SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 333-95087

CENTERSTATE BANKS OF FLORIDA, INC.

(Name of registrant as specified in its charter)

Florida	**59-3606741**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1101 First Street South, Suite 202, Winter Haven, Florida	**33880**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number, including area code:

(863) 293-2600

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

Securities registered pursuant to Section 12(g) of the Act:

None

The registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

The registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

Check whether the issuer has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SK contained in this form, and no disclosure will be contained, to the best of issuer s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

The registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. YES ¨ NO x

The aggregate market value of the Common Stock of the issuer held by non-affiliates of the issuer (8,881,834 shares) on June 30, 2007, was approximately $160,672,000. The aggregate market value was computed by reference the last sale of the Common Stock of the issuer at $18.09 per share on June 29, 2007. For the purposes of this response, directors, executive officers and holders of 5% or more of the issuer s Common Stock are considered the affiliates of the issuer at that date.

As of March 5, 2008 there were outstanding 12,444,407 shares of the issuer s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 2008 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the issuer s fiscal year end are incorporated by reference into Part III, of this Annual Report on Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

General

CenterState Banks of Florida, Inc. (We, CenterState or the Company) was incorporated under the laws of the State of Florida on September 20, 1999. CenterState is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act) and owns all the outstanding shares of CenterState Bank Central Florida (Central), CenterState Bank National Association (CSNA), CenterState Bank of Florida (CSB), and Valrico State Bank (VSB) (collectively, the Banks).

In April 2007, we closed the acquisition of Valrico Bancorp, Inc. and its wholly owned subsidiary bank, VSB. VSB operates in Hillsborough County, which is contiguous to Pasco and Polk Counties, where we currently have banking locations.

On November 30, 2007, CSNA purchased all of the assets and assumed all of the liabilities of CenterState Bank Mid Florida, a bank we acquired on March 31, 2006. Following the acquisition by CSNA of CenterState Bank Mid Florida, the shell of CenterState Bank Mid Florida was merged with and into Atlantic Southern Bank, a wholly owned subsidiary of Atlantic Southern Financial Group, Inc., for a payment by Atlantic Southern Bank to CenterState of $1.0 million. The transaction allowed us to consolidate our two subsidiary banks, and facilitated Atlantic Southern Bank s expansion into Florida.

Central and CSNA commenced operations in 1989. CSB commenced operations in 1992. Central s operations are conducted from its main office located in Kissimmee, Florida, and branch offices located in St. Cloud, Poinciana, Ocoee and Orlando, Florida. CSNA operations are conducted from its main office located in Zephyrhills, Florida, and branch offices located in Zephyrhills, Bushnell, Wildwood, Dade City, Inverness, Spring Hill, Crystal River, Brooksville, Leesburg, Clermont, Groveland, and Eustis, Florida. CSB operates through twelve banking locations all within Polk County, Florida. These cities within Polk County include Winter Haven, Haines City, Davenport, Lake Alfred, Auburndale, Lakeland and Lake Wales. VSB conducts business from its main office located in Valrico, Florida and branch offices located in Brandon, Lithia, Plant City and Riverview, Florida. Our three national bank subsidiaries are subject to the supervision of the Office of the Comptroller of the Currency and our state bank subsidiary (VSB) is under the supervision of the Florida Office of Financial Regulation and the FDIC. As of December 31, 2007, we operated through our four wholly owned subsidiary banks, with 37 banking locations located in nine counties in central Florida.

Our Company provides a range of consumer and commercial banking services to individuals, businesses and industries. The basic services we offer include: demand interest-bearing and noninterest-bearing accounts, money market deposit accounts, time deposits, safe deposit services, cash management, direct deposits, notary services, money orders, night depository, travelers checks, cashier s checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, and banking by mail and by internet. In addition, we make secured and unsecured commercial and real estate loans and issue stand-by letters of credit. Our Company provides automated teller machine (ATM) cards, thereby permitting customers to utilize the convenience of larger ATM networks. We also offer internet banking services to our customers. In addition to the foregoing services, our offices provide customers with extended banking hours. We do not have a trust department, however, trust services are available to customers through a business relationship with another bank. We also offer other financial products to our customers, including mutual funds, annuities and other products, through a relationship with Infinex Investment, Inc.

