

City National Bank of Florida and Subsidiary

Consolidated Financial Statements as of and for the
Years Ended December 31, 2007 and 2006, and
Independent Auditors' Report



Deloitte & Touche LLP
Suite 1500
191 Peachtree Street NE
Atlanta, GA 30303-1924
USA
Tel: +1 404 220 1500
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
City National Bank of Florida
Miami, FL

We have audited the accompanying consolidated balance sheets of City National Bank of Florida and subsidiary (the "Bank") as of December 31, 2007 and 2006, and the related consolidated statements of earnings and comprehensive earnings, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 also 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Deloitte & Touche LLP".

March 12, 2008

CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006 (In thousands)

	2007	2006
ASSETS		
INTEREST-EARNING ASSETS:		
Loans	\$ 1,806,913	\$ 1,712,427
Less:		
Deferred loan fees	(4,435)	(4,893)
Allowance for loan losses	<u>(23,976)</u>	<u>(23,798)</u>
Loans — net	1,778,502	1,683,736
Securities available-for-sale	712,796	647,482
Securities held-to-maturity (approximate fair values: \$35,177 in 2007 and \$32,853 in 2006)	47,645	32,604
Federal funds sold and securities purchased under agreements to resell	50,000	200,000
Interest-bearing balances with financial institutions	<u>37,767</u>	<u>5,693</u>
Total interest-earning assets	2,626,710	2,569,515
CASH AND DUE FROM BANKS	49,182	110,128
ACCRUED INTEREST RECEIVABLE	16,148	16,144
BANK PREMISES AND EQUIPMENT — Net	46,213	39,980
OTHER REAL ESTATE OWNED	7,059	
OTHER ASSETS	<u>11,108</u>	<u>17,705</u>
TOTAL	<u>\$ 2,756,420</u>	<u>\$ 2,753,472</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
DEPOSITS AND BORROWINGS:		
Deposits	\$ 2,002,264	\$ 2,002,200
Other borrowings	25,585	25,585
Federal funds purchased and securities sold under agreements to repurchase	<u>389,857</u>	<u>438,461</u>
Total deposits and borrowings	2,417,706	2,466,246
OTHER LIABILITIES	<u>11,619</u>	<u>10,544</u>
Total liabilities	<u>2,429,325</u>	<u>2,476,790</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDER'S EQUITY:		
Common stock, \$10 par value — authorized, issued, and outstanding, 1,420,000 shares	14,200	14,200
Capital surplus	14,200	14,200
Retained earnings	291,702	250,788
Accumulated other comprehensive earnings (loss)	<u>6,993</u>	<u>(2,506)</u>
Total stockholder's equity	<u>327,095</u>	<u>276,682</u>
TOTAL	<u>\$ 2,756,420</u>	<u>\$ 2,753,472</u>

See notes to consolidated financial statements.

CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands)

	2007	2006
INTEREST INCOME:		
Interest and fees on loans	\$ 127,158	\$ 135,845
Interest and dividends on securities	36,442	25,560
Interest on federal funds sold and securities purchased under agreements to resell	15,174	19,074
Interest on interest-bearing balances with financial institutions	<u>352</u>	<u>73</u>
Total interest income	<u>179,126</u>	<u>180,552</u>
INTEREST EXPENSE:		
Interest on deposits	48,826	45,172
Interest on borrowings	<u>19,886</u>	<u>20,281</u>
Total interest expense	<u>68,712</u>	<u>65,453</u>
NET INTEREST INCOME	110,414	115,099
PROVISION FOR LOAN LOSSES	<u>1,641</u>	<u>1,178</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>108,773</u>	<u>113,921</u>
OTHER OPERATING INCOME:		
Service charges, commissions, and fees	8,339	7,887
Loss on sales of investment securities	(292)	
Gain on the sale of real estate	13,319	
Other	<u>2,581</u>	<u>2,847</u>
Total other operating income	<u>23,947</u>	<u>10,734</u>
OTHER OPERATING EXPENSES:		
Salaries and employee benefits	39,245	37,047
Occupancy expense	8,087	8,010
Equipment expense	2,950	1,862
Other	<u>14,024</u>	<u>10,630</u>
Total other operating expenses	<u>64,306</u>	<u>57,549</u>
NET EARNINGS	<u>68,414</u>	<u>67,106</u>
OTHER COMPREHENSIVE EARNINGS:		
Unrealized gains on securities available for sale	9,207	3,486
Reclassification adjustment for loss — net included in net earnings	<u>292</u>	<u> </u>
Total other comprehensive earnings	<u>9,499</u>	<u>3,486</u>
COMPREHENSIVE EARNINGS	<u>\$ 77,913</u>	<u>\$ 70,592</u>

See notes to consolidated financial statements.

CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Earnings	Total
BALANCE — December 31, 2005	\$ 14,200	\$ 14,200	\$ 220,357	\$ (5,992)	\$ 242,765
Net earnings			67,106		67,106
Dividends			(36,675)		(36,675)
Change in valuation — securities available-for-sale	_____	_____	_____	3,486	3,486
BALANCE — December 31, 2006	14,200	14,200	250,788	(2,506)	276,682
Net earnings			68,414		68,414
Dividends			(27,500)		(27,500)
Change in valuation — securities available-for-sale	_____	_____	_____	9,499	9,499
BALANCE — December 31, 2007	<u>\$ 14,200</u>	<u>\$ 14,200</u>	<u>\$ 291,702</u>	<u>\$ 6,993</u>	<u>\$ 327,095</u>

See notes to consolidated financial statements.

CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 68,414	\$ 67,106
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	3,796	3,040
Stock appreciation right compensation expense	1,790	1,374
Provision for loan losses	1,641	1,178
Increase (decrease) in provision for off-balance sheet credit losses	47	(59)
Gain on sales of bank premises and equipment	(13,310)	(51)
Loss on sales of securities available-for-sale	292	
Origination of loans held-for-sale	(411)	(730)
Proceeds from sales of loans held-for-sale	416	746
Gain on sales of loans held-for-sale	(5)	(16)
Net accretion on securities held-to-maturity	(179)	(365)
Net (discount accretion) premium amortization on securities available-for-sale	(1,414)	247
Accretion of unearned discount on loans	(4,954)	(6,277)
Changes in other assets and liabilities:		
Increase in accrued interest receivable	(4)	(1,999)
Decrease in other assets	14,797	1,522
(Decrease) increase in other liabilities	(1,153)	800
	<u>69,763</u>	<u>66,516</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal repayment of securities available-for-sale	106,734	112,577
Principal repayments and maturities of securities held-to-maturity	651	739
Proceeds from sales of securities available-for-sale	9,723	
Proceeds from calls and maturities of securities available-for-sale	20,475	164,490
Purchase of securities available-for-sale	(199,434)	(379,610)
Purchase of securities held-to-maturity	(15,513)	
Net increase in loans	(98,512)	(804)
Net increase in customers' acceptance liability	(391)	(173)
Purchases of bank premises and equipment	(7,196)	(4,218)
Proceeds from sales of bank premises and equipment	10,477	
	<u>(172,986)</u>	<u>(106,999)</u>

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CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	\$ 64	\$ (349,090)
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(48,604)	180,204
Decrease in other borrowings		(10,000)
Net increase in acceptances outstanding	391	173
Dividends paid	<u>(27,500)</u>	<u>(36,675)</u>
Net cash used in financing activities	<u>(75,649)</u>	<u>(215,388)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(178,872)	(255,871)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>315,821</u>	<u>571,692</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 136,949</u>	<u>\$ 315,821</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION —		
Cash paid during the year for interest	<u>\$ 68,470</u>	<u>\$ 65,375</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Real estate property collateralizing loans in the amount of \$7,059 was acquired through foreclosure during 2007. There were no foreclosures in 2006.		
Bank premises and equipment acquired through a nonmonetary transaction during 2007 amount to \$6,900.		

See notes to consolidated financial statements.

(Concluded)

CITY NATIONAL BANK OF FLORIDA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of City National Bank of Florida (CNB) and subsidiary, a wholly owned subsidiary of City National Bancshares, Inc. (the “Parent”), include the accounts of CNB and CNB Aviation, LLC (collectively, the “Bank”). The Bank is engaged in the general commercial banking business and provides a variety of related financial products and services through its branches in Miami-Dade, Broward, and Palm Beach Counties, Florida and two loan production offices in Orlando and Stuart, Florida. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following summarizes the more significant accounting and reporting policies of the Bank:

Cash and Cash Equivalents — Cash and cash equivalents include cash and due from banks with original maturities of 90 days or less, federal funds sold and securities purchased under agreement to resell, and interest-bearing balances with financial institution with original maturities of 90 days or less. As of December 31, 2007 and 2006, cash and cash equivalents were comprised of the following amounts:

	2007	2006
Federal funds sold and securities purchased under agreements to resell	\$ 50,000	\$ 200,000
Interest-bearing balances with financial institutions	37,767	5,693
Cash and due from banks	<u>49,182</u>	<u>110,128</u>
	<u>\$ 136,949</u>	<u>\$ 315,821</u>

Trading Account Securities — Trading account securities are stated at fair value. Trading account assets are held in anticipation of short-term market movements. Gains or losses on the sale of trading account assets as well as unrealized fair value adjustments are included in other operating income. The Bank did not hold any trading account securities as of December 31, 2007 and 2006.

