

## ***MIDSOUTH BANK TO OUR SHAREHOLDERS***

MidSouth Bank is now almost four years old and continues to be among the most desirable places to bank and to work. Our team of bankers continues to provide positive memorable experiences for our clients, and we continue to provide a balanced focus on our team members to ensure that they are valued, recognized and fairly rewarded. Our talented bankers are motivated to deliver superior, friendly service to our clients, and pleased clients tell others about their positive experience. The result of this philosophy should produce long-term shareholder value.

### ***Positive Growth and Earnings***

We operate in a very crowded financial environment, with 14 financial institutions serving Rutherford County. We remain *Rutherford County's ONLY Hometown Bank*, and it is apparent that distinction has been a major factor in our growth. We achieved nearly 8% growth to \$207.4 million in deposits, nearly 29% growth to \$191.1 million in loans, and total assets grew over 12% from \$219.5 million at year-end 2006 to \$247.0 million at year-end 2007. MidSouth Bank continues to be one of the fastest growing newly-chartered banks in America based on statistics compiled by the *American Bankers Association*. Our growth continues to be almost twice that of the top 25% of new banks chartered nationally during 2004. At June 30, 2007, we had grown to be the sixth largest bank in deposits in Rutherford County out of 14 banks, with a 7.62% market share. Also, we are very pleased with our 2007 earnings, particularly since we ended the year with our first net profit of \$159,000, a positive swing of nearly \$1.4 million in comparison with our 2006 results.

### ***Best Place To Work***

For the third year in a row, MidSouth Bank was recognized as one of the Top 20 Places to Work in Tennessee based on an extensive survey of our team members by *Tennessee Business* magazine. We are very honored by this designation since the survey covered all industries, not just the banking sector. We continue to retain a family-friendly, team-oriented group of bankers who value our philosophy. This success is further reflected by our maintaining an attrition rate of less than 5% annually for our third consecutive year. We value each of our team members. We recognize that, ultimately, they are all that differentiate MidSouth Bank from the other 13 banks serving Rutherford County.

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**Strong Capital Position**

Having initially raised \$29 million in capital, which was believed to be the most capital raised by a new community bank in Tennessee at that time, we now have almost \$31 million in capital through the exercises of three-year warrants, which expired in January, 2007. The balance of our warrants will expire in January 20, 2009, and when exercised, should potentially provide our bank with approximately \$2.5 million in additional capital to fund future anticipated growth and to provide a cushion during these challenging economic times. Your management and board have chosen to defer construction of our new main office at our current site for now. We feel it is wise to ensure that economic conditions have stabilized and that we have sustained earnings before investing the capital in a project of that magnitude.

We operate in one of the fastest growing markets in the United States, and we are Rutherford County's "Only Hometown Bank". We want to ensure that our clients have total convenience through state of the art products, full internet banking capabilities, well-located branch offices, and knowledgeable bankers who strive to understand and meet client needs.

**Market Convenience**

In order to simplify the process of moving relationships, MidSouth Bank took ownership of the process. Our "*EASY MOVE*" account transfer system continues to make moving your banking relationship to MidSouth Bank a simplified, pain-free process. The bank handles virtually all of the customer's transfers and then notifies our customer as each transaction is processed through our bank. This is one of the many ways MidSouth Bank "makes a difference" by simplifying life for our clients.

We now have six locations throughout Rutherford County to ensure convenient delivery to our valued clients, and we continue to offer free ATM usage on any ATM throughout the country. Currently, three of our offices are open on Saturdays to serve our customers. Our trust and investment team continues to thrive as one of only two such local departments, with over \$100 million in assets under management.

Rutherford County remains the fastest growing county in Tennessee and among the fastest growth markets in the country. Presently, we believe that maintaining our focus exclusively on Rutherford County will enable us to achieve growth at a pace much greater than the market's growth rate. Our bankers continue to provide friendly, professional service with a focus on the client's needs -- not pushing products and services on the customer. We have commercial and personal bankers who have many years tenure in this market with the lending experience and authority to personally handle all of their client's needs. This banking style has differentiated us from the many larger, regional banks which have a presence in Rutherford County.

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As always, we appreciate your referrals and support as we seek to grow your investment. We look forward to serving you in the coming years!

Lee M. Moss  
Chairman & Chief Executive Officer

J. Ben Weatherford  
President & Chief Operating Officer

**MIDSOUTH BANK**

**2007 Annual Report**

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**MIDSOUTH BANK FINANCIAL HIGHLIGHTS (UNAUDITED)**

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
<b><u>BALANCE SHEETS:</u></b>				
End of period:				
Total assets	\$ 246,982	\$ 219,524	\$ 132,605	\$ 68,976
Loans, net	191,074	148,457	103,006	40,584
Securities	31,248	36,347	15,273	17,009
Deposits	207,448	192,516	107,445	43,871
Stockholders' equity	30,978	26,228	24,690	24,887
<b><u>STATEMENTS OF OPERATIONS:</u></b>				
Interest income	\$ 15,049	\$ 11,020	\$ 5,040	\$ 1,539
Interest expense	7,179	5,304	1,778	335
Net interest income (loss)	7,870	5,716	3,262	1,204
Provision for loan losses	400	611	803	514
Net interest income after provision for loan losses	7,470	5,105	2,459	690
Non-interest income	1,542	1,047	759	310
Non-interest expense	8,853	7,356	5,145	3,761
Earnings (loss) before income taxes	159	(1,204)	(1,927)	(2,761)
Income taxes	-	-	-	-
Net earnings (loss)	\$ 159	\$ (1,204)	\$ (1,927)	\$ (2,761)
Comprehensive earnings (loss)	\$ 526	\$ (751)	\$ (2,138)	\$ (2,970)
<b><u>PER SHARE DATA:</u></b>				
Basic earnings (loss) per common share	.04	(.38)	(.65)	(.95)
Diluted earnings (loss) per common share	.04	(.38)	(.65)	(.95)
Cash dividends per share	-	-	-	-
Book value per share, end of year	8.28	7.89	7.96	8.56
<b><u>RATIOS:</u></b>				
Return on average stockholders' equity	.53%	- %	- %	- %
Return on average assets	.07%	- %	- %	- %
Stockholders' equity to assets	12.54%	11.95%	18.62%	36.08%
Dividends declared per share as percentage of basic earnings per share	- %	- %	- %	- %

## Management's Discussion and Analysis or Plan of Operation

### Overview

MidSouth Bank (the "Bank"), which opened just a little over four years ago with nearly \$30 million in capital (which was a record at that time for a new bank in the State of Tennessee), continues to achieve growth in our market. In fact, we have grown to \$247.0 million in assets, placing us in the top 10% in the nation in terms of growth for new banks opened during 2004. We have invested aggressively and appropriately in branch locations and people, which provide the foundation for this growth. Rutherford County, where MidSouth Bank is located, is the fastest growing county in the state of Tennessee, and we continue to be the only Rutherford County-based bank in our market. It is imperative that we continue to leverage the tenured bankers, who make up the MidSouth Bank team, to attain the growth necessary to achieve management's aspirations. While Rutherford County has relied heavily on residential growth during the last 13 years, we have seen a slowdown in this niche, especially in residential construction of homes in excess of \$300,000, which negatively impacted our anticipated loan growth, particularly in the fourth quarter. Deposit growth also slowed during 2007 due primarily to competitive pressures, while growth in clients remained quite strong. While deposit growth was not at the same pace as in prior years, management placed more emphasis on managing net interest margin rather than seeking deposits simply for the sake of market share growth. We look forward to introducing new programs in 2008 that will leave us poised to achieve more aggressive growth results when the real estate market returns to a more normalized level. We continue to achieve success in the commercial market, and that will remain a strong focus for 2008.

The following highlights reflect our major areas of accomplishments during 2007:

- Financial Performance - MidSouth Bank grew its assets approximately 12.5% from \$219.5 million in 2006 to \$247.0 million at year-end 2007, while total loans grew approximately 28.7% from \$148.5 million to \$191.1 million. While the largest contributor to this loan growth was in the area of commercial and residential real estate, as reflected earlier, this niche has slowed down and precluded us from achieving our budgeted loan growth for the year. Total deposits grew approximately 7.8% from \$192.5 million to \$207.4 million. While in 2006, we utilized an aggressively priced CD program which in addition required customers to move their primary banking relationships to MidSouth Bank; we let our loan growth drive our deposit growth in 2007. We continue to achieve success by assisting new clients in moving their depository relationships to MidSouth Bank through our Easy Move program (we were among the first banks to offer this service in our market), through coordinating the transfer of all direct deposits and scheduled ACH withdrawals from their accounts. Our loan-to-deposit ratio closed the year at 93.1%, which was within our targeted range. We are proud to report that the Bank achieved a net profit for the first time in our history, recording earnings of \$159,000, and while the Bank achieved its goal of being profitable in 2007, it did not attain its budgeted earnings goal; however, we are proud of the nearly \$1.4 million increase in comparison with our 2006 performance. Considering the earnings decline of many major regional banks and community banks, we feel this is a significant accomplishment. During 2007, we saw our interest income grow 36.6% to \$15.0 million, up from \$11.0 million. Total interest expense grew 35.4% from \$5.3 million to \$7.2 million, due to growth in our interest-bearing accounts as well as from the premium-priced CD program which matured during the second quarter. Total non-interest income grew 47.3% from \$1.0 million to \$1.5 million while non-interest expense grew 20.4% from \$7.4 million to \$8.9 million. During 2007, we continued our focus on

## Management's Discussion and Analysis or Plan of Operation

### Overview, Continued

obtaining and retaining the best talent, and as a result our salaries and employee benefits expense increased 22.9% from 2006. Appropriately needed staff additions, including the addition of a full-time chief financial officer, impacted this increase. The intentional commitment to building the infrastructure and geographic footprint of the Bank has slowed our earnings growth somewhat, but we are very pleased with our very positive direction. As we enter the new year, we anticipate that 2008 will be a challenging year for earnings due to the declining interest rate environment, the potential for loan losses caused by the slowing economy and continually increasing regulatory fees and competitive pricing pressures. In addition to the slowing national, regional and local economies, the "subprime" lending issue has greatly affected real estate lending in many locations, although not extensively in our market areas. Our Bank does not originate, make or service subprime loans, and we do not invest in securities that are backed by subprime loans. However, we believe that the media's constant reporting on the problems stemming from or related to such mortgages has created the impression that all financial institutions are threatened by the subprime loan issues. This is not true as our Bank and many other banks, especially community banks like MidSouth Bank, have not engaged in this type of lending. Nevertheless, our Bank and our markets are affected by consumer concerns over these issues, and combined with the impact of a slowing economy, including a slow-down related to real estate development in our markets, we may experience serious challenges in real estate lending as 2008 develops. Subprime lending concerns and the likelihood of increased regulatory burdens as Congress, state legislators, and regulators attempt to avoid comparable future problems, can also be expected to make 2008, and possibly 2009, challenging years from the standpoint of growth and earnings. However, MidSouth Bank remains well capitalized and has no subprime loans in its portfolio.

- Competitive Environment - MidSouth Bank remains the only Rutherford County-based bank serving our market. While this circumstance arrived earlier than the Bank's leadership anticipated, we feel we were appropriately positioned to assume that role. We currently have six locations serving Rutherford County - four in Murfreesboro and two in Smyrna. In 2007, our depository market share in Rutherford County grew from 6.73% to 7.62%. This growth is out of 14 commercial banks with offices located in Rutherford County, many of whom have utilized very aggressive pricing strategies. Our deposit base grew 24.7% from June 30, 2006 to June 30, 2007, while the market's deposits grew 10.2%, which means we grew over 2.4 times faster than the market during this period. For the last ten years, Rutherford County has remained the fastest growing county in the state of Tennessee and among the faster growing counties in the country, and that growth rate is expected to continue for the next ten years. Our market's growth keeps Rutherford County a primary target for new and expanding banks.
- Branch Office Expansion - Since opening for business a little over four years ago, MidSouth Bank has successfully opened four offices in Murfreesboro and two in Smyrna, which gives us six locations to effectively serve the Rutherford County market for the near-term future. We have continued to defer construction of our new Main Office at One East College Street in Murfreesboro but anticipate commencing the

## Management's Discussion and Analysis or Plan of Operation, Continued

### Overview, Continued

planning process and groundbreaking once we are confident that the economy has positively turned and we are maintaining sustained profitability. While the Main Office construction has been deferred longer than originally anticipated, we believe that we are better positioned to capitalize on competitive opportunities with our six locations rather than constructing our new Main Office prematurely.

- Market Focus - Prior to having our six locations up and running, our Bank focused primarily on locally-owned businesses and their management teams, along with other business professionals with whom our tenured bankers had prior relationships. Given our existing branch market coverage, our focus is shifting to meeting the broader needs of Rutherford County's rapidly expanding consumer base. Our Trust and Investment Team continued to have success during 2007. Through our networking relationship with Raymond James Financial Services, our Financial Executive is in the top 10% of national business producers. With about \$100 million in assets under management at year-end, this Team is a very positive contributor to the Bank's achieving profitability this year. Having the only local statutory board of directors comprised of 18 well-known leaders in Rutherford County should assist us in continuing to bring in major business relationships in 2007. We anticipate favorable growth in spite of the economic slowdown as we capitalize on our strengths.

