



**ANNUAL DISCLOSURE STATEMENT  
DECEMBER 31, 2007**

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, 2007 and 2006, 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, 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.

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
February 13, 2008

# OLD HARBOR BANK

## Balance Sheets

(In thousands)

	<u>At December 31,</u>	
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and due from banks	\$ 2,200	4,148
Interest-bearing deposits	38	448
Federal funds sold	<u>232</u>	<u>2,603</u>
Total cash and cash equivalents	2,470	7,199
Securities available for sale	32,620	25,726
Loans, net of allowance for loan losses of \$2,284 and \$1,634	170,988	131,420
Premises and equipment, net	7,009	4,467
Accrued interest receivable	1,038	850
Deferred income taxes	938	657
Federal Home Loan Bank stock, at cost	578	235
Foreclosed real estate	635	-
Other assets	<u>421</u>	<u>345</u>
Total assets	\$ <u>216,697</u>	<u>170,899</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Noninterest-bearing demand deposits	11,055	7,576
Savings, NOW and money-market deposits	51,573	46,253
Time deposits	<u>117,850</u>	<u>93,221</u>
Total deposits	180,478	147,050
Securities sold under agreements to repurchase	5,700	-
Federal Home Loan Bank advance	6,000	-
Other liabilities	<u>1,209</u>	<u>817</u>
Total liabilities	<u>193,387</u>	<u>147,867</u>
Commitments and contingencies (Notes 4, 8 and 17)		
Stockholders' equity:		
Common stock, \$5.00 par value; 4,000,000 shares authorized, 1,989,224 and 1,989,024 shares issued and outstanding	9,946	9,945
Additional paid-in capital	14,327	14,233
Accumulated deficit	(883)	(1,004)
Accumulated other comprehensive loss	<u>(80)</u>	<u>(142)</u>
Total stockholders' equity	<u>23,310</u>	<u>23,032</u>
Total liabilities and stockholders' equity	\$ <u>216,697</u>	<u>170,899</u>

See Accompanying Notes to Financial Statements.

**OLD HARBOR BANK****Statements of Operations**

(In thousands)

	<b><u>Year Ended December 31,</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
Interest income:		
Loans	\$ 12,097	8,470
Securities	1,764	1,104
Other	<u>225</u>	<u>215</u>
Total interest income	<u>14,086</u>	<u>9,789</u>
Interest expense:		
Deposits	7,766	4,757
Borrowings	<u>327</u>	<u>226</u>
Total interest expense	<u>8,093</u>	<u>4,983</u>
Net interest income	5,993	4,806
Provision for loan losses	<u>1,078</u>	<u>573</u>
Net interest income after provision for loan losses	<u>4,915</u>	<u>4,233</u>
Noninterest income:		
Service charges and fees on deposit accounts	232	167
Other	<u>30</u>	<u>53</u>
Total noninterest income	<u>262</u>	<u>220</u>
Noninterest expenses:		
Salaries and employee benefits	2,730	2,814
Occupancy and equipment	1,144	1,025
Advertising	182	173
Data processing	268	200
Other	<u>626</u>	<u>420</u>
Total noninterest expenses	<u>4,950</u>	<u>4,632</u>
Earnings (loss) before income tax expense (benefit)	227	(179)
Income tax expense (benefit)	<u>106</u>	<u>(52)</u>
Net earnings (loss)	\$ <u>121</u>	<u>(127)</u>

See Accompanying Notes to Financial Statements.

**OLD HARBOR BANK**

**Statements of Stockholders' Equity**

**Years Ended December 31, 2007 and 2006**

(\$ in thousands)

	<u>Common Stock</u>		Additional	Accumulated	Accumulated Other Compre-	Total
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>hensive Loss</u>	<u>Stockholders' Equity</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	1,989,024	9,945	14,233	(1,004)	(142)	<u>23,032</u>
Comprehensive income:						
Net earnings	-	-	-	121	-	121
Net change in unrealized loss on securities available for sale, net of tax of \$37	-	-	-	-	62	<u>62</u>
Comprehensive income						<u>183</u>
Stock based compensation expense	-	-	92	-	-	92
Proceeds from common stock options exercised	<u>200</u>	<u>1</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>3</u>
Balance at December 31, 2007	<u>1,989,224</u>	<u>\$ 9,946</u>	<u>14,327</u>	<u>(883)</u>	<u>(80)</u>	<u>23,310</u>

See Accompanying Notes to Financial Statements.

