

TURNING CHALLENGES INTO OPPORTUNITIES



McINTOSH BANCSHARES INC. 2007 ANNUAL REPORT

McIntosh Bancshares 2007 Annual Report

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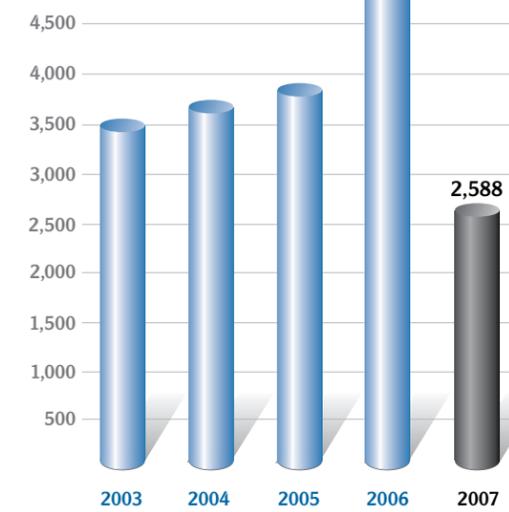


This report is a "Summary Annual Report." Full disclosure of all financial information is provided in McIntosh Bancshares, Inc.'s "Audited Financial Statements" with Independent Accountants' Report.

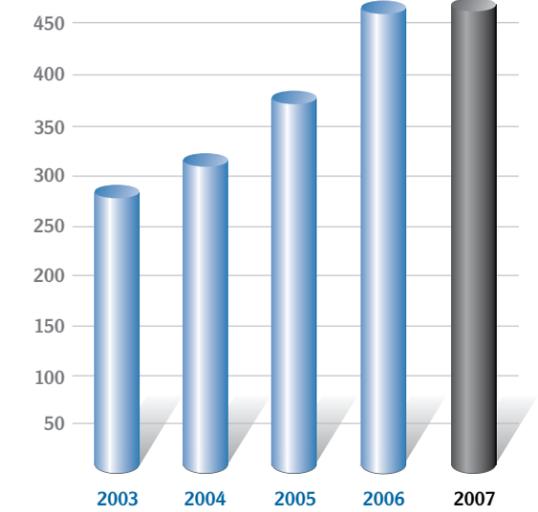
Financial Highlights	2007	2006	2005	2004	2003
Return on Average Assets	0.56%	1.17%	1.11%	1.23%	1.34%
Return on Average Equity	6.85%	14.54%	12.53%	13.00%	13.69%
Net Interest Margin (TE)	4.13%	4.72%	4.67%	4.38%	4.51%

The Year In Review

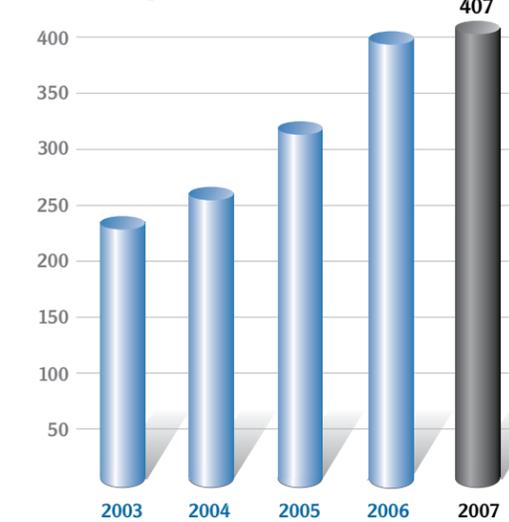
Net Earnings (in thousands)



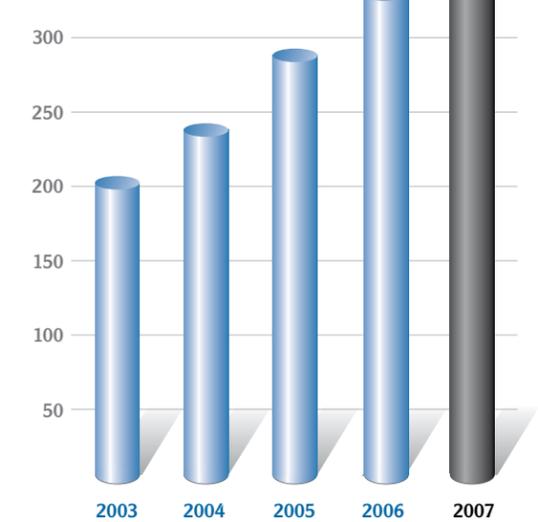
Total Assets (in millions)



Total Deposits (in millions)



Gross Loans (in millions)



DEAR SHAREHOLDERS,

It Is Always Darkest Before The Dawn: To say that your company was challenged in 2007 would be an understatement. As we have discussed in our quarterly letters, in early 2007 we thought we understood the impact on your company of a slowing economy and the resultant downturn in residential real estate sales. We also thought we understood the implications of the much publicized collapse of the sub-prime lending market. What we did not realize was the tremendous impact the loss of demand from sub-prime borrowers would have on our construction and development loan portfolio. The sub-prime borrowers had created unsustainable demand for houses that builders tried to supply. Developers tried to fulfill the builders' demand for lots by bringing more lots to the market. As builders and developers came under stress from lack of demand, our problem loans and charge-offs increased. In addition to reporting on our results for 2007, this year's annual report will focus on how we are dealing with these problems and how we will be Turning Challenges Into Opportunities.

