



**Great American  
Bancorp, Inc.**

**Annual Report**

**2006**

## TABLE OF CONTENTS

Independent Auditor's Report.....	2
Consolidated Balance Sheets .....	3
Consolidated Statements of Income.....	4
Consolidated Statements of Stockholders' Equity.....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Shareholder Information .....	36
Directors and Officers.....	38

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Board of Directors and Stockholders  
Great American Bancorp, Inc.  
Champaign, Illinois

We have audited the accompanying consolidated balance sheets of Great American Bancorp, Inc. as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 2006 and 2005 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Great American Bancorp, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Champaign, Illinois  
March 6, 2007

McGladrey & Pullen, LLP is a member firm of RSM International –  
an affiliation of separate and independent legal entities.

# GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

December 31, 2006 and 2005

(in thousands, except share data)

	<u>2006</u>	<u>2005</u>
<i>Assets</i>		
Cash and due from banks	\$ 4,606	\$ 4,518
Interest-bearing demand deposits	9,796	5,655
Federal Home Loan Bank term deposit	--	4,000
Cash and cash equivalents	<u>14,402</u>	14,173
Securities available for sale	1,887	2,343
Securities held to maturity (fair value approximates \$1,140 and \$1,185)	1,148	1,193
Federal Home Loan Bank stock, at cost	1,210	1,477
Loans held for sale	347	255
Loans, net of allowance for loan losses of \$956 and \$953	115,069	116,575
Premises and equipment, net	5,550	5,699
Goodwill	485	485
Other assets	1,987	1,968
Total assets	<u>\$ 142,085</u>	<u>\$ 144,168</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
<i>Deposits</i>		
Noninterest-bearing	\$ 14,528	\$ 14,157
Interest-bearing	94,441	94,288
Total deposits	<u>108,969</u>	108,445
Federal Home Loan Bank advances	13,000	16,000
Advances from borrowers for taxes and insurance	288	279
Other liabilities	2,335	2,170
Total liabilities	<u>124,592</u>	126,894
Commitments and contingencies (Notes 7, 11 and 12)		
<i>Stockholders' Equity</i>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, \$0.01 par value; 1,000,000 shares authorized and issued	10	10
Additional paid-in capital	3,270	3,411
Retained earnings	24,722	23,484
Unearned incentive plan shares	(55)	(56)
Accumulated other comprehensive loss	(7)	(9)
Common stock in treasury, at cost (2006 – 327,017 shares; 2005 – 313,075 shares)	<u>(10,447)</u>	<u>(9,566)</u>
Total stockholders' equity	<u>17,493</u>	17,274
Total liabilities and stockholders' equity	<u>\$ 142,085</u>	<u>\$ 144,168</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2006 and 2005**

(in thousands, except share data)

	<u>2006</u>	<u>2005</u>
Interest and Dividend Income		
Loans	\$ 8,045	\$ 8,123
Securities	138	154
Federal Home Loan Bank stock	44	70
Deposits with financial institutions and other	358	549
Total interest and dividend income	<u>8,585</u>	<u>8,896</u>
Interest Expense		
Deposits	1,856	1,294
Federal Home Loan Bank advances	585	620
Other	32	24
Total interest expense	<u>2,473</u>	<u>1,938</u>
Net Interest Income	<u>6,112</u>	<u>6,958</u>
Provision for Loan Losses	--	--
Net Interest Income After Provision for Loan Losses	<u>6,112</u>	<u>6,958</u>
Noninterest Income		
Insurance sales commissions	1,994	2,340
Customer service fees	545	558
Other service charges and fees	283	275
Net gain on sales of loans	54	100
Loan servicing fees	138	144
Other	150	126
Total noninterest income	<u>3,164</u>	<u>3,543</u>
Noninterest Expense		
Salaries and employee benefits	4,205	4,280
Occupancy expense	582	587
Equipment expense	498	563
Professional fees	258	243
Marketing expense	307	268
Printing and office supplies	292	287
Directors and committee fees	137	137
Amortization of mortgage servicing rights	42	56
Other	516	577
Total noninterest expenses	<u>6,837</u>	<u>6,998</u>
Income Before Income Taxes	<u>2,439</u>	<u>3,503</u>
Income tax expenses	<u>916</u>	<u>1,342</u>
Net Income	<u>1,523</u>	<u>2,161</u>
Earnings per share:		
Basic	<u>\$ 2.23</u>	<u>\$ 3.00</u>
Diluted	<u>\$ 2.21</u>	<u>\$ 2.88</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Stockholders' Equity**

**Years Ended December 31, 2006 and 2005**

(in thousands, except share data)

