

**MEMBER FEDERAL DEPOSIT
INSURANCE CORPORATION**

EACH DEPOSITOR INSURED TO \$100,000.00



Park State Bank & Trust

2006 ANNUAL REPORT

Dear Shareholder

After forty plus years in finance and banking, of which twenty seven were with Park State Bank & Trust, it is time to proceed to another step in life's cycle.

I've been very blessed in a lot of ways and am very appreciative of all the opportunities that have come my way. I also appreciate the faith, trust and support that have been given to me by the board, officers, staff and shareholders over the years. Without this, the bank would not be as successful as it is today.

I thank everyone for the opportunity to serve in the capacity of your President.

I feel very comfortable with the succession plan in place. Under the direction of Mr. Tony Perry as incoming President, the leadership, loyalty and team effort will take the bank to a new plateau of growth and prosperity. The safety and soundness of the bank, which is vital, will remain intact.

With your continued support, Park State Bank & Trust is set for the future.

May you enjoy many successes.

Sincerely,



Robert G. Eichman
President

NET INCOME

| | |
|------|-------------|
| 2006 | \$845,668 |
| 2005 | \$1,184,953 |

CASH DIVIDENDS

| | |
|------|-----------|
| 2006 | \$801,128 |
| 2005 | \$584,474 |

BOOK VALUE

| | |
|------|----------|
| 2006 | \$323.57 |
| 2005 | \$313.00 |

CAPITAL ACCOUNTS

| | |
|------|-------------|
| 2006 | \$7,749,402 |
| 2005 | \$7,500,667 |

RECONCILEMENT OF LOAN LOSS RESERVES

| | <u>2005</u> | <u>2006</u> |
|---|------------------|------------------|
| Balance Beginning of Year | \$390,316 | \$296,380 |
| Additions -Recoveries Credited to Reserve | \$10,420 | \$10,657 |
| -Provisions Charged to Operating Income | \$100,000 | \$165,000 |
| Deductions -Losses Charged to Reserve | \$204,356 | (\$64,330) |
| Balance at End of Year | \$296,380 | \$407,707 |

RECONCILEMENT OF CAPITAL ACCOUNTS

| | <u>2005</u> | <u>2006</u> |
|--|--------------------|--------------------|
| Balance Beginning of Year | \$7,244,723 | \$7,500,667 |
| Additions - Net Income | \$1,184,953 | \$845,668 |
| Deductions - Dividends Declared | (\$584,474) | (\$801,128) |
| Unrealized Gain/Loss on Securities | (\$243,546) | (\$39,352) |
| Adjust Prior Year Unrealized Gain/Loss | (\$100,989) | \$243,546 |
| Balance at End of Year | \$7,500,667 | \$7,749,402 |

TRUST ASSETS

| | | |
|--|------|--------------|
| Securities and other property held by the Investment & Trust Division in a fiduciary or agency capacity are not included in the consolidated financial statements, as such items are not assets of the bank. Values are approximate. | 2006 | \$69,911,780 |
| | 2005 | \$49,648,369 |
| | 2004 | \$43,742,812 |
| Revenues for Investment & Trust Division services are reported on the cash basis in accordance with customary banking practice. | 2003 | \$40,492,651 |
| | 2002 | \$41,174,062 |

COMPARATIVE BALANCE SHEET

| ASSETS: | <u>December 31, 2005</u> | <u>December 29, 2006</u> |
|--|--------------------------|--------------------------|
| Cash and Due from Banks | \$3,258,786 | \$4,387,335 |
| U.S. Treasury Securities | \$0 | \$0 |
| U.S. Government Agencies and Corporations | \$13,684,825 | \$13,521,407 |
| Obligations of State and Political Subdivisions | \$3,598,620 | \$4,087,588 |
| Other Securities | \$1,306,283 | \$818,936 |
| Federal Funds Sold | \$900,000 | \$0 |
| Loans | \$52,900,756 | \$68,461,016 |
| Bank Equipment | \$655,036 | \$581,151 |
| Bank Premises | \$5,061,794 | \$4,947,588 |
| Other Assets | \$1,038,028 | \$1,288,947 |
| TOTAL ASSETS | \$82,404,128 | \$98,093,968 |
| LIABILITIES: | | |
| Demand Deposits | \$11,560,317 | \$11,959,709 |
| Interest Bearing Deposits | \$30,362,472 | \$34,741,674 |
| Time Deposits | \$32,808,641 | \$39,667,322 |
| TOTAL DEPOSITS | \$74,731,430 | \$86,368,705 |
| Federal Funds Purchased | \$0 | \$3,695,000 |
| Mortgage Indebtedness | \$0 | \$0 |
| Other Liabilities | \$172,031 | \$280,861 |
| TOTAL LIABILITIES | \$74,903,461 | \$90,344,566 |
| Capital Stock | \$1,197,500 | \$1,197,500 |
| Surplus | \$2,356,775 | \$2,356,775 |
| Undivided Profits | \$4,189,938 | \$4,234,479 |
| Unrealized Gain/Loss on Securities | (\$243,546) | (\$39,352) |
| TOTAL CAPITAL ACCOUNTS | \$7,500,667 | \$7,749,402 |
| TOTAL LIABILITIES, RESERVE AND CAPITAL ACCOUNTS | \$82,404,128 | \$98,093,968 |

