Mortgage-backed securities	20,748,902	75,575	(159,928)	20,664,549
States and political subdivisions	11,293,221	133,703	(60,904)	11,366,020
Corporate debt securities	500,000	5,400	—	505,400
	$75,187,976	892,239	(229,633)	75,850,582
Securities Available for Sale, December 31, 2006				
U.S. Government-sponsored agencies	$57,977,482	135,589	(236,003)	57,877,068
Mortgage-backed securities	16,916,957	32,194	(257,204)	16,691,947
States and political subdivisions	9,809,919	137,840	(56,561)	9,891,198
Corporate debt securities	500,000	—	—	500,000
Equity securities	187,473	376,902	—	564,375
	$85,391,831	682,525	(549,768)	85,524,588

Other investments are comprised of the following:

For the years ending December 31, 2007 and 2006	2007	2006
Federal Home Loan Bank	$ 1,369,300	1,787,600
Community Financial Services, Inc.	391,565	391,565
	$ 1,760,865	2,179,165

3 Investment Securities, Continued

The carrying value and estimated market value of investment securities held to maturity and the amortized cost and estimated market value of investment securities available for sale at December 31, 2007, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	Investment Securities Held to Maturity		Investment Securities Available for Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$ 235,512	231,047	6,384,922	6,381,347
Due from one to five years	—	—	28,016,007	28,503,527
Due from five to ten years	—	—	16,423,694	16,711,427
Due after ten years	—	—	3,614,451	3,589,732
Mortgage-backed securities	—	—	20,748,902	20,664,549
	$ 235,512	231,047	75,187,976	75,850,582

Gross gains and losses on calls of securities consist of the following:

For the years ending December 31,	2007	2006
Gross gains on calls of securities	$ 8,200	14,100
Gross gains on sales of securities	147,853	—
	$ 156,053	14,100

Proceeds from the sale of equity securities for the year ended December 31, 2007 totaled $335,326.

Investment securities with a market value of $72,624,840 and $69,685,488 at December 31, 2007 and 2006, respectively, were pledged to secure public funds required by law, collateralized United States Treasury, Tax and Loan deposits, and sold under agreement to repurchase.

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position for the years ended at December 31, 2007 and 2006, respectively

	Less than Twelve Months		Twelve Months or More	
December 31, 2007	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ (3,013)	992,165	(5,788)	4,399,003
State and political subdivisions	(11,669)	1,275,063	(53,700)	2,281,680
Mortgage-backed securities	(6,760)	2,953,009	(153,168)	9,307,228
Total securities	$ (21,442)	5,220,237	(212,656)	15,987,911

	Less than Twelve Months		Twelve Months or More	
December 31, 2006	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government-sponsored agencies	$ (64,500)	21,335,793	(171,503)	16,404,041
State and political subdivisions	(6,222)	906,029	(52,480)	2,109,018
Mortgage-backed securities	—	—	(257,204)	10,014,333
Total securities	$ (70,722)	22,241,822	(481,187)	28,527,392

The FASB Emerging Issues Task Force Issue 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* requires disclosure of certain information about other than temporary impairments in the market value of securities. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

3 Investment Securities, Continued

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies has occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

4 Loans

Major classifications of loans at December 31 are summarized as follows:	2007	2006
Commercial, financial and agricultural	$ 56,712,741	$ 49,914,211
Real estate — mortgage	158,317,197	150,893,103
Real estate — construction	109,739,188	112,219,558
Consumer and other	16,074,053	14,717,592
Tax-exempt	1,011,154	1,132,280
	341,854,333	328,876,744
Less: Allowance for loan losses	(6,956,164)	(4,661,975)
	$ 334,898,169	$ 324,214,769

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Butts, Jasper and Henry counties as well as other adjoining counties in Georgia. Although the Bank has a diversified portfolio, a substantial portion is secured by improved and unimproved real estate and is dependent on the real estate market.

The following is a summary of activity in the allowance for loan losses:	2007	2006
Balance at beginning of year	$ 4,661,975	$ 4,077,071
Provision charged to expense	3,324,370	778,247
Loans charged off	(1,238,344)	(249,045)
Recoveries of loans previously charged off	208,163	55,702
Balance at end of year	$ 6,956,164	$ 4,661,975

Impaired loans totaled $16,542,763 and $602,126 at December 31, 2007 and 2006, respectively. Allocations of the loan loss reserve related to impaired loans totaled $2,916,854 and $88,278 at December 31, 2007 and 2006, respectively. The average balance for impaired loans in the years ended December 31, 2007 and 2006 was approximately $8,187,000 and $645,000, respectively. There were no significant amounts of interest income recognized on impaired loans for the years ended December 31, 2007 and 2006.

Loans on nonaccrual status totaled $21,564,738 and $602,126 at December 31, 2007 and 2006, respectively. Loans past due ninety days or more and still accruing interest totaled $43,704 and $335,036 at December 31, 2007 and 2006, respectively.

5 Premises and Equipment

Premises and equipment at December 31 are comprised of the following:	2007	2006
Land	$ 800,433	$ 719,339
Buildings and land improvements	7,149,531	6,347,382
Furniture, fixtures and equipment	4,846,686	4,834,126
	12,796,650	11,900,847
Less accumulated depreciation	(5,352,993)	(5,037,721)
	$ 7,443,657	$ 6,863,126

Depreciation expense totaled approximately $793,000 and $787,000 in 2007 and 2006, respectively.

6 Deposits

Maturities of time deposits at December 31, 2007 are as follows:	
Maturing in:	
2008	$186,293,460
2009	26,395,002
2010	20,996,865
2011	7,986,898
2012	4,691,822
	$246,364,047

For the years ended December 31, 2007 and 2006 the Bank had $58,026,000 and $40,854,000, respectively, in brokered deposits outstanding. The daily average of such deposits totaled $47,352,000 and $27,389,000 for the years ended December 31, 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006 the weighted average cost of funds on these deposits was 5.32% and 4.95%, respectively. As of December 31, 2007 and 2006, the weighted average rate on these deposits was 4.76% and 5.27%, respectively. Brokered deposits mature from January 17, 2008 through September 30, 2010.

7 Other Borrowed Funds

Other borrowed funds at December 31 are summarized as follows:	2007	2006
FHLB advances	$ 12,000,000	$ 21,000,000
Repurchase agreements and other short-term borrowings	461,379	—
	$ 12,461,379	$ 21,000,000

The Bank has invested in FHLB stock for the purpose of establishing credit lines with the FHLB. Advances on the credit lines are secured by liens against the Bank's qualifying real estate loans. Total qualifying real estate loans eligible as collateral amounted to $81,332,000 and $92,000,000 at December 31, 2007 and 2006, respectively. Outstanding borrowings totaled $12,000,000 and $21,000,000 at December 31, 2007 and 2006, respectively. All advances outstanding at December 31, 2007 carry fixed interest rates ranging from 2.91% to 4.17%, require monthly or quarterly payments of interest only, and mature through May 19, 2015. The FHLB has the option to convert $7,000,000 of the advances at dates through May 2009 to advances bearing interest based on LIBOR. At December 31, 2007, remaining credit availability for the Bank totaled approximately $35,900,000.

Securities sold under agreements to repurchase amounted to $304,555 at December 31, 2007, mature on a daily basis, and are secured by state, county, and municipal securities with a fair value of $6,208,398. The weighted average cost of funds on these agreements was 3.15% for the year ending December 31, 2007.

United States Treasury, Tax, and Loan note obligations totaled $156,823 at December 31, 2007, are callable by the Treasury, and are secured by mortgage-backed securities with a fair value of $343,386. The weighted average cost of funds for this agreement was 4.27% for the year ending December 31, 2007.

