



**ANNUAL DISCLOSURE STATEMENT
DECEMBER 31, 2006**

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

A handwritten signature in dark ink, appearing to read "Jeffrey P. Seligsohn", is written over a horizontal line.

Jeffrey P. Seligsohn
Executive Vice President
Chief Financial Officer



HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

Old Harbor Bank
Clearwater, Florida:

We have audited the accompanying balance sheets of Old Harbor Bank (the "Bank") at December 31, 2006 and 2005, and the related statements of operations, stockholders' 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 generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 2006 and 2005, 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.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
February 2, 2007

OLD HARBOR BANK

Balance Sheets

(In thousands)

	<u>At December 31,</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and due from banks	\$ 4,148	1,390
Interest-bearing deposits	448	346
Federal funds sold	<u>2,603</u>	<u>3,112</u>
Total cash and cash equivalents	7,199	4,848
Securities available for sale	25,726	21,999
Loans, net of allowance for loan losses of \$1,634 and \$1,061	131,420	86,018
Premises and equipment, net	4,467	2,695
Accrued interest receivable	850	520
Deferred income taxes	657	693
Federal Home Loan Bank stock, at cost	235	395
Other assets	<u>345</u>	<u>185</u>
Total assets	\$ <u>170,899</u>	<u>117,353</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	7,576	8,098
Savings, NOW and money-market deposits	46,253	42,416
Time deposits	<u>93,221</u>	<u>47,424</u>
Total deposits	147,050	97,938
Federal Home Loan Bank advance	-	5,000
Other liabilities	<u>817</u>	<u>499</u>
Total liabilities	<u>147,867</u>	<u>103,437</u>
Commitments and contingencies (Notes 4, 7 and 16)		
Stockholders' equity:		
Common stock, \$5.00 par value; 4,000,000 shares authorized, 1,989,024 and 1,428,800 shares issued and outstanding	9,945	7,144
Additional paid-in capital	14,233	7,942
Accumulated deficit	(1,004)	(877)
Accumulated other comprehensive loss	<u>(142)</u>	<u>(293)</u>
Total stockholders' equity	<u>23,032</u>	<u>13,916</u>
Total liabilities and stockholders' equity	\$ <u>170,899</u>	<u>117,353</u>

See Accompanying Notes to Financial Statements.

OLD HARBOR BANK**Statements of Operations**

(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Interest income:		
Loans	\$ 8,445	4,988
Securities	1,104	887
Other	<u>215</u>	<u>78</u>
Total interest income	<u>9,764</u>	<u>5,953</u>
Interest expense:		
Deposits	4,757	2,296
Borrowings	<u>226</u>	<u>144</u>
Total interest expense	<u>4,983</u>	<u>2,440</u>
Net interest income	4,781	3,513
Provision for loan losses	<u>573</u>	<u>443</u>
Net interest income after provision for loan losses	<u>4,208</u>	<u>3,070</u>
Noninterest income:		
Service charges and fees on deposit accounts	167	67
Gain on sale of securities available for sale	-	2
Other	<u>78</u>	<u>46</u>
Total noninterest income	<u>245</u>	<u>115</u>
Noninterest expenses:		
Salaries and employee benefits	2,814	1,983
Occupancy and equipment	1,025	583
Advertising	173	149
Data processing	200	135
Other	<u>420</u>	<u>325</u>
Total noninterest expenses	<u>4,632</u>	<u>3,175</u>
(Loss) earnings before income tax (benefit) expense	(179)	10
Income tax (benefit) expense	<u>(52)</u>	<u>10</u>
Net loss	\$ <u>(127)</u>	<u>-</u>

See Accompanying Notes to Financial Statements.