Securities Available-for-Sale — Securities to be held for unspecified periods of time, including securities that management intends to use as part of its asset/liabilities strategy, or that may be sold in response to changes in interest rates, changes in prepayment risk, or other similar factors, are classified as available-for-sale and are carried at fair value. The appreciation or decline in value of these securities is reflected as a separate component of stockholder’s equity and comprises the difference between net earnings and comprehensive earnings.

Securities Held-to-Maturity — Investments in debt securities to be held-to-maturity are carried at amortized cost as the Bank has both the intent and ability to hold these securities to maturity. Premiums and discounts on investment securities are amortized and accreted to interest income over the life of the securities using a method which approximates the level-yield method.

Commissions and Fees — Commissions and fees on loans are deferred and recognized into income using the straight-line basis, which approximates the level-yield method, over the term of the corresponding loan. Commissions and fees on loans are recorded in other operating income in the accompanying statements of earnings and comprehensive earnings.

Bank Premises and Equipment — Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line and accelerated methods over a 5- to 39-year period. Leasehold improvements are amortized over the lesser of the useful life or the term of the lease.

Trust Department Assets — Securities and other property held by the trust department, in agency or other fiduciary capacities for customers, are not included in the accompanying consolidated financial statements.

Other Real Estate Owned — Foreclosed assets are carried at the lower of fair value, less estimated costs to sell, or cost. If the fair value of the asset, less the estimated costs to sell, is less than the cost of the asset, the deficiency is charged to income. The Bank had \$7,059,000 of other real estate owned as of December 31, 2007. As of December 31, 2006, the Bank did not have any other real estate owned.

Income Taxes — The Bank is a “Qualified” Subchapter S subsidiary of City National Bancshares, Inc., an “S Corporation” for income tax reporting purposes. As an S subsidiary, all taxable income and expenses flow directly to the stockholders of City National Bancshares, Inc. and are not taxed at the corporate level. Accordingly, no income tax provision is included in the financial statements.

Provision for Loan Losses — Provisions for loan losses, which increase the allowance for loan losses, are established by charges to income. Such allowances represent the amounts which, in management’s judgment, are adequate to absorb losses on loans which may become uncollectible. The adequacy of the allowance is determined by management’s continuing evaluation of the loan portfolio in light of past loss experience, present economic conditions, and other factors considered relevant by management at the financial statement date. Anticipated changes in economic factors that may influence the level of the allowance are considered in the evaluation by management when the likelihood of the changes can be reasonably determined. In estimating the allowance for loan losses, consideration is given to asset performance, the financial condition of borrowers or guarantors, additional collateral provided, current and anticipated economic conditions, appraisals of collateral, cost of disposal, and holding costs. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary, which may be material, if economic conditions differ substantially from the assumptions used in the evaluation. If additions to the original estimate of the allowance for loan losses are deemed necessary, they will be reported in earnings in the period in which they become reasonably estimable.

Pooled loan loss factors are derived from a model that tracks historical loss experience. Pooled loans are loans that are homogeneous in nature, such as consumer installment and residential mortgage loans.

Management believes that the allowance for loan losses is adequate; however, 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 judgment and evaluation of information available to them at the time of their examination.

Management's continuing evaluation of its loan portfolio includes the identification of commercial, business, and commercial real estate loans which are considered impaired because it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Individually, identified impaired loans are measured based on the present value of payments expected to be received, using the historical effective loan rate as the discount rate. Alternatively, measurement may also be based on observable market prices or, for loans that are solely dependent on the collateral for repayment, measurement may be based on the fair value of the collateral. Loans that are to be foreclosed are measured based on the fair value of the collateral. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation adjustment is required as a component of the allowance for loan losses. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Income Recognition — Interest income is recognized over the term of the related loans and investment securities. Accrual of interest is discontinued on nonperforming and impaired loans, and previously accrued interest is reversed, when a loan becomes 90 days past due, or in the opinion of management, such revenue will not be collected. Generally, interest payments received on loans for which the accrual of interest has been discontinued are recorded as a reduction of the respective loan's principal balance. Premiums and discounts on loans and investment securities are amortized using a method which approximates the level-yield method. Incremental direct loan origination and acquisition fees are deferred and amortized as an adjustment to the yield of the related loan.