8 Income Taxes

The following are the components of income tax expense December 31,	2007	2006
Current	$ 2,189,890	$ 2,865,889
Deferred	(1,072,034)	(397,707)
Total income tax expense	$ 1,117,856	$ 2,468,182

8 Income Taxes, Continued

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to earnings before income taxes are as follows:	2007	2006
Income taxes computed at federal statutory tax rate	$ 1,259,953	$ 2,511,218
Increase (decrease) resulting from:		
Tax-exempt interest	(165,396)	(172,772)
Nondeductible interest on tax-exempt investments	28,576	25,360
Life insurance income	(97,265)	(90,558)
State income taxes	199	157,526
Other, net	91,789	37,408
	$ 1,117,856	$ 2,468,182

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets as follows:	2007	2006
Deferred income tax assets:		
Allowance for loan losses	$ 2,462,594	$ 1,665,099
Pension plan contributions	80,152	67,481
Deferred compensation	623,348	488,000
Other	204,115	21,704
Unrecognized net periodic pension costs	268,495	282,897
Total gross deferred tax assets	$ 3,638,704	$ 2,525,181
Deferred income tax liabilities:		
Accumulated depreciation on premises and equipment	(168,114)	(144,608)
Unrealized gain on investment securities available for sale	(225,286)	(45,137)
Other	(107,949)	(75,564)
Total gross deferred tax liabilities	(501,349)	(265,309)
Net deferred income tax asset	$ 3,137,355	$ 2,259,872

9 Employee Benefit and Deferred Compensation Plans

Defined Benefit Pension Plan

The Parent Company sponsors a defined benefit pension plan covering substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Parent Company and compensation rates for the last five years. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be performed in the future.

Pension expense includes the following components as of December 31:	2007	2006
Service cost of the current period	$ 261,837	$ 212,117
Interest cost on the projected benefit obligation	170,163	139,875
Return on plan assets	(152,447)	(118,967)
Net amortization of prior service cost, and actuarial net gain/loss	27,208	60,185
Pension expense, net	$ 306,761	$ 293,210

9 Employee Benefit and Deferred Compensation Plans, Continued

Defined Benefit Pension Plan, (continued)

The following table shows the pre-tax change in accumulated other comprehensive income (loss), a component of stockholders' equity, attributable to the components of net pension expense and reclassification adjustments:

	Unrecognized Actuarial Net Gain or Loss	Unamortized Prior Service Cost
Accumulated other comprehensive income, beginning of year	$ 834,165	2,115
Components of comprehensive income arising during period		
Recognized during the period	(19,382)	(2,115)
Recognized in net periodic pension cost	(25,093)	—
Accumulated other comprehensive income, end of year	$ 789,690	—

The Parent Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses. During 2008, the Company expects to expense approximately $24,000 for unrecognized gains and losses.

Effective 2006, FASB Statement No. 158 required that companies recognize a balance sheet asset or liability for their pension plans equal to the funded status of the plan, as shown below.

The following sets forth the funded status of the plan and the amounts included in the accompanying balance sheet for the years ending December 31:	2007	2006
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	$ 1,405,118	1,618,942
Projected benefit obligation	3,171,451	2,673,181
Fair value of assets held in the plan	2,207,269	1,848,558
Unfunded excess of projected benefit obligation over plan assets	964,182	824,623
Unfunded (accrued) prepaid liability	(174,492)	9,542
Accrued pension liability recognized in other comprehensive income	$ 789,690	834,165

The following table includes a reconciliation of projected benefit obligation:	2007	2006
Projected benefit obligation, beginning of year	$ 2,673,181	$ 2,271,912
Service cost	261,837	212,117
Interest cost	170,163	139,875
Distributions	(97,311)	(16,717)
Actuarial (gains) losses	163,581	65,994
Projected benefit obligation, end of year	$ 3,171,451	$ 2,673,181

The following table includes a reconciliation of the fair value of plan assets:	2007	2006
Fair value, beginning of year	$ 1,848,558	$ 1,427,608
Contributions	273,183	222,957
Return on plan assets	235,089	118,967
Distributions	(97,311)	(16,717)
Unrealized gains (losses)	(52,250)	95,743
Fair value, end of year	$ 2,207,269	$ 1,848,558

9 Employee Benefit and Deferred Compensation Plans, Continued

Defined Benefit Pension Plan, (continued)

The following table sets forth the assumptions used to compute the estimated pension liability:	2007	2006
Weighted average discount rate — projected benefit obligation	6.00%	6.00%
Increase in future compensation levels	4.00%	4.00%
Expected long-term rate of return	8.25%	8.25%

In consultation with the plan's investment management company and actuary, the Parent Company, as plan sponsor, arrives at an assumption for the expected long-term rate of return on plan assets. This rate is intended to reflect the average rate of earnings expected on funds invested given funding obligations, future compensation levels, and inflation. The expected long-term rate of return is not necessarily a reflection of recent experience but rather a historical estimate of future long-term rates of return. Anticipated returns for the plan are not reduced by taxes and assume the plan continues in place for the foreseeable future.

The Parent Company reviews the plan's asset allocation and investment mix at least annually. Plan assets may be invested in a mix of the following major classes: equity – large cap; equity – small and mid cap; equity – international; short and intermediate bond; and money market. Investment strategies are based, in part, on the Company's overall assessment of the state of the economy and its assumed direction, the Federal Reserve Board's bias in setting monetary policy, fiscal policy and its projected impact, and the direction of short and long-term interest rates. Investment strategies are guided by an investment policy that calls for comparing the investment performance of the investment management company to an appropriate benchmark. This evaluation is conducted over a three-year horizon and also considers the investment manager's performance relative to their discipline.

The expected benefit payments by year to plan participants over the next 10 years are as follows:

2008	$ 2,600
2009	2,500
2010	24,500
2011	28,300
2012	34,700
2013–2017	1,126,500
Total extimated benefit payments over next 10 years	$ 1,219,100

9 Employee Benefit and Deferred Compensation Plans, Continued

Defined Benefit Pension Plan, (continued)

The Parent Company contributed $306,761 and $222,957 to the plan in 2007 and 2006, respectively. During 2008, the Company expects to contribute approximately $285,000 to the plan.

The incremental effect of applying FASB Statement No. 158 on individual items on the Company's consolidated balance sheet at December 31, 2007 is a decrease in the funded status of the pension plan liability of $42,360, a decrease in deferred tax assets of $14,402 and a rise in stockholders' equity of $27,958.

Profit Sharing Plan

The Parent Company sponsors an Internal Revenue Code Section 401(k) Employee Savings Plan that permits an employee to defer annual cash compensation. The Parent Company's Board of Directors determines the Parent Company's contribution, which was approximately $271,000 and $391,000 in 2007 and 2006, respectively.

Deferred Compensation Plan

The Bank has entered into salary continuation agreements with its directors, its chief executive officer and five other officers. In 2007 and 2006, the Bank expensed $381,452 and $350,528, respectively, for the accrual of future salary continuation benefits. The Bank has elected to fund the salary continuation liability with single premium universal life insurance policies. In 2007 and 2006, cash value income totaled $274,838 and $258,066, respectively. As of December 31, 2007 and 2006, other assets included $6,314,451 and $6,076,670, respectively, in surrender value, and other liabilities included salary continuation benefits payable of $1,651,870 and $1,293,201, respectively.

The Bank also maintains split dollar insurance on its chief executive officer. In 2007 and 2006, the increase in cash surrender value recorded in income totaled $11,236 and $8,280, respectively. As of December 31, 2007 and 2006, other assets include accrued cash surrender value of $201,706 and $190,470, respectively.

10 Stock Option Plan

The Company's Stock Option Plans (1998 and 2006) reserve a maximum of 331,892 shares of common stock as of December 31, 2007. Options are granted with exercise prices equal to the fair market value of the stock at the date of the grant. These options expire 10 years from the grant date and vest between four and six years. The Plans provide that upon exercise, the number of options awarded will be adjusted for any stock dividends occurring since the grant date. Therefore, the number of shares granted and the weighted average exercise prices have been adjusted for any stock dividends that have been declared since the first options were granted under the Plans.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on a pool of similarly situated and traded Georgia community banks. The Company considers historical data and peer group data to estimate option exercise and employee terminations within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

For the years ending December 31:	2007	2006
Dividend yield	N/A	1.50%
Expected life	N/A	8 years
Risk-free interest rate	N/A	5.18%
Expected volatility	N/A	10.33%

No options were granted during the year ended December 31, 2007. The weighted-average grant-date fair value of options granted during the year ended December 31, 2006 was $4.70.