### General

MidSouth Bank is a state chartered bank which began operations on January 20, 2004. The Bank offers a wide range of banking services including checking, savings, money market accounts, certificates of deposit and loans for consumer, commercial and real estate purposes. In addition to these traditional services, the Bank offers trust and investment services to its customers. The Bank currently operates from its main office and three branches in Murfreesboro, and two locations in Smyrna, Rutherford County, Tennessee. In addition, the Bank has a wholly-owned subsidiary, MSB Services, Inc., that provides services to the Bank.

The purpose of this discussion is to provide insight into the financial condition and results of operations of the Bank. This discussion should be read in conjunction with the Bank's annual consolidated financial statements, filed in conjunction with Form 10-KSB for 2007.

### Forward-Looking Statements

Management's discussion of the Bank and management's analysis of the Bank's operations and prospects, and other matters, may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other provisions of federal and state securities laws. Although the Bank believes that the assumptions underlying such forward-looking statements contained in this Report are reasonable, any of the assumptions could be inaccurate and, accordingly, there can be no assurance that the forward-looking statements included herein will prove to be accurate. The use of such words as expect, anticipate, forecast, and comparable terms should be understood by the reader to indicate that the statement is "forward-looking" and thus subject to change in a manner that can be unpredictable. Factors that could cause actual results to differ from the results anticipated, but not

## Management's Discussion and Analysis or Plan of Operation, Continued

### Forward-Looking Statements, Continued

guaranteed, in this Report, include (without limitation) economic and social conditions, competition for loans, mortgages, and other financial services and products, changes in interest rates, unforeseen changes in liquidity, results of operations, and financial conditions affecting the Bank's customers, as well as other risks that cannot be accurately quantified or completely identified. Many factors affecting the Bank's financial condition and profitability, including changes in economic conditions, the volatility of interest rates, political events and competition from other providers of financial services simply cannot be predicted. Because these factors are unpredictable and beyond the Bank's control, earnings may fluctuate from period to period. The purpose of this type of information is to provide readers with information relevant to understanding and assessing the financial condition and results of operations of the Bank, and not to predict the future or to guarantee results. The Bank is unable to predict the types of circumstances, conditions, and factors that can cause anticipated results to change. The Bank undertakes no obligation to publish revised forward-looking statements to reflect the occurrence of changes or unanticipated events, circumstances, or results.

### Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States and with general practices within the banking industry. In connection with the application of those principles to the determination of our allowance for loan losses (ALL), we have made judgments and estimates which have significantly impacted our financial position and results of operations.

Our management assesses the adequacy of the ALL on a regular basis. This assessment includes procedures to estimate the ALL and test the adequacy and appropriateness of the resulting balance. The ALL consists of two portions (1) an allocated amount representative of specifically identified credit exposure and exposures readily predictable by historical or comparative experience, and (2) an unallocated amount representative of inherent loss which is not readily identifiable. Even though the ALL is composed of two components, the entire allowance is available to absorb any credit losses.

We establish the allocated amount separately for two different risk groups (1) unique loans (commercial loans, including those loans considered impaired); and (2) homogenous loans (generally single family residential and consumer loans). We base the allocation for unique loans primarily on the projected collateral shortfall in relation to the recorded investment. We estimate losses on impaired loans based on estimated cash flows discounted at the loan's original effective interest rate or the underlying collateral value. We also assign estimated loss ratios to our consumer portfolio. However, we base the estimated loss ratios for these homogenous loans on the category of consumer credit (e.g., automobile, residential mortgage, home equity) and not on the results of individual loan reviews.

The unallocated amount is particularly subjective and does not lend itself to the exact mathematical calculation. We use the unallocated amount to absorb inherent losses which may exist as of the balance sheet date for such matters as changes in the local or national economy, the depth or experience of the lending staff, any concentrations of credit in any particular industry group, and new banking laws or regulations. After we assess applicable factors, we evaluate the aggregate unallocated amount based on our management's experience.

## **Management's Discussion and Analysis or Plan of Operation, Continued**

We then test the resulting ALL balance by comparing the balance in the allowance account to historical trends and peer information. Our management then evaluates the result of the procedures performed, including the result of our testing, and concludes on the appropriateness of the balance of the ALL in its entirety. The assessment of the ALL is presented to the board of directors prior to the public reporting of financial information.

### **Results of Operations**

The Bank achieved net earnings of \$159,000 for the year ended December 31, 2007 as compared to a loss of \$1,204,000 for the year ended December 31, 2006. Included in the earnings (loss) are provisions for loan losses of \$400,000 and \$611,000, respectively. On a per share basis, the net earnings (loss) was \$0.04 and \$(0.38), respectively, per common share.

Even though the Bank achieved positive earnings during the first three quarters of 2007, in the fourth quarter the Bank experienced a loss due primarily to valuation allowances taken on some of its foreclosed real estate and additional provisions for loan losses taken during the fourth quarter. The softening of the real estate construction market and the weakening economy played significant factors in these occurrences. In addition, interest rates declined during that timeframe. As we enter 2008, the economy may continue to weaken. If so, it could potentially impact some of our customers' abilities to repay their loans. As a result, the Bank's earnings could be adversely affected due to increasing loan loss provisions. In addition, the Federal Reserve Board is expected to continue dropping rates, and we anticipate that would impact the Bank's net interest income in the coming periods, since nearly half of the Bank's loan portfolio is composed of variable rate loans.

### **Net Interest Income**

Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest-bearing liabilities and is the most significant component of the Bank's earnings. Total interest income for the years ended December 31, 2007 and 2006 was \$15,049,000 and \$11,020,000, respectively, an increase of 36.6%, and total interest expense was \$7,179,000 and \$5,304,000, respectively, an increase of 35.4%. Net interest income for 2007 and 2006 totaled \$7,870,000 and \$5,716,000, respectively. Interest rates are expected to decrease in 2008 but to what level depends on actions taken by the Federal Reserve Board's Federal Open Market Committee. Management believes that a satisfactory level of loans and deposits can be booked during 2008 to provide for a stable, if not greater, net interest margin.

### **Provision for Loan Losses**

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for estimated losses on outstanding loans and to provide for uncertainties in the economy. The provision for loan losses was \$400,000 and \$611,000 for the years ended December 31, 2007 and 2006, respectively, a decrease of 34.5%. The level of the allowance and the amount of the provision involve evaluation of uncertainties and matters of judgment. Management believes the allowance for loan losses at December 31, 2007 and 2006 to be adequate. The allowance for loan losses was 1.05% and 1.28% of loans at December 31, 2007 and 2006, respectively.

## **Management's Discussion and Analysis or Plan of Operation, Continued**

### **Provision for Loan Losses, Continued**

Under the terms of an agreement with the Bank's regulatory agency, the Bank was required to maintain a minimum loan loss reserve equal to 1.25% of loans for a period of three years from the date the Bank began operations, January 20, 2004. This agreement expired January 20, 2007. Consequently, the Bank made smaller provisions to the reserve during 2007, and that, combined with our loan growth and changes to the reserve, served to lower the loan loss reserve as a percentage of total loans.

### **Non-Interest Income**

The Bank's non-interest income consists of service charges on deposits, fees on mortgage originations and other fees and commissions. Total non-interest income for the year ended December 31, 2007 and 2006 was \$1,542,000 and \$1,047,000, respectively, an increase of \$495,000 or 47.3%. Management projects that other fees and commissions and service charges on deposit accounts will increase in 2008 due to growth of the Bank and will make a significant contribution to earnings. The increase in fees for 2007 are primarily related to growth in investment and mortgage department income, and these areas are expected to contribute significantly to non-interest income in 2008.

### **Non-Interest Expense**

Non-interest expenses consist primarily of employee costs, occupancy expenses, furniture and equipment expenses, and other operating expenses. The non-interest expense for the years ended December 31, 2007 and 2006 was \$8,853,000 and \$7,356,000, respectively, an increase of \$1,497,000 or 20.4%. The increase in non-interest expense is primarily due to growth of the Bank including the addition of personnel and volume-based data processing costs.

### **Income Taxes**

Due to the Bank's cumulative loss, there was no income tax expense provision in 2007 or 2006.

### **Financial Condition**

**Balance Sheet Summary.** The Bank's total assets were \$246,982,000 and \$219,524,000 at December 31, 2007 and 2006, respectively, an increase of 12.5%. Loans, net of allowance for loan losses, totaled \$191,074,000 and \$148,457,000 at December 31, 2007 and 2006, respectively, and investment securities totaled \$31,248,000 and \$36,347,000, respectively.

Total liabilities were \$216,004,000 and \$193,296,000 at December 31, 2007 and 2006, respectively, and stockholders' equity was \$30,978,000 and \$26,228,000, respectively. A more detailed discussion of assets, liabilities and capital follows.

**Management's Discussion and Analysis or Plan of Operation, Continued**

**Financial Condition, Continued**

**Loans**

Loan categories are as follows:

	December 31, 2007		December 31, 2006	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
	<i>(In Thousands, except percentages)</i>		<i>(In Thousands, except percentages)</i>	
Commercial, financial and agricultural	\$ 106,564	55.2%	\$ 75,730	50.4%
Consumer	3,480	1.8	3,559	2.4
Real estate - mortgage	27,611	14.3	24,653	16.3
Real estate - construction	55,451	28.7	46,437	30.9
Total	<u>\$ 193,106</u>	<u>100.0%</u>	<u>\$ 150,379</u>	<u>100.0%</u>

Loans are a large component of the Bank's assets and are a primary source of income. The loan portfolio is composed of four primary loan categories: commercial, financial and agricultural; consumer; real estate - mortgage; and real estate - construction. The table above sets forth the loan categories and the percentage of such loans in the portfolio at December 31, 2007 and 2006.

As represented in the table, primary loan growth was commercial loans. Management intends to make loans in an orderly fashion and to monitor loans once made to maintain maximum possible asset quality.

The Bank follows the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan" and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures". These pronouncements apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and consumer installment loans.

A loan is impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Bank shall recognize an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Bank's single family residential mortgage and consumer loans, which total approximately \$27,042,000 and \$3,480,000, respectively at December 31, 2007, are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and thus are not subject to the provisions of SFAS Nos. 114 and 118. Substantially all other loans of the Bank are evaluated for impairment under the provisions of SFAS Nos. 114 and 118.

*Management's Discussion and Analysis or Plan of Operation, Continued*

*Financial Condition, Continued*

The Bank considers all loans subject to the provisions of SFAS Nos. 114 and 118 that are on nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Delays or shortfalls in loan payments are evaluated with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such interest received is applied as a reduction of principal. A nonaccrual loan may be restored to accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt. There were no nonaccrual loans as of December 31, 2007. At December 31, 2006 there were \$2,000 in nonaccrual loans.

Other loans may be classified as impaired when the current net worth and financial capacity of the borrower or of the collateral pledged, if any, is viewed as inadequate. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Bank will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Bank's criteria for nonaccrual status.

Generally the Bank also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is accrued on such loans that continue to meet the modified terms of their loan agreements. At December 31, 2007 and 2006, the Bank had no loans that have had terms modified in a troubled debt restructuring.

The Bank's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged-off in the month when they are considered uncollectible.

At December 31, 2007 and 2006, the Bank had \$4,970,000 and \$1,470,000, respectively, in impaired loans outstanding and no loans past due 90 days.

At December 31, 2007 and 2006, there were \$16,088,000 and \$4,409,000, respectively, in loans included in the Bank's internal classified loan list. Loans are listed as classified when information obtained about possible credit problems of the borrower has prompted management to question the ability of the borrower to comply with the agreed repayment terms of the loan agreement. The loan classifications do not represent or result from trends or uncertainties which management expects will materially impact future operating results, liquidity or capital resources.

## Management's Discussion and Analysis or Plan of Operation, Continued

### Financial Condition, Continued

The allowance for loan losses is discussed under "Provision for Loan Losses". The Bank maintains its allowance for loan losses at an amount considered by management to be adequate to provide for the possibility of loan losses in the loan portfolio. As required by the Bank's regulators, management maintained a minimum of 1.25% of loans in the allowance for loan losses for the first three years of operations. This required minimum expired January 20, 2007. The Bank does not originate, make or service "subprime" loans.

Essentially all of the Bank's loans originate from Rutherford and adjacent counties in Tennessee. The Bank seeks to exercise prudent risk management in lending, including diversification by loan category and industry segment, as well as by identification of credit risks.

The Bank's management believes there is a significant opportunity to continue to increase the loan portfolio in the Bank's primary market area. The Bank has targeted commercial business lending, commercial and residential real estate lending and consumer lending. The Bank seeks to build a loan portfolio which is capable of adjusting to swings in the interest rate market, and it is the Bank's policy to maintain a diverse loan portfolio not dependent on any particular market or industrial segment. Management has set a goal for loans to approximate 90% of deposits.

### Securities

Securities totaled \$31,248,000 and \$36,347,000 at December 31, 2007 and 2006, respectively, and was a significant component of the Bank's earning assets. The Bank has adopted the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under the provisions of the Statement, securities are classified in three categories and accounted for as follows:

- Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity.