OLD HARBOR BANK

Statements of Stockholders' Equity

Year Ended December 31, 2006 and 2005

(\$ in thousands)

	<u>Common Stock</u>		Additional	Accumulated	Accumulated Other Compre- hensive Loss	Total Stockholders' Equity
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Loss</u>	<u>Equity</u>
Balance at December 31, 2004	1,428,400	\$ 7,142	7,939	(877)	(30)	<u>14,174</u>
Comprehensive loss:						
Net earnings	-	-	-	-	-	-
Net change in unrealized loss on securities available for sale, net of tax benefit of \$158	-	-	-	-	(263)	<u>(263)</u>
Comprehensive loss						<u>(263)</u>
Proceeds from common stock options exercised, including tax benefit of \$1	<u>400</u>	<u>2</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>5</u>
Balance at December 31, 2005	1,428,800	7,144	7,942	(877)	(293)	<u>13,916</u>
Comprehensive income:						
Net loss	-	-	-	(127)	-	(127)
Net change in unrealized loss on securities available for sale, net of tax of \$91	-	-	-	-	151	<u>151</u>
Comprehensive income						<u>24</u>
Stock based compensation expense	-	-	133	-	-	133
Proceeds from sale of common stock, net of stock issuance costs of \$560	558,778	2,794	6,145	-	-	8,939
Proceeds from common stock options exercised, including tax benefit of \$3	<u>1,446</u>	<u>7</u>	<u>13</u>	<u>-</u>	<u>-</u>	<u>20</u>
Balance at December 31, 2006	<u>1,989,024</u>	<u>\$ 9,945</u>	<u>14,233</u>	<u>(1,004)</u>	<u>(142)</u>	<u>23,032</u>

See Accompanying Notes to Financial Statements.

OLD HARBOR BANK

Statements of Cash Flows (In thousands)

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net loss	\$ (127)	-
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	425	220
Provision for loan losses	573	443
Premium and discount amortization on securities	39	89
Net amortization of loan fees and costs	(165)	(117)
Deferred income taxes benefit (expense)	(52)	10
Gain on sale of securities available for sale	-	(2)
Stock based compensation expense	133	-
Increase in accrued interest receivable	(330)	(207)
(Increase) decrease in other assets	(160)	62
Increase in other liabilities	<u>318</u>	<u>403</u>
Net cash provided by operating activities	<u>654</u>	<u>901</u>
Cash flows from investing activities:		
Purchase of securities available for sale	(14,735)	-
Principal repayments of securities available for sale	11,211	3,844
Proceeds from sale of securities available for sale	-	4,710
Net increase in loans	(45,810)	(35,907)
Purchase of premises and equipment	(2,197)	(1,316)
Sale (purchase) of Federal Home Loan Bank stock	<u>160</u>	<u>(258)</u>
Net cash used in investing activities	<u>(51,371)</u>	<u>(28,927)</u>
Cash flows from financing activities:		
Net increase in deposits	49,112	31,798
Net (decrease) increase in Federal Home Loan Bank advances	(5,000)	3,600
Decrease in federal funds purchased	-	(3,140)
Proceeds from sale of common stock, net of stock issuance costs	8,939	-
Proceeds from common stock options exercised	20	5
Tax benefit from stock options exercised	<u>(3)</u>	<u>-</u>
Net cash provided by financing activities	<u>53,068</u>	<u>32,263</u>
Net increase in cash and cash equivalents	2,351	4,237
Cash and cash equivalents at beginning of year	<u>4,848</u>	<u>611</u>
Cash and cash equivalents at end of year	\$ <u>7,199</u>	<u>4,848</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest, net of interest capitalized of \$15 in 2006	\$ <u>4,674</u>	<u>2,204</u>
Income taxes	\$ <u>-</u>	<u>-</u>
Noncash transaction-		
Accumulated other comprehensive loss, net change in unrealized loss on securities available for sale, net of taxes	\$ <u>151</u>	<u>(263)</u>

See Accompanying Notes to Financial Statements.

OLD HARBOR BANK

Notes to Financial Statements

At December 31, 2006 and 2005 and the Years Then Ended

(1) Summary of Significant Accounting Policies

Organization. Old Harbor Bank (the "Bank") is a state (Florida)-chartered commercial bank. The Bank's deposits are insured by the Federal Deposit Insurance Corporation. The Bank offers a variety of community banking services to individual and corporate customers through its five banking offices located in the Florida counties of Pinellas and Pasco.

