Going PLATINUM

2007 Annual Report
AmeriBancShares, Inc.

I am pleased to report that American National Bank enjoyed another tremendous year in 2007. On a consolidated basis, AmeriBancShares, Inc. earned $4,716,098, just slightly less than the previous year's total, which was an all time record.

We continue to enjoy excellent loan growth, and coupled with a strong net interest margin, net interest income was up over $900,000, an increase of nearly 7%. In addition, non-interest income remains a significant contributor to American National Bank's gross revenue, as the total of $8,052,969 in non-interest income represents nearly 27% of the Bank's total revenue. Very few banks our size, and in fact very few banks regardless of size, generate such a large percentage of non-interest income. Fees generated from Trust activities, the gain on sale of mortgage loans, the rental income from leases generated by American National Leasing, and insurance premiums and fees provided by Archer Title of Texas all contributed to the total.

John B. "Bo" Stahler
President and CEO

Interest and fees on loans continues to be American National Bank's bread and butter, however, insofar as revenue is concerned. The total of $18,932,830 for 2007 was nearly $3MM greater than the prior year, an increase of 18.5%. Executive Vice President Dwight Berry heads up a tremendous staff of loan officers that are second to none. At year-end, net loans outstanding were in excess of $233 million, up nearly $15 million from the prior year. Even with the additional loan growth, American National Bank's net loan losses totaled less than $12,000, further testament to the fact that the loan officers are growing the loan totals without comprising the quality of the portfolio.

The earnings performance allowed us to grow the equity of AmeriBancShares, Inc. $3 million for the year, a 10% increase over the December 31, 2006 total, and the annual dividend was raised to $.83 per share, an increase of $.05 per share. It was the 21st year in a row the annual dividend has increased. Other positive indicators of the performance of the Bank in 2007 include a 10.2% increase to $16.52 in the book value of the holding company, as well a Return on Average Assets of 1.44% and a Return in Average Equity of 15.04%.

As we begin a new year, the challenges facing us are numerous. First and foremost, the current declining interest rate environment is going to have a significant impact on earnings. As we have historically maintained an asset sensitive position within the Balance Sheet, when interest rates go up our earnings increase as well, but when the rates decline the reverse is true. With the recent Fed cuts beginning in the 4th quarter of 2007, and the expectation of further cuts in 2008, we anticipate our earnings will be off significantly, possibly by as much as 15%. We are aggressively managing both sides of the Balance Sheet to maximize our return, but the reality is as long as rates are trending downward the Bank's net-interest margin will be negatively impacted. This is due to the fact that a vast majority of our loans reprice immediately at the time of each rate cut while a large amount of our deposits are tied to fixed maturities, and as a result we are paying a higher rate on our funding costs until they mature and can be repriced at a lower rate.

President's Message
Continued

In spite of the forecast for reduced earnings in 2008, we do have several exciting projects in the works. With the growth the Bank has experienced over the past few years, the main facility on Midwestern Parkway and Maplewood has reached capacity. We are literally out of room to put any new people we may need to hire, and parking has become a problem as well. To alleviate the situation, we recently purchased the old State Farm Insurance Claims Office just down the street at the corner of Maplewood and Elmwood. Our plans are to consolidate the Bank's Mortgage Loan Department and Archer Title Company in that facility once the remodeling has been completed to accommodate their needs. With the mortgage operation moving out we will then be able to utilize that space for expansion of both our front and back office operations, as well as free up some much needed parking spaces around the Bank.

We also recently opened a travel club which we are calling the Platinum Circle. Donna Adams, who has numerous years of experience in this area, joined the Bank this past year. She already has some great trips planned as well as other events scheduled throughout the course of the coming year. I encourage you to drop by the Bank and visit with Donna and let her show you the Platinum Circle Club room we have opened in the Archer Title Building just to the north of the Main Bank.

Steve Cookingham has also joined our Bank as a Senior Vice President in our Commercial Loan Department. As many of you may recall, Steve worked for our Bank a number of years ago and we are excited that he has re-joined the team.

Without a doubt, the future of the Bank and its subsidiaries remains bright. American National Bank's investment and insurance products offered through PrimeVest Financial Services has grown tremendously this past year, as our two Investment Officers, Kevin Goldstein and Janice Adams, are doing a wonderful job. The Bank's two operating subsidiaries, Archer Title of Texas and American National Leasing under the leadership of Judy McLemore and Mike Cuba respectively, are both showing great promise as well.

It is imperative, however, that we continue to find ways to grow the Bank to offset the inevitable rise in operating expenses. As shareholders, I urge you to support your investment by taking advantage of our many services. Whether your needs are Trust related, a home loan, some type of lease, investment services, title services, lending needs or simply a deposit source, we have it all. Please allow us the opportunity to serve whatever banking needs you may have and watch your investment grow.

John B. "Bo" Stahler
President & CEO

PLATINUM *People*

Dwight Berry, Executive Vice President, Loans

Steve Cookingham, Senior Vice President, Commercial Loans

Kevin Goldstein, Vice President, Investment Services

Janice Adams, Investment Executive

Judy McLemore, Vice President, Archer Title of Texas, Inc.

Mike Cuba, Vice President, American National Leasing Company

Donna Adams
Platinum Circle Coordinator

PLATINUM *Circle*

Platinum Circle is a special organization that provides qualifying customers of American National Bank with exclusive privileges. These include a meeting room for private parties, receptions and other functions; luxurious escorted travel opportunities, free and discounted bank services, seminars and more.

Membership Qualifications:
$25,000 in total deposits. These deposits may be in any type of American National Bank account including investments and trust, however membership requires that the member have at least one checking, savings or money market account.

Benefits

- *Use of the Platinum Room*
- *Advanced notice of promotions and financial product information*
- *Escorted travel – day excursions, domestic and international tours*
- *Member only exclusive events*
- *0.25% Bonus on one Certificate of Deposit per calendar year**
- *25% discount on any personal check order*
- *No fee Stop Payments*
- *No fee Cashier's and Traveler's Checks (single party)*
- *20% discount on Safe Deposit Box (upon availability)*
- *Newsletters announcing upcoming trips and events*

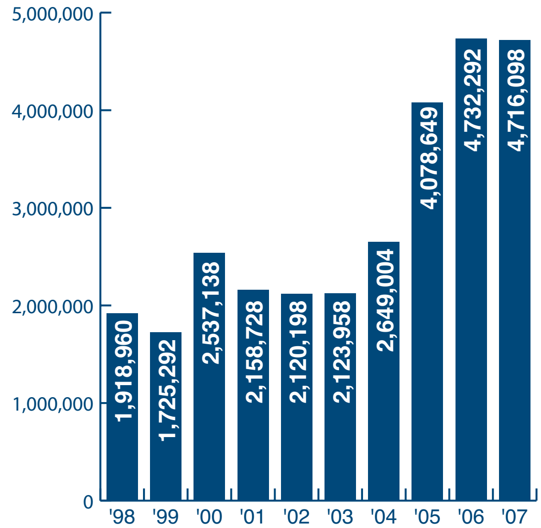
Travel to exciting and unique destinations with the Platinum Circle, planned, directed and escorted by Donna Adams.