**Management's Discussion and Analysis or Plan of Operation, Continued**

**Securities, Continued**

The Bank's classification of securities as of December 31, 2007 is as follows:

	<u>Available-for-Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
	<i>(In Thousands)</i>	
U.S. Treasury and other U.S.		
Government agencies and corporations	\$ 8,386	\$ 8,466
Mortgage-backed securities	22,060	22,376
Corporate	<u>402</u>	<u>406</u>
	<u>\$ 30,848</u>	<u>\$ 31,248</u>

The Bank's classification of securities as of December 31, 2006 is as follows:

	<u>Available-for-Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
	<i>(In Thousands)</i>	
U.S. Treasury and other U.S.		
Government agencies and corporations	\$ 15,311	\$ 15,184
Mortgage-backed securities	<u>21,003</u>	<u>21,163</u>
	<u>\$ 36,314</u>	<u>\$ 36,347</u>

No securities have been classified as trading or held-to-maturity.

**Deposits**

Total deposits, which are the principal source of funds for the Bank, totaled \$207,448,000 and \$192,516,000 at December 31, 2007 and 2006, respectively, an increase of \$14,932,000 or 7.8%. The Bank has targeted local consumers, professionals, local governments and commercial businesses as its central clientele; therefore, deposit instruments in the form of demand deposits, savings accounts, money market demand accounts, certificates of deposits and individual retirement accounts are offered to customers.

Management believes Rutherford County and the surrounding area is a growing economic market offering growth opportunities for the Bank; however, the Bank competes with several of the larger bank holding companies that have bank offices in this area, as well as other community banks; and therefore, no assurances of market growth can be given. Even though the Bank is in a very competitive market, management currently believes that its market share will be expanded. Management firmly believes that its position as a locally owned financial institution that offers personalized service will contribute significantly to quality loans and deposit growth and profitability.

## Management's Discussion and Analysis or Plan of Operation, Continued

### Liquidity and Asset Management

The Bank's management seeks to maximize net interest income by managing the Bank's assets and liabilities within appropriate constraints on capital, liquidity and interest rate risk. Liquidity is the ability to maintain sufficient cash levels necessary to fund operations, meet the requirements of depositors and borrowers and fund attractive investment opportunities. The Bank's primary source of liquidity is expected to be a stable core deposit base. In addition, short-term investments, loan payments, investment security maturities and short-term borrowing lines at the Federal Home Loan Bank and correspondent banks provide secondary sources of liquidity. At the present time, there are no known trends or any known commitments, demands, events or uncertainties that will result in or that are reasonably likely to result in the Bank's liquidity changing in any material way.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long term earnings through funds management/interest rate risk management. The Bank's rate sensitivity position has an important impact on earnings. Senior management of the Bank meets frequently to analyze the rate sensitivity position. These meetings focus on the spread between the cost of funds and interest yields generated primarily through loans and investments.

The following table shows the rate sensitivity gaps for different time period as of December 31, 2007:

<u>Interest Rate Sensitivity Gaps</u> December 31, 2007 <i>(In Thousands)</i>	<u>1-90</u> <u>Days</u>	<u>3 months to</u> <u>12 months</u>	<u>1 to 5</u> <u>Years</u>	<u>Over</u> <u>5</u> <u>Years</u>	<u>Total</u>
Interest-earning assets	\$ 98,699	17,812	76,104	34,185	226,800
Interest-bearing liabilities	<u>116,081</u>	<u>60,777</u>	<u>12,175</u>	<u>-</u>	<u>189,033</u>
Interest-rate sensitivity gap	<u>\$ (17,382)</u>	<u>(42,965)</u>	<u>63,929</u>	<u>34,185</u>	<u>37,767</u>
Cumulative gap	<u>\$ (17,382)</u>	<u>(60,347)</u>	<u>3,582</u>	<u>37,767</u>	

### Capital Position and Dividends

At December 31, 2007 and 2006, total stockholders' equity was \$30,978,000 and \$26,228,000, respectively, or 12.54% and 11.95%, respectively, of total assets. The change in stockholders equity resulted from earnings of \$159,000 a decrease in unrealized losses on available-for-sale securities of \$367,000 net of proceeds from the issuance of common stock totaling \$4,186,000 and stock based compensation expense of \$38,000.

As part of the original offering, any shares purchased received non-detachable warrants which provide the stockholder the ability to purchase one additional share of common stock for every two shares of common stock purchased. The purchase price for the additional shares is equal to the greater of \$10 or 110% of the book value of the stock at the date of exercise. For each recipient, one half of the warrants received were to have been exercised within three years from January 20, 2004 (the date of issuance) and the other half within five years of the date of issuance. As of December 31, 2007, 797,438 warrants had been exercised.

## Management's Discussion and Analysis or Plan of Operation, Continued

### Capital Position and Dividends, Continued

The Bank's principal regulators have established minimum risk-based capital requirements and leverage capital requirements for the Bank. These guidelines classify capital into two categories of Tier I and Total risk-based capital. Total risk-based capital consists of Tier I (or core) capital (essentially common equity less intangible assets) and Tier II capital (essentially qualifying long-term debt, of which the Bank has none, and a part of the allowance for loan losses). In determining risk-based capital requirements, assets are assigned risk-weights of 0% to 100%, depending on regulatory assigned levels of credit risk associated with such assets. The risk-based capital guidelines require the Bank to have a total risk-based capital ratio of 8.0% and a Tier I risk-based capital ratio of 4.0%. At December 31, 2007 and 2006, the Bank's total risk-based capital ratios were 14.3% and 15.4%, respectively, and its Tier I risk-based capital ratios was 13.4% and 14.3%, respectively. The required Tier I leverage capital ratio (Tier I capital to average assets for the most recent quarter) for the Bank is 4.0%. At December 31, 2007 and 2006, the Bank had a leverage ratio of 13.0% and 12.5%, respectively. The ratios are high when compared to industry averages and result from the fact that the Bank is a newly chartered institution. These ratios are expected to decrease as the Bank continues to grow in assets and liabilities.

There is no established trading market for the Bank's stock. From time to time the Bank may, subject to regulatory approval, acquire shares of its stock to provide some liquidity in the shares. During the year ended December 31, 2007, the Bank issued 400,467 shares at \$10 per share, of its voting common stock in connection with the warrants and 18,000 shares of \$10 per share in connection with the exercise of options. No shares of the Bank's common voting stock were redeemed for the years ending December 31, 2007 and 2006. Privately negotiated trades may involve the Bank's directors and officers, and their interests and, accordingly, may not be reliable indicators of value.

In October, 2004, the Shareholders of the Bank approved the MidSouth Bank's 2004 Stock Option Arrangement (the "Arrangement"). The Arrangement provides for the granting of stock options, and authorizes the issuance of common stock upon the exercise of such options, for up to 380,000 shares of common stock, to employees and organizers of the Bank and up to 143,080 shares of common stock for future use as decided by the Directors of the Bank.

Under the Stock Option Arrangement, stock option awards may be granted in the form of incentive stock options or nonstatutory stock options, and generally vest over a five year period with a ten year option to purchase. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date.

At December 31, 2007 and 2006, 465,000 and 451,000, respectively, shares of the options had been granted at \$10 per share. Of the options granted 420,500 and 425,500 were outstanding at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, 337,078 and 316,802 shares were exercisable.

## Management's Discussion and Analysis or Plan of Operation, Continued

### Capital Position and Dividends, Continued

FDICIA. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking regulators have assigned each insured institution to one of five categories ("well capitalized," "adequately capitalized" or one of three undercapitalized categories) based upon the three measures of capital adequacy discussed above. Institutions which have a Tier I leverage capital ratio of 5%, a Tier I risk based capital ratio of 6% and a total risk based capital ratio of 10% are defined as "well capitalized". All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees that would cause the institution to fail to satisfy the minimum levels for any of its capital requirements for "adequately capitalized" status. The Bank currently meets the requirements for "well capitalized" status.

An institution that fails to meet the minimum level for any relevant capital measure (an "undercapitalized institution") may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days (which must be guaranteed by the institution's holding company); (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The bank regulatory agencies have discretionary authority to reclassify a well capitalized institution as adequately capitalized or to impose on an adequately capitalized institution requirements or actions specified for undercapitalized institutions if the agency determines that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice.

A "significantly undercapitalized" institution may be subject to a number of additional requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

Under FDICIA, bank regulatory agencies have prescribed safety and soundness guidelines for all insured depository institutions relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation.

The Bank is assessed annually at the rate of 0.0618% of insured deposits for deposit insurance. The assessments are paid quarterly.

Management is not aware of any current recommendations by the regulatory authorities which, if implemented, would have a material effect on the Bank's liquidity, capital resources or operations.

**Management's Discussion and Analysis or Plan of Operation, Continued**

**Capital Position and Dividends, Continued**

**Monetary Policy.** The Bank is affected by commercial bank credit policies of regulatory authorities, including the Federal Reserve Board (the "Board"). An important function of the Board is to regulate the national supply of bank credit in order to attempt to combat recessionary and curb inflationary pressures. Among the instruments of monetary policy used by the Board to implement these objectives are: open market operations in U.S. Government securities, changes in discount rates on member borrowings, changes in reserve requirements against bank deposits and limitations on interest rates which member banks may pay on time and savings deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits, and may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Board have had a significant effect on the operating results of commercial banks, including nonmembers as well as members, in the past and are expected to continue to do so in the future.

**Contractual Obligations**

The Bank has the following contractual obligations as of December 31, 2007:

<i>(In Thousands)</i>	Less Than <u>1 Year</u>	1 - 3 <u>Years</u>	3 - 5 <u>Years</u>	More Than <u>5 Years</u>	<u>Total</u>
Long-term debt	\$ -	-	-	-	-
Federal funds purchased	226	-	-	-	226
Advances from Federal Home Loan Bank	7,346	-	-	-	7,346
Capital leases	-	-	-	-	-
Operating leases	120	208	144	857	1,329
Purchases	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-
Total	<u>\$ 7,692</u>	<u>208</u>	<u>144</u>	<u>857</u>	<u>8,901</u>

**Off Balance Sheet Arrangements**

At December 31, 2007, the Bank had unfunded loan commitments outstanding of \$51.5 million and outstanding standby letters of credit of \$1.7 million. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Bank has the ability to liquidate securities available-for-sale or on a short-term basis to borrow and purchase Federal funds from correspondent banks or from the Federal Home Loan Bank. Additionally, the Bank could sell participations in these or other loans to correspondent banks. As mentioned above, the Bank has been able to fund its ongoing liquidity needs through its stable core deposit base, loan payments, its investment security maturities and short-term borrowings.

## **Management's Discussion and Analysis of Plan of Operation, Continued**

### **Impact of Inflation**

Although interest rates are significantly affected by inflation, the inflation rate is immaterial when reviewing the Bank's results of operations.

### **Quantitative and Qualitative Disclosures About Market Risk**

The Bank's primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on a large portion of the Bank's assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which possess a short term to maturity. Based upon the nature of the Bank's operations, the Bank is not subject to foreign currency exchange or commodity price risk.

Interest rate risk (sensitivity) management focuses on the earnings risk associated with changing interest rates. Management seeks to maintain profitability in both immediate and long term earnings through funds management/interest rate risk management. The Bank's rate sensitivity position has an important impact on earnings. Senior management of the Bank meets quarterly to analyze the rate sensitivity position. These meetings focus the spread between the cost of funds (primarily time deposits) and interest yields generated primarily through loans and investments.



**MIDSOUTH BANK**

**Murfreesboro, Tennessee**

**Management Report on Internal Control Over Financial Reporting**

The management of MidSouth Bank is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control system was designed to provide reasonable assurance to MidSouth Bank's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

MidSouth Bank's management assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-- Integrated Framework." Based on our assessment we believe that, as of December 31, 2007, the Bank's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report. This attestation shall not be deemed to be "filed" under the Securities Exchange Act of 1934.

Lee M. Moss  
Chairman & Chief Executive Officer

Kevin D. Busbey  
Chief Financial Officer  
(Principal Financial and  
Principal Accounting Officer)

# MAGGART & ASSOCIATES, P.C.

*Certified Public Accountants*

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SUITE 2150  
NASHVILLE, TENNESSEE 37219-2417  
Telephone (615) 252-6100  
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## *Independent Auditor's Report*

### **The Board of Directors MidSouth Bank**

We have audited the accompanying consolidated balance sheets of MidSouth Bank and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive earnings (losses), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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 the standards of the Public Company Accounting Oversight Board in the 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of MidSouth Bank and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Maggart & Associates, P.C.  
MAGGART & ASSOCIATES, P.C.