	<i>Shares of Common Stock</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Unearned Incentive Plan Shares</i>	<i>Accumulated Other Comprehensive Income (loss)</i>	<i>Treasury Stock</i>	<i>Total</i>
Balance, December 31, 2004	735,003	\$ 21	\$ 20,635	\$ 21,640	\$ (59)	\$ (9)	\$ (24,546)	\$ 17,682
Comprehensive Income								
Net income	--	--	--	2,161	--	--	--	2,161
Change in net unrealized loss on securities available for sale, net of tax effect	--	--	--	--	--	--	--	--
Total comprehensive income	--	--	--	--	--	--	--	2,161
Cash dividends declared (\$0.44 per share)	--	--	--	(317)	--	--	--	(317)
Purchase of treasury stock	(101,055)	--	--	--	--	--	(3,267)	(3,267)
Stock options exercised	52,977	--	(25)	--	--	--	742	717
Tax benefit related to stock options exercised	--	--	261	--	--	--	--	261
Tax benefit related to stock awards	--	--	34	--	--	--	--	34
Incentive plan shares earned (240 shares)	--	--	--	--	3	--	--	3
Retirement of treasury stock	--	(11)	(17,494)	--	--	--	17,505	--
Balance, December 31, 2005	686,925	\$ 10	\$ 3,411	\$ 23,484	\$ (56)	\$ (9)	\$ (9,566)	\$ 17,274
Comprehensive Income								
Net income	--	--	--	1,523	--	--	--	1,523
Change in net unrealized loss on securities available for sale, net of tax effect	--	--	--	--	--	2	--	2
Total comprehensive income	--	--	--	--	--	--	--	1,525
Cash dividends declared (\$0.44 per share)	--	--	--	(285)	--	--	--	(285)
Purchase of treasury stock	(47,547)	--	--	--	--	--	(1,590)	(1,590)
Stock options exercised	33,605	--	(327)	--	--	--	709	382
Tax benefit related to stock options exercised	--	--	186	--	--	--	--	186
Incentive plan shares earned (240 shares)	--	--	--	--	1	--	--	1
<b>Balance, December 31, 2006</b>	<b>672,983</b>	<b>\$ 10</b>	<b>\$ 3,270</b>	<b>\$ 24,722</b>	<b>\$ (55)</b>	<b>\$ (7)</b>	<b>\$ (10,447)</b>	<b>\$ 17,493</b>

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2006 and 2005**  
(in thousands)

	2006	2005
Cash flows from operating activities:		
Net income	\$ 1,523	\$ 2,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	437	479
Net amortization of securities	3	4
Amortization of deferred loan fees, net	3	10
Amortization of mortgage servicing rights	42	56
Deferred income tax benefit	(124)	(75)
Realized gain on sales of loans	(54)	(100)
Loans originated for sale	(4,612)	(7,741)
Proceeds from loan sales	4,552	7,672
Incentive plan expense	1	3
Tax benefit related to stock awards	--	34
Federal Home Loan Bank stock dividends	--	(70)
Net loss on sales of premises and equipment	--	15
Changes in		
Other assets	83	(235)
Other liabilities	167	175
Net cash provided by operating activities	<u>2,021</u>	<u>2,388</u>
Cash flows from investing activities:		
Principal payments received on mortgage-backed securities available-for-sale	457	779
Purchases of securities held-to-maturity	--	(1,000)
Principal payments received on mortgage-backed securities held-to-maturity	45	98
Loan originations and principal collections, net	1,503	5,552
Federal Home Loan Bank stock redeemed	267	--
Purchase of premises and equipment	(316)	(252)
Proceeds from sales of premises and equipment	28	8
Net cash provided by investing activities	<u>1,984</u>	<u>5,185</u>
Cash flows from financing activities:		
Net decrease in demand deposits, money market, NOW and savings accounts	(6,149)	(6,433)
Net increase (decrease) in certificates of deposit	6,673	(10,173)
Proceeds from Federal Home Loan Bank advances	22,000	4,000
Repayment of Federal Home Loan Bank advances	(25,000)	(3,000)
Proceeds from stock options exercised	382	717
Purchase of treasury stock	(1,590)	(3,267)
Tax benefit related to stock options exercised	186	261
Dividends paid	(287)	(322)
Net increase in advances from borrowers for taxes and insurance	9	--
Net cash used in financing activities	<u>(3,776)</u>	<u>(18,217)</u>
Increase (Decrease) in Cash and Cash Equivalents	229	(10,644)
Cash and Cash Equivalents, Beginning of Year	14,173	24,817
Cash and Cash Equivalents, End of Year	<u>\$ 14,402</u>	<u>\$ 14,173</u>
Supplemental cash flows information:		
Interest paid on deposits and borrowed funds	\$ 2,477	\$ 1,927
Income taxes paid	895	1,006
Supplemental schedule of non-cash financing activities:		
Dividends payable	\$ 74	\$ 76

The accompanying notes are an integral part of these consolidated financial statements.

**GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2006 and 2005**

(Table dollar amounts in thousands, except share data)

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of Great American Bancorp, Inc. (the “Company”) and First Federal Savings Bank of Champaign-Urbana, (the “Bank”), and the Bank’s wholly-owned subsidiary, Park Avenue Service Corporation (“PASC”). All significant intercompany balances and transactions have been eliminated in consolidation.