The following is a description of the significant accounting policies and practices followed by the Bank, which conform to U.S. generally accepted accounting principles and prevailing practices within the banking industry.

Use of Estimates. In preparing financial statements in conformity with U.S. generally accepted accounting principles, 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ 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 deferred tax assets.

Cash and Cash Equivalents. For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits and federal funds sold, all of which mature within ninety days.

Banks are required to maintain cash reserves in the form of vault cash or in a noninterest-earning account with the Federal Reserve Bank or in noninterest-earning accounts with other qualified banks based on the balances of their transaction deposit accounts. The Bank's reserve requirements at December 31, 2006 and 2005 were \$255,000 and \$214,000, respectively.

Securities. Securities may be classified as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in operations. Held-to-maturity securities are those which the Bank has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in accumulated other comprehensive loss. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Premiums and discounts on securities available for sale are recognized in interest income using the interest method over the period to maturity.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Commitment and loan origination fees are deferred and certain direct origination costs are capitalized; both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent if secured by real estate and sixty days delinquent if not secured by real estate unless the loan is well-collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, Continued. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and home equity loans for impairment disclosures.

Premises and Equipment. Land is stated at cost. Buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost, less accumulated depreciation and amortization. Interest costs are capitalized in connection with the construction of new banking offices. Depreciation and amortization expense are computed using the straight-line method over the shorter of the lease term or estimated useful life of each type of asset.

Transfer of Financial Assets. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes. Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between revenues and expenses reported for financial statement and those reported for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are provided against assets which are not likely to be realized.

Fair Values of Financial Instruments. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Also certain financial instruments and all nonfinancial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank. The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

Cash and Cash Equivalents. The carrying amounts of cash and cash equivalents approximate their fair value.

Securities. Fair values for securities available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying value of Federal Home Loan Bank ("FHLB") stock approximates fair value.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Fair Values of Financial Instruments, Continued.

Loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued Interest Receivable. Book value approximates fair value.

Deposits. The fair values disclosed for demand, savings, NOW and money-market deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

Federal Home Loan Bank Advance. The fair value of the advance from the FHLB was estimated using a discounted cash flow analysis based on the Bank's current incremental borrowing rate for similar types of borrowings.

Off-Balance-Sheet Financial Instruments. Fair values of off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

Off-Balance-Sheet Instruments. In the ordinary course of business the Bank has entered into off-balance-sheet financial instruments consisting of unfunded loan commitments, undisbursed loans in process, unfunded lines of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Stock-Based Compensation Plan. Prior to January 1, 2006, the Bank's stock option plan was accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25 (Opinion 25), *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement No. 123, *Accounting for Stock-Based Compensation* (as amended by Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*) (collectively SFAS 123). No stock-based employee compensation cost was recognized in the Bank's statements of operations through December 31, 2005, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Bank adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Under the fair value recognition provisions of SFAS 123(R), the Bank recognizes stock-based compensation in salaries and employee benefits in the accompanying statement of operations as the options vest. The effect of the change from applying the original provisions of SFAS 123 was to increase loss before income tax benefit by approximately \$133,000 and to increase net loss by approximately \$83,000.

In addition, prior to the adoption of SFAS 123(R), the tax benefits of stock options exercised were classified as operating cash flows. Since the adoption of SFAS 123(R), tax benefits resulting from tax deductions in excess of the compensation cost recognized for options are classified as financing cash flows. The prior period cash flow statement was not adjusted to reflect current period presentation.

Advertising. The Bank expenses all media advertising as incurred.

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OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Comprehensive Income (Loss). Generally accepted accounting principles require that recognized revenues, expenses, gains and losses be included in net earnings (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net earnings (loss), are components of comprehensive income (loss). The components of other comprehensive income (loss) and related tax effects are as follows (in thousands):

	<u>Before Tax</u>	<u>Tax Effect</u>	<u>After Tax</u>
Year Ended December 31, 2006:			
Net holding gains	\$ 242	91	151
Gains included in net earnings	<u>-</u>	<u>-</u>	<u>-</u>
Net unrealized holding gains	\$ <u>242</u>	<u>91</u>	<u>151</u>
Year Ended December 31, 2005:			
Net holding losses	(423)	(159)	(264)
Gains included in net earnings	<u>2</u>	<u>1</u>	<u>1</u>
Net unrealized holding losses	\$(<u>421</u>)	(<u>158</u>)	(<u>263</u>)

Recent Pronouncements. In September, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Bank's financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. The adoption of SFAS 157 is not expected to have a material impact on the Bank.