# OLD HARBOR BANK

## Statements of Cash Flows (In thousands)

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net earnings (loss)	\$ 121	(127)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	500	425
Provision for loan losses	1,078	573
Premium and discount amortization on securities	(22)	39
Net amortization of loan fees and costs	(139)	(165)
Deferred income taxes (benefit)	(318)	(52)
Stock based compensation expense	92	133
Increase in accrued interest receivable	(188)	(330)
Increase in other assets	(76)	(160)
Increase in other liabilities	<u>392</u>	<u>318</u>
Net cash provided by operating activities	<u>1,440</u>	<u>654</u>
Cash flows from investing activities:		
Purchase of securities available for sale	(10,998)	(14,735)
Principal repayments of securities available for sale	4,225	11,211
Net increase in loans	(41,142)	(45,810)
Purchase of premises and equipment	(3,042)	(2,197)
(Purchase) sale of Federal Home Loan Bank stock	<u>(343)</u>	<u>160</u>
Net cash used in investing activities	<u>(51,300)</u>	<u>(51,371)</u>
Cash flows from financing activities:		
Net increase in deposits	33,428	49,112
Increase in securities sold under agreements to repurchase	5,700	-
Net increase (decrease) in Federal Home Loan Bank advances	6,000	(5,000)
Proceeds from sale of common stock, net of stock issuance costs	-	8,939
Proceeds from common stock options exercised	3	20
Tax benefit from stock options exercised	<u>-</u>	<u>(3)</u>
Net cash provided by financing activities	<u>45,131</u>	<u>53,068</u>
Net (decrease) increase in cash and cash equivalents	(4,729)	2,351
Cash and cash equivalents at beginning of year	<u>7,199</u>	<u>4,848</u>
Cash and cash equivalents at end of year	\$ <u>2,470</u>	<u>7,199</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest, net of interest capitalized of \$13 and \$15	\$ <u>7,815</u>	<u>4,674</u>
Income taxes	\$ <u>-</u>	<u>-</u>
Noncash transactions:		
Accumulated other comprehensive loss, net change in unrealized loss on securities available for sale, net of taxes	\$ <u>62</u>	<u>151</u>
Transfer of loans to foreclose real estate	\$ <u>635</u>	<u>-</u>

See Accompanying Notes to Financial Statements.

# OLD HARBOR BANK

## Notes to Financial Statements

At December 31, 2007 and 2006 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 up to the applicable limits 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, 2007 and 2006 were \$362,000 and \$255,000, 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.

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired. For loans that are considered impaired, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

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# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

***Allowance for Loan Losses, Continued.*** 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, commercial real estate and construction, land development and other land 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer, residential real estate 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.

***Foreclosed Real Estate.*** Real estate acquired through, or in lieu of, foreclosure, is initially recorded at the lower of fair value or the loan balance plus acquisition costs at the date of foreclosure. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in earnings.

***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.

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**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.

**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.

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# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

#### *Fair Values of Financial Instruments, Continued.*

*Securities Sold Under Agreements to Repurchase.* Book value approximates fair value.

*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.

*Share-Based Compensation.* The Bank has adopted the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Statement No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), and expenses the fair value of any stock options granted. SFAS 123(R) requires the measurement and recognition of compensation for all stock-based awards made to employees and directors based on estimated fair values. Under the fair value recognition provisions of SFAS 123(R), the Bank recognizes stock-based compensation in salaries and employee benefits for officers and employees and in other expense for directors in the statement of operations. The expense is recognized as the options vest or on a straight line based over the vesting period.

*Advertising.* The Bank expenses all media advertising as incurred.

*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 only component of other comprehensive income (loss) was the unrealized holding gains and losses on securities available for sale.

*Recent Pronouncements.* In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principals, and expands disclosures about fair value measurements. This statement is effective for the Bank as of January 1, 2008, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Bank's financial condition or results of operations.