Nashville, Tennessee  
February 29, 2008

*Consolidated Balance Sheets*  
December 31, 2007 and 2006

<i>(In Thousands, Except Share Amounts)</i>	2007	2006
<b>ASSETS</b>		
Loans, less allowance for loan losses of \$2,032,000 and \$1,922,000, respectively	\$ 191,074	\$ 148,457
Securities available-for-sale, at market (amortized cost of \$30,848,000 and \$36,314,000, respectively) .....	31,248	36,347
Loans held for sale .....	987	1,739
Federal funds sold .....	-	12,059
Restricted equity securities .....	1,439	1,092
Interest-bearing accounts at other financial institutions .....	20	1
<i>Total earning assets</i> .....	<b>224,768</b>	199,695
Cash and due from banks .....	8,838	7,539
Bank premises and equipment, net .....	10,752	11,069
Accrued interest receivable .....	1,054	974
Foreclosed assets, net of allowance for losses of \$50,000 .....	1,309	-
Other assets .....	261	247
<i>Total assets</i> .....	<b>\$ 246,982</b>	\$ 219,524
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits .....	\$ 207,448	\$ 192,516
Advances from Federal Home Loan Bank .....	7,346	-
Federal funds purchased .....	226	-
Accrued interest payable .....	631	517
Accounts payable and other liabilities .....	353	263
<i>Total liabilities</i> .....	<b>216,004</b>	193,296
Stockholders' equity:		
Preferred stock, no par, authorized 20,000,000 shares, no shares issued .....	-	-
Common stock, par value \$1 per share, authorized 20,000,000 shares, 3,741,629 and 3,323,162 shares issued and outstanding, respectively .....	3,742	3,323
Additional paid-in capital .....	33,774	29,969
Deficit .....	(6,938)	(7,097)
Net unrealized gains on available-for-sale securities .....	400	33
<i>Total stockholders' equity</i> .....	<b>30,978</b>	26,228
<b>COMMITMENTS AND CONTINGENCIES</b>		
<i>Total liabilities and stockholders' equity</i> .....	<b>\$ 246,982</b>	\$ 219,524

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Operations*  
**For the Three Years Ended December 31, 2007**

<i>(In Thousands, Except Per Share Amounts)</i>	<b>2007</b>	2006	2005
Interest income:			
Interest and fees on loans.....	\$ 12,895	\$ 9,442	\$ 4,292
Interest and dividends on taxable securities...	1,882	1,010	508
Interest on Federal funds sold.....	195	518	196
Interest and dividends on restricted equity securities.....	77	50	44
<i>Total interest income.....</i>	<b>15,049</b>	11,020	5,040
Interest expense:			
Interest on negotiable order of withdrawal accounts .....	330	223	69
Interest on money market and other savings accounts .....	944	908	419
Interest on certificates of deposit .....	5,799	4,161	1,280
Interest on Fed funds purchased .....	23	12	10
Interest on advances from Federal Home Loan Bank .....	83	-	-
<i>Total interest expense.....</i>	<b>7,179</b>	5,304	1,778
Net interest income before provision for loan losses .....	7,870	5,716	3,262
Provision for loan losses .....	400	611	803
Net interest income after provision for loan losses.....	7,470	5,105	2,459
Non-interest income.....	1,542	1,047	759
Non-interest expense.....	8,853	7,356	5,145
<i>Earnings (loss) before income taxes.....</i>	<b>159</b>	(1,204)	(1,927)
Income taxes .....	-	-	-
<i>Earnings (loss).....</i>	<b>\$ 159</b>	\$ (1,204)	\$ (1,927)
Basic earnings (loss) per common share.....	\$ .04	\$ (.38)	\$ (.65)
Diluted earnings (loss) per common share.....	\$ .04	\$ (.38)	\$ (.65)

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Comprehensive Earnings (Losses)*  
**For the Three Years Ended December 31, 2007**

<i>(In Thousands)</i>	<b>2007</b>	2006	2005
Earnings (loss).....	\$ <b>159</b>	\$ (1,204)	\$ (1,927)
Other comprehensive earnings (losses):			
Net unrealized gains (losses) on available- for-sale securities arising during period.....	<b>367</b>	453	(211)
Comprehensive earnings (losses)....	\$ <b>526</b>	\$ (751)	\$ (2,138)

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Changes in Stockholders' Equity*  
**For the Three Years Ended December 31, 2007**

<i>(In Thousands)</i>	<i>Common Stock</i>	<i>Additional Paid-In Capital</i>	<u>Deficit</u>	<i>Net Unrealized Gains (Losses) on Available- For-Sale Securities</i>	<i>Total</i>
Balance December 31, 2004 .....	\$ 2,906	\$ 26,156	\$ (3,966)	\$ (209)	\$ 24,887
Issuance of 194,105 shares related to exercise of warrants .....	194	1,747	-	-	1,941
Net change in unrealized loss on available-for-sale securities during the year .....	-	-	-	(211)	(211)
Loss for the period .....	-	-	(1,927)	-	(1,927)
Balance December 31, 2005 .....	3,100	27,903	(5,893)	(420)	24,690
Issuance of 222,866 shares related to exercise of warrants and stock options ....	223	2,006	-	-	2,229
Stock-based compensation expense .....	-	60	-	-	60
Net change in unrealized gains (losses) on available-for- sale securities during the year .....	-	-	-	453	453
Loss for the period .....	-	-	(1,204)	-	(1,204)
Balance December 31, 2006 .....	3,323	29,969	(7,097)	33	26,228
Issuance of 418,467 shares related to exercise of warrants and stock options ....	419	3,767	-	-	4,186
Stock-based compensation expense .....	-	38	-	-	38
Net change in unrealized gains on available-for-sale securities during the year .....	-	-	-	367	367
Earnings for the period .....	-	-	159	-	159
<b>Balance December 31, 2007....</b>	<b>\$ 3,742</b>	<b>\$ 33,774</b>	<b>\$ (6,938)</b>	<b>\$ 400</b>	<b>\$ 30,978</b>

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Cash Flows*  
**For the Three Years Ended December 31, 2007**

<i>(In Thousands)</i>	<b>2007</b>	2006	2005
<b>Cash flows from operating activities:</b>			
Interest received.....	<b>\$ 14,900</b>	\$ 10,522	\$ 4,629
Fees received .....	<b>1,103</b>	1,274	797
Proceeds from sale of loans .....	<b>31,173</b>	20,043	19,535
Origination of loans held for sale.....	<b>(30,010)</b>	(21,603)	(19,285)
Interest paid .....	<b>(7,065)</b>	(4,999)	(1,613)
Cash paid to suppliers and employees .....	<b>(8,050)</b>	(6,870)	(4,603)
<i>Net cash provided by (used in) operating activities .....</i>	<b>2,051</b>	(1,633)	(540)
<b>Cash flows from investing activities:</b>			
Purchase of available-for-sale securities.....	<b>(6,397)</b>	(25,606)	-
Repayments of mortgage-backed securities..	<b>3,522</b>	1,882	1,473
Purchase of restricted equity securities.....	<b>(493)</b>	(351)	(23)
Proceeds from sale of restricted equity securities.....	<b>160</b>	9	52
Maturities of available-for-sale securities.....	<b>8,410</b>	3,125	-
Loans made to customers, net of repayments .....	<b>(44,376)</b>	(46,105)	(63,225)
Purchase of premises and equipment.....	<b>(308)</b>	(2,598)	(4,683)
Sales of bank premises and equipment .....	<b>-</b>	-	7
<i>Net cash used in investing activities...</i>	<b>(39,482)</b>	(69,644)	(66,399)
<b>Cash flows from financing activities:</b>			
Net increase in non-interest bearing, savings and NOW deposit accounts .....	<b>10,450</b>	31,048	24,498
Net increase in time deposits .....	<b>4,477</b>	54,019	39,075
Net increase (decrease) in mortgage escrow deposits.....	<b>5</b>	(2)	(1)
Proceeds from advances from the Federal Home Loan Bank.....	<b>25,996</b>	-	-
Repayments of advances from the Federal Home Loan Bank.....	<b>(18,650)</b>	-	-
Proceeds from Fed funds purchased .....	<b>226</b>	-	-
Proceeds from sale of common stock .....	<b>4,186</b>	2,229	1,941
<i>Net cash provided by financing activities.....</i>	<b>26,690</b>	87,294	65,513
Net increase (decrease) in cash and cash equivalents .....	<b>(10,741)</b>	16,017	(1,426)
Cash and cash equivalents at beginning of year.....	<b>19,599</b>	3,582	5,008
Cash and cash equivalents at end of year.....	<b>\$ 8,858</b>	\$ 19,599	\$ 3,582

See accompanying notes to consolidated financial statements.

*Consolidated Statements of Cash Flows, Continued*  
**For the Three Years Ended December 31, 2007**

<i>(In Thousands)</i>	<b>2007</b>	2006	2005
Reconciliation of earnings (loss) to net cash provided by (used in) operating activities:			
Earnings (loss).....	\$ <b>159</b>	\$ (1,204)	\$ (1,927)
Adjustments to reconcile loss to net cash used in operating activities:			
Depreciation.....	<b>625</b>	628	440
Gain on sale of restricted equity securities.....	<b>(14)</b>	-	-
Provision for loan losses.....	<b>400</b>	611	803
Amortization and accretion, net....	<b>(69)</b>	(22)	52
Stock-based compensation expense.....	<b>38</b>	60	-
Valuation adjustment on foreclosed assets.....	<b>50</b>	-	-
(Increase) decrease in loans held for sale.....	<b>752</b>	(1,560)	249
Increase in accrued interest receivable.....	<b>(80)</b>	(411)	(357)
Increase in accrued interest payable.....	<b>114</b>	305	165
Increase in other assets.....	<b>(14)</b>	(51)	(54)
Increase in accounts payable and other liabilities.....	<b>90</b>	11	89
<i>Total adjustments</i> .....	<b>1,892</b>	(429)	1,387
<i>Net cash provided by (used in) operating activities</i> .....	<b>\$ 2,051</b>	\$ (1,633)	\$ (540)
Supplemental Schedule of Non-Cash Activities:			
Unrealized gain (loss) in value of securities available-for-sale.....	\$ <b>367</b>	\$ 453	\$ (211)
Transfer of loans to foreclosed assets.....	\$ <b>1,359</b>	\$ -	\$ -

See accompanying notes to consolidated financial statements.

*Notes to Consolidated Financial Statements*  
December 31, 2007, 2006 and 2005

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of MidSouth Bank and subsidiary (“the Bank”) are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The following is a brief summary of the more significant policies.

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**(a) Principles of Consolidation**

The consolidated financial statements include the accounts of MidSouth Bank and its wholly-owned subsidiary, MSB Services, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

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**(b) Nature of Operations**

MidSouth Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulations of the Tennessee Department of Financial Institutions and the Board of Governors of the Federal Reserve System. The area served by MidSouth Bank is Rutherford County and adjacent counties of Middle Tennessee. Services are provided at the main office and three branch offices located in Murfreesboro, Tennessee and two branch offices located in Smyrna, Tennessee.

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**(c) 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. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the allowance for loan losses and the valuation of debt and equity securities and the related deferred taxes.

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**(d) Loans**

Loans are stated at the principal amount outstanding. Deferred loan fees net of loan acquisition costs, and the allowance for loan losses are shown as reductions of loans. Loan origination and commitment fees and certain loan-related costs are being deferred and the net amount amortized as an adjustment of the related loan’s yield over the contractual life of the loan. Interest income on loans is accrued based on the principal amount outstanding.

The Bank follows the provisions of Statement of Financial Accounting Standards (SFAS) No. 114, “Accounting by Creditors for Impairment of a Loan” and SFAS No. 118, “Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures”. These pronouncements apply to impaired loans except for large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment including residential mortgage and installment loans.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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A loan is impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. Impaired loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. If the measure of the impaired loan is less than the recorded investment in the loan, the Bank recognizes an impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses.

The Bank's installment and residential mortgage loans which total \$3,480,000 and \$28,598,000 (including \$987,000 of loans held for sale), respectively, at December 31, 2007, are divided into various groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and, thus, are not subject to the provisions of SFAS Nos. 114 and 118. Substantially all other loans of the Bank are evaluated for impairment under the provisions of SFAS Nos. 114 and 118.

The Bank considers all loans subject to the provisions of SFAS Nos. 114 and 118 that are on a nonaccrual status to be impaired. Loans are placed on nonaccrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is past due 90 days or more unless such loans are well-secured and in the process of collection. Past due status of loans is based on the contractual terms of the loan. Delays or shortfalls in loan payments are evaluated along with various other factors to determine if a loan is impaired. Generally, delinquencies under 90 days are considered insignificant unless certain other factors are present which indicate impairment is probable. The decision to place a loan on nonaccrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to pay.

Generally, at the time a loan is placed on nonaccrual status, all interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and all interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on nonaccrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of outstanding principal is doubtful, such cash received is applied as a reduction of principal. A nonaccrual loan may be restored to an accruing status when principal and interest are no longer past due and unpaid and future collection of principal and interest on a timely basis is not in doubt.

Loans not on nonaccrual status are classified as impaired in certain cases when there is inadequate protection by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. In those cases, such loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt, and if such deficiencies are not corrected, there is a probability that the Bank will sustain some loss. In such cases, interest income continues to accrue as long as the loan does not meet the Bank's criteria for nonaccrual status.

Generally, the Bank also classifies as impaired any loans the terms of which have been modified in a troubled debt restructuring. Interest is generally accrued on such loans that continue to meet the modified terms of their loan agreements.