New Accounting Pronouncements Affecting the Bank — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The provisions of FASB Statement No. 157 were to be effective for the Bank for the year ending December 31, 2008. In February 2008, the FASB reaffirmed the originally scheduled implementation date in accounting for financial assets and liabilities of financial institutions and provided a one year deferral for the implementation of FASB Statement No. 157 for other non-financial assets and liabilities. FASB Statement No. 157 is effective for the Bank on January 1, 2008. The Bank does not believe the adoption of FASB Statement No. 157 will have a material impact on its consolidated financial statements.

On February 15, 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. FASB Statement No. 159 further establishes certain additional disclosure requirements. FASB Statement No. 159 is effective for the Bank's year ending December 31, 2008, with earlier adoption permitted. Management is currently evaluating the impact and timing of the adoption of FASB Statement No. 159.

In December 2007, the FASB issued FASB Statement No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*. FASB Statement No. 160 establishes accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary, which requires that the minority interest be reported in equity and the

related net income and comprehensive income, be included in the respective lines of the consolidated financial statements. FASB Statement No. 160 is effective for the Bank's year ending December 31, 2009, and early adoption is prohibited. The Bank does not believe the adoption of FASB Statement No. 160 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations*, (which changes the accounting and reporting of business combination transactions effective for the Bank on January 1, 2009. FASB Statement No. 141(R) has no immediate impact on the Bank's consolidated financial statements, though it will impact the Bank's accounting of future acquisitions or consolidations.

Restatement — During 2007, the Bank determined that interest-bearing balances with financial institutions were not reflected as cash and cash equivalents for purposes of the 2006 consolidated statement of cash flows. Accordingly, the accompanying consolidated statement of cash flows for the year ended December 31, 2006, has been restated from amounts previously reported, the effects of which are as follows (in thousands):

	As Previously Reported	Correction	As Restated
Decrease in interest-bearing balances with financial institutions	\$ (5,387)	\$ 5,387	\$ -
Net cash used in investing activities	(112,386)	5,387	(106,999)
Net decrease in cash and cash equivalents	(261,258)	5,387	(255,871)
Cash and cash equivalents — beginning of year	571,386	306	571,692
Cash and cash equivalents — end of year	310,128	5,693	315,821

2. SECURITIES AVAILABLE-FOR-SALE AND SECURITIES HELD-TO-MATURITY

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2007 and 2006, were as follows:

Securities available-for-sale at December 31, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Values
U.S. Treasury	\$ 49,634	\$ 1,791	\$ -	\$ 51,425
U.S. government agencies	263,470	3,294	(249)	266,515
Collateralized mortgage/debt obligations	299,662	2,335	(491)	301,506
Adjustable rate mortgage securities	58,947	425	(66)	59,306
Obligations of state and political subdivisions	30,441	503	(164)	30,780
Other securities	<u>3,649</u>	<u> </u>	<u>(385)</u>	<u>3,264</u>
Total	<u>\$ 705,803</u>	<u>\$ 8,348</u>	<u>\$(1,355)</u>	<u>\$ 712,796</u>

Securities held-to-maturity at December 31, 2007 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Values
Collateralized mortgage/debt obligations	\$ 44,225	\$ -	\$ (12,461)	\$ 31,764
Obligations of state and political subdivisions	1,895			1,895
Other securities	<u>1,525</u>	<u> </u>	<u>(7)</u>	<u>1,518</u>
Total	<u>\$ 47,645</u>	<u>\$ -</u>	<u>\$ (12,468)</u>	<u>\$ 35,177</u>

Securities available-for-sale at December 31, 2006 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Values
U.S. Treasury	\$ 54,604	\$ 71	\$ (124)	\$ 54,551
U.S. government agencies	190,991	180	(868)	190,303
Collateralized mortgage/debt obligations	290,061	441	(2,123)	288,379
Adjustable rate mortgage securities	56,544	104	(238)	56,410
Obligations of state and political subdivisions	31,003	513	(195)	31,321
Other securities	<u>26,785</u>	<u>29</u>	<u>(296)</u>	<u>26,518</u>
Total	<u>\$ 649,988</u>	<u>\$ 1,338</u>	<u>\$ (3,844)</u>	<u>\$ 647,482</u>

Securities held-to-maturity at December 31, 2006 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Values
Collateralized mortgage/debt obligations	\$ 29,192	\$ 367	\$ (90)	\$ 29,469
Obligations of state and political subdivisions	1,887			1,887
Other securities	<u>1,525</u>	<u> </u>	<u>(28)</u>	<u>1,497</u>
Total	<u>\$ 32,604</u>	<u>\$ 367</u>	<u>\$ (118)</u>	<u>\$ 32,853</u>

Securities available-for-sale and held-to-maturity with unrealized losses at December 31, 2007, were as follows (in thousands):