*Nature of Operations*

The Company is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, the Bank. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Champaign County, Illinois and surrounding counties. The Bank also provides full service brokerage activities through a third-party broker-dealer and engages in the sale of tax deferred annuities. The revenue generated from brokerage services is dependent upon maintaining relationships with the current brokerage providers. The Company and Bank are subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Bank’s subsidiary, PASC, offers insurance services to customers located primarily in Illinois. GTPS Insurance Agency, (the “Agency”) a division of PASC, sells a variety of insurance products to both individuals and businesses, including life, health, auto, property and casualty insurance. The revenue generated by PASC is dependent upon maintaining relationships with the current insurance providers.

*Use of Estimates*

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required 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 balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, and postretirement benefit obligation.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties. Management estimates mortgage servicing rights taking into consideration changes in interest rates, current prepayment rates and expected future cash flows. Management obtains an actuarial calculation to estimate the postretirement benefit obligation.

### *Cash and Cash Equivalents*

For purposes of the consolidated statements of cash flows, cash and cash equivalents include balances of interest bearing demand deposits, federal funds sold, and Federal Home Loan Bank term deposits that mature within three months or less.

### *Securities*

Securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### *Federal Home Loan Bank Stock*

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula. This investment is accounted for at cost.

### *Loans Held for Sale*

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

### *Loans*

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Champaign County, Illinois.

The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

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

#### *Allowance for Loan Losses*

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

### *Servicing*

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is included in noninterest expense.

### *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

### *Premises and Equipment*

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated lives are thirty-nine years for building and improvements, fifteen years to twenty-five years for leasehold improvements, and three years to seven years for furniture and equipment.

### *Transfers of Financial Assets*

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

### *Income Taxes*

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns with its subsidiary.

### *Intangible Assets*

The excess of cost over the fair value of assets acquired for transactions accounted for as a purchase is recorded as an asset by the Company. On a periodic basis, the Company reviews the intangible assets for events or circumstances that may indicate a change in recoverability of the underlying basis. Management performs the annual impairment test on June 30<sup>th</sup>.

### *Insurance Sales Commissions*

Insurance sales commissions are recognized at the time payment is received from customers billed directly by the Agency, net of an allowance for estimated policy cancellations. Contingent commissions and commissions on premiums billed directly by insurance companies are recorded at the time these commissions are received by the Agency. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of business placed with that insurance company. Commissions on premiums billed by insurance companies primarily relate to a large number of small premium transactions, whereby the billing and policy insurance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

### *Treasury Stock*

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

### *Incentive Plan*

The Company accounts for its stock award program, or incentive plan, in accordance with Accounting Principles Board Opinion ("APB") No. 25. The purchase price of unearned shares owned by the incentive plan is reflected as a reduction of stockholders' equity. Compensation expense is based on the market price of the Company's stock on the date the shares are granted and is recorded over the vesting period. The difference between the aggregate purchase price and the fair value on the date granted of the shares earned is recorded as an adjustment to paid-in capital.

### *Stock Options*

The Company has a stock-based employee compensation plan, which is described more fully in Note 15. As of January 1, 2006, the Company accounted for this plan under the recognition and measurement principles of FASB Statement No. 123(R), *Accounting for Stock-Based Compensation*. Under this method, compensation cost is recognized for stock options granted to employees. Compensation cost is measured as the fair value of these awards on their date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized on a straight-line basis over the required service period for the entire award, generally defined as the vesting period.

In 2005, the Company accounted for the plan according to the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. For 2005, no stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation for 2005.

	Year Ended December 31
	2005
Net income as reported	\$ 2,161
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(2)
Pro forma net income	<u>\$ 2,159</u>
Earnings per share:	
Basic - as reported	<u>\$ 3.00</u>
Basic - pro forma	<u>\$ 2.99</u>
Diluted - as reported	<u>\$ 2.88</u>
Diluted - pro forma	<u>\$ 2.87</u>

### *Earnings Per Share*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock awards and stock options, and are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	December 31,	
	2006	2005
Net income applicable to common stock	\$ 1,523	\$ 2,161
Average number of common shares outstanding	681,483	721,056
Effect of dilutive securities:		
Stock options	4,285	25,730
Unearned incentive plan shares	4,591	4,749
Average number of common shares outstanding used to calculate diluted earnings per common share	<u>690,359</u>	<u>751,535</u>

### *Reclassifications*

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on net income.

### *Comprehensive Income*

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

### *Recent Accounting Pronouncements*

On July 13, 2006, FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. The Company does not expect that the adoption of FIN 48 will have a material impact on its financial position, results of operation and cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

On September 29, 2006, the FASB issued SFAS Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- An Amendment of FASB Statements No. 87, 88, 106, and 132R*. This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. Statement 158 applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of the fiscal year ending after June 15, 2007, for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

#### Note 2: Restriction on Cash and Amounts Due from Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2006 and 2005, the reserve balance amounted to \$1,050,000.