The Bank's charge-off policy for impaired loans is similar to its charge-off policy for all loans in that loans are charged off in the month when they are considered uncollectible.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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(e) ***Allowance for Loan Losses***

The provision for loan losses represents a charge to earnings necessary, after loan charge-offs and recoveries, to maintain the allowance for loan losses at an appropriate level which is adequate to absorb estimated losses inherent in the loan portfolio. Such estimated losses arise primarily from the loan portfolio but may also be derived from other sources, including commitments to extend credit and letters of credit. The level of the allowance is determined on a monthly basis using procedures which include: (1) categorizing commercial and commercial real estate loans into risk categories to estimate loss probabilities based primarily on the historical loss experience of those risk categories and current economic conditions; (2) analyzing significant commercial and commercial real estate credits and calculating specific reserves as necessary; (3) assessing various homogeneous consumer loan categories to estimate loss probabilities based primarily on historical loss experience; and (4) considering various other factors, such as changes in credit concentrations, loan mix, and economic conditions which may not be specifically quantified in the loan analysis process.

The allowance for loan losses consists of an allocated portion and an unallocated, or general portion. The allocated portion is maintained to cover estimated losses applicable to specific segments of the loan portfolio. The unallocated portion is maintained to absorb losses which probably exist as of the evaluation date but are not identified by the more objective processes used for the allocated portion of the allowance due to risk of errors or imprecision. While the total allowance consists of an allocated portion and an unallocated portion, these terms are primarily used to describe a process. Both portions of the allowance are available to provide for inherent loss in the entire portfolio.

The allowance for loan losses is increased by provisions for loan losses charged to expense and is reduced by loans charged off net of recoveries on loans previously charged off. The provision is based on management's determination of the amount of the allowance necessary to provide for estimated loan losses based on its evaluation of the loan portfolio. Determining the appropriate level of the allowance and the amount of the provision involves uncertainties and matters of judgment and therefore cannot be determined with precision.

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(f) ***Securities***

The Bank accounts for securities under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under the provisions of the Statement, securities are classified in three categories and accounted for as follows:

- ***Securities Held-to-Maturity***

Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Amortization of premiums and accretion of discounts are recognized by the interest method. No securities have been classified as held-to-maturity.

- ***Trading Securities***

Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. No securities have been classified as trading securities.

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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- ***Securities Available-for-Sale***

Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at estimated fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. Premiums and discounts are recognized by the interest method.

The Bank has classified all its securities as securities available-for-sale.

Realized gains or losses from the sale of securities are recognized based upon the specific identification method.

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- (g) ***Loans Held for Sale***

Mortgage loans held for sale are reported at the lower of cost or market value determined by outstanding commitments from investors at the balance sheet date. These loans are valued on an aggregate basis.

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- (h) ***Bank Premises and Equipment***

Premises and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets. Gain or loss on items retired and otherwise disposed of is credited or charged to operations, and cost and related accumulated depreciation are removed from the asset and accumulated depreciation accounts.

Expenditures for major renewals and improvements of bank premises and equipment are capitalized and those for maintenance and repairs are charged to earnings as incurred.

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- (i) ***Foreclosed Assets***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less estimated retention and disposition costs. Revenue and expenses from operations and changes in the valuation allowance are included in non-interest expenses.

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- (j) ***Cash and Cash Equivalents***

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal funds sold and interest-bearing deposits at other financial institutions. Generally, Federal funds sold are purchased and sold for one-day periods. The Bank maintains deposits in excess of the Federal insurance amounts with other financial institutions. Management makes deposits only with financial institutions it considers to be financially sound.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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**(k) Interest-Bearing Accounts at Other Financial Institutions**

Interest-bearing accounts at other financial institutions mature within one year and are carried at cost.

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**(l) Long-Term Assets**

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at the lower of cost or fair value.

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**(m) Stock Options**

Prior to January 1, 2006, employee compensation expense under the MidSouth Bank 2004 Stock Option Arrangement (the "Arrangement") was reported only if options were granted below market price at grant date in accordance with the intrinsic value method of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Because the exercise price of the Bank's Arrangement always equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized on options granted. The Bank adopted the provisions of SFAS No. 123R, "Share-Based Payment (Revised 2004)," on January 1, 2006. SFAS No. 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Bank, is the date of the grant. The Bank transitioned to fair-value based accounting for stock-based compensation using a modified version of prospective application ("modified prospective application"). Under the modified prospective application, as it is applicable to the Bank, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after January 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (generally referring to non-vested portions of awards) that were outstanding as of January 1, 2006 are being recognized as the remaining requisite service is rendered during the period of and/or the periods after the adoption of SFAS No. 123R. The attribution of compensation cost for those earlier awards is based on the same method and on the same grant-date fair values previously determined for the pro forma disclosures required for companies that did not previously adopt the fair value accounting method for stock-based employee compensation.

SFAS No. 123R requires pro forma disclosures of net income and earnings per share for all periods prior to the adoption of the fair value accounting method for stock-based employee compensation. The pro forma disclosures presented in Note 15 - Stock Option Arrangement uses the fair value method of SFAS No. 123 to measure compensation expense for stock-based employee compensation plans for years prior to 2006.

*Notes to Consolidated Financial Statements, Continued*  
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The fair value of each option award is estimated on the date of grant using a Black-Scholes (BS) option valuation model that uses the following assumptions. Expected volatility is based on implied volatility from comparable publicly traded banks. The Bank uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the average of: 1) the weighted average vesting term and 2) original contractual term as permitted under the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and the weighted average expected life of the grant.

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**(n)** *Income Taxes*

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) and deferred taxes on temporary differences between the amount of taxable and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax asset and liabilities are expected to be realized or settled as prescribed in SFAS No. 109, "Accounting for Income Taxes." As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

The Bank is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2004 through 2007 and the State of Tennessee for the years ended December 31, 2003 through 2007.

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**(o)** *Advertising Costs*

Advertising costs are expensed when incurred by the Bank.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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(p) ***Off-Balance-Sheet Financial Instruments***

In the ordinary course of business the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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(q) ***Derivative Financial Instruments***

Derivative financial instruments are recognized as assets and liabilities in the consolidated financial statements and measured at fair value.

*Derivative Loan Commitments*

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value in the consolidated balance sheet with changes in their fair values recorded in fees on mortgage originations.

The Bank records a zero value for the loan commitment at inception (at the time the commitment is issued to a borrower (“the time of rate lock”), consistent with Emerging Issues Task Force (EITF) 02-3, “Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities”, and SEC Staff Accounting Bulletin No. 105, “Application of Accounting Principles to Loan Commitments”, and accordingly, does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in fair values of the loan commitments are recognized based on changes in the fair values of the underlying mortgage loans due to interest rate changes, changes in the probability the derivative loan commitments will be exercised, and the passage of time. In estimating fair value, the Bank assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

*Forward Loan Sale Commitments*

The Bank carefully evaluates each loan sales agreement to determine whether it meets the definition of a derivative under SFAS No. 133 as facts and circumstances may differ significantly for each agreement. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Bank utilizes “best efforts” forward loan sales commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Generally, the Bank’s best efforts contracts meet the definition of derivative instruments. Accordingly, forward loan sale commitments that economically hedge derivative loan commitments are recognized at fair value in the consolidated balance sheet with changes in their fair values recorded in fees on mortgage originations.

The Bank estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

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*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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(r) **Impact of New Accounting Standards**

In June, 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 clarifies when tax benefits should be recorded in the financial statements, requires certain disclosures of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. On January 1, 2007, the Bank adopted FIN 48. The Bank has determined that adoption of FIN 48 did not have any impact on its financial condition or results of operations.

In February, 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”, which amended SFAS No. 133, “Accounting for Derivatives and Hedging Activities”, and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. Hybrid financial instruments are single financial instruments that contain an embedded derivative. Under SFAS No. 155, entities can elect to record certain hybrid financial instruments at fair value as individual financial instruments. Prior to this amendment, certain hybrid financial instruments were required to be separated into two instruments -- a derivative and host -- and generally only the derivative was recorded at fair value. SFAS No. 155 also requires that beneficial interests in securitized assets be evaluated for either freestanding or embedded derivatives. On January 1, 2007, the Bank adopted SFAS No. 155. The Bank has determined that adoption of SFAS No. 155 did not have any impact on its financial condition or results of operations.

In March, 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140”. The Statement requires that all servicing assets and liabilities be initially measured at fair value and allows for two alternatives in the subsequent accounting for servicing assets and liabilities: the amortization method and the fair value method. The amortization method requires that the servicing assets and liabilities be amortized over the remaining estimated lives of the serviced assets with impairment testing to be performed periodically. The fair value method requires the servicing assets and liabilities to be measured at fair value each period with an offset to income. The Bank adopted SFAS No. 156 on January 1, 2007. The Bank has determined that adoption of SFAS No. 156 did not have any impact on its financial condition or results of operations.

In September, 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Bank does not expect the implementation of SFAS No. 157 to have a material impact on its consolidated financial statements.

In February, 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115”. This standard permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as those investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. This pronouncement is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. The Bank does not expect the implementation of SFAS No. 159 to have a material impact on its consolidated financial statements.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

In December, 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". SFAS No. 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Bank does not expect the implementation of SFAS No. 160 to have a material impact on its consolidated financial statements.

In December, 2007, the FASB issued SFAS No. 141, Revised 2007 (SFAS No. 141R), "Business Combinations". SFAS No. 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after December 31, 2008. The Bank does not expect the implementation of SFAS No. 141R to have a material impact on its consolidated financial statements.

(s) **Reclassifications**

Certain reclassifications have been made to the 2006 and 2005 figures to conform to the presentation for 2007.

(2) **LOANS AND ALLOWANCE FOR LOAN LOSSES**

The classification of loans at December 31, 2007 and 2006 is as follows:

<i>(In Thousands)</i>	<b>2007</b>	<b>2006</b>
Commercial, financial and agricultural .....	<b>\$ 106,564</b>	\$ 75,730
Real estate - construction .....	<b>55,451</b>	46,437
Real estate - mortgage .....	<b>27,611</b>	24,653
Consumer .....	<b>3,480</b>	3,559
	<b>193,106</b>	150,379
Allowance for loan losses .....	<b>(2,032)</b>	(1,922)
Net loans .....	<b>\$ 191,074</b>	\$ 148,457

The principal maturities on loans at December 31, 2007 are as follows:

<i>(In Thousands)</i>	<i>Commercial, Financial and Agricultural</i>	<i>Real Estate - Construction</i>	<i>Real Estate - Mortgage</i>	<i>Consumer</i>	<i>Total</i>
3 months or less .....	\$ 8,050	\$ 16,954	\$ 783	\$ 345	\$ 26,132
3 to 12 months .....	32,309	22,435	3,955	808	59,507
1 to 5 years .....	58,065	15,670	11,201	2,276	87,212
Over 5 Years .....	8,140	392	11,672	51	20,255
	<b>\$ 106,564</b>	<b>\$ 55,451</b>	<b>\$ 27,611</b>	<b>\$ 3,480</b>	<b>\$ 193,106</b>

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

At December 31, 2007, variable rate and fixed rate loans totaled \$93,302,000 and \$99,804,000, respectively. At December 31, 2006, variable rate and fixed rate loans totaled \$79,081,000 and \$71,298,000, respectively.

In the normal course of business, the Bank has made loans at prevailing interest rates and terms to its executive officers, directors and their affiliates aggregating \$11,791,000 and \$8,223,000 at December 31, 2007 and 2006, respectively. During 2007 and 2006, \$9,185,000 and \$3,377,000, respectively, in loan advances were made and \$5,617,000 and \$2,788,000, respectively, in repayments were made. As of December 31, 2007 and 2006 none of these loans were restructured, nor were any related party loans charged off during the past three years, nor did they involve more than the normal risk of collectibility or present other unfavorable features.

Transactions in the allowance for loan losses of the Bank for the year ended December 31, 2007, 2006 and 2005 are summarized as follows:

<i>(In Thousands)</i>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Balance - beginning of year .....	\$ 1,922	\$ 1,317	\$ 514
Provision charged to operating expense.....	400	611	803
Loans charged off .....	(350)	(7)	-
Recoveries.....	70	1	-
Allowance for off-balance sheet items.....	(10)	-	-
Balance - end of year .....	\$ 2,032	\$ 1,922	\$ 1,317

The Bank's principal customers are generally in the Middle Tennessee area with a concentration in Rutherford and adjacent counties. Credit is extended to businesses and individuals and is evidenced by promissory notes. The terms and conditions of the loans including collateral vary depending upon the purpose of the credit and the borrower's financial condition.

In 2007, 2006 and 2005, the Bank originated loans for sale in the secondary market of \$30,010,000, \$21,603,000 and \$19,285,000, respectively. The Bank's recourse related to its sold loans is limited since only one of the three entities to whom the Bank sold its loan during the fourth quarter of 2007 has recourse related to loans it purchases. The recourse period for that entity is 90 days from the purchase date for each loan and is effective only if a borrower defaults on an individual loan within that 90-day period. At December 31, 2007, the Bank had loans sold with recourse totaling \$2,965,000. At December 31, 2007, the Bank had been required to repurchase only one of the loans originated and sold in the secondary market for \$65,000. The fees on these loans totaled \$411,000, \$283,000 and \$298,000 in 2007, 2006 and 2005, respectively.