	<u>Less Than 12 months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
Available-for-sale:						
U.S. government agencies	\$ 5,308	\$ (31)	\$ 43,450	\$ (218)	\$ 48,758	\$ (249)
Collateralized mortgage/debt obligations	16,215	(7)	84,410	(484)	100,625	(491)
Adjustable rate mortgage securities	10,211	(54)	1,293	(12)	11,504	(66)
Obligation of state and political subdivisions			10,800	(164)	10,800	(164)
Other securities	<u>1,162</u>	<u>(61)</u>	<u>2,102</u>	<u>(324)</u>	<u>3,264</u>	<u>(385)</u>
	<u>\$ 32,896</u>	<u>\$ (153)</u>	<u>\$ 142,055</u>	<u>\$ (1,202)</u>	<u>\$ 174,951</u>	<u>\$ (1,355)</u>
Held-for-maturity:						
Collateralized mortgage/debt obligations	\$ 27,211	\$ (10,788)	\$ 4,531	\$ (1,673)	\$ 31,742	\$ (12,461)
Other securities	<u></u>	<u></u>	<u>1,518</u>	<u>(7)</u>	<u>1,518</u>	<u>(7)</u>
	<u>\$ 27,211</u>	<u>\$ (10,788)</u>	<u>\$ 6,049</u>	<u>\$ (1,680)</u>	<u>\$ 33,260</u>	<u>\$ (12,468)</u>

Securities available-for-sale and held-to-maturity with unrealized losses at December 31, 2006, were as follows (in thousands):

	<u>Less Than 12 months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
Available-for-sale:						
U.S. treasury	\$ -	\$ -	\$ 19,842	\$ (124)	\$ 19,842	\$ (124)
U.S. government agencies	45,734	(63)	51,008	(805)	96,742	(868)
Collateralized mortgage/debt obligations	90,715	(148)	140,443	(1,975)	231,158	(2,123)
Adjustable rate mortgage securities	4,151	(13)	18,019	(225)	22,170	(238)
Obligation of state and political subdivisions	6,727	(33)	10,295	(162)	17,022	(195)
Other securities	<u></u>	<u></u>	<u>15,736</u>	<u>(296)</u>	<u>15,736</u>	<u>(296)</u>
	<u>\$ 147,327</u>	<u>\$ (257)</u>	<u>\$ 255,343</u>	<u>\$ (3,587)</u>	<u>\$ 402,670</u>	<u>\$ (3,844)</u>
Held-for-maturity:						
Collateralized mortgage/debt obligations	\$ 6,114	\$ (89)	\$ 16	\$ (1)	\$ 6,130	\$ (90)
Other securities	<u>639</u>	<u>(11)</u>	<u>858</u>	<u>(17)</u>	<u>1,497</u>	<u>(28)</u>
	<u>\$ 6,753</u>	<u>\$ (100)</u>	<u>\$ 874</u>	<u>\$ (18)</u>	<u>\$ 7,627</u>	<u>\$ (118)</u>

Management of the Bank anticipates that the market values of its investments which have unrealized losses for 12 months or longer at December 31, 2007 and 2006, will increase to at least the cost of the investment to the Bank. The investments with indicated losses above include debt securities whose market values have declined due to interest rate fluctuations and not related to any company or industry specific events or credit quality. In determining that the investment is not other-than-temporally impaired the Bank considered reports of financial specialists and the volatility of the investment's fair value.

The unrealized losses on the Bank's investments in U.S. treasury obligations, U.S. government agencies, collateralized mortgage/debt obligations, adjustable rate mortgage securities, obligations of state and political subdivisions, and other securities were caused by interest rate increases, and current market conditions. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Bank has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, and the creditworthiness of the issuers, the quality and amount of the underlying collateral, the lack of concentration in any geographical area, contractual obligations of the issuers, and rating histories, as well as the continued performance and amortization of certain of the securities the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2007 and 2006, respectively.

Expected maturities of some securities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call prepayment penalties. The scheduled maturities of securities available-for-sale and securities held-to-maturity at December 31, 2007, are shown below (in thousands):

	<u>Securities Available-for-Sale</u>		<u>Securities Held-to-Maturity</u>	
	<u>Amortized Cost</u>	<u>Approximate Fair Values</u>	<u>Amortized Cost</u>	<u>Approximate Fair Values</u>
Due in 1 year or less	\$ 70,170	\$ 70,259	\$ -	\$ -
Due after 1 year through 5 years	183,445	187,570	1,525	1,518
Due after 5 years through 10 years	20,516	20,722		
Due after 10 years	<u>69,414</u>	<u>70,169</u>	<u>1,895</u>	<u>1,895</u>
	343,545	348,720	3,420	3,413
Collateralized mortgage/debt obligations	299,662	301,506	44,225	31,764
Adjustable rate mortgage securities	58,947	59,306		
Other	<u>3,649</u>	<u>3,264</u>		
Total	<u>\$ 705,803</u>	<u>\$ 712,796</u>	<u>\$ 47,645</u>	<u>\$ 35,177</u>