10 Stock Option Plan, Continued

A summary status of the Company's Stock Option Plans as of December 31, 2007 and 2006, and changes during the years ending on those dates is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	203,892	$ 15.48		
Granted	—	—		
Exercised	(2,000)	11.90		$ 16,200
Forfeited	(2,000)	20.00		0
Outstanding at December 31, 2007	199,892	$ 15.47	5.3	$ 905,511
Vested at December 31, 2007	124,719	$ 13.27	3.6	$ 921,711
Outstanding at January 1, 2006	132,344	$ 12.39		
Granted	82,000	20.02		
Exercised	(10,452)	11.99		$ 109,903
Outstanding at December 31, 2006	203,892	$ 15.48	6.3	$ 1,431,322
Vested at December 31, 2006	103,866	$ 12.37	3.7	$ 1,052,162

Information pertaining to options outstanding at December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 11.90 — $ 12.80	115,594	3.0 years	$ 12.23	107,000	$ 12.18
$ 18.00 — $ 21.00	84,298	8.5 years	$ 19.92	17,719	$ 19.83

As of December 31, 2007, there was $308,055 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 4 years. The total fair value of shares vested during the years ended December 31, 2007 and 2006 was $417,060 and $41,081, respectively.

11 Related Party Transactions

As of December 31, 2007 and 2006, the Bank had direct and indirect loans outstanding to or for the benefit of certain of the Bank's executive officers, directors, and their related interests of $2,468,473 and $2,433,480, respectively. During 2007 and 2006, $951,514 and $1,724,020 of such loans were made and repayments totaled $916,520 and $242,350, respectively. These loans were made in the ordinary course of business in conformity with normal credit terms, including interest rates and collateral requirements prevailing at the time for comparable transactions with other borrowers. These individuals and their related interests also maintain customary demand and time deposit accounts at the Bank which amounted to $5,075,091 and $3,360,186 at December 31, 2007 and 2006, respectively.

12 Stockholders' Equity

The Parent Company and the Bank are subject to various capital requirements administered by the regulatory authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The regulations require the Company to meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

12 Stockholders' Equity, Continued

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following tables) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as **well capitalized** under the regulatory framework for prompt corrective action. To be considered well capitalized and adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the Company must maintain minimum Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the tables. The Company's actual capital amounts and ratios are also presented in the following tables. Capital levels at the Parent Company approximate those of the Bank.

	Well Capitalized Requirement		Adequately Capitalized Requirement		Actual	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2007 (dollars in thousands)						
Tier 1 Capital to Average Assets	$23,025	5.00%	$13,815	3.00%	$37,285	8.10%
Tier 1 Capital to Risk Weighted Assets	$22,284	6.00%	$14,856	4.00%	$37,285	10.04%
Total Capital to Risk Weighted Assets	$37,140	10.00%	$29,712	8.00%	$41,956	11.30%
December 31, 2006 (dollars in thousands)						
Tier 1 Capital to Average Assets	$22,627	5.00%	$13,576	3.00%	$35,571	7.90%
Tier 1 Capital to Risk Weighted Assets	$21,562	6.00%	$14,375	4.00%	$35,571	9.90%
Total Capital to Risk Weighted Assets	$35,937	10.00%	$28,750	8.00%	$40,250	11.20%

Management believes, as of December 31, 2007, that the Parent Company and the Bank meet all capital requirements to which they are subject.

Banking regulations limit the amount of dividends which the Bank may pay without obtaining prior approval. Under current state banking laws, the approval of the Georgia Department of Banking and Finance will be required if the total of all dividends declared in the calendar year exceeds 50 percent of the net profits for the previous calendar year, and the ratio of equity capital to adjusted total assets is less than 6 percent. At December 31, 2007, stockholders' equity of the Bank available for the payment of dividends after that date to the Parent Company without prior regulatory approval was approximately $1,301,000.

13 Off-Balance-Sheet Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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 and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2007 and 2006, commitments to extend credit totaled $45,567,042 and $65,185,930, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At December 31, 2007 and 2006, commitments under letters of credit aggregated $2,069,008 and $2,083,391, respectively. In 2007 and 2006, the Bank was not required to perform on any letters of credit.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the other party. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties on those commitments for which collateral is deemed necessary.

14 Fair Value of Financial Instruments

The assumptions used in the estimation of the fair value of the Company's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of the Company or its subsidiaries, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by the Company since purchase, origination or issuance.

Cash and Cash Equivalents — For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investment Securities — Fair values for investment securities are based on quoted market prices.

Loans — The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value.

Other Investments — The carrying value of other investments is estimated to approximate fair value.

Bank Owned Life Insurance — The carrying value of cash surrender value of life insurance approximates fair value.

Deposits — The fair value of demand deposits, savings accounts, NOW accounts, and certain money market deposits are the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Other Borrowed Funds — The fair value of fixed rate and convertible FHLB advances is estimated by discounting the future cash flows using the current rates at which similar advances would be drawn by the Bank. For variable rate FHLB advances, the carrying value approximates fair value. The carrying amounts of borrowings under repurchase agreements and other short-term borrowings approximate their fair value.

Commitments to Extend Credit and Standby Letters of Credit — Off-balance-sheet financial instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable interest rates. Therefore, both the carrying value and the fair value associated with these instruments are immaterial.

Limitations — Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The carrying amount and estimated fair values of the Company's financial instruments are as follows:

	December 31, 2007		December 31, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 21,343,108	21,343,108	$ 26,478,947	26,478,947
Investment securities	76,086,094	76,081,629	85,847,703	85,847,453
Other investments	1,760,865	1,760,865	2,179,165	2,179,165
Loans (net)	334,898,169	334,678,894	324,214,769	321,273,548
Bank owned life insurance	6,516,157	6,516,157	6,267,140	6,267,140
Financial liabilities:				
Deposits	$ 407,276,858	407,402,402	$ 399,530,583	399,545,083
Other borrowed funds	12,461,379	12,544,985	21,000,000	20,400,000

Due to the short-term duration of most of the off-balance-sheet financial instruments (commitments to extend credit and standby letters of credit), management has chosen not to defer any fees associated with those instruments. Additionally, most of the off-balance-sheet financial instruments (or their underlying credit instrument) carry variable rates. Therefore, management has determined that both the carrying value and the fair value associated with the off-balance-sheet financial instruments are immaterial.

15 Condensed Financial Information of McIntosh Bancshares, Inc.

Condensed Balance Sheets (Parent Only)	2007	2006
Assets		
Cash	$ 367,968	$ 137,092
Investment in McIntosh State Bank subsidiary	38,001,249	35,700,262
Investment in McIntosh Financial Services, Inc. subsidiary	142,386	88,653
Investment securities available for sale	—	564,375
Other assets	292,936	379,503
Total assets	$ 38,804,539	$ 36,869,885
Liabilities and stockholders' equity		
Unfunded pension liability	$ 1,002,093	$ 1,010,875
Other liabilities	—	128,146
Total liabilities	1,002,093	1,139,021
Stockholders' equity		
Common stock	7,027,440	3,511,220
Surplus	5,686,589	9,085,000
Retained earnings	25,172,294	23,596,177
Accumulated other comprehensive income (loss)	(83,877)	(461,533)
Total stockholders' equity	37,802,446	35,730,864
Total liabilities and stockholders' equity	$ 38,804,539	$ 36,869,885

Condensed Statements of Earnings (Parent Only)	2007	2006
Dividend income from Bank subsidiary	$ 900,000	$ 800,000
Interest income	461	—
Income from gain on sale of securities	147,853	—
Operating expenses	(216,691)	(159,483)
Income before equity in undistributed earnings of subsidiaries	831,623	640,517
Equity in undistributed earnings of subsidiaries	1,756,265	4,277,235
Net earnings	$ 2,587,888	$ 4,917,752

15 Condensed Financial Information of McIntosh Bancshares, Inc., Continued

Condensed Statements of Cash Flows (Parent Only)	2007	2006
Cash flows from operating activities:		
Net earnings	$ 2,587,888	$ 4,917,752
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of securities	(147,853)	—
Equity in undistributed earnings of subsidiaries	(1,756,265)	(4,277,235)
Stock-based compensation	94,009	67,372
Other operating activities	105,742	(26,354)
Net cash provided by operating activities	883,521	681,535
Cash flows from investing activities, consisting of sales of securities:	335,326	—
Net cash flows provided by investing activities	335,326	—
Cash flows from financing activities:		
Proceeds from exercise of stock options	23,800	125,300
Dividends paid	(1,011,771)	(839,557)
Net cash flows used in financing activities	(987,971)	(714,257)
Net change in cash	230,876	(32,722)
Cash at beginning of year	137,092	169,814
Cash at end of year	$ 367,968	$ 137,092

16 Other Commitments and Obligations

The Bank has entered into operating lease commitments for two banking offices and properties for signage and an ATM site. The following table outlines the total annual obligations arising from these leases:

	Annual Obligation
2008	$ 135,818
2009	130,788
2010	130,320
2011	130,320
2012	130,320
Thereafter	259,200
	$ 916,766

The Bank has commitments to purchase federal funds from its correspondent banks totaling $25,800,000 as of December 31, 2007. As of December 31, 2007, the Bank has no outstanding balance under these commitments. The Bank has committed to purchase 0.5 acres of land in Greensboro, Georgia for future expansion. The commitment to purchase this property totals $650,000 of which $100,000 has been contingently deposited.