UNAUDITED STATEMENT

COMPARATIVE EARNINGS STATEMENT

| OPERATING INCOME: | <u>December 31, 2005</u> | <u>December 29, 2006</u> |
|---|--------------------------|--------------------------|
| Interest and Fees on Loans | \$3,947,702 | \$4,885,486 |
| Income on Federal Funds Sold | \$49,551 | \$191,957 |
| Interest on U.S. Government Securities | \$0 | \$0 |
| Interest on Securities of U.S. Gov. Agencies & Corp. | \$617,770 | \$713,066 |
| Interest on Obligations of State & Political Subdivisions | \$183,690 | \$174,562 |
| Interest on Other Securities | \$68,889 | \$40,722 |
| Service Charges on Deposit Accounts | \$429,502 | \$449,330 |
| Other Service Charges, Collection Fees, | | |
| Commissions & Trust Income | \$799,746 | \$832,010 |
| TOTAL | \$6,096,850 | \$7,287,133 |
| OPERATING EXPENSES: | | |
| Salaries and Wages | \$1,418,805 | \$1,579,740 |
| Employee Benefits | \$501,803 | \$515,951 |
| Interest on Deposits | \$1,020,119 | \$1,875,225 |
| Occupancy Expense | \$365,955 | \$359,982 |
| Furniture & Equipment/Depreciation/Rental/Service | \$308,357 | \$296,434 |
| Provision for Loan Losses | \$100,000 | \$165,000 |
| Other Operating Expenses | \$1,280,828 | \$1,646,297 |
| TOTAL | \$4,995,867 | \$6,438,629 |
| OTHER EXPENSES: | | |
| Income Before Income Taxes & Securities Losses | \$1,100,983 | \$848,504 |
| Provisions for Income Taxes | \$0 | \$0 |
| Deferred Tax Expense | \$50,894 | (\$2,836) |
| TOTAL | \$1,151,877 | \$845,668 |
| EXTRAORDINARY ITEMS: | | |
| Fixed Assets Losses or Gains | \$33,076 | \$0 |
| Securities Losses or Gains | \$0 | \$0 |
| NET INCOME | \$1,184,953 | \$845,668 |

UNAUDITED STATEMENT

Dear Shareholder

As the New Year begins, I would like to take a moment to reflect on the past, and look forward to the time ahead. In reflecting on the past year I can not help but think about the career of "Bob" Eichman. Bob was at the helm of our community bank for 27 years. During that period of time there were many changes to our bank and the community. What did not change is Bob's and the bank's commitment to serve the community and our customers. Bob led with passion and compassion. Those of us who worked with Bob knew him as a kind, patient, and supportive leader. Although Bob is looking forward to retirement, I know he has left a piece of his heart and soul with the bank. I am fortunate to have worked with Bob for the past six years. He has been a mentor, confidant, and friend.

As I look to the future, I am honored and excited about becoming the next president of Park State Bank & Trust. I look forward to the challenges and opportunities that lie ahead. As we move forward there are some things I would like you to know:

- I am very confident in our banking team, and I am proud to be part of the team.
- You can expect that we will stay current with business, regulatory, and technology issues so that we protect your investment in the bank.
- We will stay committed to serving the community and our customers with the best service possible so that we can provide the best possible return on your investment.