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# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**Recent Pronouncements, Continued.** In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides the Bank with an option to report selected financial assets and liabilities at fair value. This statement is effective for the Bank as of January 1, 2008. The adoption of SFAS 159 is not expected to have a material effect on the Bank's financial condition or results of operations.

### (2) Securities Available for Sale

Securities have been classified according to management's intent. 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, 2007:</i>				
U.S. Agency obligations	\$ 7,998	46	-	8,044
Mortgage-backed securities of U.S. government agencies	<u>24,750</u>	<u>34</u>	<u>(208)</u>	<u>24,576</u>
Total	<u>\$ 32,748</u>	<u>80</u>	<u>(208)</u>	<u>32,620</u>
<i>At December 31, 2006:</i>				
U.S. Agency obligations	1,998	5	(1)	2,002
Mortgage-backed securities of U.S. government agencies	<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>

At December 31, 2007 and 2006, securities with a fair value of \$8.7 million and \$11.1 million, respectively, were pledged as collateral for FHLB advances. At December 31, 2007, securities with a fair value of \$8.5 million were pledged as collateral for repurchase agreements.

Maturities of securities at amortized cost and fair value are as follows at December 31, 2007 (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one to five years	\$ 4,998	5,042
Due in five to ten years	3,000	3,002
Mortgage-backed securities of U.S. government agencies	<u>24,750</u>	<u>24,576</u>
Total	<u>\$ 32,748</u>	<u>32,620</u>

There were no sales of securities available for sale during the years ended December 31, 2007 and 2006.

(continued)

**OLD HARBOR BANK**

**Notes to Financial Statements, Continued**

**(2) Securities Available for Sale, Continued**

Securities with gross unrealized losses at December 31, 2007, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Mortgage-backed securities of U.S. government agencies	\$(78)	<u>9,534</u>	(130)	<u>8,187</u>

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 15 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.

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**OLD HARBOR BANK**

**Notes to Financial Statements, Continued**

**(3) Loans**

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

		<u>At December 31,</u>	
		<u>2007</u>	<u>2006</u>
	Commercial real estate	\$ 68,038	64,022
	Construction, land development, and other land loans	64,549	42,830
	Commercial	25,384	17,589
	Home equity	9,126	6,913
	Residential real estate	5,593	1,398
	Consumer	<u>815</u>	<u>562</u>
		173,505	133,314
Deduct:	Net deferred loan fees	(233)	(260)
	Allowance for loan losses	<u>(2,284)</u>	<u>(1,634)</u>
	Loans, net	\$ <u>170,988</u>	<u>131,420</u>

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

		<u>Year Ended December 31,</u>	
		<u>2007</u>	<u>2006</u>
	Beginning balance	\$ 1,633	1,061
	Provision for loan losses	1,078	573
	Charge-offs	<u>(427)</u>	<u>-</u>
	Ending balance	\$ <u>2,284</u>	<u>1,634</u>

The following summarizes the amount of impaired loans (in thousands):

		<u>At December 31,</u>	
		<u>2007</u>	<u>2006</u>
Loans identified as impaired:			
	Gross loans with no related allowance for loan losses	\$ 12,047	-
	Gross loans with related allowance for losses recorded	936	1,680
	Less: Allowances on these loans	<u>(636)</u>	<u>(196)</u>
	Net investment in impaired loans	\$ <u>12,347</u>	<u>1,484</u>

(continued)

**OLD HARBOR BANK**

**Notes to Financial Statements, Continued**

**(3) Loans, Continued**

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Average investment in impaired loans	\$ <u>2,821</u>	<u>36</u>
Interest income recognized on impaired loans	\$ <u>72</u>	<u>-</u>
Interest income received on impaired loans	\$ <u>66</u>	<u>-</u>

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

	<u>At December 31,</u>	
	<u>2007</u>	<u>2006</u>
Nonaccrual loans	\$ 8,048	209
Accruing loans past due ninety days or more	<u>-</u>	<u>47</u>
Total	\$ <u>8,048</u>	<u>256</u>

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. The Bank does have 50 loans, generally with original terms of two years or less, aggregating \$52.8 million at December 31, 2007 and 51 loans aggregating \$40.1 million at December 31, 2006, the primary source of repayment is the sale of the related collateral or the conversion of the existing debt into debt at another financial institution. The majority of these loans are located in Pinellas, Pasco and Hillsborough Counties.