** 0.25% bonus to posted rate. Does not include promotional rates. Good toward new or renewing Certificate of Deposit. One bonus per customer per calendar year.*

Financial Highlights

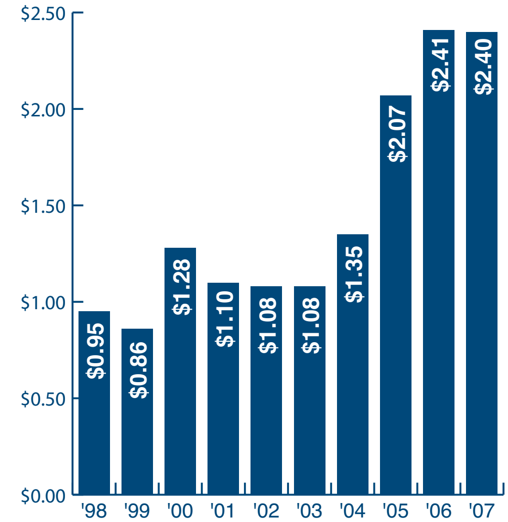
	Year Ended December 31,		
	2007	2006	% Change
Earnings			
Net Interest Income	14,147,895	13,231,989	+ 6.9
Provision For Loan Losses	348,000	285,000	+ 22.1
Non-Interest Income	8,052,969	7,348,798	+ 9.6
Non-Interest Expense	15,026,569	13,502,849	+ 11.3
Net Income	4,716,098	4,732,292	- 0.3
Share Data			
Net Income	2.40	2.41	- 0.4
Dividends Paid	.83	.78	+ 6.4
Book Value	16.52	14.99	+ 10.2
Returns			
Return on Average Assets	1.44	1.43	+ 0.7
Return on Average Equity	15.04	16.97	
Financial Position at Year End			
Total Assets	335,055,121	332,512,839	
Loans (Net)	233,795,444	219,012,490	
Reserve for Loan Losses	2,817,822	2,614,270	
Deposits	267,660,872	269,008,362	
Equity	32,492,888	29,494,844	

Consolidated Net Income

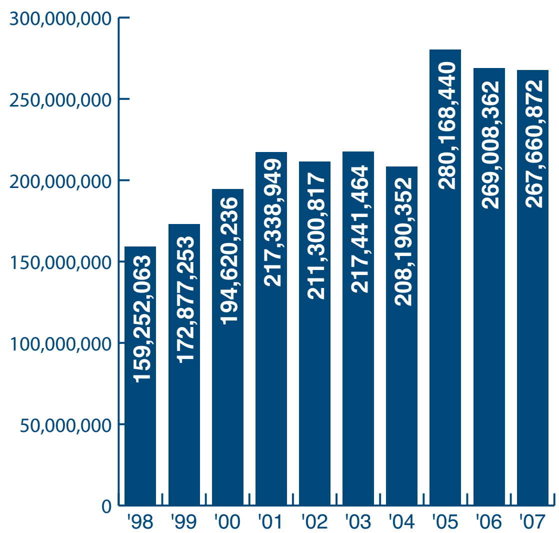


Earnings Per Share

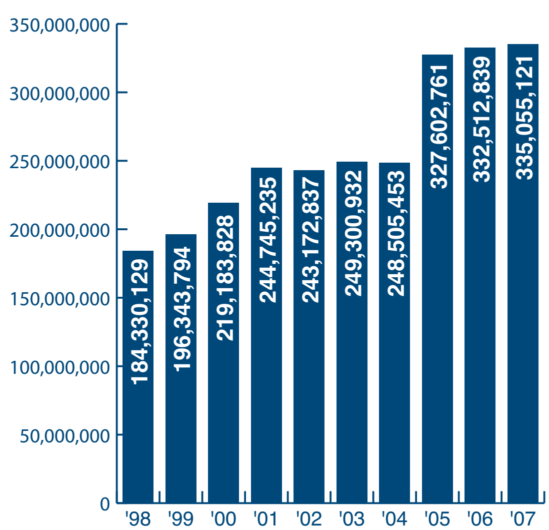
** adjusted to reflect AmeriBancShares, Inc. stock outstanding*



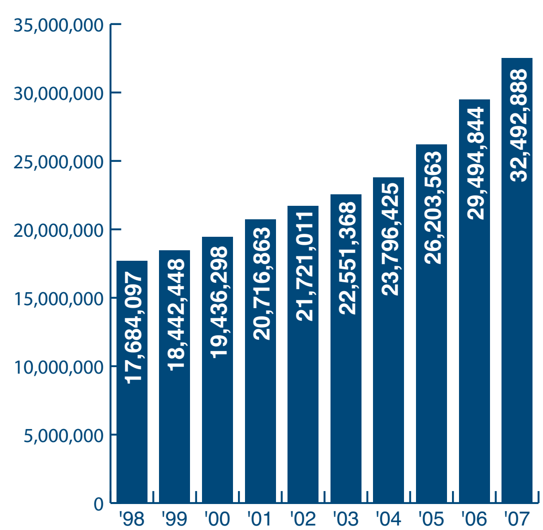
Year End Deposits



Year End Assets



Stockholders' Equity



Independent Auditor's Report

To the Board of Directors and Stockholders
of AmeriBancShares, Inc. and Subsidiaries

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

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

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules presented following the Notes to Consolidated Financial Statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Payne Smith & Jones, P.C.

Payne Smith & Jones, P.C.

Wichita Falls, Texas
February 5, 2008

Consolidated Balance Sheets

December 31, 2007 and 2006

ASSETS	2007	2006
Cash and due from banks, noninterest bearing	$ 11,209,973	$ 11,239,346
Time deposits in banks	800,000	1,300,000
Federal funds sold	12,300,000	4,495,000
Total cash and cash equivalents	24,309,973	17,034,346
Securities available for sale	42,799,222	62,250,397
Securities to be held to maturity (approximate market value of $272,718 in 2007 and $332,224 in 2006)	274,101	334,505
Other securities (approximate market value of $1,083,550 in 2007 and $1,240,325 in 2006)	1,083,550	1,240,325
Total investment securities	44,156,873	63,825,227
Mortgage loans held for sale	759,815	1,205,813
Loans	237,130,534	222,172,858
Less: Unearned discount	(517,268)	(546,098)
Allowance for loan losses	(2,817,822)	(2,614,270)
Loans, net	233,795,444	219,012,490
Premises and equipment, net	12,960,947	12,590,467
Accrued interest receivable	1,923,149	2,061,106
Goodwill	4,219,475	4,219,475
Intangible assets	781,539	976,924
Other assets	12,147,906	11,586,991
Total assets	$ 335,055,121	$ 332,512,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 19,469,927	$ 30,337,257
Savings deposits	86,748,147	74,533,632
Money market and NOW accounts	44,290,719	45,231,535
Time certificates of deposit	117,152,079	118,905,938
Total deposits	267,660,872	269,008,362
Federal funds purchased	8,969,609	9,405,159
Repurchase agreements	3,368,147	872,036
Other borrowed funds	10,144,975	11,492,633
Junior Subordinated Debentures	7,217,000	7,217,000
Accrued interest payable	401,069	398,224
Other liabilities	4,800,561	4,624,581
Total liabilities	302,562,233	303,017,995
Commitments and contingencies		
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000 shares authorized, 2,016,000 issued and 1,967,000 outstanding)	5,040,000	5,040,000
Surplus	10,878,386	10,878,386
Undivided profits and capital reserves	17,724,920	14,641,432
Treasury stock at cost (49,000 shares)	(882,000)	(882,000)
Unearned KSOP shares	(330,000)	
Accumulated other comprehensive income (loss):		
Net unrealized appreciation (depreciation) on securities available for sale, net of tax of $31,724 in 2007 and ($94,259) in 2006	61,582	(182,974)
Total stockholders' equity	32,492,888	29,494,844
Total liabilities and stockholders' equity	$ 335,055,121	$ 332,512,839