In July, 2006, the FASB released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the tax law may be uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. The Bank adopted FIN 48 on January 1, 2007. The cumulative effect, if any, of applying FIN 48 will be recorded as an adjustment to the beginning balance of retained earnings. The adoption of FIN 48 had no effect on the Bank.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements, Continued. In March, 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 133 and 140* (SFAS 156), which permits, but does not require, an entity to account for one or more classes of servicing rights (i.e., mortgage servicing rights) at fair value, with the changes in fair value recorded in the statement of operations. This statement was effective as of January 1, 2007 with earlier adoption permitted. The adoption of SFAS 156 had no effect on the Bank.

In February, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments* (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS 133. The statement was effective as of January 1, 2007, with earlier adoption permitted. The adoption of SFAS 155 had no effect on the Bank.

(2) Securities Available for Sale

Securities have been classified according to management's intention. The carrying amount of securities and their approximate fair values are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<i>At December 31, 2006:</i>				
U.S. Agency obligations	\$ 1,998	5	(1)	2,002
Mortgage-backed securities	<u>23,955</u>	<u>33</u>	<u>(264)</u>	<u>23,724</u>
Total	<u>\$ 25,953</u>	<u>38</u>	<u>(265)</u>	<u>25,726</u>
<i>At December 31, 2005:</i>				
U.S. Agency obligations	8,018	-	(121)	7,897
Mortgage-backed securities	<u>14,450</u>	<u>-</u>	<u>(348)</u>	<u>14,102</u>
Total	<u>\$ 22,468</u>	<u>-</u>	<u>(469)</u>	<u>21,999</u>

At December 31, 2006 and 2005, securities with a fair value of \$11.1 million and \$8.2 million, respectively, were pledged as collateral for FHLB advances.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(2) Securities Available for Sale, Continued

Maturities of securities at amortized cost and fair value are as follows at December 31, 2006 (in thousands):

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one to five years	\$ 1,998	2,002
Mortgage-backed securities	<u>23,955</u>	<u>23,724</u>
Total	\$ <u>25,953</u>	<u>25,726</u>

There were no sales of securities available for sale during the year ended December 31, 2006. Sales of securities available for sale during the year ended December 31, 2005 are summarized as follows (in thousands):

Gross proceeds	\$ <u>4,710</u>
Gross realized gains	14
Gross realized losses	<u>(12)</u>
Net realized gain	\$ <u>2</u>

Securities with gross unrealized losses at December 31, 2006, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Agency obligations	\$ (1)	998	-	-
Mortgage-backed securities of U.S. government agencies	<u>(31)</u>	<u>6,617</u>	<u>(233)</u>	<u>11,731</u>
Total	\$ <u>(32)</u>	<u>7,615</u>	<u>(233)</u>	<u>11,731</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(2) Securities Available for Sale, Continued

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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on fifteen investment securities available for sale were caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(3) Loans

The components of loans are as follows (in thousands):

		<u>At December 31,</u>	
		<u>2006</u>	<u>2005</u>
Commercial real estate		\$ 64,022	44,954
Construction, land development, and other land loans		42,830	26,927
Commercial		17,589	10,704
Home equity		6,913	3,284
Residential real estate		1,398	1,142
Consumer		<u>562</u>	<u>297</u>
		133,314	87,308
Deduct:	Net deferred loan fees	(260)	(229)
	Allowance for loan losses	<u>(1,634)</u>	<u>(1,061)</u>
Loans, net		\$ <u>131,420</u>	<u>86,018</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(3) Loans, Continued

An analysis of the change in the allowance for loan losses follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Beginning balance	\$ 1,061	618
Provision for loan losses	<u>573</u>	<u>443</u>
Ending balance	\$ <u>1,634</u>	<u>1,061</u>