Impaired loans and related allowance for loan loss allocations amounts at December 31, 2007 and 2006 were as follows:

<i>(In Thousands)</i>	<b>2007</b>	<b>2006</b>
Recorded investment .....	\$ 4,970	\$ 1,470
Loan loss allocation.....	\$ 465	\$ 171

The average recorded investment in impaired loans for the year ended December 31, 2007 was \$2,670,000. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$195,000 for 2007. The average recorded investment in impaired loans for the year ended December 31, 2006 was \$348,000. The related total amount of interest income recognized on the accrual basis for the period that such loans were impaired was \$28,000 for 2006.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

There were no loans that were past due 90 days or more and still accruing interest at December 31, 2007 and 2006. There were no non-accrual loans at December 31, 2007, and there was one non-accrual loan totaling \$2,000 at December 31, 2006.

**(3) DEBT AND EQUITY SECURITIES**

Debt and equity securities have been classified in the balance sheet according to management's intent. The Bank's classification of securities at December 31, 2007 and 2006 is as follows:

<i>(In Thousands)</i>	<b>2007</b>			
	<i>Securities Available-for-Sale</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Market Value</i>
U.S. Treasury and other U.S. Government agencies and corporations .....	\$ 8,386	\$ 82	\$ 2	\$ 8,466
Mortgage-backed securities.....	22,060	345	29	22,376
Corporate.....	402	4	-	406
	<b>\$ 30,848</b>	<b>\$ 431</b>	<b>\$ 31</b>	<b>\$ 31,248</b>

<i>(In Thousands)</i>	<b>2006</b>			
	<i>Securities Available-for-Sale</i>			
	<i>Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Estimated Market Value</i>
U.S. Treasury and other U.S. Government agencies and corporations .....	\$ 15,311	\$ 1	\$ 128	\$ 15,184
Mortgage-backed securities.....	21,003	253	93	21,163
	<b>\$ 36,314</b>	<b>\$ 254</b>	<b>\$ 221</b>	<b>\$ 36,347</b>

The amortized cost and estimated market value of debt and equity 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.

<i>(In Thousands)</i>	<i>Amortized Cost</i>	<i>Estimated Market Value</i>
<i>Securities Available-for-Sale</i>		
Due in one year or less .....	\$ 933	\$ 932
Due after one year through five years .....	14,462	14,622
Due after five years through ten years .....	15,453	15,694
	<b>\$ 30,848</b>	<b>\$ 31,248</b>

There were no sales of available-for-sale securities during 2007, or 2006 or 2005.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

Securities carried in the balance sheet of approximately \$5,136,000 (approximate book value of \$5,084,000) and \$7,009,000 (approximate book value of \$7,083,000) at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

Securities that have rates that adjust prior to maturity totaled \$1,389,000 (approximate market value of \$1,409,000) and \$1,663,000 (approximate market value of \$1,669,000) at December 31, 2007 and 2006, respectively.

The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2007:

<i>In Thousands, Except Number of Securities</i>								
	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses	Number of Securities Included	Fair Value	Unrealized Losses
U.S. Treasury and other U.S. Government agencies and corporations.....	\$ -	\$ -	-	\$ 1,597	\$ 2	2	\$ 1,597	\$ 2
Mortgage-backed securities.....	-	-	-	1,983	29	7	1,983	29
Total temporarily impaired securities.....	\$ -	\$ -	-	\$ 3,580	\$ 31	9	\$ 3,580	\$ 31

These securities are considered high quality investments in line with normal industry investing practices. The unrealized losses are primarily the result of changes in the interest rate and sector environments. Consistent with the original classification as available-for-sale securities, the Bank intends and has the ability to hold the above securities until the value is realized.

The Bank may sell the above or other securities in the ordinary course of business in response to unexpected and significant changes in liquidity needs, unexpected and significant increases in interest rates and/or sector spreads that significantly extend the security's holding period, or conducting a small volume of security transactions.

**(4) RESTRICTED EQUITY SECURITIES**

Restricted equity securities consist of stock of the Federal Reserve Bank and the Federal Home Loan Bank amounting to \$897,000 and \$542,000, respectively, at December 31, 2007. At December 31, 2006, restricted equity securities consisted of stock of the Federal Reserve Bank of Atlanta, the Federal Home Loan Bank and the Bankers Bank amounting to \$761,000, \$204,000 and \$127,000, respectively. The stock can be sold back only at par or a value as determined by the issuing institution and only to the respective financial institution or to another member institution. These securities are recorded at cost.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

During the year ended December 31, 2007, the Bank sold its restricted stock of the Bankers Bank for proceeds of \$141,000 resulting in a realized gain of \$14,000. The Bank also sold a portion of its restricted stock of the Federal Reserve Bank of Atlanta for proceeds of \$19,000, with no gain or loss being realized.

**(5) BANK PREMISES AND EQUIPMENT**

The classification of premises and equipment at December 31, 2007 and 2006 are as follows:

<i>(In Thousands)</i>	<b>2007</b>	2006
Land .....	\$ 3,911	\$ 3,909
Buildings .....	5,492	5,332
Leasehold improvements .....	129	125
Furniture and equipment .....	2,694	2,581
Automobiles .....	61	63
Construction in process .....	398	390
	<b>12,685</b>	12,400
Less accumulated depreciation .....	<b>(1,933)</b>	(1,331)
	<b>\$ 10,752</b>	\$ 11,069

Depreciation expense was \$625,000, \$628,000 and \$440,000 for the years ended December 31, 2007, 2006, and 2005 respectively.

The Bank opened two branches in Smyrna, Rutherford County, Tennessee during 2005. In January, 2006, the Bank opened a branch office in Murfreesboro, Rutherford County, Tennessee at a total cost of \$1,063,000. In February, 2006, the Bank opened a second branch office in Murfreesboro, Rutherford County, Tennessee at a total cost of \$1,067,000. In September, 2006, the Bank opened a third branch office in Murfreesboro, Rutherford County, Tennessee at a total cost of \$1,101,000. The land related to one of the Murfreesboro properties is being leased and is discussed in footnote 10 to the consolidated financial statements.

The Bank anticipates opening additional branches but the timing and cost is not yet determinable. In addition, the Bank anticipates renovating and expanding the main office facilities but the timing and cost has not yet been determined.

**(6) DEPOSITS**

Deposits at December 31, 2007 and 2006 are summarized as follows:

<i>(In Thousands)</i>	<b>2007</b>	2006
Demand deposits .....	\$ 25,987	\$ 27,916
Savings deposits .....	1,162	1,412
Negotiable order of withdrawal accounts .....	30,599	23,812
Money market demand accounts .....	36,095	30,248
Certificates of deposit \$100,000 or greater .....	68,182	66,117
Other certificates of deposit .....	40,101	38,530
Individual retirement accounts \$100,000 or greater .....	2,137	1,595
Other individual retirement accounts .....	3,185	2,886
	<b>\$ 207,448</b>	\$ 192,516

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

Principal maturities of certificates of deposit and individual retirement accounts at December 31, 2007 are as follows:

<i>(In Thousands)</i>	<i>Total</i>
2008.....	\$ 101,422
2009.....	10,699
2010.....	1,022
2011.....	182
2012.....	280
	<b>\$ 113,605</b>

At December 31, 2007 and 2006, certificates of deposit and individual retirement accounts in denominations of \$100,000 or more amounted to \$70,319,000 and \$67,712,000, respectively.

The aggregate amount of overdrafts reclassified as loans receivable was \$11,000 and \$43,000 at December 31, 2007 and 2006, respectively.

The Bank is required to maintain cash balances or balances with the Federal Reserve Bank or other correspondent banks based on certain percentages of deposit types. The average required amounts for the years ended December 31, 2007 and 2006 were approximately \$1,106,000 and \$784,000, respectively.

**(7) SHORT-TERM BORROWINGS**

**Advances From Federal Home Loan Bank**

The Bank has an available line of credit with the Federal Home Loan Bank of Cincinnati ("FHLB") at an interest rate that adjusts daily. All borrowings from the Federal Home Loan Bank of Cincinnati are secured by a blanket lien on qualified collateral. Qualified collateral is generally defined as 1-4 family mortgage loans.

As of December 31, 2007, outstanding advances under the line of credit totaled \$7,346,000 with an interest rate of 4.28%. All advances from the line of credit mature within 90 days.

The total approved commitment by the FHLB for the line of credit is \$20,000,000. At December 31, 2007, the Bank could borrow an additional \$3,300,000 under this line of credit based on the Bank's borrowing capacity as determined by the FHLB.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

**(8) NON-INTEREST INCOME AND NON-INTEREST EXPENSE**

The significant components of non-interest income and non-interest expense for the years ended December 31 are presented below:

<i>(In Thousands)</i>	<b>2007</b>	2006	2005
Non-interest income:			
Service charges on deposit accounts .....	\$ 305	\$ 181	\$ 115
Fees on mortgage originations .....	411	283	298
Fees from brokerage operations .....	472	380	226
Other fees and commissions .....	340	203	120
Gain on sale of restricted equity securities .....	14	-	-
<i>Total non-interest income .....</i>	<b>\$ 1,542</b>	<b>\$ 1,047</b>	<b>\$ 759</b>
Non-interest expense:			
Employee salaries and benefits .....	\$ 4,619	\$ 3,758	\$ 2,701
Occupancy expenses .....	794	708	498
Furniture and equipment expense .....	442	437	269
Professional fees .....	339	315	223
Advertising expense .....	354	455	349
Data processing expense .....	544	401	218
Computer network expense .....	153	93	67
Computer software amortization .....	27	64	63
Directors fees .....	114	109	108
Other operating expenses .....	1,307	1,001	642
FDIC insurance .....	160	15	7
<i>Total non-interest expense .....</i>	<b>\$ 8,853</b>	<b>\$ 7,356</b>	<b>\$ 5,145</b>

**(9) INCOME TAXES**

The components of the net deferred income tax asset at December 31, 2007 and 2006 were as follows:

<i>(In Thousands)</i>	<b>2007</b>	2006
Deferred tax asset:		
Federal .....	\$ 2,314	\$ 2,306
State .....	473	472
	<b>2,787</b>	<b>2,778</b>
Deferred tax liability:		
Federal .....	299	106
State .....	61	22
	<b>360</b>	<b>128</b>
Total net deferred assets .....	<b>2,427</b>	2,650
Less valuation allowance .....	<b>(2,427)</b>	(2,650)
Net deferred assets .....	<b>\$ -</b>	<b>\$ -</b>

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

The tax effects of each type of significant item that gave rise to deferred tax assets (liabilities) at December 31, 2007 and 2006 are:

<i>(In Thousands)</i>	<b>2007</b>	2006
Financial statement allowance for loan losses in excess of the tax allowance .....	<b>\$ 585</b>	\$ 501
Net operating loss carryforward .....	<b>2,069</b>	2,070
Pre-opening costs amortized over a five-year period for tax purposes, expensed for financial statements in initial year .....	<b>88</b>	176
Stock compensation expense recognized for financial statement purposes and deferred for tax purposes .....	<b>38</b>	23
Unrealized contributions carryovers .....	<b>7</b>	7
Excess of depreciation deducted for tax purposes over the amounts deducted for financial statements .....	<b>(184)</b>	(78)
Loan fees recognized for tax purposes deferred for financial statements .....	<b>(21)</b>	(16)
Discount accretion for securities recognized for financial statement purposes and deferred for tax purposes .....	<b>(2)</b>	(20)
Excess of estimated market value over amortized cost related to available-for-sale securities .....	<b>(153)</b>	(13)
	<b>2,427</b>	2,650
Valuation allowance .....	<b>(2,427)</b>	(2,650)
	<b>\$ -</b>	<b>\$ -</b>

Management reviews the Bank's deferred tax assets for realization based upon historical taxable income, prudent and feasible tax planning strategies, the expected timing of the reversals of existing temporary differences and expected future taxable income. The Bank records a valuation allowance to reduce our deferred tax assets to the amount management believes will more likely than not be realized.

The components of income tax expense (benefit) are summarized as follows:

<i>(In Thousands)</i>	<b>2007</b>	2006	2005
Current:			
Federal .....	<b>\$ -</b>	\$ -	\$ -
State .....	<b>-</b>	-	-
	<b>-</b>	-	-
Deferred:			
Federal .....	<b>69</b>	(366)	(599)
State .....	<b>14</b>	(74)	(123)
	<b>83</b>	(440)	(722)
	<b>83</b>	(440)	(722)
Less valuation allowance related to realization of deferred tax assets .....	<b>(83)</b>	440	722
Actual tax expense .....	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

A reconciliation of actual income tax expense (benefit) in the financial statements to the “expected” tax benefit (computed by applying the statutory Federal income tax rate of 34% to loss before income taxes) is as follows:

<i>(In Thousands)</i>	2007	2006	2005
Computed “expected” tax expense (benefit) .....	\$ 54	\$ (409)	\$ (655)
State income taxes, net of effect of Federal income taxes .....	9	(49)	(81)
Disallowed deductions .....	20	18	14
Benefit of book net operating losses not recognized .....	-	440	722
Reversal of valuation allowance related to deferred tax assets, net. ....	(83)	-	-
Actual tax expense .....	\$ -	\$ -	\$ -

At December 31, 2007 the Bank has a net operating loss carryforwards for tax purposes of approximately \$5,403,000 which are available to reduce Federal income taxes. Unused carryforwards begin to expire in 2024.

The Bank adopted the provisions of FIN 48, “Accounting for Uncertainty in Income Taxes”, on January 1, 2007, with no impact on the financial statements.