For the year ended December 31, 2007, on a consolidated basis, net income for the year decreased \$2.3 million or 47.4% to \$2.6 million as compared to December 31, 2006. Fully diluted net earnings per common share decreased \$0.84 per share or 48.3% to \$0.90 per share for the twelve months ended December

31, 2007. Our return on average assets and average equity were 0.56% and 6.85% respectively.

As the economy slowed so did your company's growth. In the twelve months ended December 31, 2007 total assets increased \$0.9 million or 0.2% to \$462.5 million. Deposits increased \$7.7 million or 1.9% to \$407.3 million. Gross loans increased \$13.0 million or 4% to \$341.9 million. We anticipate growth to be nominal in 2008 as the economy continues to slow.

The three areas that had the greatest impact on earnings in 2007 were net interest income, provision for loan losses and other expenses. Concerning our net interest income, the slowing economy and decline in loan volume had a negative effect on our net interest margin as loan fee income declined and spread narrowed. Our tax equivalent net interest margin declined 59 basis points from 4.72% in 2006 to 4.13% in 2007. Driving this compression was the reversal of \$0.9 million in accrued interest on loans placed in non-accrual status because of the doubtful collection of interest. Spread also narrowed as the Federal Reserve lowered interest rates 100 basis points in late 2007. As an asset sensitive bank we were not able to adjust the cost of our deposits as rapidly as loan yields declined. Further stress on net interest income in 2008 has come from an additional 125 basis point decrease in rates by the Federal Reserve in January of 2008. Although painful in the short run, lower rates are positive for home sales

as more people can qualify for financing.

Concerning our provision for loan losses, for the year ended December 31, 2007, our provision expense was \$3.3 million as compared to \$778,247 for 2006.

We were very aggressive in the recognition of problem loans and the charge-off of uncollectible accounts.

We have also reserved for future potential losses. Our loan loss reserve increased by \$2.3 million or 49.2% to \$6.96 million in 2007. This amount represents 2.03% of gross loans as compared to \$4.7 million or 1.42% of gross loans as of December 31, 2006.

Other expenses for the year were up \$791,930 or 5.6%. The majority of this increase was in salary and employee benefits. As you know, in 2006 and early 2007, we staffed to meet the demands of a growing company. Now that the company's growth has slowed we have implemented a hiring freeze, and embarked upon a reduction in force by attrition. Because of our strong underlying core business, we hope no layoffs are necessary. Business remains brisk and we feel there will be opportunities for growth as competitors shrink and focus only on their problems. For 2008 all nonessential expenses have been eliminated and expense reduction is emphasized throughout the company.

A major initiative in 2008 will be a reduction in our non-performing assets (foreclosed property, non-accrual loans, and loans that are 90 days or more past due and not



William K. Malone
McIntosh Bancshares, Inc.
Chairman and
Chief Executive Officer



Thurman L. Willis, Jr.
McIntosh Bancshares, Inc.
President and
Chief Operating Officer

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on non-accrual). As of December 31, 2007 our non-performing assets have increased to \$27.9 million or 8.0% of gross loans plus other real estate. Although this number is still increasing, we are closer to identifying all the potential problems. Al Cook, Special Assets Officer, is making significant progress in disposing of other real estate owned. As of December 31, 2007 he has disposed of \$2.9 million in other real estate at a cumulative loss of only \$23,164. Our non-performing asset area will be strengthened to assure that minimal losses are realized.

We have completed the first year under our restructured management team, which provides for management succession at every level. Bruce Bartholomew, President and Chief Operating Officer of McIntosh State Bank, has assumed the additional responsibility for supervision over special assets. Charlie Harper, President of McIntosh State Bank Jackson, has been warmly welcomed to the community and is making great strides in running our Jackson office.

In late 2007 we received approval from the State Banking Department to convert our Lake Oconee loan production office into a full service branch. Although we have no immediate plans to expand our service, we did acquire a site for our future location. We continue to build strong relationships and have been extremely pleased with the diverse loan volume we are getting in this new market.

During the fourth quarter of 2007 we moved into the McLaurin Building adjacent to the Jackson Banking office. This freshly renovated building contains our Human Resources Department, Training, Jackson Mortgage Lending and our new board room.