### Note 3: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
Debt securities:				
Mortgage-backed	\$ 1,899	\$ --	\$ (12)	\$ 1,887
Securities held to maturity:				
U.S. federal agency	\$ 1,000	\$ --	\$ (9)	\$ 991
Mortgage-backed	148	1	--	149
Total securities held to maturity	\$ 1,148	\$ 1	\$ (9)	\$ 1,140
	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
Debt securities:				
Mortgage-backed	\$ 2,359	\$ --	\$ (16)	\$ 2,343
Securities held to maturity:				
U.S. federal agency	\$ 1,000	\$ --	\$ (10)	\$ 990
Mortgage-backed	193	3	(1)	195
Total securities held to maturity	\$ 1,193	\$ 3	\$ (11)	\$ 1,185

The Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at December 31, 2006.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2006 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Over 1 year through 5 years	\$ --	\$ --	\$ 1,000	\$ 991
Mortgage-backed	1,899	1,887	148	149
	<u>\$ 1,899</u>	<u>\$ 1,887</u>	<u>\$ 1,148</u>	<u>\$ 1,140</u>

Information pertaining to securities with gross unrealized losses at December 31, 2006 and 2005, aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

	December 31, 2006					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale:						
Debt securities:						
Mortgage-backed	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 12</u>	<u>\$ 1,887</u>	<u>\$ 12</u>	<u>\$ 1,887</u>
Securities held to maturity:						
Debt securities:						
U.S. federal agency	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9</u>	<u>\$ 991</u>	<u>\$ 9</u>	<u>\$ 991</u>

	December 31, 2005					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale:						
Debt securities:						
Mortgage-backed	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 15</u>	<u>\$ 2,343</u>	<u>\$ 15</u>	<u>\$ 2,343</u>
Securities held to maturity:						
Debt securities:						
U.S. federal agency	\$ 10	\$ 990	\$ --	\$ --	\$ 10	\$ 990
Mortgage-backed	1	102	--	--	1	102
	<u>\$ 11</u>	<u>\$ 1,092</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 11</u>	<u>\$ 1,092</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2006, one mortgage-backed security and one U.S. federal agency security had unrealized losses with aggregate depreciation of .63% and .90% from the Company's amortized cost basis respectively. These unrealized losses relate principally to the fluctuations in the current interest rate environment. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies and whether downgrades by bond rating agencies have occurred. As management has the ability to hold securities for the foreseeable future, no declines are deemed to be other than temporary.

**Note 4: Loans**

A summary of the balances of loans follows:

	December 31,	
	2006	2005
First mortgage loans		
Residential 1-4 family	\$ 60,979	\$ 60,399
Secured by other properties	30,587	29,148
Construction loans	2,696	3,496
	<hr/>	<hr/>
Total first mortgage loans	94,262	93,043
	<hr/>	<hr/>
Commercial	9,475	10,644
Consumer	12,309	13,876
	<hr/>	<hr/>
Total loans	116,046	117,563
Less:		
Allowance for loan losses	(956)	(953)
Net deferred loan fees	(21)	(35)
	<hr/>	<hr/>
Net loans	<u>\$ 115,069</u>	<u>\$ 116,575</u>

An analysis of the allowance for loan losses follows:

	<u>Years Ended December 31,</u>	
	<b>2006</b>	2005
Balance at beginning of year	\$ 953	\$ 959
Provision for loan losses	--	--
Loans charged off	--	(8)
Recoveries of loans previously charged-off	3	2
Balance at end of year	<b>\$ 956</b>	<b>\$ 953</b>

The following is a summary of information pertaining to past due and non-accrual loans:

	<u>December 31,</u>	
	<b>2006</b>	2005
Total non-accrual loans	\$ 453	\$ 1
Total loans past-due loans ninety days or more and still accruing	\$ 527	\$ 285

#### **Note 5: Servicing**

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$38,935,000 and \$38,936,000 at December 31, 2006 and December 31, 2005, respectively.

The aggregate carrying value of capitalized mortgage servicing rights approximated fair value at December 31, 2006 and 2005 and totaled \$54,000 and \$73,000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$216,000 and \$59,000 at December 31, 2006 and 2005, respectively.

## Note 6: Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2006	2005
Land	\$ 1,545	\$ 1,545
Buildings and improvements	5,427	5,361
Leasehold improvements	570	570
Equipment	3,435	3,235
	<b>10,977</b>	10,711
Accumulated depreciation	<b>(5,427)</b>	(5,012)
Net premises and equipment	<b>\$ 5,550</b>	\$ 5,699

Depreciation expense for the years ended December 31, 2006 and 2005 amounted to \$437,000 and \$479,000, respectively.

## Note 7: Leases

The Company leases the land for one branch office. This lease is a twenty-five year operating lease which expires in November 2019, with three five-year options with escalating rental payments. Rental expense for this lease was \$40,000 for both years ended December 31, 2006 and 2005.

Future minimum lease payments under the remaining operating lease are as follows:

	Lease Payments
2007	\$ 40
2008	40
2009	41
2010	45
2011	45
Thereafter	381
Total	<b>\$ 592</b>

**Note 8: Deposits**

Time deposits in denominations of \$100,000 or more were \$8,151,000 on December 31, 2006 and \$5,088,000 on December 31, 2005.