Proceeds from sales of securities available-for-sale during the year ended December 31, 2007, amounted to approximately \$9,723,000. There were no proceeds from sales of securities available-for-sale during the year ended December 31, 2006. There were no gross realized gains for the years ended December 31, 2007 and 2006. Gross realized losses amounted to approximately \$292,000 for the year ended December 31, 2007 and none for 2006. Securities valued at approximately \$446,950,000 and \$401,209,000 at December 31, 2007 and 2006, respectively, were pledged as collateral to secure certain public deposits, repurchase agreements, or for other purposes.

3. LOANS

Loans classified by type, at December 31, 2007 and 2006, are summarized as follows (in thousands):

	2007	2006
Real estate:		
Adjustable	\$ 802,961	\$ 939,080
Fixed	555,556	406,846
Commercial and business:		
Adjustable	225,455	182,495
Fixed	73,749	62,524
Consumer:		
Adjustable	13,990	14,867
Fixed	8,555	5,890
Other	<u>126,647</u>	<u>100,725</u>
Total	<u>\$ 1,806,913</u>	<u>\$ 1,712,427</u>

At December 31, 2007 and 2006, there were no loans whose terms had been modified primarily to restructure the payment terms. Nonaccrual loans at December 31, 2007 and 2006, amounted to approximately \$1,596,000 and \$146,000, respectively. Interest income that would have been recorded on restructured and nonaccrual loans, if such loans were performing in accordance with their original terms, for the years ended December 31, 2007 and 2006, was not significant to net earnings.

At December 31, 2007 and 2006, the recorded investment in loans that are considered impaired was approximately \$1,596,000 and \$146,000, respectively. These impaired loans had no related allowance for loan losses at December 31, 2007 or 2006. The average recorded investment in impaired loans during the years ended December 31, 2007 and 2006, was approximately \$5,316,000 and \$226,000, respectively. For the years ended December 31, 2007 and 2006, the Bank recognized interest income on these impaired loans of approximately \$151,000 and \$26,000, respectively.

At December 31, 2007 and 2006, the Bank had approximately \$44,248,000 and \$32,940,000, respectively, of variable interest-only loans where the borrower may be subject to payment increases.

The Bank makes loans to its directors, officers, employees, and other affiliated parties on substantially the same terms, including interest rate and collateral requirements, as those prevailing at the time of the loan origination for comparable transactions with nonaffiliated persons. The aggregate amount of direct loans to directors, executive officers, and principal stockholders amounted to approximately \$22,250,000 and \$12,490,000 at December 31, 2007 and 2006, respectively. The amount of indirect loans to directors, executive officers, and principal stockholders amounted to approximately \$6,785,000 and \$23,923,000 at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, respectively, the Bank had no loan participations sold to related parties.

Loans carried at approximately \$216,599,000 and \$172,594,000 at December 31, 2007 and 2006, respectively, were pledged as collateral to secure borrowings from the Federal Home Loan Bank of Atlanta (FHLB).

Loans carried at approximately \$150,932,000 and \$127,277,000 at December 31, 2007 and 2006, respectively, were pledged as collateral to secure borrowings from the Federal Reserve Bank of Atlanta.

4. ALLOWANCE FOR LOAN LOSSES

Transactions affecting the allowance for loan losses, at December 31, 2007 and 2006, are summarized as follows (in thousands):

	2007	2006
Balance — beginning of year	\$ 23,798	\$ 22,586
Provision for loan losses	1,641	1,178
Recoveries	433	187
Loans charged off	<u>(1,896)</u>	<u>(153)</u>
Balance — end of year	<u>\$ 23,976</u>	<u>\$ 23,798</u>

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2007 and 2006, are summarized as follows (in thousands):

	2007	2006
Land	\$ 6,522	\$ 6,908
Buildings and leasehold improvements	60,037	61,317
Furniture and equipment	23,004	22,612
Aircraft	<u>3,554</u>	<u> </u>
	93,117	90,837
Less accumulated depreciation	<u>(46,904)</u>	<u>(50,857)</u>
Bank premises and equipment — net	<u>\$ 46,213</u>	<u>\$ 39,980</u>

During 2007, the Bank sold a building for approximately \$10.5 million and recognized a gain on sale of approximately \$6.5 million. During 2007, the Bank sold land for approximately \$6.9 million through a nonmonetary transaction and recognized a gain of approximately \$6.8 million.