With the uncertain real estate market in Pinellas, Pasco and Hillsborough Counties, in the short-term, obtaining refinancing or sale of the collateral may be difficult or impossible under terms acceptable to the borrower. It is likely many of these loans will be extended and may be modified to provide additional interest reserves. Management is closely monitoring these loans and believes the loan loss allowance at December 31, 2007 is adequate.

(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>2007</u>	<u>2006</u>
Land	\$ 2,211	1,178
Buildings	1,839	1,285
Leasehold improvements	2,643	1,537
Furniture, fixtures and equipment	<u>1,605</u>	<u>1,269</u>
Total, at cost	8,298	5,269
Less accumulated depreciation and amortization	<u>1,289</u>	<u>802</u>
Premises and equipment, net	\$ <u>7,009</u>	<u>4,467</u>

The Bank leases some of its facilities. The leases expire between 2009 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, 2007 and 2006 was \$354,000 and \$394,000, respectively. The future minimum lease payments at December 31, 2007 are approximately as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 551
2009	556
2010	484
2011	489
2012	494
Thereafter	<u>2,645</u>
	\$ <u>5,219</u>

Interest capitalized relating to the construction of facilities for the years ended December 31, 2007 and 2006 was approximately \$13,000 and \$15,000, respectively.

(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 \$43,570,000 and \$35,798,000 at December 31, 2007 and 2006, respectively. The aggregate amount of broker time deposits was approximately \$11,413,000 and \$7,371,000 at December 31, 2007 and 2006, respectively. These deposits are issued in denominations of less than \$100,000.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 113,308
2009	3,896
2010	366
2011	7
2012	<u>273</u>
	\$ <u>117,850</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, 2007 is as follows (\$ in thousands):

<u>Maturity Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Amount</u>
2008	4.99%	\$ <u>6,000</u>

At December 31, 2007 and 2006, securities available for sale with a fair value of approximately \$8.7 million and \$11.1 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.

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (7) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were delivered to the broker-dealers who arranged the transactions. The agreements at December 31, 2007 mature within three years. Information concerning securities sold under agreements to repurchase is summarized as follows (\$ in thousands):

	<u>Year Ended</u> <u>December 31,</u> <u>2007</u>
Balance	\$ 5,700
Average balance during the year	\$ 1,557
Average interest rate during the year	4.85%
Maximum month-end balance during the year	\$ 7,500

The average rate was determined by dividing the total interest paid by the average outstanding borrowings.

### (8) 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.

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.

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (8) Off-Balance-Sheet Financial Instruments, Continued

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 borrowing 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, 2007 (in thousands):

	<u>Amount</u>
Unfunded loan commitments	\$ <u>7,482</u>
Undisbursed loans in process	\$ <u>16,608</u>
Unfunded lines of credit	\$ <u>10,663</u>
Standby letters of credit	\$ <u>231</u>

### (9) Fair Value of Financial Instruments

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

	<u>At December 31,</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 2,470	2,470	7,199	7,199
Securities available for sale	32,748	32,620	25,726	25,726
Loans	170,988	173,964	131,420	132,679
Accrued interest receivable	1,038	1,038	850	850
Federal Home Loan Bank stock	578	578	235	235
Financial liabilities:				
Deposits	180,478	182,644	147,050	147,506
Securities sold under agreements to repurchase	5,700	5,700	-	-
Federal Home Loan Bank advance	6,000	5,976	-	-
Off-balance-sheet financial instruments	-	-	-	-

(continued)

**OLD HARBOR BANK**

**Notes to Financial Statements, Continued**

**(10) Income Taxes**

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

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Current:		
Federal	\$ 362	-
State	<u>62</u>	<u>-</u>
Total current	<u>424</u>	<u>-</u>
Deferred:		
Federal	(272)	(44)
State	<u>(46)</u>	<u>(8)</u>
Total deferred	<u>(318)</u>	<u>(52)</u>
Income taxes (benefit)	\$ <u>106</u>	(52)