17 Miscellaneous Operating Income and Expenses

Significant components of other operating income and expense included in the consolidated statements of earnings in excess of 1% of interest and other income for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Other operating income:		
Secondary market mortgage origination fees	$ 689,261	$ 774,188
Other operating expenses:		
Professional fees	$ 404,755	$ 501,014
Data processing expenses	626,450	565,547

Management's Discussion and Analysis of Financial Condition and Results of Operations for Years ended December 31, 2007 and December 31, 2006

Financial Condition

The financial condition of the Company as of December 31, 2007 shows assets grew $941,433 or 0.2% compared to December 31, 2006. Gross loans increased $12,977,589 or 4% offset by a $9,761,609 or 11.4% decline in investment securities and a $5,361,000 or 39.8% decline in federal funds sold.

The increase from December 31, 2006 to 2007 in gross loans occurred entirely within the first six months of the year. During the last six months of 2007, loans declined $6,871,068 offset by a rise in other real estate owned. Other real estate owned increased $4,038,564 or 183% from December 31, 2006 to December 31, 2007. Loans transfered to other real estate during the twelve month period ending December 31, 2007 totaled $6,603,508.

Total deposits increased $7,746,275 or 2% from December 31, 2006 to 2007. The change from the prior year-end is principally attributable to a $18,776,864 or 8.3% increase in time deposits offset by a $7,412,246 or 6% decline in NOW and money market account balances and a $4,837,978 or 13.2% decline in demand deposit balances. Time deposits include $58,025,925 in brokered deposits which increased $17,173,836 or 42% from December 31, 2006. Brokered deposits include $31,100,037 in reciprocal deposits placed under the Certificate of Deposit Account Registry System (CDARS). These CDARS deposits represent stable local deposits, but are designated and reported as brokered deposits under regulatory requirements. The increase in brokered deposits from December 31, 2006 to 2007 is essentially the result of higher CDARS balances. Time deposits represent 60.5% and 57% of total deposits as of December 31, 2007 and 2006, respectively. The rise in reliance on time deposits for funding is the due to the increase in brokered deposits and declining interest rates which leads customers to lock in interest rates. See Liquidity and Interest Rate Risk comments for further discussion.

On December 13, 2006, federal bank regulatory agencies issued a new Policy Statement, *Interagency Policy Statement on the Allowance for Loan and Lease Losses*, which outlines how banks should approach determining the adequacy of their ALL. Provisions of this new Policy Statement must be considered along with provisions of Policy Statements on ALL adequacy issued in 1993 and 2001. In 2007, management implemented the requirements of this latest Policy Statement which in combination with the current lending and market conditions has resulted in a generally higher ALL level.

The allowance for loan losses (ALL) rose $2,294,189 or 49.2% for the twelve months ending December 31, 2007. The increase results from $3,324,370 in provision expense and $1,030,181 in net charge-offs. As of December 31, 2007, the ALL as a percentage of gross loans (reserve ratio) is 2.03% versus 1.42% for the prior year-end.

The rise in the overall reserve ratio is due to: (a) a rise in the volume of loans outstanding with more than the normal risk of repayment (impaired loans); (b) a rise the overall level of reserves required to be held against impaired loans as required under the new Policy Statement; and (c) a rise in the qualitative factors utilized in the methodology used to determine ALL adequacy. Total impaired loans rose $15,940,637 or 2,647% which resulted in $1,500,641 more required reserve. The change in reserve methodology under the new Policy Statement called for a reserve ratio 580 basis points more on impaired loans. This additional impairment increased the ALL by $520,071 versus 2006. Given the declining market conditions for residential real estate that continued to develop during 2007, management adjusted its qualitative factors used in determining ALL adequacy in 2007. This change resulted in a required ALL that was $429,751 higher. Had these events not occurred in 2007, the reserve ratio would have been 1.32%.

The following table highlights the ALL by loan category:

ALL by Loan Category (Amount in thousands)	**2007 Total**	**2007 %**	**2006 Total**	**2006 %**
Commercial, financial & agricultural	$ 589	1.02	$ 671	1.31
Real estate — mortgage	2,173	1.37	2,192	1.45
Real estate — construction	3,932	3.58	1,537	1.37
Consumer loans	262	1.63	262	1.78
Total Allowance for Loan Losses	$6,956	2.03	$4,662	1.42

The decrease in reserve ratio for the commercial, financial, and agricultural category is due to declines in the historical loss experience and impairment estimates. Had the loss experience remained unchanged from 2006, the ALL for the commercial, financial, and agricultural category would have been $44,000 higher. Had the estimate of impairment for this category remained unchanged from 2006, the reserve would have been $81,000 higher. The lower impairment estimate for 2007 is the result of $1.3 million less in loans considered impaired in the category. Had these events not occurred, the reserve ratio for the commercial, financial, and agricultural category would have been 1.24%

The decrease in the reserve ratio for the real estate mortgage category is due to a decline in the estimate for impaired loans partially offset by a rise in historical loss experience and higher qualitative factors. Had the loss experience remained unchanged from 2006, the ALL for the real estate mortgage category would have been $5,000 lower. Had the qualitative factors remained unchanged from 2006, the reserve would have been $65,000 lower. Had the estimate of impairment for this category remained unchanged from 2006, the reserve would have been $105,000 higher. The lower impairment estimate for 2007 is the result of $3.2 million less in loans considered impaired in the category. Had these events not occurred, the reserve ratio for the real estate-mortgage category would have been 1.40%.

The increase in reserve ratio for the real estate construction category from the prior year is due to increases in impairment estimates and qualitative factors partially offset by a lower historical loss experience. Had the loss experience remained unchanged from 2006, the ALL for the real estate construction category would have been $4,000 higher. Had the estimate of impairment for this category remained unchanged from 2006, the reserve would have been $2.2 million lower. The higher impairment estimate for 2007 is the result of $13.8 million more in loans considered impaired in the category. Had the qualitative factors remained unchanged from 2006, the reserve would have been $365,000 lower. The change in qualitative factors in 2007 reflects the decline in the construction real estate and development market. Had these events not occurred, the reserve ratio for the real estate mortgage category would have been 1.25%.

The decrease in reserve ratio for the consumer loan category from the prior year is due to lower impairment estimates partially offset by higher historical loss experience. Had the loss experience remained unchanged from 2006, the ALL for the consumer loan category would have been $10,000 lower. Had the estimate of impairment for this category remained unchanged from 2006, the reserve would have been $37,000 higher. The lower impairment estimate for 2007 is the result of $318,000 less in loans considered impaired in the category. Had these events not occurred, the reserve ratio for the consumer loan category would have been 1.80%.

The Bank's delinquency ratio (loans past due 30 days or more and loans on nonaccrual as a percentage of gross loans) rose from 1.58% to 8.72% during the year. The higher delinquency ratio is principally due to $21 million more loans on nonaccural and $3.8 million more in loans delinquent 30 days or greater past due and not on nonaccrual. As of December 31, 2007, 27 relationships were on nonaccrual.

As of December 31, 2007, the Company continued to have a concentration in AD&C loans. Management has established a maximum limit where total AD&C loans may not exceed 60% of the Company's loan portfolio including unfunded commitments. As of December 31, 2007, AD&C loans represented 38% of gross loans and commitments versus 43% as of the prior year-end. The primary risks of AD&C lending are:

(a) Loans are dependent upon continued strength in demand for residential real estate. Demand for residential real estate is dependent on favorable real estate mortgage rates and population growth from expanding industry and services in the metropolitan Atlanta area;
(b) Loans are concentrated to a limited number of borrowers; and
(c) Loans may be less predictable and more difficult to evaluate and monitor.