We were pleased to introduce two new products in 2007 that have been very well received by our markets. Our Prime Savings Account pays an interest rate that is 50% of the Prime rate for all balances over \$5,000. As of March 1, 2008 the APY of 3% is one of the highest savings rates in our markets. *Deposit@MyBusiness* is our new Remote Deposit product. This service allows customers to scan and transmit checks to the bank, therefore making deposits without having to come into the bank. Shellie Tracy is doing an excellent job of marketing this product for our company.

Your Board continued to increase cash dividends in 2007 and split the stock 2 for 1 on June 1, 2007. Dividends paid in 2007 represented a 20.5% increase over the amount paid in the year 2006.

Our annual stockholders' meeting will be held on Thursday, May 15, 2008 at 4:00 P.M. at the Bank's Operations Center located at 264 Alabama Boulevard, Jackson, Georgia. We hope you can be present to hear further discussions about 2007 and our plans for 2008.

As we focus on 2008 and the first quarter in particular, we realize what a challenge the year will be. You will notice our theme for this report is Turning Challenges Into Opportunities.

We are confident that we have the right board, management team, and employees in place to overcome these challenges and that our effort will make us stronger. We will learn from this experience and be better because of it in the long run.

What can you do to help? Congress has proposed many bills to deal with the housing crisis. There is one bill worthy of our support and I would encourage you to use whatever influence you may have with our Congressional delegation to move this bill forward. U. S. Senator Johnny Isakson is promoting a bill that creates a one-time \$15,000 tax credit for buyers of houses in foreclosure or new homes started before September 2007. A similar bill worked during the severe housing recession of 1974 and I am confident this bill could eliminate the glut of housing we now face.

As always, thank you for your investment in and support of McIntosh Bancshares during these difficult times. Together we will turn today's challenges into tomorrow's opportunities.

Sincerely,



William K. Malone
Chairman & Chief Executive Officer
McIntosh Bancshares, Inc.



Thurman L. Willis, Jr.
President & Chief Operating Officer
McIntosh Bancshares, Inc.

**The issue: Improving our net interest margin.
The action: Strengthening relationships to secure both deposits and loans from business customers.**

“If I put more in the bank than I take out, I must be successful,” says Ned Coleman, owner of L&N Truck Services, a success story business in Ellenwood, Georgia. Ron Willard, at McIntosh State Bank in Henry County, handles deposit business for L&N, as well as for Ned personally. He’s also set the company up to operate more efficiently with services such as Cash Management and Remote Check Deposit.

Ned also owns NEC Holdings, a real estate investment and management firm. Ron recently packaged a loan for NEC to purchase investment property on Lake Sinclair. Over the years, Ron and Ned have developed a friendly and trusting professional relationship.

While deposits and loans both generate income for the bank, it is the combination of the two that truly enhances the value of commercial customers.

Ron has found that loans to commercial owner-occupied businesses have been largely unaffected by the slowdown on the residential side. In fact, he is sensing a renewed enthusiasm out there. McIntosh lending officers are making loans to take advantage of an increase in sales of commercial properties in categories such as manufacturing. Says Ron, “The attitude out there now seems to be, ‘we’re ready to get back to work.’”



**The issue: Minimizing losses from defaulted loans to residential builders.
The action: Recovering funds by selling the properties.**

“Builders overbuilt the market with spec houses, and then of course the bubble burst,” says Al Cook, McIntosh’s point person for disposing of the bank’s inventory of finished, but unsold homes. Al plays many roles these days, from showing houses, to coordinating contractors, to getting the utilities turned on. Like any marketer, he has to determine what people want, and work to make the properties attractive to them.

Al and others on the McIntosh team have recouped over 3 million dollars so far, turning ‘non-performing assets’ into cash that can be used for loans and for investments that generate income for the bank. Referring the new buyers to McIntosh Mortgage creates an additional income stream. Unlike residential lenders who are on straight commission, McIntosh mortgage lenders have helped to guide people to the types of loans that reduce risk for both the homebuyer and the bank.

As Spring rolls around, Al expects more families to be in a home-buying mood. “And once the current inventory gets absorbed,” he says, “things should improve.”



**The issue: Further reducing the bank's loan risk.
The action: A more detailed multi-level loan review process.**

Jason Patrick, Senior Vice President and Chief Credit Officer, wants to know as much about a potential borrower as he possibly can. Patricia Rogers, Vice President of Loan Administration, collects additional information as he searches the data for details regarding the applicant's ability to fulfill their obligations.

The borrower may only have contact with their McIntosh loan officer but their loans are reviewed behind the scenes by the lender's supervisor, various management committees and a loan review team. On larger credits, the Board of Directors is involved in the decision. During the due diligence process, the true value of the customer's collateral is verified, and after a loan is funded, the loan file is further reviewed for compliance and documentation follow-up.