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Income

For the Years Ended December 31, 2007 and 2006

	2007	2006
Interest income:		
Interest and fees on loans	$ 18,932,830	$ 15,979,371
Interest on investment securities	2,628,638	3,494,626
Interest on time deposits in banks	45,823	138,311
Interest on federal funds sold	219,916	275,780
Total interest income	21,827,207	19,888,088
Interest expense:		
Interest on deposits:		
Savings	130,955	125,889
Money market and NOW accounts	859,974	859,176
Time	5,103,456	4,466,360
Total interest on deposits	6,094,385	5,451,425
Interest on federal funds purchased	440,221	258,738
Interest on repurchase agreements	89,838	5,195
Interest on other borrowed funds	538,097	455,850
Interest on Junior Subordinated Debentures	516,771	484,891
Total interest expense	7,679,312	6,656,099
Net interest income	14,147,895	13,231,989
Provision for loan losses	348,000	285,000
Net interest income after provision for loan losses	13,799,895	12,946,989
Other operating income:		
Service charges on deposit accounts	576,377	691,480
Trust fee income	3,806,167	3,474,169
Gain on sale of mortgage loans	666,212	572,113
Rent income	817,636	976,505
Other, net	2,186,577	1,634,531
Total other operating income	8,052,969	7,348,798
Other operating expenses:		
Salaries and bonuses	5,807,224	5,195,053
Employee benefits	2,923,402	2,491,071
Premises and equipment	1,694,446	2,317,092
Advertising	326,540	297,083
Data processing expense	459,186	478,161
Printing, stationery and supplies	259,235	235,493
Professional fees	171,242	151,217
Other operating expenses	3,385,294	2,337,679
Total other operating expenses	15,026,569	13,502,849
Income before income taxes	6,826,295	6,792,938
Provision for income taxes	2,110,197	2,060,646
Net income	$ 4,716,098	$ 4,732,292
Net income per share of common stock	$ 2.40	$ 2.41

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2007 and 2006

	Common Stock Number of Shares	Amount	Surplus	Undivided Profits and Capital Reserves	Treasury Stock	Unearned KSOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2006	2,016,000	$ 5,040,000	$ 10,878,386	$11,443,400	($ 882,000)	$	($ 276,223)	$ 26,203,563
Comprehensive income:								
Net income				4,732,292				4,732,292
Other comprehensive income:								
Net change in unrealized depreciation on securities available for sale, net of taxes of $48,038							93,249	93,249
Total comprehensive income								4,825,541
Cash dividends, $.78 per common share				(1,534,260)				(1,534,260)
Balance, December 31, 2006	2,016,000	5,040,000	10,878,386	14,641,432	(882,000)		(182,974)	29,494,844
Comprehensive income:								
Net income				4,716,098				4,716,098
Other comprehensive income:								
Net change in unrealized appreciation (depreciation) on securities available for sale, net of taxes of $125,983							244,556	244,556
Total comprehensive income								4,960,654
Net change in unearned compensation under KSOP						(330,000)		(330,000)
Cash dividends, $.83 per common share				(1,632,610)				(1,632,610)
Balance, December 31, 2007	2,016,000	$ 5,040,000	$ 10,878,386	$ 17,724,920	($ 882,000)	($ 330,000)	$ 61,582	$ 32,492,888

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income	$ 4,716,098	$ 4,732,292
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,279,063	1,358,135
Amortization of intangibles	197,185	115,616
Provision for loan losses	348,000	285,000
Benefit from deferred taxes	(272,823)	(224,104)
Gain on sale of mortgage loans	(666,212)	(572,113)
Gain on sale of other real estate owned	(16,294)	
(Gain) loss on disposal of premises and equipment	(8,438)	18,461
Amortization of premium on investment securities	4,026	35,962
Accretion of discount on investment securities	(80,563)	(177,657)
Proceeds from sales of mortgage loans	49,068,444	38,025,923
Mortgage loans funded	(47,984,511)	(37,391,977)
(Increase) decrease in:		
Prepaid expenses	(142,104)	68,655
Accrued interest receivable	137,957	(258,383)
Income taxes receivable	(24,408)	(88,574)
Miscellaneous other assets	(32,167)	333,765
Increase (decrease) in:		
Accrued interest payable	2,845	96,862
Income taxes payable		(7,836)
Other taxes payable	40,000	(232,499)
Other accrued expenses	135,980	1,072,291
Net cash provided by operating activities	6,702,078	7,189,819
Cash flows from investing activities:		
Proceeds from maturities of securities available for sale	43,049,246	30,256,664
Proceeds from sale of securities available for sale	339,047	398,289
Proceeds from maturities of securities held to maturity	60,453	78,609
Proceeds from sale of other securities	308,875	
Purchase of securities available for sale	(23,490,091)	(17,061,980)
Purchase of other securities	(152,100)	(431,675)
Purchase of cash value life insurance	(537,034)	(550,757)
Net increase in loans	(15,102,677)	(36,436,444)
Purchase of premises and equipment	(2,757,244)	(1,866,754)
Proceeds from sale of premises and equipment	1,123,324	506,313
Proceeds from sale of other real estate owned	328,947	
Net cash provided by (used in) investing activities	3,170,746	(25,107,735)
Cash flows from financing activities:		
Net decrease in deposits	(1,347,490)	(11,160,078)
Net increase (decrease) in federal funds purchased	(435,550)	7,455,159
Net increase in repurchase agreements	2,496,111	872,036
Net increase (decrease) in other borrowed funds	(1,677,658)	3,522,863
Dividends paid	(1,632,610)	(1,534,260)
Net cash used in financing activities	(2,597,197)	(844,280)
Net increase (decrease) in cash and cash equivalents	7,275,627	(18,762,196)
Cash and cash equivalents at beginning of period	17,034,346	35,796,542
Cash and cash equivalents at end of period	$ 24,309,973	$ 17,034,346

The accompanying Notes are an integral part of these financial statements.

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The accounting and reporting policies of AmeriBancShares, Inc. and Subsidiaries ("the Company") conform to generally accepted accounting principles and prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Nature of Operations: The Company provides a variety of financial services to individual and business customers through its locations in Wichita Falls, Iowa Park, Archer City and Flower Mound, Texas. The Company's primary deposit products are demand deposits, savings deposits, and certificates of deposit, and the primary lending products are commercial, real estate mortgages, and installment loans. The Company also provides trust services and vehicle and equipment leasing services to individual and business customers through its locations in Wichita Falls, Texas and Flower Mound, Texas.