At December 31, 2006, the scheduled maturities of time deposits are as follows:

2007	\$	29,616
2008		7,433
2009		851
2010		841
2011		1,185
Thereafter		381
		<hr/>
	\$	<u>40,307</u>

**Note 9: Federal Home Loan Bank Advances**

Federal Home Loan Bank advances are at fixed rates, (3.32% to 5.17% at December 31, 2006) and mature at various dates. Federal Home Loan Bank advances are secured by mortgage loans totaling \$61,585,000 at December 31, 2006. Advances are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2006, are:

2007	\$	2,000
2008		2,000
2009		2,000
2010		1,000
2011		2,000
Thereafter		4,000
		<hr/>
	\$	<u>13,000</u>

## Note 10: Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,	
	2006	2005
Current tax provision:		
Federal	\$ 902	\$ 1,180
State	138	237
	<u>1,040</u>	<u>1,417</u>
Deferred tax benefit:		
Federal	(104)	(57)
State	(20)	(18)
	<u>(124)</u>	<u>(75)</u>
Income tax expense	<u>\$ 916</u>	<u>\$ 1,342</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,	
	2006	2005
Computed at the statutory rate (34%)	\$ 829	\$ 1,191
Increase (decrease) resulting from		
State income taxes	78	144
Other	9	7
Actual tax expense	<u>\$ 916</u>	<u>\$ 1,342</u>

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2006	2005
Deferred tax assets		
Allowance for loan losses	\$ 368	\$ 366
Deferred compensation	270	263
Postretirement benefit obligation	216	175
Reserve for loss on unfunded commitments	93	93
Deferred insurance agency commissions	15	14
Deferred loan fees	7	10
Unrealized losses on securities available for sale	5	7
Other	--	2
	<b>974</b>	<b>930</b>
Deferred tax liabilities		
Federal Home Loan Bank stock	(147)	(184)
Depreciation	(447)	(488)
Mortgage servicing rights	(20)	(29)
Prepaid expenses	(76)	(70)
Other	(1)	--
	<b>(691)</b>	<b>(771)</b>
Net deferred tax asset	<b>\$ 283</b>	<b>\$ 159</b>

Retained earnings include approximately \$4,300,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,669,000.

## **Note 11: Off-Balance Sheet Activities**

### *Credit-Related Financial Instruments*

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2006 and 2005, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2006	2005
Commitments to grant loans	\$ 948	\$ 3,647
Unfunded commitments under lines of credit	10,097	11,023
Standby letters of credit	769	914

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Loan commitments at fixed rates of interest amounted to \$875,000 and \$2,182,000 at December 31, 2006 and 2005, respectively, with the remainder at floating market rates. Mortgage loans in the process of origination are included in commitments to extend credit and represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans held for sale amounted to \$347,000 and \$255,000 at December 31, 2006 and 2005, respectively.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. Total fixed rate unfunded lines of credit were \$1,030,000 and \$1,845,000 at December 31, 2006 and 2005, respectively.

Standby letters-of-credit are conditional lending commitments issued by the Company to guarantee performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. At December 31, 2006 and 2005, the Company's deferred revenue under standby letters of credit was approximately \$4,000 and \$9,000, respectively.

### *Other Credit Risks*

The Company has a concentration of funds on deposit with the Federal Home Loan Bank totaling \$9,796,000 and \$9,655,000 at December 31, 2006 and 2005, respectively.

### **Note 12: Legal Contingencies**

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

### **Note 13: Minimum Regulatory Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2006 and 2005 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<b>December 31, 2006:</b>					
Total Capital to Risk Weighted Assets	\$ 14,279	16.1%	\$ 7,112	8.0%	\$ 8,889	10.0%
Tier 1 Capital to Risk Weighted Assets	13,348	15.0	3,556	4.0	5,334	6.0
Tier 1 Capital to Adjusted Total Assets	13,348	9.5	5,618	4.0	7,023	5.0
Tangible Capital to Adjusted Total Assets	13,348	9.5	2,107	1.5		N/A
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<b>December 31, 2005:</b>					
Total Capital to Risk Weighted Assets	\$ 14,241	15.8%	\$ 7,218	8.0%	\$ 9,023	10.0%
Tier 1 Capital to Risk Weighted Assets	13,288	14.7	3,609	4.0	5,414	6.0
Tier 1 Capital to Adjusted Total Assets	13,288	9.3	5,690	4.0	7,112	5.0
Tangible Capital to Adjusted Total Assets	13,288	9.3	2,134	1.5		N/A

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2006, approximately \$1,613,000 of retained earnings was available for dividend declaration without prior regulatory approval.

## **Note 14: Employee Benefit Plans**

### *KSOP Plan*

The Company has a Savings and Employee Stock Ownership Plan ("KSOP") that covers substantially all Company employees. The plan contains 401(k) features that qualify the plan under Section 401(a) of the Internal Revenue Code and allows employees to contribute up to 15% of their salary on a pretax basis. The Company then makes a matching contribution of 100% on the first 3% of an employee's contribution and 50% on the next 2% of an employee's contribution. The Company also contributes an amount equal to 3% of each eligible participant's salary, even if an employee elects not to defer any of their own salary into the plan ("safe harbor contribution"). The Company can also elect to contribute discretionary amounts at any time. Each participant may direct the investment of their own contributions to a variety of mutual funds offered and maintained by the trustee of the plan, including a stock fund of the Company (the "employer stock fund"). The Company matching contributions, safe harbor contributions, and any discretionary contributions are invested in the employer stock fund.