The revenue of our Company is primarily derived from interest on, and fees received in connection with, real estate and other loans, and from interest and dividends from investment securities and short-term investments. The principal sources of funds for our lending activities are customer deposits, repayment of loans, and the sale and maturity of investment securities. Our principal expenses are interest paid on deposits, and operating and general administrative expenses.

Table of Contents

As is the case with banking institutions generally, our Company s operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System (the Federal Reserve). Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. We face strong competition in the attraction of deposits (our primary source of lendable funds) and in the origination of loans. *See* Competition.

C.S. Processing, Inc. (CSP) is a wholly owned subsidiary of our Company s subsidiary banks. CSP processes checks and renders statements (i.e. item processing center) and provides certain information technology services for our subsidiary banks.

At December 31, 2007, our Company s primary assets were our ownership of stock of each of our four Banks. At December 31, 2007, we had total consolidated assets of $1,217,430,000, total consolidated deposits of $972,620,000, and total consolidated stockholders equity of $148,282,000.

Note about Forward-Looking Statements

This Form 10-K contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

Lending Activities

We offer a range of lending services, including real estate, consumer and commercial loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in our market area. The Company s consolidated loans at December 31, 2007 and 2006 were $841,405,000, or 69% and $657,963,000 or 61%, respectively, of total consolidated assets. The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan, and are further subject to competitive pressures, money market rates, availability of funds, and government regulations. We have no foreign loans or loans for highly leveraged transactions.

Our loans are concentrated in three major areas: commercial loans, real estate loans, and consumer loans. A majority of our loans are made on a secured basis. As of December 31, 2007, approximately 84% of our consolidated loan portfolio consisted of loans secured by mortgages on real estate and 9% of the loan portfolio consisted of commercial loans (not secured by real estate). At the same date, 7% of our loan portfolio consisted of consumer and other loans.

Our commercial loan portfolio includes loans to individuals and small-to-medium sized businesses located primarily in Polk, Osceola, Pasco, Hernando, Hillsborough, Citrus, Sumter, Lake and Orange counties for working capital, equipment purchases, and various other business purposes. A majority of commercial loans are secured by equipment or similar assets, but these loans may also be made on an unsecured basis. Commercial loans may be made at variable or fixed rates of interest. Commercial lines of credit are typically granted on a one-year basis, with loan covenants and monetary thresholds. Other commercial loans with terms or amortization schedules of longer than one year will normally carry interest rates which vary with the prime lending rate and will become payable in full and are generally refinanced in three to five years. Commercial and agricultural loans not secured by real estate amounted to approximately 9% of our Company s total loan portfolio as of December 31, 2007, compared to 10% at December 31, 2006.

Our real estate loans are secured by mortgages and consist primarily of loans to individuals and businesses for the purchase, improvement of or investment in real estate, for the construction of single-family residential and commercial units, and for the development of single-family residential building lots. These real estate loans may be made at fixed or variable interest rates. Generally, we do not make fixed-rate commercial real estate loans for terms exceeding five years. Loans in excess of five years are generally adjustable. Our residential real estate loans generally are repayable in monthly installments based on up to a 15-year or a 30-year amortization schedule with variable or fixed interest rates.

Our consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans which are payable on an installment basis. The majority of these loans are for terms of less than five years and are secured by liens on various personal assets of the borrowers, but consumer loans may also be made on an unsecured basis. Consumer loans are made at fixed and variable interest rates, and are often based on up to a five-year amortization schedule.

For additional information regarding the Company s loan portfolio, *see* Management s Discussion and Analysis of Financial Condition and Results of Operations.