Basis of Presentation: The accompanying consolidated financial statements include the accounts of AmeriBancShares, Inc. and its wholly-owned subsidiaries, ANB Realty Corp. and AmeriBancShares of Delaware, Inc. The financial statements also include American National Bank, which is a wholly-owned subsidiary of AmeriBancShares of Delaware, Inc. and American National Leasing Company and Archer Title of Texas, Inc., which are wholly owned subsidiaries of American National Bank. All significant intercompany transactions have been eliminated. The consolidated statements of income, changes in stockholders' equity, and cash flows include operations for the years ended December 31, 2007 and 2006.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the real estate industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Cash and Due From Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks.

Securities: In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities" (SFAS 115), securities are classified into three categories: held-to-maturity (HTM), available-for-sale (AFS) and trading.

Securities classified as held-to-maturity, which are those the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Company currently has no trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Mortgage Loans Held for Sale: The mortgage loans held for sale are stated at the lower of cost or market. Such mortgage loans are aggregated by type for the purpose of valuation. Allowances which are necessary to reflect a reduction of the portfolio to the lower of cost or market are charged against income in the current period.

Loans and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely.

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Impaired loans are generally placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received.

Servicing: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Other Real Estate Owned: Other real estate owned consists of real property acquired through foreclosure or deed in lieu of foreclosure. The Company has adopted Statement of Position 92-3 entitled "Accounting for Foreclosed Assets." In accordance with this statement, other real estate owned, in the amount of $228,600 and $541,253 at December 31, 2007 and 2006, respectively, is carried at the lower of fair value minus estimated selling costs or cost. When property is acquired, the asset is recorded at its fair value and an allowance for estimated selling costs is provided. The allowance for other real estate owned is adjusted for increases or declines in the fair value of the assets; however, the allowance may not be reduced below zero.

Premises and Equipment, and Depreciation: Premises and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed, while expenditures for significant renewals and betterments are capitalized. When property is disposed of, the cost of the property and the related accumulated depreciation are removed from the accounts. The Company has elected to provide for depreciation on the straight-line method for financial reporting purposes and accelerated method for tax purposes.

Income Taxes: The Company files a consolidated income tax return with its wholly-owned subsidiaries and their wholly-owned subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of accumulated depreciation and the allowance for loan losses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Goodwill: During 2002, the Company fully implemented the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, which eliminated the amortization of goodwill and required at a minimum the Company to perform an annual impairment test for goodwill.

Intangible Assets: Intangible assets are reflected under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, which among other things, requires that intangible assets with a finite life be amortized over their estimated useful life. Intangible assets include core deposit intangibles acquired in acquisitions and are being amortized on a straight-line basis over ten years.

Net Income Per Common Share: Net income per common share is based on the weighted average number of common shares outstanding during the period.

Reclassification: For comparability, certain amounts in the 2006 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2007.

Cash and Cash Equivalents: For purposes of recording cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Note 2
INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in debt securities are as follows:

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$ 21,187,581	$ 64,450	($ 6,169)	$ 21,245,862
Obligations of states and political subdivisions	5,785,000	20,450	(82,424)	5,723,026
Mortgage-backed securities	14,491,133	107,223	(10,224)	14,588,132
Equity securities	1,242,202			1,242,202
Totals	$ 42,705,916	$ 192,123	($ 98,817)	$ 42,799,222
Securities to be Held to Maturity				
Obligations of states and political subdivisions	$ 119,986	$	($ 12)	$ 119,974
Mortgage-backed securities	154,115		(1,371)	152,744
Totals	$ 274,101	$	($ 1,383)	$ 272,718
Other securities	$ 1,083,550	$	$	$ 1,083,550

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$ 48,916,259	$ 30,324	($ 122,843)	$ 48,823,740
Obligations of states and political subdivisions	6,475,000	24,026	(131,561)	6,367,465
Mortgage-backed securities	5,623,305	4,188	(81,367)	5,546,126
Equity Securities	1,513,066			1,513,066
Totals	$ 62,527,630	$ 58,538	($ 335,771)	$ 62,250,397
Securities to be Held to Maturity				
Obligations of states and political subdivisions	$ 119,871	$ 1,061	$	$ 120,932
Mortgage-backed securities	214,634		(3,342)	211,292
Totals	$ 334,505	$ 1,061	($ 3,342)	$ 332,224
Other securities	$ 1,240,325	$	$	$ 1,240,325

Other securities consist of common stock in the Federal Reserve Bank, Federal Home Loan Bank and Independent Bankers Financial Corporation and are carried at fair value.

The amortized cost and estimated market value of debt securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Note 2
INVESTMENT SECURITIES (Continued)

	Securities Available for Sale		Securities to be Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 4,572,371	$ 4,575,768	$ 119,986	$ 119,974
Due after one year through five years	14,912,309	14,923,325		
Due after five years through ten years	7,487,901	7,469,795		
	26,972,581	26,968,888	119,986	119,974
Mortgage-backed securities	14,491,133	14,588,132	154,115	152,744
Equity securities	1,242,202	1,242,202		
Totals	$ 42,705,916	$ 42,799,222	$ 274,101	$ 272,718

Proceeds from sales of available for sale securities for the years ended December 31, 2007 and 2006 were approximately $339,047 and $398,289, respectively. No gross gains were realized on sales of available for sale securities during 2007 or 2006. No gross losses were realized on sales of available for sale securities during 2007 or 2006. There were no sales of held to maturity securities during 2007 or 2006.

Investment securities with a recorded value of approximately $31,171,453 and $32,116,772 at December 31, 2007 and 2006, respectively, were pledged to secure deposits and for other purposes as required by law.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2007 are summarized as follows:

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale				
United States Agency securities	$ 10,186,693	($ 6,169)	$	$
Mortgage-backed securities	28,535	(436)	482,244	(9,788)
State and political obligations			5,067,576	(82,424)
	$ 10,215,228	($ 6,605)	$ 5,549,820	($ 92,212)
Securities Held to Maturity				
State and political obligations	$ 119,974	($ 12)	$	$
Mortgage-backed securities	40,478	(464)	112,266	(907)
	$ 160,452	($ 476)	$ 112,266	($ 907)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2007, certain securities have unrealized losses with aggregate depreciation from the Company's amortized cost basis. These unrealized losses are generally due to changes in interest rates. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan categories is as follows:

	December 31, 2007	December 31, 2006
Commercial and industrial	$ 33,664,310	$ 31,731,237
Real estate - other	159,342,186	148,167,531
Real estate - construction	29,598,056	26,492,596
Consumer - installment	14,320,520	15,738,532
Overdrafts	205,462	42,962
Total loans	$ 237,130,534	$ 222,172,858

The Company had no loans to borrowers engaged in similar activities which exceeded 5% of total assets at December 31, 2007 other than as disclosed above.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was $46,515,217 and $46,625,450 at December 31, 2007 and 2006, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $254,758 and $211,073 at December 31, 2007 and 2006, respectively.