Since September 2006, management has noticed a slowdown in AD&C activity. That slowdown accelerated into 2007 with the demise of sub-prime lending. The Company is not exposed to sub-prime borrowers as it did not directly participate in lending to that segment. However, builders and developers who provided housing inventory were adversely impacted. Builders and developers are what comprise the AD&C concentration as well as the bulk of the Bank's nonaccrual loans. Management believes AD&C conditions in the markets served by the Company remain under significant stress from the glut of lot inventory and slow housing turnover. Added pressure caused by tightening underwriting standards for residential mortgage financing and the credit markets caution and tepid appetite for mortgage-backed securities has exacerbated the matter. Bank management believes the effect of the severe downturn in residential real estate is further aggravated by the level of foreclosure activity for both lots and homes. The result has been, and will likely remain for at least the next 18 months, downward pressure on house and lot prices. The marked decline in residential real estate pricing experienced during the last 12 months has eroded or eliminated the collateral margins the Bank typically utilizes to protect itself against losses.

The Bank, through its mortgage lending activities, has originated and sold mortgages for sub-prime borrowers. However, loans originated for sub-prime borrowers were originated according to the underwriting standards of the Bank's investors and purchased by the Bank's investors. Management is not aware of any direct or indirect obligations involving its residential mortgage origination activities associated with sub-prime mortgages.

On December 12, 2006 the federal bank regulatory agencies released guidance on *Concentration in Commercial Real Estate Lending*. This guidance defines commercial real estate (CRE) loans as loans secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property (that is, loans for which 50% or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans for owner occupied CRE are generally excluded from the CRE guidance.

The CRE guidance is triggered where either:

(a) Total loans for construction, land development, and other land represent 100% or more of the Bank's total risked based capital; or
(b) Total loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land represent 300% or more of the Bank's total risked based capital.

Banks that are subject to the CRE guidance's triggers will need to implement enhanced strategic planning, CRE underwriting policies, risk management and internal controls, portfolio stress testing, risk exposure limits, and other policies, including management compensation and incentives, to address the CRE risks. Higher allowances for loan losses and capital levels may also be appropriate.

The following table outlines the Bank's CRE loans by category and CRE loans as percent of total risked based capital for years ending December 31, 2007 and 2006.

	2007		2006	
Loan Types:	**Aggregate Balance**	**Percent of Total**	**Aggregate Balance**	**Percent of Total**
Construction & development	$ 110,321	58%	$ 113,390	63%
Land	34,600	18%	29,410	17%
Sub total	144,921	76%	142,800	80%
Multi-family	4,086	2%	4,154	2%
Non-farm non-residential	41,665	22%	32,405	18%
Total	$ 190,672	100%	$ 179,359	100%
Percent of Total Risk Based Capital:	**Bank Limit**	**Actual**	**Bank Limit**	**Actual**
Construction, development & land	415%	347%	415%	355%
Construction, development & land, multi-family and non-farm non-residential	685%	456%	685%	446%

The following is recap of other real estate activity from December 31, 2006 to December 31, 2007:

Balance as of December 31, 2006	$ 2,208,151
Additions to base amount	313,650
Write-down	(254,657)
Sale of 7 residential vacant lots	(74,400)
Sale of 19 residential construction properties	(2,804,194)
Foreclosure on 91 residential lots and unimproved acreage	2,770,705
Foreclosure on 29 residential construction properties	4,087,460
Balance as of December 31, 2007	$ 6,246,715

For the twelve months ending December 31, 2007, the Company's equity capital rose $2,071,582 or 5.8% from the prior period. The change in equity capital over the twelve month period resulted from $2,587,888 in net income, a $349,698 rise in net unrealized gains on securities available for sale, by a $27,958 decline in the after tax effect of recognizing the Company's current unfunded pension liabilities (see footnotes 1 and 9 of the Company's consolidated financials statements for further discussion), $23,800 due to exercised stock options, $94,009 in noncash compensatory stock option expense, and $1,011,771 in cash dividends paid.

Liquidity

The Bank must maintain, on a daily basis, sufficient funds to cover depositor withdrawals and to supply new borrowers with funds. To meet these obligations, the Bank keeps cash on hand, maintains account balances with its correspondent banks, and purchases and sells Federal funds and other short-term investments. Asset and liability maturities are monitored in order to avoid significant mismatches which could adversely impact liquidity. It is the policy of the Bank to monitor its liquidity to achieve earnings enhancements and meet regulatory requirements while funding its obligations.

Liquidity is monitored daily and formally measured on a monthly basis. As of December 31, 2007, the Bank's liquidity ratio was 10.5% versus 13.2% as of the prior year-end. In 2007 the Bank's brokered deposits rose $17,173,836 or 42% from December 31, 2006 to $58,025,925. Nine million of the increase in brokered deposits was used to repay advances from the Federal Home Loan Bank of Atlanta (FHLB) during the past twelve months. Management has established a noncore funding (wholesale, brokered, and out-of-territory deposits) guideline not to exceed 20% of Bank deposits, excluding noncore funding. As of December 31, 2007 and 2006 the Bank's noncore funding measure was 20.1% and 12.6%, respectively.

Excluding the FHLB, the Bank has $25.8 million in lines of credit with its correspondent banks to supplement short term liquidity. During the year, the Bank borrowed for 10 days under these commitments with average borrowing of $1.5 million and a high of $3.2 million in August 2007.

The Bank has a $2 million in FHLB advance that may convert to 3 month LIBOR in December 2008. Management believes unless rates rise materially before then, the FHLB will not exercise its right to convert this advance.

Advances are drawn under a $47.9 million line of credit with the FHLB. The line of credit with FHLB is secured by a blanket lien on the Bank's qualified commercial real estate mortgages, 1-4 family residential mortgages, home equity mortgages, and multifamily mortgages outstanding as well as the Bank's holdings of FHLB stock. During the twelve months ending December 31, 2007, management repaid $9 million in FHLB advances. During the twelve months ending December 31, 2007, management utilized the daily revolving credit (DRC) facility as part of its FHLB credit line for 58 days with an average borrowing of $4.5 million and a high of $7 million in October 2007. See Table 8 for a recap of Bank borrowing.

Beginning in the second quarter of 2007, management began offering a retail repurchase agreement to certain Bank customers. The agreement allows the Bank to sell its investment securities overnight and repurchase those securities the following business day. The rate floats and is tied to the ninety day U. S. Treasury bond. As of December 31, 2007, the Bank has sold and is obligated to repurchase $304,555 in investment securities.

Beginning in the second quarter of 2007, the Bank began participating in a borrowing arrangement with the U. S. Treasury. The Bank, as an approved U. S. Treasury depository, historically accepts treasury, tax, and loan payments. Those payments were previously remitted to the U. S. Treasury on a daily basis; however, now those payments, up to an agreed upon maximum, can remain on deposit with the Bank. This obligation is repaid periodically as the U. S. Treasury requires and bears a variable rate of interest approximating the ninety day U. S. Treasury bond. As of December 31, 2007, the Bank had $156,823 in note obligations under this program.

Critical Accounting Policies

Critical accounting policies are dependent on estimates that are particularly susceptible to significant changes. Determination of the Bank's ALL and income taxes have been identified as critical accounting policies.

The ALL is maintained at a level believed to be appropriate by management to provide for probable loan losses inherent in the portfolio as of each quarter-end. Management's judgment as to the amount of the ALL, including the allocated and unallocated elements, is a result of ongoing review of lending relationships, the overall risk characteristics of the portfolio segments, changes in the character or size of the portfolio segments, the level of impaired or nonperforming loans, historical net charge-off experience, prevailing economic conditions and other relevant factors. Loans are charged off to the extent they are deemed to be uncollectible. The ALL level is highly dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status, and the timing of collecting nonperforming loans. Such estimates may be subject to frequent adjustments by management and reflected in the provision for loan losses in the periods in which they become known.

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets or liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The determination of current and deferred taxes is based on complex analyses of many factors including interpretation of Federal and state income tax laws, the difference between tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts due or owed such as the reversals of temporary differences, and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining current and deferred taxes.

Off-Balance Sheet Arrangements

As described further in footnote 13 to the Company's audited financial statements, the Bank's lending activities regularly result in unfunded commitments to creditworthy customers requesting financing for working capital, construction and development activities, and home equity lines of credit. Commercial unfunded commitments are typically secured by collateral margined in accordance with the Bank's lending policy. Commercial unfunded commitments, excluding construction and development, are generally for terms less than three years. Unfunded commitments for construction and development are typically for terms less than 18 months. Home equity lines of credit are generally secured by collateral margined in accordance with Bank's lending policy and mature in ten years. Advances under all loan commitments occur in the normal course of the Bank's operations. Management considers its unfunded commitments when assessing the Bank's liquidity and monitoring concentrations of credit. Commitment fees generally represent 0.5% to 1.0% of the total commitment amount (funded and unfunded) and are recognized as origination fees. Origination fees for the years ending December 31, 2007, and 2006 were $1,301,657 and $1,228,701, respectively.