6. DEPOSITS

Deposit accounts, at December 31, 2007 and 2006, consist of the following (in thousands):

	2007	2006
Demand	\$ 649,044	\$ 689,912
Interest checking	196,836	211,506
Savings	111,742	118,054
Money market savings	786,171	728,513
Time deposits	<u>258,471</u>	<u>254,215</u>
Total	<u>\$ 2,002,264</u>	<u>\$ 2,002,200</u>

Time deposits at December 31, 2007, mature as follows (in thousands):

Maturing in six months or less	\$ 182,805
Maturing between six months and one year	42,643
Maturing between one and three years	25,228
Maturing beyond three years	<u>7,795</u>
 Total	 <u>\$ 258,471</u>

Time certificates of deposit, issued in denominations of \$100,000 or more, amounted to approximately \$196,595,000 and \$177,432,000 at December 31, 2007 and 2006, respectively. Interest on deposits includes the following (in thousands):

	2007	2006
Interest checking	\$ 5,838	\$ 4,759
Savings	3,531	4,118
Money market savings	29,276	28,402
Time deposits in denominations of \$100,000 or more	7,820	5,157
Time deposits	<u>2,361</u>	<u>2,736</u>
 Total	 <u>\$ 48,826</u>	 <u>\$ 45,172</u>

7. OTHER BORROWINGS

The Bank had outstanding FHLB advances, at December 31, 2007 and 2006, as follows (in thousands):

Interest Rate	Maturity Date	Callable	2007	2006
4.95	December 15, 2010	Continuous	\$ 25,000	\$ 25,000
0.00	June 15, 2017	N/A	234	234
0.00	June 28, 2017	N/A	<u>351</u>	<u>351</u>
 Total			 <u>\$ 25,585</u>	 <u>\$ 25,585</u>

8. FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Certain information pertaining to short-term borrowings, at December 31, 2007 and 2006, is set forth in the following tables (in thousands):

	2007	2006
Federal funds purchased:		
Balances outstanding	<u>\$ 200</u>	<u>\$ 15,200</u>
Largest amount outstanding at any month-end	<u>\$ 500</u>	<u>\$ 15,200</u>
Average balance outstanding during the year	<u>\$ 561</u>	<u>\$ 945</u>
Weighted-average interest rate for the year	<u>5.02 %</u>	<u>4.94 %</u>
Securities sold under agreements to repurchase:		
Balances outstanding	<u>\$ 389,657</u>	<u>\$ 423,261</u>
Largest amount outstanding at any month-end	<u>\$ 458,050</u>	<u>\$ 451,130</u>
Average balance outstanding during the year	<u>\$ 415,475</u>	<u>\$ 420,299</u>
Weighted-average interest rate for the year	<u>4.48 %</u>	<u>4.46 %</u>

9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, various commitments and contingent liabilities are outstanding that are not reflected in the financial statements. A summary of these commitments and contingent liabilities at December 31, 2007 and 2006, is as follows (in thousands):

	2007	2006
Commercial letters of credit	\$ 2,677	\$ 4,947
Standby letters of credit	69,451	60,301
Commitments to extend credit	771,720	773,986

Commercial letters of credit are instruments whereby the Bank substitutes its credit for that of its customers in connection with financing contracts for the shipment of goods from seller to buyer. The Bank's acceptance of these instruments is contingent upon the presentation of the necessary documents to execute such contracts.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2007 and 2006, standby letters of credit amounting to approximately \$27,329,000 and \$17,469,000, respectively, were secured by cash collateral or marketable securities. The liability recorded by the Bank related to unearned fees from letters of credit outstanding at December 31, 2007 and 2006, was \$194,000 and \$196,000, respectively, and is included in other liabilities in the accompanying balance sheets.

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. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation.

The Bank is a defendant in various lawsuits, and in the opinion of management, based on consultation with legal counsel, the outcome of these lawsuits will not have a material effect on the results of operations or financial position of the Bank.

The Bank has entered into a number of noncancelable operating lease agreements for premises and equipment. The minimum annual rental commitments under these leases at December 31, 2007, are summarized as follows (in thousands):

Years Ending December 31	Amount
2008	\$ 1,966
2009	1,557
2010	1,216
2011	1,002
2012	917
Thereafter	<u>11,935</u>
Total	<u>\$18,593</u>

Rent expense under all leases having initial noncancelable terms of more than one year was approximately \$2,607,000 and \$2,191,000 in 2007 and 2006, respectively.