There were no impaired loans at or during the year ended December 31, 2005. The following summarizes the amount of impaired loans at December 31, 2006 (in thousands):

Loans identified as impaired:	
Gross loans with no related allowance for loan losses	\$ -
Gross loans with related allowance for losses recorded	1,680
Less: Allowances on these loans	<u>(196)</u>
Net investment in impaired loans	\$ <u>1,484</u>

The average net investment in impaired loans and interest income recognized and received on impaired loans for the year ended December 31, 2006 is as follows (in thousands):

Average investment in impaired loans	\$ <u>36</u>
Interest income recognized on impaired loans	\$ <u>-</u>
Interest income received on impaired loans	\$ <u>-</u>

Nonaccrual and accruing past due loans were as follows (in thousands):

	<u>At December 31,</u>	
	<u>2006</u>	<u>2005</u>
Nonaccrual loans	\$ 209	-
Accruing loans past due ninety days or more	<u>47</u>	<u>-</u>
Total	\$ <u>256</u>	<u>-</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	<u>At December 31,</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 1,178	283
Buildings	1,285	580
Leasehold improvements	1,537	1,195
Furniture, fixtures and equipment	<u>1,269</u>	<u>1,014</u>
Total, at cost	5,269	3,072
Less accumulated depreciation and amortization	<u>802</u>	<u>377</u>
Premises and equipment, net	\$ <u>4,467</u>	<u>2,695</u>

The Bank leases some of its facilities. The leases expire between 2007 and 2025 and include renewal options. Most of the leases contain escalation clauses during the term of the leases. Rent expense for the years ended December 31, 2006 and 2005 was \$394,000 and \$242,000, respectively. The future minimum lease payments at December 31, 2006 are approximately as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ 293
2008	279
2009	235
2010	188
2011	193
Thereafter	<u>1,274</u>
	\$ <u>2,462</u>

Interest capitalized relating to the construction of facilities for the year ended December 31, 2006 was approximately \$15,000. There was no interest capitalized for the year ended December 31, 2005. During 2005, the Bank entered into a lease commitment for its future branch site at River Crossing in Pasco County, Florida. The lease will not commence until the Bank takes possession which is expected in early 2008. The minimum lease payments for the first five years will be approximately \$105,000 per year and is not included in the table above.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(5) Deposits

The aggregate amount of time deposits with a minimum denomination of \$100,000, was approximately \$43,169,000 and \$23,312,000 at December 31, 2006 and 2005, respectively.

A schedule of maturities of time deposits follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ 78,585
2008-2009	14,394
2010-2011	<u>242</u>
	<u>\$ 93,221</u>

(6) Federal Home Loan Bank Advance

At December 31, 2006, there were no advances outstanding. The maturity and interest rate of the advance from the FHLB at December 31, 2005 was as follows (\$ in thousands):

<u>Maturity Year Ending December 31,</u>	<u>Interest Rate At December 31, 2005</u>	<u>Balance at December 31, 2005</u>
2015 *	3.14%	\$ <u>5,000</u>

* In May of 2006 the advance was converted into a three (3) month LIBOR-based floating rate advance and the Bank elected to repay the advance.

At December 31, 2006 and 2005, securities available for sale with a fair value of approximately \$11.1 million and \$8.2 million, respectively were pledged as collateral. The collateral pledged at December 31, 2006 was available to the Bank as there were no borrowings outstanding at that date.

(7) Off-Balance-Sheet Financial Instruments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are unfunded loan commitments, undisbursed loans in process, unfunded lines of credit and standby letters of credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Bank has in these financial instruments.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(7) Off-Balance-Sheet Financial Instruments, Continued

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Unfunded loan commitments 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 some 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 credit worthiness 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 counterparty.

Standby letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party and to support private borrowings arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending credit. The Bank may hold collateral supporting those commitments. Newly issued or modified guarantees that are not derivative contracts have been recorded on the Bank's balance sheet at their fair value at inception.