The Company accounts for mortgage servicing rights under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Originated mortgage servicing rights capitalized at December 31, 2007 and 2006, are $373,430 and $366,953, respectively, and are included in other assets. The fair values of these rights were $538,321 and $512,087 at December 31, 2007 and 2006, respectively. The fair value of servicing rights was determined using discount rates ranging from 10% to 12% and prepayment speeds ranging from 9% to 10.25%, depending on the stratification of the specific right.

Impaired loans having carrying values of $142,534 and $10,370 at December 31, 2007 and 2006, respectively, have been recognized in conformity with SFAS 114 as amended by SFAS 118. The average recorded investment in impaired loans during 2007 and 2006 was $47,272 and $190,831, respectively. The total allowance for loan losses related to those loans was $20,350 and $3,271 on December 31, 2007 and 2006, respectively. No payments on these loans were recorded as interest income when received in 2007 or 2006. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired as of December 31, 2007 or 2006.

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2007 and 2006, including mortgage loans held for resale less loans on nonaccrual, are as follows:

	2007	2006
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 9,181,841	$ 9,227,955
Over three months through twelve months	14,985,435	15,947,770
Over one year through five years	38,734,273	38,535,843
Over five years	24,625,147	15,956,863
Total fixed rate loans	$ 87,526,696	$ 79,668,431
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 136,016,743	$ 129,153,702
Annually or more frequently, but less frequently than quarterly	4,475,851	4,684,142
Every five years or more frequently, but less frequently than annually	7,449,581	7,344,884
Less frequently than every five years	2,278,944	2,517,142
Total variable rate loans	$ 150,221,119	$ 143,699,870

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

A summary of the changes in allowance for loan losses is as follows:

	2007	2006
Balance at beginning of year	$ 2,614,270	$ 2,314,075
Provision for loan losses	348,000	285,000
Loans charged off	(154,707)	(26,409)
Recoveries of loans previously charged off	10,259	41,604
Balance at end of year	$ 2,817,822	$ 2,614,270

The allowance for financial statement purposes exceeded the federal income tax allowance by $2,119,831 and $1,913,084 at December 31, 2007 and 2006, respectively.

Note 4
PREMISES AND EQUIPMENT

A summary of premises, equipment and land improvements and related accumulated depreciation is as follows:

	Estimated Useful Lives	December 31, 2007	December 31, 2006
Land		$ 2,318,748	$ 1,568,081
Premises	5-40 years	8,898,326	8,689,660
Furniture, fixtures and equipment	3-10 years	6,737,067	6,202,924
Land improvements	5-20 years	442,707	638,430
Lease equipment	3 - 5 years	3,073,343	3,700,430
		21,470,191	20,799,525
Less accumulated depreciation		8,509,244	8,209,058
Totals		$ 12,960,947	$ 12,590,467

Depreciation expense amounted to $1,279,063 and $1,358,135 in 2007 and 2006, respectively.

A portion of the banking premises which the Company occupies is leased to certain tenants under month-to-month leases. Rental income totaled approximately $70,421 and $45,838 for the years ended December 31, 2007 and 2006, respectively.

Note 5
GOODWILL

Goodwill in the amount of $4,219,475 at December 31, 2007 and 2006, is included in the accompanying consolidated financial statements. In accordance with the Statement of Financial Accounting Standard No 142, “Goodwill and Other Intangible Assets” (SFAS 142), the Company performs an annual impairment test for goodwill. At December 31, 2007 and 2006 management has determined that there is no impairment of goodwill.

Prior to the adoption of SFAS 142, goodwill was amortized over its estimated useful life. Accordingly, the amounts reflected for goodwill in the accompanying financial statements have been reduced by the relating accumulated amortization of $507,484.

Note 6
INTANGIBLE ASSETS

Intangible assets consist of core deposit intangibles acquired in a branch acquisition and are being amortized using the straight-line method over a period of 10 years. Assigned costs and accumulated amortization at December 31, 2007 and 2006 consisted of the following amounts:

	2007	2006
Gross amount	$ 1,138,163	$ 1,138,163
Accumulated amortization	(356,624)	(161,239)
	$ 781,539	$ 976,924

Changes in the carrying amount of intangibles during 2007 are summarized as follows:

	2007	2006
Net intangible at January 1	$ 976,924	$ 1,090,740
Amortization expense	(195,385)	(113,816)
Net intangible at December 31	$ 781,539	$ 976,924

Note 7
DEPOSITS

Included in time deposits are certificates of deposit in amounts of $100,000 or more. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was $44,056,220 and $45,437,659 at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, the scheduled maturities of certificates of deposit are as follows:

	December 31, 2007	December 31, 2006
Less than three months	$ 46,213,729	$ 44,260,026
Four to twelve months	43,524,290	49,822,819
One to five years	27,410,557	24,823,093
Five to ten years	3,503	
Totals	$ 117,152,079	$ 118,905,938

During 2006, the Company entered into a program in which certain eligible transaction deposits could be reclassed to savings deposits for regulatory reporting purposes and therefore reduce its reserve requirement with the Federal Reserve Bank. At December 31, 2007 the Company has reclassed $48,723,160 demand deposits and $28,967,266 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program. At December 31, 2006 the Company has reclassed $35,158,293 demand deposits and $27,780,817 NOW and Money Market deposits to savings deposits.

Note 8
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase amounted to $3,368,147 and $872,036 at December 31, 2007 and 2006, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of $3,436,785 at 2007 and $898,000 at 2006. The weighted average interest rate on these agreements was 2.95% at December 31, 2007 and 4.275% at December 31, 2006. The agreements of $3,368,147 at December 31, 2007 mature on January 2, 2008.

Note 9
OTHER BORROWED FUNDS

Included in other borrowed funds at December 31, 2007 and 2006, respectively, are the following:

	2007	2006
Advances from the Federal Home Loan Bank	$ 9,814,975	$ 11,492,633
KSOP note payable	330,000	
	$ 10,144,975	$ 11,492,633

Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank amounted to $9,814,975 and $11,492,633, respectively, at December 31, 2007 and 2006. These borrowings are collateralized by one-to-four family residences. The Federal Home Loan Bank advances have fixed rates ranging from 3.81% to 5.63%. The advances were used to fund fixed interest rate loans to customers. As of December 31, 2007, aggregate annual scheduled repayments of Federal Home Loan Bank advances were as follows:

2008	$ 1,488,362
2009	1,551,550
2010	1,910,861
2011	679,885
2012	176,949
Thereafter	4,007,368
	$ 9,814,975

KSOP Note Payable

At December 31, 2007, the Company's KSOP had a note payable in the amount of $330,000 with First National Bank of Chillicothe (a related party through a common director). The note bears interest at the stated prime rate (7.25% at December 31, 2007). The note is secured by 10,000 shares of the Company's stock and matures on January 16, 2009.

Note 10
JUNIOR SUBORDINATED DEBENTURES

The junior subordinated debentures of $7,217,000 at December 31, 2007 and 2006 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $7,000,000 in trust preferred securities and $217,000 in common stock (wholly-owned by the Company) at December 31, 2007 and 2006. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus 1.80% (7.49% at December 31, 2007 and 7.16% at December 31, 2006), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier I capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust preferred securities issued by the trust.

The Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company has included $7,000,000 of trust preferred securities in its Tier I capital computation at December 31, 2007 and 2006.

Note 11
INCOME TAXES

The provision for income taxes consists of the following:

	December 31, 2007	December 31, 2006
Current income tax expense:		
Federal and state	$ 2,383,020	$ 2,284,750
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	(108,604)	(111,216)
Accounting for bad debt expense	(70,294)	(100,980)
Federal Home Loan Bank stock dividends	16,048	11,492
Deferred compensation benefits	(201,623)	(137,211)
Deferred loan fee income	(15,050)	7,111
Goodwill amortization	106,700	106,700
	(272,823)	(224,104)
Total income tax expense	$ 2,110,197	$ 2,060,646

The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes is primarily attributable to investments in tax-exempt securities, tax-exempt increases in cash surrender value of life insurance, and certain other transactions.

As of December 31, 2007 and 2006, there are no unused net operating losses or tax credits available for carryover to future periods for either financial reporting or tax reporting purposes.

A net deferred federal income tax asset of $556,539 and $409,699 at December 31, 2007 and 2006 respectively, is included in other assets. The accumulated tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Excess of tax cost over financial cost for fixed assets	$ 123,115	$ 73,444
Allowance for loan losses	720,743	650,449
Deferred compensation benefits	1,262,964	1,061,341
Deferred loan fee income	32,398	17,348
Net unrealized depreciation on securities available for sale		94,259
Total deferred tax assets	2,139,220	1,896,841
Deferred tax liabilities:		
Depreciation	(757,726)	(816,659)
Federal Home Loan Bank stock dividends	(156,264)	(140,216)
Amortization	(636,967)	(530,267)
Net unrealized appreciation on securities available for sale	(31,724)	
Total deferred tax liabilities	(1,582,681)	(1,487,142)
Total net deferred tax asset	$ 556,539	$ 409,699

Federal income taxes currently receivable of $112,982 and $88,574 at December 31, 2007 and 2006, repectively, are included in other assets.

Note 12
EMPLOYEE BENEFITS

KSOP PLAN

The Company maintains a leveraged employee stock ownership 401(k) plan ("KSOP"). The KSOP periodically borrows from unrelated lenders to acquire stock for future allocation to KSOP participants. The KSOP provides for voluntary employee salary reduction contributions, voluntary employee after-tax contributions, discretionary employer salary reduction matching contributions, and additional discretionary employer contributions which the Company uses to pay interest on KSOP debt and KSOP debt principal reductions as the Company desires to release unallocated KSOP shares to the KSOP participants.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares. KSOP expense for 2007 and 2006 was $552,882 and $502,099, respectively. Employee salary reduction contributions of $358,509 and $348,239 were made in 2007 and 2006, respectively.

DEFERRED COMPENSATION PLANS

The Company maintains individually designed supplemental income plan agreements ("agreements") with certain designated employees and directors. The agreements provide a deferred compensation benefit payable at retirement or death.

The liability under the agreements is recorded based upon the present value of the deferred compensation benefits. At December 31, 2007 and 2006, the Company's accrued liability under the agreements was $3,714,598 and $3,121,591, respectively.

In connection with the funding of the agreements, the Company has purchased life insurance policies that it believes will fund the benefits payable pursuant to the agreements. The Company is owner and beneficiary of the life insurance policies. Other assets at December 31, 2007 and 2006, respectively, include $7,723,021 and $7,256,680 in cash value of these life insurance policies.

Note 13
RELATED-PARTY TRANSACTIONS

At December 31, 2007 and 2006, certain officers and directors, and companies in which they have a 10 percent or more beneficial ownership, were indebted to the Company in the aggregate amount of approximately $4,832,937 and $6,072,706, respectively. During 2007, $506,454 of new loans were originated and repayments totaled $1,746,223. All such loans were made in the ordinary course of business. All loans included in such transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of loss or present other unfavorable features.

Note 14
COMMITMENTS AND CONTINGENT LIABILITIES

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities at December 31, 2007 and 2006, are as follows:

	December 31, 2007	December 31, 2006
Commitments to extend credit	$ 44,671,549	$ 47,810,502
Standby letters of credit	4,299,706	3,668,363
Total	$ 48,971,255	$ 51,478,865

Commitments to extend credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company has not incurred any significant losses on its commitments in either 2007 or 2006.

Note 14
COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The Company is a party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

Note 15
CONCENTRATIONS OF CREDIT

Substantially all of the Company's loans, commitments, credit card arrangements and standby letters of credit have been granted to customers in the Company's market area. Most customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Company occasionally maintains deposits and federal funds sold in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. At December 31, 2007 the Company had due from banks and federal funds sold of approximately $20,312,140 which represent concentrations of credit in excess of federally insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

Note 16
FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as disclosed herein. The values are for disclosure purposes only and have not affected the carrying values of the assets and liabilities on the balance sheet.

Cash and Short-Term Investments

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For debt securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loan Receivables

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

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

Other Borrowed Funds

The fair value of federal funds purchased is the amount payable upon demand at the reporting date. The fair value of the Federal Home Loan Bank advance is estimated by discounting the future cash flows using the current rates at which similar advances would be made to banks with similar credit ratings for the same remaining maturities.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between the current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

Note 16

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the Company's financial instruments at December 31, 2007 and 2006, are as follows:

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	$ 12,009,973	$ 12,009,973	$ 12,539,346	$ 12,539,346
Federal funds sold	12,300,000	12,300,000	4,495,000	4,495,000
Investment securities	44,156,873	44,155,490	63,825,227	63,822,946
Mortgage loans held for sale	759,815	759,815	1,205,813	1,205,813
Loans, net of unearned discount	236,613,266	236,586,789	221,626,760	219,571,240
Less allowance for loan losses	(2,817,822)	(2,817,822)	(2,614,270)	(2,614,270)
Loans, net of allowance	233,795,444	233,768,967	219,012,490	216,956,970
Accrued interest receivable	1,923,149	1,923,149	2,061,106	2,061,106
Financial liabilities:				
Deposits	267,660,872	268,216,080	269,008,362	269,011,525
Federal funds purchased	8,969,609	8,969,609	9,405,159	9,405,159
Repurchase agreements	3,368,147	3,368,147	872,036	872,036
Other borrowed funds	10,144,975	10,878,000	11,492,633	11,309,000
Junior Subordinated Debentures	7,217,000	7,217,000	7,217,000	7,217,000
Accrued interest payable	401,069	401,069	398,224	398,224
Unrecognized financial instruments:				
Commitments to extend credit	0	0	0	0
Standby letters of credit	0	0	0	0

Note 17

REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the lesser of the current and prior two years' undistributed earnings or the amount by which total capital exceeds the minimum allowable capital. The dividends, as of December 31, 2007 that the Bank could declare without the approval of the Comptroller of the Currency amounted to approximately $9,639,445.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the consolidated 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 Bank's 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 ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

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

Note 17
REGULATORY MATTERS (Continued)