Loan originations are derived from a number of sources. Loan originations can be attributed to direct solicitation by our loan officers, existing customers and borrowers, advertising, walk-in customers and, in some instances, referrals from brokers.

Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect collectibility. We attempt to minimize credit losses through various means. In particular, on larger credits, we generally rely on the cash flow of a debtor as the source of repayment and secondarily on the value of the underlying collateral.

In addition, we attempt to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral.

Deposit Activities

Deposits are the major source of our funds for lending and other investment activities. We consider the majority of our regular savings, demand, NOW and money market deposit accounts to be core deposits. These accounts comprised approximately 45% and 54% of our consolidated total deposits at December 31, 2007 and 2006, respectively. Approximately 55% of our consolidated deposits at December 31, 2007, were certificates of deposit compared to 46% at December 31, 2006. Generally, we attempt to maintain the rates paid on our deposits at a competitive level. Time deposits of $100,000 and over made up approximately 31% of consolidated total deposits at December 31, 2007 and 25% at December 31, 2006. The majority of the deposits are generated from Polk, Osceola, Orange, Pasco, Hernando, Hillsborough, Sumter, Lake and Citrus counties. Generally, we do not accept brokered deposits and we do not solicit deposits on a national level. We obtain all of our deposits from customers in our local markets. For additional information regarding the Company s deposit accounts, *see* Management s Discussion and Analysis of Financial Condition and Results of Operations Deposits.

Table of Contents

Investments

A portion of our assets are invested in U.S. Treasury securities, obligations of U.S. government agencies, municipal securities, mortgage backed securities and federal funds sold. Our investments are managed in relation to loan demand and deposit growth, and are generally used to provide for the investment of excess funds at minimal risks while providing liquidity to fund increases in loan demand or to offset fluctuations in deposits.

With respect to our investment portfolio, we invest in U.S. Treasury securities, obligations of U.S. government agencies, mortgage backed securities and municipal securities, because such securities generally represent a minimal investment risk. Occasionally, we may purchase certificates of deposits of national and state banks. These investments may exceed $100,000 in any one institution (the limit of FDIC insurance for deposit accounts). Federal funds sold and money market accounts represent the excess cash we have available over and above daily cash needs. This money is invested on an overnight basis with approved correspondent banks.

We monitor changes in financial markets. In addition to investments for our portfolio, we monitor daily cash positions to ensure that all available funds earn interest at the earliest possible date. A portion of the investment account is invested in liquid securities that can be readily converted to cash with minimum risk of market loss. These investments usually consist of U.S. Treasury securities, obligations of U.S. government agencies, mortgage backed securities and federal funds. The remainder of the investment account may be placed in investment securities of different type and/or longer maturity. Daily surplus funds are sold in the federal funds market for one business day. We attempt to stagger the maturities of our securities so as to produce a steady cash-flow in the event cash is needed, or economic conditions change.

Correspondent Banking

Correspondent banking involves one bank providing services to another bank which cannot provide that service for itself from an economic or practical standpoint. We purchase correspondent services offered by larger banks, including check collections, purchase of federal funds, security safekeeping, investment services, coin and currency supplies, overline and liquidity loan participations and sales of loans to or participation with correspondent banks.

We have established correspondent relationships with Federal Home Loan Bank, Independent Bankers Bank of Florida, First American Bank and SunTrust Banks. The Company pays for such services.

Data Processing

Each of our subsidiary banks use the same third party core data processing service bureau which provides an automated general ledger system, deposit accounting, and commercial, mortgage and installment lending data processing. The output of each of these comprehensive systems is then consolidated at the holding company level.

Our banks wholly owned subsidiary, CSP, provides item processing services and certain information technology (IT) services for our subsidiary banks. These services include; sorting, encoding, processing, and imaging checks and rendering checking and other deposit statements to commercial and retail customers, as well provide IT services for each subsidiary bank and the Company overall. The total cost of providing these services are charged to each subsidiary bank based on usage.