From time to time the Bank is asked by its creditworthy customers to issue standby or performance letters of credit. These letters of credit are generally issued for terms no longer than two years and are secured by collateral margined in accordance with the Bank's lending policy. The Bank has not been asked to perform on any of its outstanding letters of credit during 2007 or 2006. Fees for issuing letters of credit totaled $13,463 and $12,503 for the years ending December 31, 2007 and 2006, respectively.

The following table represents outstanding contingent liabilities by category for the years ending December 31, 2007 and 2006, respectively.

Contingent Liabilities by Category (amounts in thousands)	**2007 Total**	**% of Total**	**2006 Total**	**% of Total**
Unfunded commitments secured by 1-4 family RE	$14,811	31.1%	$14,394	21.4%
Unfunded commitments secured by commercial RE	25,607	53.8%	43,047	64.0%
Other unfunded commitments	5,149	10.8%	7,698	11.5%
Financial standby letters of credit	350	0.7%	462	0.7%
Performance standby letters of credit	1,719	3.6%	1,621	2.4%
Total Contingent Liabilities	$47,636	100.0%	$67,222	100.0%

Contractual Obligations

In the ordinary course of operations, the Company enters into certain contractual obligations. The following table summarizes the Company's significant fixed and determinable contractual obligations, by payment date, as of December 31, 2007.

	Payments Due by Period (amounts in thousands)				
Contractual Obligations:	**Total**	**Less than 1 year**	**Over 1 to 3 years**	**Over 3 to 5 years**	**More than 5 years**
Deposits without stated maturity	$160,913	$160,913	$ —	$ —	$ —
Certificates of deposit	246,364	186,294	47,393	12,678	—
Federal Home Loan Bank advances	12,000	—	5,000	5,000	2,000
Other borrowed funds	461	461	—	—	—
Lease obligations	917	136	261	261	259
Total	$420,655	$347,804	$52,653	$17,939	$ 2,259

Results of Operations — Twelve Months Ended December 31, 2007 Compared to 2006

Net interest income for the twelve months ending December 31, 2007 decreased $594,502 or 3.2% from the year-ago period. The decrease in net interest income is attributable to the reversal of interest income on loans placed on nonaccrual totaling $946,763, holding of other real estate, $360,485 less in loan fee income, and net interest margin compression resulting from asset sensitivity as the prime lending rate fell 100 basis points during 2007 and intense competition for deposits resulting in higher funding costs.

The December 31, 2007 tax equivalent net interest margin of 4.13% fell 59 basis points from the year-ago period. Margin decline was attributable to a 45 basis point decrease in the net interest component of the net interest margin and a 13 basis point decline in the loan fee component of the net interest margin relative to the prior year. The 13 basis point decline in the fee component of the margin is due to the competitive pressures experienced in the South Henry and Lake Oconee markets. The decline in the interest component of the net interest margin is due to the significant levels of nonaccrual loans and other real estate and loans and other earning assets repricing faster downward than the decline in funding costs. The yield on earning assets declined 15 basis points from 2006 to 2007 while the cost of funds as a percentage of earning assets rose 44 basis points over the same period. The Bank's average loan-to-funding ratio increased from 82.1% to 82.5%.

Total interest income for the twelve months ending December 31, 2007 rose $2,687,266 or 8.5% from the year-ago period. The increase in interest income was attributable to a rise in average earning assets.

Total average earning assets rose $41.8 million or 10.6% in 2007 compared to 2006. Seventy-four percent or $31 million of the increase in average earning assets related to growth in loans. The tax equivalent yield on earning assets as of December 31, 2007 was 7.91% and declined 16 basis points from the year-ago period. This decrease results from a 25 basis point fall in loan yield, a 34 basis point increase in investment portfolio yield, and a 1 basis point rise in yield on federal funds sold and interest bearing deposits. The overall decline in yield on earning assets from the year-ago period results from floating rate loans tied to the prime lending rate falling as the prime lending rate declined 100 basis points during the year.

Interest expense for the twelve months ending December 31, 2007 rose $3,281,768 or 24.9% from the year-ago period. The increase in interest expense is due to a rise in average interest bearing liabilities as well as higher costs associated with funding the balance sheet.

Total average interest bearing liabilities grew $35.4 million or 10.2% from the year-ago period. The cost of funds as of December 31, 2007 was 4.30% and rose 50 basis points from the year-ago period. The increase in cost of funds results from a 35 basis point rise in the cost of interest bearing demand deposit accounts, a 31 basis point rise in the cost of funds on savings accounts, a 52 basis point increase in cost of funds on time deposits, and a 3 basis point rise in borrowed money. The overall rise in the cost of funds from the year-ago period results from maturing time deposits repricing at higher rates versus rates when originated in prior years and competitive pressures that have elevated the overall cost of funds.

Provision for loan losses for the twelve months ending December 31, 2007 increased $2,546,123 or 327.2% from the year-ago period. The rise in provision expense versus the prior year-end was due to a 4% increase in loans outstanding, net charge-offs, and an increase in problem loans. Nonaccrual loans increased $21 million or 36 times the amount reported in 2006. Impaired loans grew $15.9 million or 27 times the amount reported in 2006. The level of impairment on impaired loans grew $2 million as the amount and severity of impaired loans increased. The Bank's delinquency ratio (loans past due 30 days or more and loans on nonaccrual as a percentage of gross loans) rose from 1.58% to 8.72% during the year. Net charge offs for 2007 totaled $1,030,181. Refer to the discussion on ALL adequacy for further comment.

During 2007, other income, excluding investment securities, other real estate, and fixed asset gains or losses, rose $210,988 or 5.5% from the year-ago period. Income from secondary market financing activity declined $84,927 or 11% from the year-ago period due to tightened credit underwriting standards and lower volume resulting from the cessation of the sub-prime mortgage market. Mortgage originations for purchasing or refinancing residential real estate and sold into the secondary market fell 60 or 18% in number and 7% by dollar amount from 2006 to 2007. Overdraft fee income rose $80,991 or 4.9% due to greater overdraft activity. ATM service charge income rose $141,013 or 61.3% due to increased foreign ATM surcharge volume.

Investment securities gains represent the sale of the Company's equity stake in Nexity Bank. The sale reflects management's efforts to diversify and reduce its exposure to the financial sector.

During 2007, other noninterest expense increased $791,930 or 5.6% from the year-ago period. This increase is attributable to several factors, including: a $488,492 or 5.4% increase in salary and benefit expenses resulting from the addition of four full time equivalent employees due to centralizing loan administration and filling key support positions, employee raises, and 7% increase in health insurance costs; $60,903 or 10.8% higher computer and data processing costs due to technology improvements and greater processing volume; $50,114 or 20.2% increase in ATM expense due to higher transaction volume; $123,796 or 203.2% increase in other real estate and collection expenses resulting from the level of problem loans; $70,074 or 4.2% increase in occupancy expense due to expanding the Bank's Jackson and McDonough offices; offset by and a $96,259 or 19.2% decline in professional fees as certain functions were brought in-house with new hires.

During 2007, income tax expense fell $1,350,326 or 54.7% from the year-ago period. The decrease from the year-ago period is attributable to 49.8% less net income before income tax and a fall in the effective tax rate. As of December 31, 2007, the effective income tax rate was 30.2% versus 33.4% from the year-ago period. The fall in the effective income tax rate results from nominal State income tax liability as the majority of the Company's State tax obligation was satisfied by amounts paid when the Company paid its business, occupation, and license taxes due the State.

Table 1 — Average Balance Sheets, Interest and Rates

The table below shows the year-to-date average balance for each category of interest earning assets and interest-bearing liabilities for the indicated periods and the average rate of interest earned or paid thereon.