At December 31, 2006 and 2005, 157,301 and 147,537 shares of the Company's stock were owned by the plan. The cost of the plan is borne by the Company through contributions to the KSOP trust in amounts determined by the Board of Directors. The Company's expense for the plan was \$264,000 for 2006 and \$271,000 for 2005.

In the event a terminated plan participant desires to sell shares of Company stock, the Company may be required to purchase the shares from the participant at the fair market value. At December 31, 2006, all 157,301 shares in the plan have been allocated to plan participants. The fair market value of those shares totaled approximately \$5,289,000 as of December 31, 2006.

### *Deferred Compensation Plan*

The Company also sponsors a deferred compensation plan for participating directors for the deferral of director fees. The deferred compensation expense recorded for the years ended December 31, 2006 and 2005 was \$32,000 and \$24,000, respectively. The deferred compensation liability was \$696,000 at December 31, 2006 and \$678,000 at December 31, 2005.

## **Note 15: Stock Compensation Plans**

The Company has a stock-based compensation program which provides for the granting of stock of the Company as stock awards and options to purchase stock of the Company (the "Incentive Plan").

The Incentive Plan covers key employees and directors and is authorized to acquire and grant as stock awards 82,110 shares of the Company's common stock. Participants in the Incentive Plan vest at a rate of 20 percent per year commencing one year after the date such shares are granted. In the event of a change in control or death or disability, all unvested stock awards would vest immediately.

The following is a summary of the status of the stock awards and changes in the stock awards as of and for the years ended December 31, 2006 and 2005:

	<b>2006</b>	2005
	<b>Shares</b>	Shares
Outstanding, beginning of year	<b>240</b>	480
Granted	--	--
Distributed	<b>(240)</b>	(240)
Outstanding, end of year	--	240
Shares available for future stock awards	<b>3,829</b>	3,829
Total stock awards	<b>3,829</b>	4,069

During 2006 and 2005, 240 shares representing stock awards were earned by participants during each year and resulted in compensation expense of \$1,000 and \$3,000 for the years ended December 31, 2006 and 2005, respectively.

Under the Company's incentive stock option plan, which is accounted for in accordance with FASB Statement No. 123(R), *Accounting for Stock-Based Compensation*, and related interpretations, the Company grants directors, selected executives and other key employees stock option awards which vest at a rate of 20 percent per year commencing one year after the date the shares are granted. The plan provides that in the event of a change in control or death or disability, all unvested options will be immediately exercisable. The Company authorized the grant of options for up to 205,275 shares of the Company's common stock. The exercise price of each option, which has a 10-year life, was equal to the market price of the Company's stock on the date of grant; therefore, no compensation expense was recognized.

A summary of the status of the plan at December 31, 2006 and 2005, and changes during the years then ended is presented below:

	<b>2006</b>		2005	
Options:	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	<b>46,867</b>	<b>\$ 14.59</b>	101,763	\$ 14.25
Granted	--	--	--	--
Exercised	<b>(38,479)</b>	<b>14.20</b>	(54,896)	14.06
Forfeited	--	--	--	--
Outstanding, end of year	<b>8,388</b>	<b>\$ 16.38</b>	<b>46,867</b>	\$ 14.59
Options exercisable at year end	<b>8,388</b>		46,307	

The following table summarizes information about outstanding stock options at December 31, 2006:

Exercise Price	Number Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Options Exercisable
\$ 16.375	8,388	0.2 years	8,388

**Note 16: Postretirement Plan**

The Company has an unfunded noncontributory defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and health care cost follows:

	2006	2005
Change in benefit obligation		
Beginning of year	\$ 708	\$ 637
Service cost	62	44
Interest cost	42	39
Actuarial (gain) loss	(19)	2
Benefits paid (included in salaries and benefits)	(12)	(14)
End of year	\$ 781	\$ 708
Funded status	\$ (781)	\$ (708)
Unrecognized net actuarial (gain) loss	159	183
Unrecognized prior service cost	65	74
Accrued benefit cost	\$ (557)	\$ (451)

The Company's assumptions used to determine the benefit obligation and benefit cost were:

	<u>2006</u>	<u>2005</u>
Discount rate	<b>6.00%</b>	6.00%
Medical trend rate	<b>7.50%</b>	8.00%
Ultimate medical trend rate	<b>4.50%</b>	5.00%
Components of net periodic benefit cost		
Service cost	\$ <b>62</b>	\$ 44
Interest cost	<b>42</b>	39
Amortization of transition obligation	<b>8</b>	8
Amortization of net loss	<b>6</b>	6
Net periodic benefit cost (included in salaries and benefits)	<u><u>\$ <b>118</b></u></u>	<u><u>\$ 97</u></u>

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits was assumed to be 7.50% for 2006 and 8.00% for 2005. The rate was assumed to decrease gradually to 4.50% by the year 2009 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service and interest cost components	\$ 32	\$ (23)
Effect on postretirement benefit obligation	196	(148)

At December 31, 2006, the projected benefits to be paid are as follows:

2007	\$ 12
2008	12
2009	13
2010	13
2011	12
2012-2016	125

For the year ended December 31, 2007, the projected net periodic benefit cost is \$123,000.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

In accordance with FASB Staff Position 106-1, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, may require the Company to change previously reported information.