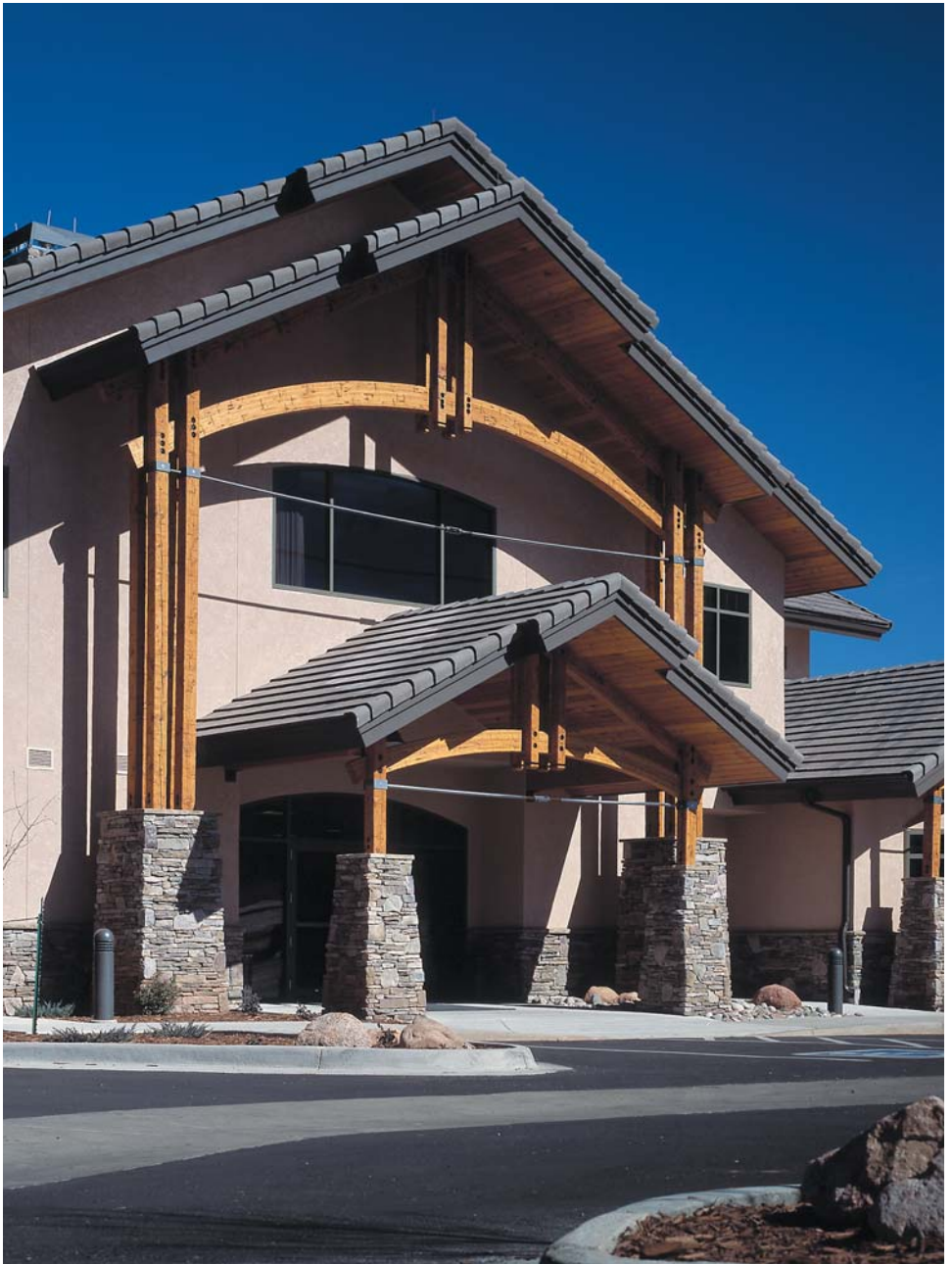
Our goal in the coming years will be to maximize the return on your investment, while maintaining safety & security in the bank. I am confident our banking team will attain that goal.

Sincerely,

Tony L. Perry

Tony L. Perry

Executive Vice President



Mission Statement

As an independent, locally-owned and professionally managed financial institution, Park State Bank & Trust shall continue to provide personal, dependable, and innovative financial services to our community. Our goal is to remain safe, secure and profitable for our customers, employees and shareholders.