	For the Years Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)
ASSETS									
Interest earning assets:									
Federal funds sold and interest bearing deposits	$ 9,232,956	453,892	4.92%	$ 14,024,172	689,783	4.92%	$ 7,325,234	236,999	3.24%
Taxable investments	70,679,753	3,525,154	4.99%	55,261,514	2,491,875	4.51%	44,010,533	1,665,170	3.78%
Non-taxable investments	10,703,778	428,973	6.07%	10,504,769	434,784	6.27%	9,755,858	422,487	6.56%
Total investments	81,383,531	3,954,127	5.13%	65,766,283	2,926,659	4.79%	53,766,391	2,087,657	4.29%
Taxable loans	343,471,851	29,715,212	8.65%	312,246,281	27,809,041	8.91%	256,110,243	19,951,790	7.79%
Non-taxable loans	1,068,467	59,886	8.49%	1,336,525	73,368	8.32%	1,621,262	75,385	7.05%
Total loans	344,540,318	29,778,098	8.65%	313,582,806	27,882,409	8.90%	257,731,505	20,027,175	7.79%
Total interest earning assets	435,156,805	34,186,117	7.91%	393,373,261	31,498,851	8.07%	318,823,130	22,351,831	7.09%
Allowance for loan losses	(5,124,334)			(4,462,140)			(3,587,598)		
Other assets	29,713,256			29,970,446			24,679,979		
Total assets	$459,745,727			$418,881,567			$339,915,511		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Demand	$116,866,109	3,441,208	2.94%	$113,605,552	2,941,889	2.59%	$101,721,257	1,598,644	1.57%
Savings	12,010,137	184,350	1.53%	11,448,003	139,380	1.22%	11,534,505	71,934	0.62%
Time	234,323,402	12,125,482	5.17%	199,110,346	9,260,632	4.65%	137,115,731	5,082,975	3.71%
Total deposits	363,199,648	15,751,040	4.34%	324,163,901	12,341,901	3.81%	250,371,493	6,753,553	2.70%
Federal funds purchased	84,245	4,577	5.43%	105,287	6,594	6.26%	136,540	4,497	3.29%
FHLB advances	18,941,714	689,972	3.64%	22,832,877	825,134	3.61%	28,484,931	948,442	3.33%
Other borrowings	274,602	9,808	3.57%						
Total interest bearing liabilities	382,500,209	16,455,397	4.30%	347,102,065	13,173,629	3.80%	278,992,964	7,706,492	2.76%
Non-interest bearing demand deposits	34,636,932			34,738,891			28,619,738		
Other liabilities	4,811,079			3,223,539			2,171,946		
Stockholders' equity	37,797,507			33,817,072			30,130,863		
Total liabilities and stockholders' equity	$459,745,727			$418,881,567			$339,915,511		
Net interest income		$17,730,720			$18,325,222			$14,645,339	
Net interest spread (TE)			3.61%			4.27%			4.33%
Net interest margin (TE)			4.13%			4.72%			4.67%

Non-accrual loans and the interest income which was recorded on these loans, if any, are included in the yield calculation for loans in all periods reported.
Loan fees of $1,634,948, $1,995,433 and $1,928,126 are included in the yields for 2007, 2006 and 2005, respectively.
(TE) – tax equivalent

Table 2 — Rate/Volume Variance Analysis

The following tables show a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates for each major category of interest-earning assets and interest-bearing liabilities for 2007 over 2006 and 2006 over 2005.

	2007 over 2006		
	Increase (decrease) due to changes in:		
	Volume	Rate	Change
Interest earned on:			
Federal funds sold and interest bearing deposits	$ (235,526)	$ (355)	$ (235,891)
Taxable investments	768,985	264,294	1,033,279
Non-taxable investments	7,976	(13,787)	(5,811)
Taxable loans	2,701,730	(792,559)	1,909,171
Non-taxable loans	(15,025)	1,543	(13,482)
Total Interest Income	$3,228,130	$ (540,864)	$2,687,266
Interest paid on:			
Deposits:			
Demand	96,009	403,310	499,319
Savings	8,628	36,342	44,970
Time	1,822,162	1,042,688	2,864,850
Federal funds purchased	(1,143)	(874)	(2017)
FHLB advances	(141,740)	6,578	(135,162)
Other borrowings	9,808	—	9,808
Total Interest Expense	$1,793,724	$ 1,488,044	$3,281,768
Net Interest Income	$1,434,406	$(2,028,908)	$ (594,502)

	2006 over 2005		
	Increase (decrease) due to changes in:		
	Volume	Rate	Change
Interest earned on:			
Federal funds sold and interest bearing deposits	$ 329,489	$ 123,295	$ 452,784
Taxable investments	507,334	319,371	826,705
Non-taxable investments	30,997	(18,700)	12,297
Taxable loans	4,999,545	2,857,706	7,857,251
Non-taxable loans	(15,632)	13,615	(2,017)
Total Interest Income	$5,851,733	$3,295,287	$9,147,020
Interest paid on:			
Deposits:			
Demand	307,751	1,035,494	1,343,245
Savings	(1,053)	68,499	67,446
Time	2,883,373	1,294,284	4,177,657
Federal funds purchased	(1,957)	4,054	2,097
FHLB advances	(204,254)	80,946	(123,308)
Total Interest Expense	$2,983,860	$2,483,277	$5,467,137
Net Interest Income	$2,867,873	$ 812,010	$3,679,883

Note :Rate/volume variance were allocated between rate variances and volume variances using a weighted average allocation method.

Table 3 — Investment Portfolio

The following table presents the carrying value of investments by category at December 31, 2007, 2006, and 2005. Amounts in thousands.

Securities Available For Sale	2007 Total Market Value	2006 Total Market Value	2005 Total Market Value
U.S. Treasuries and Agencies	$43,315	$57,877	$29,205
Corporate debt securities	505	500	1,000
SCM's	11,366	9,891	10,069
Mortgage backed securities	20,665	16,692	12,853
Equities	—	565	628
Subtotal	$75,851	$85,525	53,755
Securities Held to Maturity	**2006 Total Book Value**	**2005 Total Book Value**	**2004 Total Book Value**
SCM's	$ 236	$ 323	$ 512
Subtotal	236	323	512
Total	$76,087	$85,848	$54,267

The following table presents the maturities of all investment securities at carrying value and the weighted average yields for each category of securities presented:

	<One Year Total	1 to 5 Years Total	>5 to 10 Years Total	>10 Years Total	Total	Weighted Average Yield
Securities held to maturity:						
State and political divisions	$ 235,512	—	—	—	$ 235,512	8.53%
Subtotal	235,512	—	—	—	235,512	
Securities available for sale:						
U.S. Treasuries, and						
U.S. Government Agencies	5,631,403	23,899,128	12,776,581	1,007,501	43,314,613	5.16%
State and political divisions	749,944	4,604,399	3,429,446	2,582,231	11,366,020	5.64%
Corporate debt securities	—	—	505,400	—	505,400	6.25%
Mortgage-backed securities	321,218	6,240,102	4,086,148	10,017,081	20,664,549	4.91%
Subtotal	6,702,565	34,743,629	20,797,575	13,606,813	75,850,582	
Total	$ 6,938,077	$34,743,629	$20,797,575	$13,606,813	$76,086,094	5.18%

Mortgage backed securities are included in the maturities categories in which they are anticipated to be repaid based on scheduled maturities.

Table 4 — Loan Portfolio

The following table presents loans by type and the percentage of loans by type at the end of the last 5 years. Amounts in thousands.

Classifications:	2007 Total	2007 %	2006 Total	2006 %	2005 Total	2005 %	2004 Total	2004 %	2003 Total	2003 %
Commercial, financial & agricultural	$ 56,713	16.6	$ 49,914	15.2	$ 44,242	15.6	$ 31,134	13.3	$ 25,459	12.5
Real estate — mortgage	158,317	46.3	150,893	45.9	147,541	52.2	144,056	61.7	125,730	61.9
Real estate — construction	109,739	32.1	112,220	34.1	75,246	26.6	42,527	18.2	36,855	18.2
Consumer loans	16,074	4.7	14,718	4.5	14,507	5.1	14,060	6.0	13,501	6.7
Tax-exempt	1,011	0.3	1,132	0.3	1,450	0.5	1,806	0.8	1,448	0.7
Total Loans	341,854	100.0	328,877	100.0	282,986	100.0	233,583	100.0	202,993	100.0
Allowance	(6,956)		(4,662)		(4,077)		(2,913)		(3,178)	
Net Loans	$334,898		$324,215		$278,909		$230,670		$199,815	

At December 31, 2007, maturities of loans in the indicated classifications were as follows. Amounts in thousands.

	Maturity			
	One Year Or Less	Over One To Five Years	Over Five Years	Total
Commercial, financial & agricultural	$ 28,168	$26,23	$2,422	$ 56,713
Real estate — construction	108,811	928	—	109,739
Total	$136,979	$27,051	$2,422	$166,452

As of December 31, 2007, the interest terms of loans in the indicated classifications for the indicated maturity ranges are as follows. Amounts in thousands.