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total capital (to risk-weighted assets)						
American National Bank	$ 35,606,852	14.4%	≥$19,822,320	≥8.0%	≥$24,777,900	≥10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	32,779,030	13.2%	≥9,911,160	≥4.0%	≥14,866,740	≥6.0%
Tier I capital (to average assets)						
American National Bank	32,779,030	10.1%	≥13,008,920	≥4.0%	≥16,261,150	≥5.0%
As of December 31, 2006:						
Total capital (to risk-weighted assets)						
American National Bank	$ 31,808,107	13.4%	≥ $18,927,760	≥ 8.0%	≥ $23,659,700	≥ 10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	29,183,837	12.3%	≥ 9,463,880	≥ 4.0%	≥ 14,195,820	≥ 6.0%
Tier I capital (to average assets)						
American National Bank	29,183,837	9.2%	≥ 12,761,625	≥ 4.0%	≥ 15,952,032	≥ 5.0%

Note 18
MULTI-TIERED BANK HOLDING COMPANY STRUCTURE

On February 19, 1997, an application was filed with the Federal Reserve Bank to authorize the formation of a multi-tiered bank holding company structure consisting of a Texas based parent company, AmeriBancShares, Inc. and a Delaware based intermediate holding company, AmeriBancShares of Delaware, Inc. Upon receipt of proper authorization of the holding company structure from the Federal Reserve Bank, the stock of American National Bank ("the Bank") was transferred to AmeriBancShares of Delaware, Inc. with the stockholders of the Bank receiving three shares of AmeriBancShares, Inc. common stock in exchange for each share of Bank common stock. The transfer was effective May 1, 1997 and was accomplished by the formation of a new bank subsidiary by AmeriBancShares of Delaware, Inc., with an initial capitalization of $240,000. The new bank subsidiary was merged with the Bank and the surviving entity retained the name of the Bank. On May 1, 1997, AmeriBancShares, Inc. formed an additional subsidiary, ANB Realty Corp., to acquire and develop real estate in Flower Mound, Texas.

Note 19
STATEMENT OF CASH FLOWS

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2007 and 2006 is presented as follows (in thousands):

	December 31, 2007	December 31, 2006
Cash transactions:		
Interest expense paid	$ 7,676,467	$ 6,559,237
Federal income taxes paid	$ 2,407,428	$ 2,381,161
Noncash transactions:		
Net unrealized appreciation (depreciation) on securities available for sale	$ 370,539	$ 141,286
Loan proceeds for KSOP	$ 330,000	$

Consolidating Balance Sheet

AmeriBancShares, Inc. and Subsidiaries, December 31, 2007

ASSETS	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash and due from banks, noninterest bearing	$ 231,767	$ 124,022	$ 11,201,538
Time deposits in banks			800,000
Federal funds sold			12,300,000
Total cash and cash equivalents	231,767	124,022	24,301,538
Securities available for sale			41,557,020
Securities to be held to maturity			274,101
Other securities			1,083,550
Total investment securities			42,914,671
Mortgage loans held for sale			759,815
Loans	3,802,632		237,318,625
Less: Unearned discount	(517,268)		
Allowance for loan losses	(25,175)		(2,792,647)
Loans, net	3,260,189		234,525,978
Premises and equipment, net	2,042,794	1,024,226	9,893,927
Accrued interest receivable			3,528,437
Goodwill		19,615	4,199,860
Intangible assets			781,539
Other assets	81,459	20,304	12,022,959
Total assets	$ 5,616,209	$ 1,188,167	$ 332,928,724
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand deposits	$	$	$ 20,510,847
Savings deposits			86,748,147
Money market and NOW accounts			44,290,719
Time certificates of deposit			117,152,079
Total deposits			268,701,792
Federal funds purchased			8,969,609
Repurchase agreements			3,368,147
Other borrowed funds	3,222,280	768,443	9,814,975
Junior Subordinated Debentures			
Accrued interest payable	1,538,628	70,442	401,069
Other liabilities	292,137	49,109	3,794,163
Total liabilities	5,053,045	887,994	295,049,755
Stockholders' equity:			
Common stock	1,000	1,000	1,680,000
Surplus			7,090,826
Undivided profits and capital reserves	562,164	299,173	29,046,561
Treasury stock at cost			
Unearned KSOP shares			
Accumulated other comprehensive income:			
Net unrealized appreciation on securities available for sale			61,582
Total stockholders' equity	563,164	300,173	37,878,969
Total liabilities and stockholders' equity	$ 5,616,209	$ 1,188,167	$ 332,928,724

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 8,435	$ 1,000	$ 684,131	($ 1,040,920)	$ 11,209,973
				800,000
				12,300,000
8,435	1,000	684,131	(1,040,920)	24,309,973
		1,242,202		42,799,222
				274,101
37,878,969		38,105,404	(75,984,373)	1,083,550
37,878,969		39,347,606	(75,984,373)	44,156,873
				759,815
			(3,990,723)	237,130,534
				(517,268)
				(2,817,822)
			(3,990,723)	233,795,444
				12,960,947
		3,782	(1,609,070)	1,923,149
				4,219,475
				781,539
		4,369	18,815	12,147,906
$ 37,887,404	$ 1,000	$ 40,039,888	($ 82,606,271)	$ 335,055,121
$	$	$	($ 1,040,920)	$ 19,469,927
				86,748,147
				44,290,719
				117,152,079
			(1,040,920)	267,660,872
				8,969,609
				3,368,147
		330,000	(3,990,723)	10,144,975
		7,217,000		7,217,000
			(1,609,070)	401,069
			665,152	4,800,561
		7,547,000	(5,975,561)	302,562,233
7,500	1,000	5,040,000	(1,690,500)	5,040,000
20,910,885	256,373	10,878,386	(28,258,084)	10,878,386
16,907,437	(256,373)	17,724,920	(46,558,962)	17,724,920
		(882,000)		(882,000)
		(330,000)		(330,000)
61,582		61,582	(123,164)	61,582
37,887,404	1,000	32,492,888	(76,630,710)	32,492,888
$ 37,887,404	$ 1,000	$ 40,039,888	($ 82,606,271)	$ 335,055,121

Consolidating Statement of Income

AmeriBancShares, Inc. and Subsidiaries, December 31, 2007

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Interest income:			
Interest and fees on loans	$ 303,567	$	$ 18,752,719
Interest on investment securities			2,563,285
Interest on time deposits in banks			45,823
Interest on federal funds sold			219,916
Total interest income	303,567		21,581,743
Interest expense:			
Interest on deposits:			
Savings			130,955
Money market and NOW accounts			859,974
Time			5,103,456
Total interest on deposits			6,094,385
Interest on federal funds purchased			440,221
Interest on repurchase agreements			89,838
Interest on other borrowed funds	95,504	27,953	538,096
Interest on Junior Subordinated Debentures			
Total interest expense	95,504	27,953	7,162,540
Net interest income	208,063	(27,953)	14,419,203
Provision for loan losses	43,000		305,000
Net interest income after provision for loan losses	165,063	(27,953)	14,114,203
Other operating income:			
Service charges on deposit accounts			576,377
Trust fee income			3,810,214
Gain on sale of mortgage loans			666,212
Rent income			
Earnings from subsidiary			253,068
Other, net	816,399	1,171,539	1,069,639
Total other operating income	816,399	1,171,539	6,375,510
Other operating expenses:			
Salaries and bonuses	143,107	383,161	5,280,956
Employee benefits	29,758	95,140	2,798,504
Premises and equipment	16,059	95,655	1,625,431
Advertising	3,427	23,763	299,350
Data processing expense			459,186
Printing, stationery and supplies	1,003	27,271	230,961
Professional fees			171,242
Other operating expenses	616,717	308,737	2,445,774
Total other operating expenses	810,071	933,727	13,311,404
Income before income taxes	171,391	209,859	7,178,309
Provision for income taxes	56,830	71,352	2,145,243
Net income	$ 114,561	$ 138,507	$ 5,033,066