Effect of Governmental Policies

The earnings and business of our Company are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

Interest and Usury

Our Company is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter us from continuing the process of originating loans.

Supervision and Regulation

Banks and their holding companies, and many of their affiliates, are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules, and regulations affecting our Company, and our subsidiary Banks. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to the business of our Company and subsidiary Banks. Supervision, regulation, and examination of banks by regulatory agencies are intended primarily for the protection of depositors, rather than shareholders.

Bank Holding Company Regulation. Our Company is a bank holding company, registered with the Federal Reserve under the BHC Act. As such, we are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, (ii) taking any action that causes a bank to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience, and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy and consideration of convenience and needs issues includes the parties performance under the Community Reinvestment Act of 1977 (the CRA), both of which are discussed below.

Banks are subject to the provisions of the CRA. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank s record in meeting the credit needs of the community served by that bank, including low- and moderate-income neighborhoods. The regulatory agency s assessment of the bank s record is made available to the public. Further, such assessment is required of any bank which has applied to:

- charter a bank,
- obtain deposit insurance coverage for a newly chartered institution,
- establish a new branch office that will accept deposits,
- relocate an office, or
- merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution

In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

The BHC Act generally prohibits a bank holding company from engaging in activities other than banking, or managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. For example, factoring accounts receivable, acquiring or servicing loans, leasing personal property, conducting securities brokerage activities, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and certain insurance underwriting activities have all been determined by regulations of the Federal Reserve to be permissible activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or

control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Gramm-Leach-Bliley Act. Enacted in 1999, the Gramm-Leach-Bliley Act permits the creation of new financial services holding companies that can offer a full range of financial products under a regulatory structure based on the principle of functional regulation. The law eliminated the legal barriers to affiliations among banks and securities firms, insurance companies, and other financial services companies. The law also provides financial organizations with the opportunity to structure these new financial affiliations through a holding company structure or a financial subsidiary. The law reserves the role of the Federal Reserve Board as the supervisor for bank holding companies. At the same time, the law also provides a system of functional regulation which is designed to utilize the various existing federal and state regulatory bodies. The law also sets up a process for coordination between the Federal Reserve Board and the Secretary of the Treasury regarding the approval of new financial activities for both bank holding companies and national bank financial subsidiaries.

The law also includes a minimum federal standard of financial privacy. Financial institutions are required to have written privacy policies that must be disclosed to customers. The disclosure of a financial institution s privacy policy must take place at the time a customer relationship is established and not less than annually during the continuation of the relationship. The act also provides for the functional regulation of bank securities activities. The law repealed the exemption that banks were afforded from the definition of broker, and replaced it with a set of limited exemptions that allow the continuation of some historical activities performed by banks. In addition, the act amended the securities laws to include banks within the general definition of dealer. Regarding new bank products, the law provides a procedure for handling products sold by banks that have securities elements. In the area of Community Reinvestment Act activities, the law generally requires that financial institutions address the credit needs of low-to-moderate income individuals and neighborhoods in the communities in which they operate. Bank regulators are required to take the Community Reinvestment Act ratings of a bank or of the bank subsidiaries of a holding company into account when acting upon certain branch and bank merger and acquisition applications filed by the institution. Under the law, financial holding companies and banks that desire to engage in new financial activities are required to have satisfactory or better Community Reinvestment Act ratings when they commence the new activity.

Table of Contents

Bank Regulation. CenterState/Osceola, CenterState Bank and CSNA are chartered under the national banking laws. Valrico State Bank is a State chartered Bank. Each of the deposits of the Banks is insured by the FDIC to the extent provided by law. The Banks are subject to comprehensive regulation, examination and supervision by the OCC. The Banks also are subject to other laws and regulations applicable to banks. Such regulations include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; and the disclosure of the costs and terms of such credit. The Banks are examined periodically by the OCC. The Banks submit to their examining agencies periodic reports regarding their financial condition and other matters. The bank regulatory agencies have a broad range of powers to enforce regulations under their jurisdiction, and to take discretionary actions determined to be for the protection and safety and soundness of banks, including the institution of cease and desist orders and the removal of directors and officers. The bank regulatory agencies also have the authority to approve or disapprove mergers, consolidations, and similar corporate actions.