**(10) COMMITMENT AND CONTINGENCIES**

During November, 2004, the Bank entered into a ground lease for their new branch location located on Memorial Boulevard in Murfreesboro, Tennessee. The agreement provides for lease payments of \$6,024 per month through November, 2009. Thereafter, the lease payment will be adjusted every five years based on the change in the Consumer Price Index for the prior five-year lease term as provided by the Bureau of Labor Statistics of the United States Department of Labor. The ground lease expires in November, 2024.

During 2005, the Bank entered into an operating lease agreement for the facility related to the operation of a branch office in Smyrna, Tennessee. The agreement provides for lease payments of \$4,000 per month through April, 2010. Thereafter, this lease will be month-to-month.

The Bank has entered into a lease related to a temporary facility. The lease is on a month-to-month basis with monthly payments of \$850.

Future minimum payments under these operating leases as of December 31, 2007 are as follows:

<i>(In Thousands)</i>	
<u>Year Ending December 31,</u>	
2008.....	\$ 120
2009.....	120
2010.....	88
2011.....	72
2012.....	72
Thereafter .....	857
	<u>\$ 1,329</u>

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

Rental payments under all leases totaled \$131,000, \$133,000 and \$137,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

The Bank has lines of credit with other financial institutions, including the Federal Home Loan Bank, totaling \$45,000,000. At December 31, 2007 there was \$7,572,000 outstanding under these lines of credit.

**(11) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

The Bank is 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 consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of 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 notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

<i>(In Thousands)</i>	<b>Contract or Notional Amount</b>	
	<b>2007</b>	<b>2006</b>
Financial instruments whose contract amount represent credit risk:		
Unused commitments to extend credit .....	<b>\$ 51,485</b>	\$ 39,668
Standby letters of credit.....	<b>1,734</b>	596
<i>Total</i> .....	<b>\$ 53,219</b>	\$ 40,264

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to be drawn upon, the total commitment amounts generally represent future cash requirements. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The fair value of standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counter parties drawing on such financial instruments and the present creditworthiness of such counter parties. Such commitments have been made on terms which are competitive in the markets in which the Bank operates, thus, the fair value of standby letters of credit equals the carrying value for the purposes of this disclosure. The maximum potential amount of future payments that the Bank could be required to make under the guarantees totaled \$1,734,000 and \$596,000 at December 31, 2007 and 2006, respectively.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

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**(12) ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

*Derivative Loan Commitments*

Mortgage loan commitments are referred to as derivative loan commitments if the loans that will result from the exercise of the commitments will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Bank to the risk that the price of the loans arising from exercise of the loan commitments might decline from inception of the rate locks to funding of the loans due to increases in mortgage interest rates. If interest rates increase, the values of these loan commitments decrease. Conversely, if interest rates decrease, the values of these loan commitments increase. The notional amount of undesignated mortgage loan commitments was \$1,159,000 at December 31, 2007. The total fair value of such commitments was immaterial as of December 31, 2007.

*Forward Loan Sale Commitments*

To protect against the price risk inherent in derivative loan commitments, the Bank utilizes “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a “best efforts” contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loans being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sales commitments will experience changes in fair values opposite to the change in fair values of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was \$2,146,000 at December 31, 2007. The total fair value of such commitments was immaterial as of December 31, 2007.

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**(13) CONCENTRATION OF CREDIT RISK**

Practically all of the Bank’s loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank’s market area. Practically all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in note 2 to the consolidated financial statements.

At December 31, 2007 and 2006, the Bank’s cash and due from banks included commercial bank deposits aggregating \$7,408,000 and \$18,097,000, respectively, in excess of the Federal Deposit Insurance Corporation limit of \$100,000 per institution.

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*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

**(14) REGULATORY MATTERS AND RESTRICTIONS ON DIVIDENDS**

The Bank is subject to regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Tennessee Department of Financial Institutions. Failure to meet capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that could, in that event, have a direct material effect on the institution's financial statements. The relevant regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting principles. The Bank's capital classifications are also subject to qualitative judgments by the Regulators about components, risk weightings and other factors. Those qualitative judgments could also affect the Bank's capital status and the amount of dividends the Bank may distribute.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (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 and 2006, that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2007 and 2006 are also presented in the table.

<i>(Dollars In Thousands)</i>	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2007:</b>						
Total capital to risk weighted assets .....	\$ 32,620	14.3%	\$ 18,249	8.0%	\$ 22,811	10.0%
Tier 1 capital to risk weighted assets .....	\$ 30,578	13.4%	\$ 9,125	4.0%	\$ 13,687	6.0%
Tier 1 capital to average assets .....	\$ 30,578	13.0%	\$ 9,439	4.0%	\$ 11,799	5.0%
<b>December 31, 2006:</b>						
Total capital to risk weighted assets .....	\$ 28,117	15.4%	\$ 14,633	8.0%	\$ 18,291	10.0%
Tier 1 capital to risk weighted assets .....	\$ 26,195	14.3%	\$ 7,317	4.0%	\$ 10,975	6.0%
Tier 1 capital to average assets .....	\$ 26,195	12.5%	\$ 8,371	4.0%	\$ 10,464	5.0%

Under the terms of an agreement with the Bank's regulatory agency, the Bank was restricted from paying dividends for a period of three years from the date the Bank began operations (January 20, 2004). The restriction was lifted in January, 2007. The Bank is also restricted from seeking approval for the payment of dividends by Tennessee State law that requires a bank to be profitable for two consecutive years before paying dividends.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

**(15) STOCK OPTION ARRANGEMENT**

In October, 2004, the stockholders of the Bank approved the MidSouth Bank 2004 Stock Option Arrangement (the "Arrangement"). The Arrangement provides for the granting of stock options, and authorizes the issuance of common stock upon the exercise of such options, for up to 380,000 shares of common stock to employees and organizers of the Bank and up to 143,080 shares of common stock for future use as decided by the Board of Directors.

Under the Arrangement, stock option awards may be granted in the form of incentive stock options or nonstatutory stock options, and are generally exercisable for up to ten years following the date such option awards are granted. Exercise prices of incentive stock options must be equal to or greater than 100% of the fair market value of the common stock on the grant date and generally vest at the end of four years. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Arrangement).

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Bank's common stock and other factors. The Bank uses historical data to estimate option exercise and employee termination with the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. 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. No options were granted during the year ended December 31, 2006. A total of 14,000 options were granted during the year ended December 31, 2007.

	2007	2005
Volatility .....	15.00%	0.0001%
Dividend yield .....	- %	1.00%
Expected term (in years) .....	5 - 7.5	7
Risk-free rate .....	4.92%	4.40%

A summary of option activity under the Arrangement is presented below:

<i>Options</i>	<i>Shares</i>	<i>Weighted-Average Exercise Price</i>	<i>Weighted Average Remaining Contractual Maturity</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at December 31, 2004 .....	380,000	\$ 10.00		
Granted.....	71,000	\$ 10.00		
Exercised.....	-			
Forfeited.....	-			
Outstanding at December 31, 2005 .....	451,000	\$ 10.00		
Granted.....	-			
Exercised.....	(20,000)	\$ 10.00		
Forfeited.....	(5,500)	\$ 10.00		
Outstanding at December 31, 2006 .....	425,500	\$ 10.00		
Granted.....	14,000	\$ 10.00		
Exercised.....	(18,000)	\$ 10.00		
Forfeited.....	(1,000)	\$ 10.00		
Outstanding at December 31, 2007 .....	<b>420,500</b>	<b>\$ 10.00</b>	<b>6.7</b>	<b>\$ 2,103,000</b>
Exercisable at December 31, 2007 .....	<b>337,078</b>	<b>\$ 10.00</b>	<b>6.7</b>	<b>\$ 1,685,000</b>

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

The total intrinsic value of options exercised during the year ended December 31, 2007 was \$69,000. The weighted-average grant-date fair value of options granted during the years ended December 31, 2007 and 2005, was \$3.30 and \$1.99, respectively. There were no options granted in 2006.

As of December 31, 2007, there was \$73,000 of total unrecognized compensation cost related to nonvested share-based compensation granted under the Arrangement. The cost is expected to be recognized over a weighted-average period of 2.2 years. The total fair value of shares vested during the years ended December 31, 2007 and 2006 was \$48,000 and \$54,000, respectively. Compensation cost recognized for the year ended December 31, 2007 totaled \$38,000.

The following pro forma information presents net loss and loss per common share for 2005 as if the fair value method of SFAS No. 123 had been used to measure compensation cost for the Arrangement. For purposes of these pro forma disclosures, the estimated fair value of stock options is amortized to expense over the related vesting periods.

<i>(In Thousands, Except Per Share Amounts)</i>		For the Year Ended December 31, 2005
Net loss.....	As Reported.....	\$ (1,927)
	Proforma.....	\$ (2,331)
Basic loss per common share .....	As Reported.....	\$ (.65)
	Proforma.....	\$ (.78)
Diluted loss per common share .....	As Reported.....	\$ (.65)
share .....	Proforma.....	\$ (.78)

**(16) STOCK WARRANTS**

As part of the original offering of common stock during its organizational phase, any shares purchased received non-detachable warrants which provide the stockholder the ability to purchase one additional share of common stock for every two shares of common stock purchased. The purchase price for the additional shares is equal to the greater of \$10 or 110% of the book value of the stock at the date of exercise. For each recipient, one half of the warrants received were required to be exercised within three years from January 20, 2004 (the date of issuance) and the other half within five years of the date of issuance. The “three-year warrants” have expired (if unexercised) and the “five-year warrants” will expire on January 20, 2009. There were 400,467 and 202,866 warrants exercised in 2007 and 2006, respectively. There were 128,690 warrants forfeited in 2007. Total warrants outstanding as of December 31, 2007 and 2006 totaled 526,963 and 1,056,120, respectively.

**(17) ADDITIONAL RELATED PARTY TRANSACTIONS**

In the normal course of business, the Bank utilizes legal and landscaping services which are provided by companies with board member relationships. During 2007, 2006 and 2005, the fees paid to these companies were not significant.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

**(18) RETIREMENT PLAN**

The Bank has in effect a 401(K) profit sharing plan that covers eligible employees. To participate in the plan an employee must have reached the age of 18. The provisions of the plan provide for both employee and employer contributions. For the years ended December 31, 2007, 2006 and 2005, the Bank contributed \$128,000, \$107,000 and \$80,000, respectively, to this plan.

**(19) EARNINGS PER COMMON SHARE**

SFAS No. 128 "Earnings Per Share" establishes uniform standards for computing and presenting earnings per share. The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. For the Bank the computation of diluted earnings per share begins with the basic earnings per share plus the effect of common shares contingently issuable from stock options and warrants.

The following is a summary of the components comprising basic and diluted earnings (loss) per common share (EPS):

<i>(In Thousands, Except Share and Per Share Amounts)</i>	<b>2007</b>	2006	2005
<b>Basic EPS Computation:</b>			
Numerator - Earnings (loss) for the year.....	\$ <b>159</b>	\$ (1,204)	\$ (1,927)
Denominator - Weighted average number of common shares outstanding .....	<b>3,703,040</b>	3,182,339	2,985,395
Basic earnings (loss) per common share .....	<b>\$ .04</b>	\$ (.38)	\$ (.65)
<b>Diluted EPS Computation:</b>			
Numerator - Earnings (loss) for the year.....	\$ <b>159</b>	\$ (1,204)	\$ (1,927)
Denominator:			
Weighted average number of common shares outstanding.....	<b>3,703,040</b>	3,182,339	2,985,395
Dilutive effect of stock options.....	<b>111,196</b>	-	-
Dilutive effect of warrants .....	<b>175,965</b>	-	-
	<b>3,990,201</b>	3,182,339	2,985,395
Diluted earnings (loss) per common share .....	<b>\$ .04</b>	\$ (.38)	\$ (.65)

The effect of stock options and warrants was excluded from the 2006 and 2005 computations since the Bank had a loss from continuing operations and the exercise of options and warrants would have been antidilutive.

**(20) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107 "Disclosures about Fair Value of Financial Instruments", requires that the Bank disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Bank's financial instruments.

***Cash and short-term investments***

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

*Notes to Consolidated Financial Statements, Continued*  
December 31, 2007, 2006 and 2005

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### **Securities**

The carrying amounts for short-term securities approximate fair value because they mature in 90 days or less and do not present unanticipated credit concerns. The fair value of longer-term securities and mortgage-backed securities, except certain state and municipal securities, is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

SFAS No. 107 specifies that fair values should be calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. Accordingly, these considerations have not been incorporated into the fair value estimates.

### **Loans**

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, mortgage and other consumer. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of the various categories 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 average estimated maturities.

The estimated maturity for mortgages is modified from the contractual terms to give consideration to management's experience with prepayments. Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented below would be indicative of the value negotiated in an actual sale.

The value of the loan portfolio is also discounted in consideration of the credit quality of the loan portfolio as would be the case between willing buyers and sellers. Particular emphasis has been given to loans on the Bank's internal watch list. Valuation of these loans is based upon borrower performance, collateral values (including external appraisals), etc.

### **Loans Held for Sale**

These instruments are carried in the consolidated balance sheet at the lower of cost or market value. The fair values of these instruments are based on subsequent liquidation values of the instruments which did not result in any significant gains or losses.