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$	$	$	($ 123,456)	$ 18,932,830
		65,353		2,628,638
				45,823
				219,916
		65,353	(123,456)	21,827,207
				130,955
				859,974
				5,103,456
				6,094,385
				440,221
				89,838
			(123,456)	538,097
		516,771		516,771
		516,771	(123,456)	7,679,312
		(451,418)		14,147,895
				348,000
		(451,418)		13,799,895
				576,377
			(4,047)	3,806,167
				666,212
			817,636	817,636
5,033,066		5,016,743	(10,302,877)	
			(871,000)	2,186,577
5,033,066		5,016,743	(10,360,288)	8,052,969
				5,807,224
				2,923,402
	10,665		(53,364)	1,694,446
				326,540
				459,186
				259,235
				171,242
9,687	4,379	4,047	(4,047)	3,385,294
9,687	15,044	4,047	(57,411)	15,026,569
5,023,379	(15,044)	4,561,278	(10,302,877)	6,826,295
(3,293)	(5,115)	(154,820)		2,110,197
$ 5,026,672	($ 9,929)	$ 4,716,098	($ 10,302,877)	$ 4,716,098

Consolidating Statement of Cash Flows

AmeriBancShares, Inc. and Subsidiaries, December 31, 2007

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash flows from operating activities:			
Net income (loss)	$ 114,561	$ 138,507	$ 5,033,066
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation	574,400	41,557	663,106
Amortization of intangibles		1,800	195,385
Provision for loan losses	43,000		305,000
Provision for (benefit from) deferred taxes	(43,685)	2,098	(231,236)
Gain on sale of mortgage loans			(666,212)
Gain on sale of other real estate owned			(16,294)
(Gain) loss on disposal of premises and equipment	(10,881)		(1,935)
Amortization of premium on investment securities			4,026
Accretion of discount on investment securities			(80,563)
Proceeds from sales of mortgage loans			49,068,444
Mortgage loans funded			(47,984,511)
Unconsolidated earnings from subsidiaries			(253,068)
(Increase) decrease in:			
Prepaid expenses	(4,660)	(1,832)	(135,612)
Accrued interest receivable			11,698
Income taxes receivable			(55,653)
Miscellaneous other assets	34,366	(1,457)	(65,076)
Increase (decrease) in:			
Accrued interest payable	95,475	27,953	2,845
Other taxes payable			40,000
Other accrued expenses	(273,987)	(1,835)	426,660
Net cash provided by (used in) operating activities	528,589	206,791	6,260,070
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale			43,049,246
Proceeds from sales of securities available for sale			
Proceeds from maturities of securities held to maturity			60,453
Proceeds from other securities			308,875
Purchase of securities available for sale			(23,421,908)
Purchase of other securities			(152,100)
Purchase of cash value life insurance			(537,034)
Cash received from subsidiaries			
Dividends received from subsidiaries			
Net increase in loans	(502,721)		(14,949,956)
Purchase of premises and equipment	(819,463)	(93,335)	(1,844,446)
Proceeds from sale of premises and equipment	485,739		1,935
Proceeds from sale of other real estate owned			328,947
Net cash provided by (used in) investing activities	(836,445)	(93,335)	2,844,012
Cash flows from financing activities:			
Net decrease in deposits			(585,045)
Net decrease in federal funds purchased			(435,550)
Net increase in repurchase agreements			2,496,111
Net increase (decrease) in other borrowed funds	450,000	(100,000)	(1,677,658)
Return of capital			
Dividends paid			(1,632,610)
Net cash provided by (used in) financing activities	450,000	(100,000)	(1,834,752)
Net increase (decrease) in cash and cash equivalents	142,144	13,456	7,269,330
Cash and cash equivalents at beginning of period	89,623	110,566	17,032,208
Cash and cash equivalents at end of period	$ 231,767	$ 124,022	$ 24,301,538

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 5,026,672	($ 9,929)	$ 4,716,098	($ 10,302,877)	$ 4,716,098
				1,279,063
				197,185
				348,000
				(272,823)
				(666,212)
				(16,294)
	4,378			(8,438)
				4,026
				(80,563)
				49,068,444
				(47,984,511)
(5,033,066)		(5,016,743)	10,302,877	
				(142,104)
		2,831	123,428	137,957
12,691	17,203	1,351		(24,408)
				(32,167)
			(123,428)	2,845
				40,000
	(14,858)			135,980
6,297	(3,206)	(296,463)		6,702,078
				43,049,246
		339,047		339,047
				60,453
				308,875
		(68,183)		(23,490,091)
				(152,100)
				(537,034)
		632,786	(632,786)	
1,632,610		1,632,610	(3,265,220)	
			350,000	(15,102,677)
				(2,757,244)
	635,650			1,123,324
				328,947
1,632,610	635,650	2,536,260	(3,548,006)	3,170,746
			(762,445)	(1,347,490)
				(435,550)
				2,496,111
			(350,000)	(1,677,658)
	(632,786)		632,786	
(1,632,610)		(1,632,610)	3,265,220	(1,632,610)
(1,632,610)	(632,786)	(1,632,610)	2,785,561	(2,597,197)
6,297	(342)	607,187	(762,445)	7,275,627
2,138	1,342	76,944	(278,475)	17,034,346
$ 8,435	$ 1,000	$ 684,131	($ 1,040,920)	$ 24,309,973

Officers and Directors

Of American National Bank

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Magan Catney
Administrative Officer

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Steve Cookingham
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Senior Vice President

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Peggy Carr
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Banking Officer

Damon R. Whatley
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Susan Cast
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Assistant Vice President/Calling Officer

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Assistant Vice President/Human Resources

Klint M. Ostermann
Assistant Vice President

Nora Thornton
Banking Officer/New Accounts Supervisor

Andrew Walmer
Information Technology Officer

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Donna Vaughn
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Natalie Eubanks
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Mike Cuba
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Johnny Clark
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Gail Natale
Vice President/Marketing

Karen Miller
Banking Officer

Marva Pieratt
Banking Officer

Iowa Park Office

Reanna Jones
Banking Officer/Branch Manager

Flower Mound Office

Sam Wilson
Senior Vice President/Branch Manager

Jim Hendry
Senior Vice President/Loans

Joe D. Willard
Senior Vice President/Loans

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Rosie Torrence
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