There are various statutory limitations on the ability of our Company to pay dividends. The bank regulatory agencies also have the general authority to limit the dividend payment by banks if such payment may be deemed to constitute an unsafe and unsound practice. For information on the restrictions on the right of our Banks to pay dividends to our Company, *see* Part II Item 5 Market for the Registrant s Common Equity, Related Stockholder Matters and Purchases of Equity Securities.

Under federal law, federally insured banks are subject, with certain exceptions, to certain restrictions on any extension of credit to their parent holding companies or other affiliates, on investment in the stock or other securities of affiliates, and on the taking of such stock or securities as collateral from any borrower. In addition, banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) imposed major regulatory reforms, stronger capital standards for savings and loan associations and stronger civil and criminal enforcement provisions. FIRREA also provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with:

- the default of a commonly controlled FDIC insured depository institution; or
- any assistance provided by the FDIC to a commonly controlled FDIC insured institution in danger of default.

The FDIC Improvement Act of 1993 (FDICIA) made a number of reforms addressing the safety and soundness of deposit insurance funds, supervision, accounting, and prompt regulatory action, and also implemented other regulatory improvements. Periodic full-scope, on-site examinations are required of all insured depository institutions. The cost for conducting an examination of an institution may be assessed to that institution, with special consideration given to affiliates and any penalties imposed for failure to provide information requested. Insured state banks also are precluded from engaging as principal in any type of activity that is impermissible for a national bank, including activities relating to insurance and equity investments. The Act also recodified restrictions on extensions of credit to insiders under the Federal Reserve Act.

Capital Requirements. The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common shareholders equity (excluding the unrealized gain (loss) on available-for-sale securities), trust preferred securities subject to certain limitations, and minus certain intangible assets. Tier 2 capital consists of the general allowance for credit losses except for certain limitations. An institution s qualifying capital base for purposes of its risk-based capital ratio consists of the sum

Table of Contents

of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. At December 31, 2007, our Tier 1 and total risk-based capital ratios were 13.8% and 15.0%, respectively.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 3%, but all but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. At December 31, 2007, our leverage ratio was 10.8%.

FDICIA contains prompt corrective action provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from well capitalized to critically undercapitalized and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes significantly undercapitalized or critically undercapitalized.

The OCC and the FDIC have issued regulations to implement the prompt corrective action provisions of FDICIA. In general, the regulations define the five capital categories as follows:

- an institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 6% or greater, has a leverage ratio of 5% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level for any capital measures;
- an institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, has a Tier 1 risk-based capital ratio of 4% or greater, and has a leverage ratio of 4% or greater;
- an institution is undercapitalized if it has a total risk-based capital ratio of less than 8%, has a Tier 1 risk-based capital ratio that is less than 4% or has a leverage ratio that is less than 4%;
- an institution is significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage ratio that is less than 3%; and
- an institution is critically undercapitalized if its tangible equity is equal to or less than 2% of its total assets.

The OCC and the FDIC, after an opportunity for a hearing, have authority to downgrade an institution from well capitalized to adequately capitalized or to subject an adequately capitalized or undercapitalized institution to the supervisory actions applicable to the next lower category, for supervisory concerns.