Credit approval guidelines are carefully balanced with the bank's interest income goals. The diversification of the bank's loan portfolio reduces risk. The Chief Credit Officer is responsible for updating the loan policy and procedures to adapt to changing market circumstances. For example, loan officers at McIntosh State Bank have been focusing on well-established companies that have shown their ability to weather the market's ups and downs. The additional effort has already shown results.



**The issue: Maintaining flexibility during uncertain times.
The action: Ongoing review and redirection of strategic plans.**

Although a Strategic Plan for McIntosh State Bank is created every three years, the senior management team revisits its goals and plans to adjust for changing conditions. Now more than ever, the proper use of resources is the central theme of the planning process.

Expense reduction goals set in May of 2007 were successfully achieved by the end of the year. New hiring has been minimized, with personnel vacancies often being filled by the reallocation of current staff. Performance incentives to officers and staff were eliminated. The build-out of the new Monticello Loan Office and the planned expansion of the Lake Oconee loan office into a full-service bank have been postponed until 2009. The increased use of alternative delivery products such as online banking, debit cards, and remote deposit is reducing ongoing paper and processing costs.

Fine-tuning the strategic plan involves decisions in operations, retail banking, lending, sales, marketing and human resources. In each area, in every type of economic environment, McIntosh managers work to find ways to turn challenges...into opportunities.



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 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

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 with FHLB	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	7,443,657	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

McIntosh Bancshares, Inc. Directors

William K. (Pete) Malone	Chairman & Chief Executive Officer
Thurman L. Willis, Jr.	President & Chief Operating Officer
John L. Carter	Owner, May & Carter Oil Company
D. Keith Fortson	DMD
William T. Webb	Owner, Webb's Grocery
George C. Barber	Owner, Fresh Air Bar B Q Macon
J. Paul Holmes, Jr.	Director, Securitus Financial Services
Bailey M. Crockarell	Director Emeritus

McIntosh State Bank Senior Management

William K. (Pete) Malone	Chairman & Chief Executive Officer
Bruce E. Bartholomew	President & Chief Operating Officer
Charles M. Harper, III	President, Jackson
Thurman L. Willis, Jr.	President, Monticello & Lake Oconee
Robert C. Beall	President, South Henry County
James P. Doyle	Executive Vice President & Chief Financial Officer
Jennifer W. Eavenson	Senior Vice President & Human Resources Director
Jason J. Patrick	Senior Vice President & Chief Credit Officer

McIntosh State Bank Monticello Advisory Board

Thurman L. Willis, Jr.	President, McIntosh State Bank, Monticello/ Lake Oconee & Chairman, McIntosh Financial Services, Inc.
Tom Brady, DDS	Retired
P. Jack Davis	Owner, Phil Cook Motor Company
J. Paul Holmes, Jr.	Director, Securitus Financial Services
Robert O. Jordan	Owner, Jordan Engineering
Roy R. Kelly, III	Attorney
Larry P. Lynch	Attorney
Jamie A. Mitchell	DMD
Walter E. Smith	Col. USAF-Retired
Samuel A. Allen	Owner, Allen Auto Parts

McIntosh Financial Services

Thurman L. Willis, Jr.	Chairman
Deborah S. Marsh	President
William K. (Pete) Malone	Director
Bruce E. Bartholomew	Director
Robert C. Beall	Director
John C. Stork	Director
Charles M. Harper, III	Director
Robert O. Jordan	Advisory Director
Alan White	Advisory Director
Patty Whaley	Advisory Director

McIntosh Bancshares, Inc.

Shareholder Information

Mailing Address and Telephone Number:

McIntosh Bancshares, Inc.
210 South Oak Street
Jackson, GA 30233

Telephone: 678-774-1161

Facsimile: 770-775-5229

www.mcintoshbancshares.com

Stock Transfer Agent:

General inquiries may be made directly to the transfer agent,
Mellon Investor Services at 1-800-756-3353
or by email at www.melloninvestor.com

Shareholder Transfer And Assistance:

Shareholders needing assistance with changes to name,
address, stock ownership, lost certificates or other
account registration matters should contact the following
person either by phone or writing at the address in Jackson.

Sheila R. Baker

Banking Officer

678-774-1161

sbaker@mcintoshbancshares.com

Financial Information

Annual Meeting

The annual meeting of the shareholders of McIntosh
Bancshares, Inc. will be held Thursday, May 15, 2008
at 4:00 pm at the McIntosh State Bank Operations Center,
264 Alabama Blvd., Jackson, GA.

Persons interested in receiving additional copies of the
annual report should contact the following person either
by phone or in writing at the address in Jackson.

James P. Doyle

Chief Financial Officer

770-775-8312

Independent Auditors:

Porter, Keadle, & Moore, LLP, Atlanta, GA