**Note 17: Related Party Transactions**

At December 31, 2006 and 2005, the Company had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of \$1,644,000 and \$1,598,000, respectively.

The aggregate amount of loans, as defined, to such related parties was as follows:

Balances, January 1, 2006	\$ 1,598
Change in the composition of related parties	(8)
New loans, including renewals	444
Payments	(390)
	<hr/>
Balances, December 31, 2006	<u>\$ 1,644</u>

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

**Note 18: Disclosures about Fair Values of Financial Instruments**

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 14,402	\$ 14,402	\$ 14,173	\$ 14,173
Available-for-sale securities	1,887	1,887	2,343	2,343
Held-to-maturity securities	1,148	1,140	1,193	1,185
Loans held for sale	347	347	255	255
Loans, net of allowance for loan losses	115,069	117,194	116,575	118,595
Federal Home Loan Bank stock	1,210	1,210	1,477	1,477
Interest receivable	632	632	644	644
<b>Financial liabilities</b>				
Deposits	108,969	109,302	108,445	108,468
Federal Home Loan Bank advances	13,000	13,049	16,000	15,997
Advances from borrowers for taxes and insurance	288	288	279	279
Interest payable	60	60	64	64
<b>Unrecognized financial instruments (net of contract amount)</b>				
Commitments to originate loans	--	--	--	--
Letters of credit	--	--	--	--
Lines of credit	--	--	--	--

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

*Cash and Cash Equivalents and Federal Home Loan Bank Stock* -- The carrying amount approximates fair value.

*Securities* -- Fair values equal quoted market prices, if available. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities.

*Loans Held for Sale* -- For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

*Loans* -- The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

*Deposits* -- Deposits include demand deposits, savings accounts, NOW accounts, and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

*Advances from Borrowers for Taxes and Insurance* -- The carrying amount approximates fair value.

*Federal Home Loan Bank Advances* -- Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

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

#### **Note 19 – Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets		
(in thousands)		
December 31	2006	2005
<b>ASSETS</b>		
Cash	\$ 24	\$ 23
Interest-bearing demand deposits	<u>2,715</u>	2,488
Cash and cash equivalents	2,739	2,511
Investment in common stock of subsidiary	13,827	13,764
Loans	1,085	1,147
Other	<u>72</u>	133
Total assets	<u><u>\$ 17,723</u></u>	<u>\$ 17,555</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities	\$ 230	\$ 281
Stockholders' equity	<u>17,493</u>	17,274
Total liabilities and stockholders' equity	<u><u>\$ 17,723</u></u>	<u>\$ 17,555</u>

Condensed Statements of Income  
(in thousands)

Years Ended December 31	2006	2005
<b>Income</b>		
Dividends from subsidiary	\$ 1,500	\$ --
Interest and fees from loans	89	296
Interest income from deposits with banks	47	56
Other income	3	3
Total income	<u>1,639</u>	<u>355</u>
<b>Expenses</b>		
Other expenses	<u>207</u>	<u>347</u>
Income before income tax and equity in undistributed income of subsidiary	1,432	8
Provision for income taxes (benefit)	<u>(30)</u>	<u>3</u>
Income before equity in undistributed income of subsidiary	1,462	5
Equity in undistributed income of subsidiary	<u>61</u>	<u>2,156</u>
Net income	<u>\$ 1,523</u>	<u>\$ 2,161</u>

Condensed Statements of Cash Flows  
(in thousands)

	<b>2006</b>	<b>2005</b>
<hr/>		
Operating Activities		
Net income	\$ <b>1,523</b>	\$ 2,161
Adjustments to reconcile net income to net cash provided by operating activities:		
Incentive plan expense	<b>1</b>	3
Equity in undistributed income of subsidiary	<b>(61)</b>	(2,156)
Tax benefit related to stock options exercised	<b>186</b>	261
Tax benefit related to stock awards	<b>--</b>	34
Net changes in:		
Other assets	<b>61</b>	(29)
Other liabilities	<b>(49)</b>	76
Net cash provided by operating activities	<b>1,661</b>	350
	<hr/>	
Investing Activities – net change in loans	<b>62</b>	3,793
	<hr/>	
Financing Activities:		
Proceeds from stock options exercised	<b>382</b>	717
Purchase of treasury stock	<b>(1,590)</b>	(3,267)
Dividends paid	<b>(287)</b>	(322)
Net cash used in financing activities	<b>(1,495)</b>	(2,872)
	<hr/>	
Increase in Cash and Cash Equivalents	<b>228</b>	1,271
Cash and Cash Equivalents, Beginning of Period	<b>2,511</b>	1,240
Cash and Cash Equivalents, End of Period	<b>\$ 2,739</b>	\$ 2,511
	<hr/> <hr/>	