Generally, FDICIA requires that an undercapitalized institution must submit an acceptable capital restoration plan to the appropriate federal banking agency within 45 days after the institution becomes undercapitalized and the agency must take action on the plan within 60 days. The appropriate federal banking agency may not accept a capital restoration plan unless, among other requirements, each company having control of the institution has guaranteed that the institution will comply with the plan until the institution has been adequately capitalized on average during each of the three consecutive calendar quarters and has provided adequate assurances of performance. The aggregate liability under this provision of all companies having control of an institution is limited to the lesser of:

- 5% of the institution s total assets at the time the institution becomes undercapitalized or
- the amount which is necessary, or would have been necessary, to bring the institution into compliance with all capital standards applicable to the institution as of the time the institution fails to comply with the plan filed pursuant to FDICIA

An undercapitalized institution may not acquire an interest in any company or any other insured depository institution, establish or acquire additional branch offices or engage in any new business unless the appropriate federal banking agency has accepted its capital restoration plan, the institution is implementing the plan, and the agency determines that the proposed action is consistent with and will further the achievement of the plan, or the appropriate Federal banking agency determines the proposed action will further the purpose of the prompt corrective action sections of FDICIA.

If an institution is critically undercapitalized, it must comply with the restrictions described above. In addition, the appropriate Federal banking agency is authorized to restrict the activities of any critically undercapitalized institution and to prohibit such an institution, without the appropriate Federal banking agency s prior written approval, from:

- entering into any material transaction other than in the usual course of business;
- engaging in any covered transaction with affiliates (as defined in Section 23A(b) of the Federal Reserve Act);
- paying excessive compensation or bonuses; and
- paying interest on new or renewed liabilities at a rate that would increase the institution s weighted average costs of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the institution s normal market areas.

The prompt corrective action provisions of FDICIA also provide that in general no institution may make a capital distribution if it would cause the institution to become undercapitalized. Capital distributions include cash (but not stock) dividends, stock purchases, redemptions, and other distributions of capital to the owners of an institution.

Additionally, FDICIA requires, among other things, that:

- only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and
- the appropriate federal banking agency annually examine all insured depository institutions, with some exceptions for small, well capitalized institutions and state-chartered institutions examined by state regulators.

FDICIA also contains a number of consumer banking provisions, including disclosure requirements and substantive contractual limitations with respect to deposit accounts.

As of December 31, 2007, each of our subsidiary Banks met the capital requirements of a well capitalized institution.

Enforcement Powers. Congress has provided the federal bank regulatory agencies with an array of powers to enforce laws, rules, regulations and orders. Among other things, the agencies may require that institutions cease and desist from certain activities, may preclude persons from participating in the affairs of insured depository institutions, may suspend or remove deposit insurance, and may impose civil money penalties against institution-affiliated parties for certain violations.

Maximum Legal Interest Rates. Like the laws of many states, Florida law contains provisions on interest rates that may be charged by banks and other lenders on certain types of loans. Numerous exceptions exist to the general interest limitations imposed by Florida law. The relative importance of these interest limitation laws to the financial operations of the Banks will vary from time to time, depending on a number of factors, including conditions in the money markets, the costs and availability of funds, and prevailing interest rates.

Branch Banking. Banks in Florida are permitted to branch state wide. Such branch banking, however, is subject to prior approval by the bank regulatory agencies. Any such approval would take into consideration

several factors, including the bank s level of capital, the prospects and economics of the proposed branch office, and other conditions deemed relevant by the bank regulatory agencies for purposes of determining whether approval should be granted to open a branch office.

Change of Control. Federal law restricts the amount of voting stock of a bank holding company and a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Federal law also imposes restrictions on acquisitions of stock in a bank holding company and a state bank. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, the OCC before acquiring control of any national bank and the FDIC and the Florida Department before acquiring control of a state bank. Upon receipt of such notice, the bank regulatory agencies may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company s or state bank s voting stock, or if one or more other control factors set forth in the Act are present.

Interstate Banking. Federal law provides for nationwide interstate banking and branching. Under the law, interstate acquisitions of banks or bank holding companies in any state by bank holding companies in any other state are permissible subject to certain limitations. Florida has a law that allows out-of-state bank holding companies (located in states that allow Florida bank holding companies to acquire banks and bank holding companies in that state) to acquire Florida banks and Florida bank holding companies. The law essentially provides for out-of-state entry by acquisition only (and not by interstate branching) and requires the acquired Florida bank to have been in existence for at least three years.