### **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. Under the provision of SFAS No. 107 the fair value estimates for deposits does not include the benefit that results from the low cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

***Federal Funds Purchased And Sold***

The carrying amounts approximate fair value as Federal funds are overnight borrowings or investments.

***Advances from Federal Home Loan Bank***

The carrying amounts approximate fair value as they mature in 90 days or less.

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

Loan commitments are made to customers generally for a period not to exceed one year and at the prevailing interest rates in effect at the time the loan is closed. Commitments to extend credit related to construction loans are made for a period not to exceed one year with interest rates at the current market rate at the date of closing. In addition, standby letters of credit are issued for periods extending from one to two years with rates to be determined at the date the letter of credit is funded. Fees are only charged for the construction loans and the standby letters of credit and the amounts unearned at December 31, 2007, are insignificant. Accordingly, these commitments have no carrying value and management estimates the commitments to have no significant fair value.

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

<i>(In Thousands)</i>	2007		2006	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Financial assets:				
Cash and short-term investments.....	\$ 8,858	\$ 8,858	\$ 19,599	\$ 19,599
Securities .....	31,248	31,248	36,347	36,347
Restricted equity securities .....	1,439	1,439	1,092	1,118
Loans held for sale .....	987	987	1,739	1,739
Loans .....	193,106		150,379	
Less: allowance for loan losses .....	(2,032)		(1,922)	
Loans, net of allowance.....	191,074	189,449	148,457	145,041
Financial liabilities:				
Deposits .....	207,448	207,531	192,516	192,664
Advances from Federal Home Loan Bank .....	7,346	7,346	-	-
Federal funds purchased .....	226	226	-	-
Unrecognized financial instruments:				
Commitments to extend credit .....	-	-	-	-
Standby letters of credit.....	-	-	-	-

*Notes to Consolidated Financial Statements, Continued*  
**December 31, 2007, 2006 and 2005**

**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on estimating on-and-off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets and liabilities and property, plant and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**(21) QUARTERLY FINANCIAL DATA (UNAUDITED)**

Selected quarterly results of operations for the four quarters ended December 31 are as follows:

*(In Thousands, except per share data)*

	2007				2006			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income .....	\$ 3,918	\$ 3,887	\$ 3,720	\$ 3,524	\$ 3,359	\$ 3,086	\$ 2,502	\$ 2,073
Net interest income.....	2,144	2,078	1,895	1,753	1,652	1,504	1,344	1,216
Provision for loan losses.....	160	122	61	57	215	129	97	170
Earnings (loss) before income taxes .....	(81)	169	45	26	(365)	(216)	(274)	(349)
Net earnings (loss).....	(81)	169	45	26	(365)	(216)	(274)	(349)
Basic earnings (loss) per common share .....	(.02)	.05	.01	.01	(.11)	(.07)	(.09)	(.11)
Diluted earnings (loss) per common share .....	(.02)	.04	.01	.01	(.11)	(.07)	(.09)	(.11)

## MIDSOUTH BANK

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### Board of Directors

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**ALLEN, JIMMY**

*President  
Venture Express, Inc. (Trucking)*

**ALEXANDER, DON**

*President  
Alexander Ford-Lincoln-Mercury and  
Alexander Chevrolet-Oldsmobile-Cadillac*

**BARTON, ROSEANN**

*Principal  
John Pittard Elementary School*

**CAUDLE, DALLAS**

*Secretary to the Board  
Executive Vice President  
MidSouth Bank*

**COGGIN, GERALD**

*Senior Vice President  
National HealthCare Corporation*

**DECKER, DAN**

*Co-Owner/Partner  
Decker and Belt Company (Construction)*

**DEMPSEY, PERCY E., III, CPA**

*Member in Charge of Consulting Services  
Dempsey Vantrease & Follis PLLC  
(Accounting and Consulting)*

**FLOYD, JOHN**

*Owner & President  
Ole South Properties, Inc.  
(Real Estate and Construction)*

**GINTZIG, DONALD**

*Rear Admiral United States Navy  
Assistant Chief - Health Care Operations*

**JOHNS, FRANK, JR.**

*Owner  
Frank Johns Realty Company*

**MOSS, LEE**

*Chairman & CEO  
MidSouth Bank*

**MURFREE, MATT B.**

*Senior Partner  
Murfree & Murfree PLLC (Attorney)*

**O'BRIEN, BETH**

*Managing Broker  
Coldwell Banker Snow and Wall  
(Real Estate Sales)*

**PARKS, BOB**

*Owner  
The Parks Group (Real Estate Sales)*

**SMITH, DR. GEORGE**

*Physician/Partner  
Family Health Associates*

**WALDRON, GREG**

*Partner/Managing Member  
Waldron Enterprises (Construction)*

**WEATHERFORD, BEN**

*President & COO  
MidSouth Bank*

**WEATHERFORD, JACK**

*Senior Chairman  
MidSouth Bank*

## MIDSOUTH BANK

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### MidSouth Bank Officers

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**BOWMAN, JANET**

*Assistant Vice President -  
Old Fort Parkway Office Leader*

**BURTON, ALISA**

*Vice President - Community Banker - Murfreesboro*

**BUSBY, KEVIN D.**

*Senior Vice President & CFO*

**CAUDLE, DALLAS G., JR.**

*Executive Vice President - Lending*

**GIPSON, ANDREA**

*Assistant Vice President - Accounting*

**GLASGOW, JENNIFER**

*Assistant Vice President - Memorial Office Leader*

**HAMBLIN, BEVERLEY**

*Assistant Vice President - Sam Ridley Office Leader*

**HICKS, TONY**

*Vice President - Regional Branch Operations  
Manager - Main Office Leader*

**JERNIGAN, D. EDWIN, JR.**

*Senior Vice President - Investments*

**JONES, LEATH ANN**

*Vice President - Business Banking*

**KING, GINA A.**

*Vice President & Trust Officer - Trust*

**MARSTEINER, DEBBIE**

*Vice President - Loan Operations*

**MARTIN, FELECIA**

*Assistant Vice President - South Church Street  
Office Leader*

**MARTIN, RONNIE**

*Assistant Vice President - Real Estate Lending*

**MEDLEN, REGINA**

*Vice President - Community Banker - Smyrna*

**MILLER, AL**

*Vice President - Real Estate Lending*

**MOORE, ABBY**

*Information Technology Officer*

**MOSS, LEE**

*Chairman & CEO - Branch Administration,  
Marketing, Bank Building Projects*

**PARKS, LYNDELL**

*Vice President - Deposit Operations Team Leader*

**SAALFELD, MARSHA**

*Assistant Vice President - Mortgage Loan  
Originator*

**SADLER, JOE G.**

*Vice President - Small Business & Consumer  
Lending*

**STONE, RICHARD**

*Assistant Vice President - Commercial Banking*

**TAYLOR, LISA A.**

*Senior Vice President - Lending*

**WADDEY, PAM**

*Assistant Vice President - Loan Operations*

**WEATHERFORD, BEN**

*President & COO - Lending*

**WEATHERFORD, JACK O.**

*Senior Chairman*

**WELBORN, KARREN**

*Assistant Vice President - Mortgage Team Leader*

**WHITE, KIM**

*Assistant Vice President - Mortgage Loan  
Originator*

## **MIDSOUTH BANK**

### ***Market and Dividend Information***

There is no established public trading market for the Bank's common stock and trading, if any, is very thin and privately negotiated. The Bank has no "trading symbol" and it is not listed on any established public securities exchange. Management believes that Middle Tennessee, especially Rutherford County, is the principal market area for the common stock. The following table sets forth the estimated high and low sales prices per share of the common stock for each quarter of fiscal 2007 and 2006. Such information may not include all transactions in the Bank's common stock for the respective periods shown, and it is possible that transaction occurred during the periods reflected or discussed at prices higher or lower than the prices set forth in the table. Certain of the transactions involved, or may have involved, persons affiliated with the Bank. The information concerning transactions in the Bank's common stock is believed to be accurate but it is based on information reported to the Bank but that has not been verified. The Bank first began conducting its full-service banking business on January 20, 2004.

	2007		2006	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 17.00	\$ 11.00	\$ 17.00	\$ 13.00
Second Quarter	\$ 15.50	\$ 10.00	\$ 17.00	\$ 12.00
Third Quarter	\$ 15.00	\$ 10.00	\$ 17.00	\$ 12.00
Fourth Quarter	\$ 16.00	\$ 10.00	\$ 17.50	\$ 17.00

The Bank paid no dividends in 2007 and cannot pay dividends under Tennessee law until the Bank has achieved two consecutive years of profitable earnings. The Bank has opted to reinvest its earnings to support its growth and to finance its operations. Assuming continued growth consistent with historical experience, it is currently expected that the Bank would continue its reinvestment strategy indefinitely (and thus not pay cash dividends for the foreseeable future). However, the Bank could in the future elect to pay permissible stock and/or cash dividends in 2009 or in later years if so determined by its board of directors based on factors such as regulatory requirements and working capital needs, asset growth, results of operations, and the exercise of prudence by the board of directors.

### ***Federal Deposit Insurance Corporation Statement***

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

### ***Availability of Form 10-KSB***

**Upon the written request of any record holder or beneficial owner of the shares of our Common Stock entitled to vote at the 2008 Annual Meeting, we will provide, without charge, a copy of our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, together with financial statements and schedules, as filed with the Federal Reserve Board.** Requests should be mailed to Dallas G. Caudle, Jr., at the Bank's Corporate Office. The Bank will provide copies of any exhibit requested in writing from the Investor Relations Department for a reasonable copying charge that will not exceed \$1.00 per page. (A list of Exhibits can be found in the Annual Report on Form 10-KSB under the caption "Exhibit Index.") Each request must contain a good faith representation that the requesting party, as of the record date for this year's annual meeting of the Bank's stockholders, is or was a beneficial owner of Bank securities entitled to vote.

## ***MIDSOUTH BANK***

### ***Corporate Office***

One East College Street, Murfreesboro, TN 37130

### ***2008 Annual Meeting***

The 2008 annual meeting of stockholders will be held May 29, 2008 at 4:30 p.m. at MidSouth Bank, One East College Street, Murfreesboro, Tennessee.

### ***Investor Services and Transfer Agent***

The Bank has appointed Dallas G. Caudle, Jr., Executive Vice President, as its principal Investor Services spokesperson. He may be reached at (615) 278-7100, by mail at P.O. Box 7100, Murfreesboro, Tennessee 37133, and by e-mail at [info@midsouthbanking.com](mailto:info@midsouthbanking.com). The Bank acts as its own transfer agent. The transfer agent can be contacted at the address of the Bank's Corporate Office and at the above telephone number; ask for Debbie Marsteiner or Dallas Caudle. The Bank's Internet Web Site address is [www.midsouthbanking.com](http://www.midsouthbanking.com). A copy of the Bank's 2007 Annual Report to Shareholders can be obtained by Shareholders on written request to the Bank at its Corporate Office, Attention: Investor Services.

### ***Lines of Business***

MidSouth Bank is a full-service commercial bank. The Bank offers demand deposit accounts (checking and money market), savings accounts, certificates of deposit and retirement accounts. These deposit accounts are available to individuals and to businesses. The Bank also offers a variety of loans to help meet personal credit needs, business needs and is engaged in a spectrum of real estate loans to individuals, contractors and developers. A mortgage loan department exists to assist home owners with long-term fixed rate loans as well as adjustable rate mortgages. Ancillary services are provided including safe deposit boxes, issuance of cashier's checks, notary services, night depository services, automated teller machines (ATMs), wire transfers, debit cards, credit cards and internet banking capabilities.

### ***Business Philosophy***

MidSouth Bank believes that it is important to help customers accumulate and manage wealth and then to assist in the planning of transferring wealth to heirs. As a result, the Bank provides investment and trust services (wealth management and estate planning) to our customers. Though the products offered in these areas are non-FDIC insured, assets are managed in a fashion that is consistent with our client's objectives and suitability.

## ***MIDSOUTH BANK***

### ***Code of Ethics***

The Bank has adopted a Code of Ethics that is applicable to all employees of the Bank, including the principal executive officer, the principal financial officer and the principal accounting officer. The Code of Ethics is available for inspection at the corporate office at One East College Street, Murfreesboro, Tennessee 37130. The Bank intends to give notices of amendments to or waivers from its Code of Ethics (to the extent applicable to the Bank's directors, chief executive officer, principal financial officer or principal accounting officer) by appropriate filings on Form 8-K.

Independent Registered Public  
Accounting Firm:

Maggart & Associates, P.C.  
Suite 2150, 150 Fourth Avenue, North  
Nashville, Tennessee 37219

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### ***MidSouth Bank Offices***

Main Office of the Bank	One East College Street Murfreesboro, TN 37130
Lowry Street Office	403 South Lowry Street Smyrna, TN 37167
Sam Ridley Parkway Office	724 President Place Smyrna, TN 37167
Memorial Boulevard Office	2415 Memorial Boulevard Murfreesboro, TN 37129
South Church Street Office	2782 South Church Street Murfreesboro, TN 37128
Old Fort Parkway Office	2610 Old Fort Parkway Murfreesboro, TN 37128

### **FOR MORE INFORMATION:**

**MidSouth Bank**  
**One East College Street**  
**Murfreesboro, Tennessee 37130**  
**Attention: Investor Services**

**(615) 278-7100**