## GREAT AMERICAN BANCORP, INC. SHAREHOLDER INFORMATION

### Stock Listing and Price Information

Prior to January 31, 2005, the Company's common stock traded on the NASDAQ SmallCap Market under the symbol "GTPS." Effective January 31, 2005, the Company's common stock began trading on the Over-the-Counter Bulletin Board under the symbol "GTPS.OB." At December 31, 2006, 672,983 shares of the Company's common stock were held of record by 239 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

The following schedule shows the high and low bid prices for each of the quarters in the years ended December 31, 2006 and 2005:

<u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
March 31, 2005	31.75	26.49
June 30, 2005	34.00	31.25
September 30, 2005	34.50	31.50
December 31, 2005	34.75	32.00
March 31, 2006	34.50	31.05
June 30, 2006	34.50	32.50
September 30, 2006	34.00	30.15
December 31, 2006	34.50	33.10

At December 31, 2006 the closing price of a common share was \$34.00. This information was provided by the Over-the-Counter Bulletin Board. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2006 and 2005, the Company declared dividends as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount</u>
February 14, 2005	March 15, 2005	April 1, 2005	\$ .11
May 9, 2005	June 15, 2005	July 1, 2005	.11
August 8, 2005	September 15, 2005	October 3, 2005	.11
November 14, 2005	December 15, 2005	January 3, 2006	.11
February 13, 2006	March 15, 2006	April 3, 2006	.11
May 8, 2006	June 15, 2006	July 3, 2006	.11
August 14, 2006	September 15, 2006	October 2, 2006	.11
November 13, 2006	December 15, 2006	January 2, 2007	.11
			<u>\$ .88</u>

## **Investor Information**

Stockholders, investors and analysts interested in additional information may contact:

Jane F. Adams  
Chief Financial Officer  
Great American Bancorp, Inc.  
1311 S. Neil Street  
Champaign, IL 61820

## **Corporate Counsel**

Lord Bissell Brook LLP  
111 S. Wacker Drive  
Chicago, IL 60606-4410

## **Independent Auditors**

McGladrey & Pullen, LLP  
1806 Fox Drive  
Champaign, IL 61820

## **Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of Great American Bancorp, Inc. will be held at 9:30 a.m. Tuesday, April 24, 2006 at:

First Federal Savings Bank of Champaign-Urbana  
1311 S. Neil Street  
Champaign IL 61820

Shareholders are welcome to attend.

## **Stock Transfer Agent and Registrar**

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the transfer agent and registrar:

Computershare Trust Company, N.A.  
350 Indiana Street, Suite 800  
Golden, CO 80401  
(303) 262-0600

## **GREAT AMERICAN BANCORP, INC. DIRECTORS AND EXECUTIVE OFFICERS**

### **Great American Bancorp, Inc. Directors and Executive Officers**

**Ronald E. Guenther**, Chairman of the Board of the Company  
Athletic Director, University of Illinois

**Clinton C. Atkins**, Director  
Chairman of Hobbico, Inc., a manufacturer and distributor of hobby products, President of T.A.G. Residential, Inc. and President of T.A.G. Ashland Park, Inc., both real estate concerns.

**Ronald Kiddoo**, Director  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

**George R. Rouse**, Director  
President and Chief Executive Officer of the Company

**Jack B. Troxell**, Director  
Owner and President of C-U Liquors LTD, retail beverage stores.

**Jane F. Adams**  
Chief Financial Officer, Secretary and Treasurer of the Company

### **First Federal Savings Bank Directors and Executive Officers**

**Jack B. Troxell**, Director and Chairman of the Board of the Bank\*  
Owner and President of C-U Liquors LTD, retail beverage stores.

**Craig Bazzani**, Director  
Senior Advisor to the President, University of Illinois Foundation

**Ronald E. Guenther**, Director\*  
Athletic Director, University of Illinois

**John Z. Hecker**, Director  
Partner, Stipes Publishing, LLC, book publishing.

**Ronald Kiddoo**, Director\*  
Chairman of the Board and Chief Investment Officer, Cozad Asset Management, Inc., an investment advisory concern.

## **First Federal Savings Bank Directors and Executive Officers, Continued**

***Michael J. Martin***, Director\*

Vice President of T.A.G. Ashland Park, Inc. and Vice President of T.A.G. Pekin I, Inc., both real estate development concerns.

***George R. Rouse***, Director\*

President and Chief Executive Officer of the Bank

***Jane F. Adams***

Senior Vice President - Finance, Secretary-Treasurer of the Bank

***Ata M. Durukan***

Senior Vice President - Human Resources and Marketing of the Bank

***Mark D. Piper***

Senior Vice President - Operations of the Bank

***Melinda K. Waller***

Senior Vice President - Deposit Acquisitions of the Bank

***Paul D. Wilson***

Senior Vice President - Lending of the Bank

***Larry Grill***

Investment Representative  
UMB Financial Services, Inc.  
Member NASD/SIPC

\* Also Director of Park Avenue Service Corporation.

## **Park Avenue Service Corporation Officers**

***George R. Rouse***

President

***Jane F. Adams***

Secretary and Treasurer

## **GTPS Insurance Agency Officers**

***Gerald Cox***

Senior Vice President