Commitments to extend credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Bank's financial instruments, with off-balance-sheet risk follows at December 31, 2006 (in thousands):

	<u>Amount</u>
Unfunded loan commitments	\$ <u>11,210</u>
Undisbursed loans in process	\$ <u>23,639</u>
Unfunded lines of credit	\$ <u>7,168</u>
Standby letters of credit	\$ <u>77</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(8) Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments were as follows (in thousands):

	At December 31,			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 7,199	7,199	4,848	4,848
Securities available for sale	25,726	25,726	21,999	21,999
Loans	131,420	132,679	86,018	85,659
Accrued interest receivable	850	850	520	520
Federal Home Loan Bank stock	235	235	395	395
Financial liabilities:				
Deposits	147,050	147,506	97,938	95,618
Federal Home Loan Bank advance	-	-	5,000	5,000
Off-balance-sheet financial instruments	-	-	-	-

(9) Credit Risk

The Bank grants the majority of its loans to borrowers in Pinellas, Pasco and Hillsborough Counties, Florida. Although the Bank has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in those three Florida counties.

(10) Income Taxes

Income taxes (benefit) consisted of the following (in thousands):

	Year Ended December 31,	
	2006	2005
Deferred:		
Federal	\$(44)	8
State	<u>(8)</u>	<u>2</u>
Total deferred	\$(<u>52</u>)	<u>10</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(10) Income Taxes, Continued

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows (\$ in thousands):

	Year Ended December 31,			
	2006	%	2005	%
	<u>Amount</u>	<u>of Pretax Loss</u>	<u>Amount</u>	<u>of Pretax Earnings</u>
Income taxes (benefit) at statutory rate	\$(61)	(34.0)%	\$ 3	34.0%
Increase (decrease) resulting from:				
State taxes, net of federal tax benefit	(5)	(2.9)	1	10.0
Nondeductible expenses	<u>14</u>	<u>7.8</u>	<u>6</u>	<u>56.0</u>
	<u>\$(52)</u>	<u>(29.1)%</u>	<u>\$ 10</u>	<u>100.0%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	At December 31,	
	2006	2005
Deferred tax assets:		
Net operating loss carryforward	\$ 202	409
Organizational and start-up costs	52	87
Unrealized losses on securities available for sale	85	176
Allowance for loan losses	424	209
Stock based compensation	<u>50</u>	<u>-</u>
Deferred tax assets	<u>813</u>	<u>881</u>
Deferred tax liabilities:		
Depreciation	(42)	(112)
Deferred loan costs	(80)	(56)
Accrual to cash conversion	<u>(34)</u>	<u>(20)</u>
Deferred tax liabilities	<u>(156)</u>	<u>(188)</u>
Net deferred tax asset	<u>\$ 657</u>	<u>693</u>

At December 31, 2006, the Bank has net operating loss carryforwards of approximately \$538,000 available to offset future taxable income which is due to expire beginning in 2023.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(11) Related Party Transactions

In the ordinary course of business, the Bank has granted loans to and accepts deposits from principal officers and directors and their affiliates. These loans and deposits are summarized as follows (in thousands):

	<u>At December 31,</u>	
	<u>2006</u>	<u>2005</u>
Beginning loan balance	\$ 4,168	1,570
Additions	165	1,894
Paydowns	(171)	(855)
Net (decrease) increase in loans with credit lines	(6)	1,559
 Ending loan balance	 \$ <u>4,156</u>	 <u>4,168</u>
 Deposits at end of period	 \$ <u>1,616</u>	 <u>2,983</u>

(12) Stock-Based Compensation Plan

The Bank has a stock option plan for certain key employees and directors of the Bank. A total of 20% of the outstanding shares of common stock have been reserved under this plan. At December 31, 2006, 133,289 shares remain available for grant. The exercise price of the stock options granted under this plan must at least equal the fair market value of the common stock at the date of grant. The options have ten year terms and vest between three and five years.