	Rate Structure for Loans Maturing Over One Year		
	Adjustable Rate	Fixed Rate	Total
Commercial, financial & agricultural	$14,273	$14,272	$28,545
Real estate — construction	928	—	928
Total	$15,201	$14,272	$29,473

The following summarizes past-due and non-accrual loans, other real estate and repossessions and income that would have been reported on non-accrual loans as of December 31, 2007, 2006, 2005, 2004, and 2003. Amounts in thousands.

	2007 Total	2006 Total	2005 Total	2004 Total	2003 Total
Loans on non-accrual	$ 21,565	$ 602	$ 420	$1,307	$ 783
Loans 90 days or more past due	44	335	118	116	295
Other real estate and repossessions	6,249	2,208	611	202	—
	$ 27,858	$3,145	$1,149	$1,625	$1,078
Non-performing loans as a % of loans	6.32%	0.28%	0.19%	0.61%	0.53%
Interest that would have been recognized	$ 1,134	$ 60	$ 38	$ 117	$ 51

A loan is placed on non-accrual status when, in management's judgement, the collection of interest appears doubtful. As a result of management's ongoing review of the loan portfolio, loans are classified as non-accrual generally when they are past due in principal and interest for more than 90 days or it is otherwise not reasonable to expect collection of principal and interest under the original terms. Exceptions are allowed for 90 day past due loans when such loans are well secured and in process of collection. Generally, payments received on non-accrual loans are applied directly to principal.

Table 5 — Analysis of the Allowance for Loan Losses

The following table summarizes information concerning the allowance for loan loss. Amounts in thousands.

	2007 Total	2006 Total	2005 Total	2004 Total	2003 Total
Allowance at beginning of year	$4,662	$4,077	$2,913	$3,178	$2,840
Charge-offs:					
Commercial, financial, and agricultural	33	10	47	680	—
Real estate — mortgage	72	120	84	—	—
Real estate — construction	958	5	—	—	—
Consumer loans	175	114	89	63	115
Tax Exempt	—	—	—	—	—
Total charge-offs	1,238	249	220	743	115
Recoveries:					
Commercial, financial, and agricultural	1	—	6	6	—
Real estate — mortgage	147	23	119	—	—
Real estate — construction	—	—	—	—	—
Consumer loans	60	33	19	14	26
Tax Exempt	—	—	—	—	—
Total recoveries	208	56	144	20	26
Net charge-offs	1,030	193	76	723	89
Provisions charged to earnings	3,324	778	1,240	458	427
Allowance at end of year	$6,956	$4,662	$4,077	$2,913	$3,178
Ratio of net charge-offs to average loans	0.30%	0.06%	0.03%	0.33%	0.05%
Ratio of allowance to total loans	2.03%	1.42%	1.44%	1.25%	1.57%

The Company has a dedicated loan review function. Sixty percent of the portfolio was reviewed in 2007 and placed into loan grading categories, which assist in developing lists of potential problem loans. These loans are regularly monitored by the loan review function to ensure early identification of deterioration. The formal allowance for loan loss adequacy test is performed at each calendar quarter end. Specific amounts of loss are estimated on problem loans and historical loss percentages are applied to the balance of the portfolio using certain portfolio stratifications. Additionally, the evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions, regulatory examination results, and the existence of loan concentrations.

Allocation of the Allowance for Loan Losses

The following table presents the allocation of allowance for loan losses by category and the percentage of loans in each category to total loans at the end of the last 5 years. Amounts in thousands.

Balance at End of Period Applicable To:	2007 Total	2007 %	2006 Total	2006 %	2005 Total	2005 %	2004 Total	2004 %	2003 Total	2003 %
Commercial, financial & agricultural	$ 589	16.9	$ 671	15.5	$ 599	16.1	$ 422	14.1	$ 475	13.2
Real estate — mortgage	2,173	46.3	2,192	45.9	2,153	52.2	1,545	61.7	1,927	61.9
Real estate — construction	3,932	32.1	1,537	34.1	1,030	26.6	661	18.2	546	18.2
Consumer loans	262	4.7	262	4.5	295	5.1	285	6.0	230	6.7
Total allowance for loan loss	$6,956	100.0	$4,662	100.0	$4,077	100.0	$2,913	100.0	$3,178	100.0

Table 6 — Deposits

The average balance of the deposits and the average rates paid on such deposits are summarized for the periods indicated in the following table.

	2007		2006		2005	
Deposits:						
Non-interest bearing demand deposits	$ 34,636,932	—	$ 34,738,891	—	$ 28,619,738	—
Interest bearing demand	116,866,109	2.94%	113,605,552	2.59%	101,721,257	1.57%
Savings	12,010,137	1.53%	11,448,003	1.22%	11,534,505	0.62%
Time	234,323,402	5.17%	199,110,346	4.65%	137,115,731	3.71%
Total	$397,836,580		$358,902,792		$278,991,231	

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2007 are summarized as follows. Amounts in thousands.

	Total
Three months or less	$ 25,654
Over three months through six months	28,561
Over six months through twelve months	28,109
Over twelve months	34,926
Total	$117,250

Table 7 — Selected Ratios

The following table sets out certain ratios of the Company for the years indicated. Amounts in thousands.

	2007	2006	2005
Net income	$ 2,588	$ 4,918	$ 3,776
Average assets	459,746	418,882	339,916
Average equity	37,798	33,817	30,131
Dividends	1,012	840	756
Return on average assets	0.56%	1.17%	1.11%
Return on average equity	6.85%	14.54%	12.53%
Dividend payout ratio	39.10%	17.07%	20.04%
Average equity to average assets	8.22%	8.07%	8.86%

Table 8 — Analysis of Short-term and Long-term Borrowings

The following table sets out certain information regarding the Company's borrowings

		2007		2006	
Type: Federal Home Loan Bank Advances	**Maturity**	**Amount**	**Rate**	**Amount**	**Rate**
Fixed Rate	01/25/09	2,000,000	4.05%	2,000,000	4.05%
Fixed Rate	09/15/09	—	—	4,000,000	3.09%
Fixed Rate	01/25/10	3,000,000	4.17%	3,000,000	4.17%
Fixed Rate Convertible to 3 month LIBOR 09/04/07	09/04/12	—	—	5,000,000	3.50%
Fixed Rate Convertible to 3 month LIBOR 12/19/08	12/19/13	2,000,000	3.44%	2,000,000	3.44%
Fixed Rate Convertible to 3 month LIBOR 03/17/09	03/17/14	3,000,000	2.91%	3,000,000	2.91%
Fixed Rate Convertible to 3 month LIBOR 05/19/09	05/19/15	2,000,000	3.77%	2,000,000	3.77%
Total		$12,000,000		$21,000,000	
Maximum borrowing at any given month end — FHLB		$21,000,000		$26,000,000	
Average outstanding borrowings for the period		$18,941,714	3.64%	$22,832,877	3.61%

Table 9 — Interest Rate Sensitivity Analysis

Amounts in thousands repricing or maturing	One Year or Less	Over 1 Year Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years	Total
Interest earning assets:					
Adjustable rate loans	$193,712	$ —	$ —	$ —	$193,712
Fixed rate loans	82,953	52,708	9,567	2,914	148,142
Investment securities	31,332	28,714	8,108	7,932	76,086
Other investments	—	—	—	1,761	1,761
Bank owned life insurance	6,516	—	—	—	6,516
Interest bearing deposits in other banks & Fed Funds sold	14,852	—	—	—	14,852
Total interest earning assets	$329,365	$81,422	$17,675	$12,607	$441,069
Interest bearing liabilities:					
Fixed maturity deposits	186,294	47,392	12,678	—	246,364
Interest bearing DDA accounts (NOW, Super NOW, MMDA)	116,452	—	—	—	116,452
Savings accounts	12,569	—	—	—	12,569
Other borrowed funds	2,461	10,000	—	—	12,461
Total interest bearing liabilities	$317,776	$57,392	$12,678	$ —	$387,846
Interest rate sensitivity gap	$ 11,589	$24,030	$ 4,997	$12,607	$ 53,223
Cumulative interest rate sensitivity gap	$ 11,589	$35,619	$40,616	$53,223	
Cumulative interest rate sensitivity gap to total assets	2.51%	7.70%	8.78%	11.51%	