10. EMPLOYEE BENEFIT PLAN

During 1987, the Bank adopted a Retirement Savings Trust and Retirement Savings Plan (the "Plan"), a defined contribution 401(k) plan. The Plan covers all employees who are 21 years of age with more than 90 days of service as of the Plan entry dates of January 1 and July 1. Employees qualify for benefits upon reaching the age of 65 or upon permanent disability. Beginning January 1, 2001, the Plan was amended allowing employees to be 100% vested in the employer matching contributions made starting that date and thereafter. Employer contributions made prior to that date are subject to the vesting schedule that was in effect: vesting began at 20% after two years of service, increasing by 20% per year until full vesting occurs. Participants receive a 100% employer matching contribution up to 5% of their pretax compensation. In addition, the Bank may make a discretionary contribution from current or accumulated profits. During 2007 and 2006, the Bank contributed approximately \$970,000 and \$860,000, respectively, to the Plan.

11. STOCK APPRECIATION RIGHTS

On January 1, 1998, the Parent created a Management Stock Appreciation Rights Plan with up to 200,000 shares available for grants to employees. Vesting of these stock appreciation rights (SARs) begins at 10% one year after the anniversary date of the grant and continues at 10% per year until full vesting occurs after 10 years. There were no SARs granted during 2007 or 2006. There were 3,750 SARs forfeited during 2007 and no SARs exercised. There were 4,750 SARs forfeited during 2006 and no SARs exercised. The Bank recognized \$1,790,000 and \$1,374,000 in compensation expense relating to these grants during the years ended December 31, 2007 and 2006, respectively.

12. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications under the regulatory framework for prompt corrective action are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table below:

	Actual		Required for Capital Adequacy Purposes		Required to be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total capital (to risk-weighted assets)	\$ 345,116,000	15.7 %	\$ 175,732,000	8.0 %	\$ 219,666,000	10.0 %
Tier I capital (to to risk-weighted assets)	320,102,000	14.6	87,866,000	4.0	131,799,000	6.0
Tier I capital (to average assets)	320,102,000	11.6	110,877,000	4.0	138,597,000	5.0
As of December 31, 2006:						
Total capital (to risk-weighted assets)	\$ 303,715,000	14.8 %	\$ 164,052,000	8.0 %	\$ 205,065,000	10.0 %
Tier I capital (to to risk-weighted assets)	278,926,000	13.6	82,026,000	4.0	123,039,000	6.0
Tier I capital (to average assets)	278,926,000	10.1	110,726,000	4.0	138,408,000	5.0

Banking regulations limit the amount of dividends that may be paid without prior approval of the federal banking regulators. Retained earnings from which dividends may be paid by the Bank without prior approval of the federal banking regulators amounted to approximately \$101,798,000 at December 31, 2007.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables set forth information pertaining to the estimated fair value of the Bank's financial instruments as of December 31, 2007 and 2006 (in thousands). The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2007, and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 136,949	\$ 136,949	\$ 315,821	\$ 315,821
Securities held to maturity	47,645	35,177	32,604	32,853
Securities available for sale	712,796	712,796	647,482	647,482
Loans	1,806,913	1,816,722	1,712,427	1,694,387
Liabilities:				
Demand deposits, interest checking accounts, savings accounts, and money market deposits	\$1,743,793	\$1,743,793	\$1,747,985	\$1,747,985
Time deposits	258,471	258,756	254,215	254,173
Other borrowings	25,585	26,225	25,585	25,522
Federal funds purchased and securities sold under agreement to repurchase	389,857	389,857	438,461	438,461

Cash and Cash Equivalents — The carrying amount of cash and due from banks, federal funds sold and interest-bearing deposits with financial institutions is a reasonable estimate of fair value due to the relatively short period to maturity of these instruments.

Securities — For securities, fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Federal Funds and Securities Purchased Under Agreements to Resell — The carrying values for federal funds sold and securities purchased under agreements to resell approximate fair value due to the relatively short period to maturity of these instruments.

Loans — The Bank has determined that the carrying value of variable rate loans with good credit risk and variable rate loans repricing in the near future approximates fair values. The fair value of other types of 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 and for the same remaining maturities.

Demand Deposits and Time Deposits — The fair value of demand deposits, interest checking accounts, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other Borrowings — The fair value of other borrowings is estimated using the rates currently offered for borrowings of similar maturities.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase — The carrying values for federal funds purchased and securities sold under agreements to repurchase approximate fair value due to the relatively short period to maturity of these instruments.

Off-Balance Sheet Instruments — The fair values of commercial letters of credit, standby letters of credit, and commitments to extend approximate carrying value due to the insignificant differences between the stated rates and the current market rates. The fair value of the off-balance sheet instruments at December 31, 2007 and 2006, were not material.

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