The fair value of each option granted for the years ended December 31, 2006 and 2005 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.55-4.95%	3.78-4.43%
Dividend yield	1.00%	1.00%
Expected stock volatility	6.0-7.0%	7.0-8.0%
Expected life in years	6.5	5.5-6.5
 Per share grant-date fair value of options issued during the year	 \$ <u>3.26-3.78</u>	 \$ <u>2.29-3.08</u>

As part of its adoption of SFAS 123R, the Bank examined its historical pattern of option exercises in an effort to determine if there were any pattern based on certain employee populations. From this analysis, the Bank could not identify any patterns in the exercise of options. As such, the Bank used the guidance in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar peer banks' common stock. 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.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(12) Stock-Based Compensation Plan, Continued

The following table illustrates the effect on net earnings and earnings per share if the Bank had applied the fair value recognition provisions of SFAS 123 to options granted under the Bank's stock option plan for year ended December 31, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and is being amortized to expense as the options' vest (in thousands).

	<u>Year Ended December 31, 2005</u>
Net earnings, as reported	\$ -
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(219)
Proforma net loss	\$(219)

A summary of the activity in the Bank's stock option plan is as follows:

	<u>Number of Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>
Outstanding at December 31, 2004	111,466	\$ 10.13	
Granted	139,500	15.71	
Exercised	(400)	10.00	
Forfeited	<u>(200)</u>	12.00	
Outstanding at December 31, 2005	250,366	13.24	
Granted	20,000	17.16	
Exercised	(1,600)	12.00	
Forfeited	<u>(6,250)</u>	14.48	
Outstanding at December 31, 2006	<u>262,516</u>	<u>\$ 13.52</u>	<u>7.7 years</u>
Exercisable at December 31, 2006	<u>151,985</u>	<u>\$ 12.93</u>	<u>7.4 years</u>

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(12) Stock-Based Compensation Plan, Continued

The total intrinsic value of options exercised during the year ended December 31, 2006 was \$8,000 and the tax benefit relating to the stock options exercised was \$3,000. At December 31, 2006, there was approximately \$106,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plan. The cost is expected to be recognized over a weighted-average period of 20.1 months. The total fair value of shares vesting and recognized as compensation expense was approximately \$133,000 for the year ended December 31, 2006, and the associated income tax benefit recognized was \$50,000 for the year ended December 31, 2006.

(13) Warrants

The Bank adopted a warrant plan for certain nonemployee shareholders that helped provide initial capital for the organizational activities. The plan allows for a maximum of 1,200 warrants. All warrants have been issued. The warrants were issued for no consideration. At December 31, 2006, there were 1,200 warrants outstanding. Each warrant entitles the holder to purchase one share of common stock for \$10 until August 2008.

(14) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the regulatory 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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification 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 percentages (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006, the Bank met all capital adequacy requirements to which it is subject.

(continued)

OLD HARBOR BANK

Notes to Financial Statements, Continued

(14) Regulatory Matters, Continued

As of December 31, 2006, the most recent notification from the regulatory authorities categorized the Bank as well capitalized as defined under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages as of December 31, 2006 are also presented in the table (\$ in thousands).

	<u>Actual</u>		<u>For Capital Adequacy Purposes:</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<i>As of December 31, 2006:</i>						
Total Capital to Risk-Weighted Assets	\$ 24,538	16.34%	\$ 12,011	8.00%	\$ 15,013	10.00%
Tier I Capital to Risk-Weighted Assets	22,905	15.26	6,005	4.00	9,008	6.00
Tier I Capital to Total Assets	22,905	14.27	6,420	4.00	8,026	5.00
<i>As of December 31, 2005:</i>						
Total Capital to Risk-Weighted Assets	14,576	15.42	7,562	8.00	9,452	10.00
Tier I Capital to Risk-Weighted Assets	13,516	14.30	3,781	4.00	5,671	6.00
Tier I Capital to Total Assets	13,516	11.91	4,541	4.00	5,676	5.00

(15) Dividends

The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Bank must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividend which the Bank could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

(16) Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Bank's financial statements.

(17) Profit Sharing

The Bank sponsors a 401(k) savings plan for all eligible employees. The Bank is required to make matching contributions to the plan. The Bank made approximately \$52,000 and \$34,000 in matching contributions in 2006 and 2005, respectively.