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

	<b>Year Ended December 31,</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>% of Pretax Earnings</b>	<b>Amount</b>	<b>% of Pretax Loss</b>
Income taxes (benefit) at statutory rate	\$ 77	34.0%	\$(61)	(34.0)%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	11	4.8	(5)	(2.9)
Nondeductible expenses	<u>18</u>	<u>7.9</u>	<u>14</u>	<u>7.8</u>
	\$ <u>106</u>	<u>46.7%</u>	\$ <u>(52)</u>	<u>(29.1)%</u>

(continued)

**OLD HARBOR BANK**

**Notes to Financial Statements, Continued**

**(10) Income Taxes, Continued**

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):

	<u>At December 31,</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$ 830	424
Stock based compensation	84	50
Unrealized losses on securities available for sale	48	85
Impaired loan interest	70	-
Organizational and start-up costs	17	52
Net operating loss carryforward	<u>-</u>	<u>202</u>
Deferred tax assets	<u>1,049</u>	<u>813</u>
Deferred tax liabilities:		
Deferred loan costs	(95)	(80)
Depreciation	(8)	(42)
Accrual to cash conversion	<u>(8)</u>	<u>(34)</u>
Deferred tax liabilities	<u>(111)</u>	<u>(156)</u>
Net deferred tax asset	\$ <u>938</u>	<u>657</u>

**(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>2007</u>	<u>2006</u>
Beginning loan balance	\$ 4,156	4,168
Additions	5,196	165
Paydowns	(1,427)	(171)
Net increase (decrease) in loans with credit lines	<u>48</u>	<u>(6)</u>
Ending loan balance	\$ <u>7,973</u>	<u>4,156</u>
Deposits at end of period	\$ <u>1,147</u>	<u>1,616</u>

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (12) Stock-Based Compensation Plan

The Bank has a stock option plan for 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, 2007, 85,379 shares remain available for grant. The exercise price of the stock options granted under the 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, 2007 and 2006 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>2007</u>	<u>2006</u>
Risk-free interest rate	4.02-4.61%	4.55-4.95%
Dividend yield	1.00%	1.00%
Expected stock volatility	6.0%	6.0-7.0%
Expected life in years	6.5	6.5
Per share grant-date fair value of options issued during the year	\$ <u>2.47-3.10</u>	\$ <u>3.26-3.78</u>

As part of its adoption of SFAS 123(R), 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. The dividend yield assumption is based on the Bank's expectation of dividend payments.

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (12) Stock-Based Compensation Plan, Continued

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, 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	262,516	13.52	
Granted	53,500	15.90	
Exercised	(200)	12.00	
Forfeited	<u>(5,550)</u>	17.26	
Outstanding at December 31, 2007	<u>310,266</u>	<u>\$ 13.86</u>	<u>7.12 years</u>
Exercisable at December 31, 2007	<u>223,791</u>	<u>\$ 13.20</u>	<u>6.53 years</u>

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was \$1,000 and \$8,000. The tax benefit relating to the stock options exercised was \$3,000 for the year ended December 31, 2006. There was no tax benefit related to the stock options exercised in 2007. At December 31, 2007, there was approximately \$160,000 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 \$92,000 and \$133,000 for the years ended December 31, 2007 and 2006, and the associated income tax benefit recognized was \$37,000 and \$50,000 for the years ended December 31, 2007 and 2006, respectively.

### (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, 2007, there were 600 warrants outstanding. Each warrant entitles the holder to purchase one share of common stock for \$10 until August 2008.

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### (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, 2007, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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, 2007 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, 2007:</i>						
Total Capital to Risk-Weighted Assets	\$ 25,143	13.29%	\$ 15,139	8.00%	\$ 18,924	10.00%
Tier I Capital to Risk-Weighted Assets	22,859	12.08	7,569	4.00	11,354	6.00
Tier I Capital to Total Assets	22,859	10.80	8,469	4.00	10,587	5.00
<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

(continued)

# OLD HARBOR BANK

## Notes to Financial Statements, Continued

### **(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) 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 \$58,000 and \$52,000 in matching contributions in 2007 and 2006, respectively.

### **(17) Legal Contingencies**

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, there are none at December 31, 2007 that will have a material effect on the Bank's financial statements.