Effect of Governmental Policies. Our earnings and businesses are affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans, other extensions of credit, and deposits, and the interest rates paid on liabilities and received on assets.

Sarbanes-Oxley Act. In 2002, the Sarbanes-Oxley Act was enacted which imposes a myriad of corporate governance and accounting measures designed that shareholders are treated and have full and accurate information about the public companies in which they invest. All public companies are affected by the Act. Some of the principal provisions of the Act include:

- the creation of an independent accounting oversight board (PCAOB) to oversee the audit of public companies and auditors who perform such audits;

- auditor independence provisions which restrict non-audit services that independent accountants may provide to their audit clients;

- additional corporate governance and responsibility measures which (a) require the chief executive officer and chief financial officer to certify financial statements and internal controls and to forfeit salary and bonuses in certain situations, and (b) protect whistleblowers and informants;

- expansion of the authority and responsibilities of the company s audit, nominating and compensation committees;

- mandatory disclosure by analysts of potential conflicts of interest; and

- enhanced penalties for fraud and other violations.

Table of Contents

USA Patriot Act. In 2001, the USA Patriot Act was enacted. The Act requires financial institutions to help prevent, detect and prosecute international money laundering and financing of terrorism. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution with the bank regulatory agencies. Our Banks have adopted systems and procedures designed to comply with the USA Patriot Act and regulations adopted thereunder by the Secretary of the Treasury.

Competition

We encounter strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws which permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of its business, our Company competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that we do not currently provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. Recent federal and state legislation has heightened the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly.

To compete, we rely upon specialized services, responsive handling of customer needs, and personal contacts by its officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and location of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service.

Employees

As of December 31, 2007, we had a total of approximately 371 full-time equivalent employees. The employees are not represented by a collective bargaining unit. We consider relations with employees to be good.

Statistical Profile and Other Financial Data

Reference is hereby made to the statistical and financial data contained in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations, for statistical and financial data providing a review of our Company s business activities.

Availability of Reports furnished or filed with the Securities and Exchange Commission (SEC)

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on our internet website at www.csflbanks.com.

Item 1A. Risk Factors

We have identified risk factors described below, which should be viewed in conjunction with the other information contained in this document and information incorporated by reference, including our consolidated financial statements and related notes. If any of the following risks or other risks which have not been identified or which we may believe are immaterial or unlikely, actually occur, our business, financial condition and results of operations could be harmed. As noted previously, this report contains forward-looking statements that involve risks and uncertainties, including statements about our future plans, objectives, intentions and expectations. Many factors, including those described below, could cause actual results to differ materially from those discussed in forward-looking statements.

Our business strategy includes the continuation of significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively

We intend to continue pursuing a significant growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. There is no assurance we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

Our ability to successfully grow will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed.

Our business is subject to the success of the local economies where we operate

Our success significantly depends upon the growth in population, income levels, deposits and housing starts in our primary and secondary markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. Adverse economic conditions in our specific market area could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

We may face risks with respect to future expansion

We may acquire other financial institutions or parts of those institutions in the future and we may engage in additional de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We also may receive future inquiries and have discussions with potential acquirors of us. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;

- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

- the risk of loss of key employees and customers.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any future mergers or acquisition, our integration efforts will be successful or our company, after giving effect to the acquisition, will achieve profits comparable to or better than our historical experience.

If the value of real estate in our core Florida market were to decline further, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us

Any adverse market or economic conditions in Central Florida may disproportionately increase the risk our borrowers will be unable to make their loan payments. In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of December 31, 2007, approximately 84% of our loans held for investment were secured by real estate. Of this amount, approximately 55% were commercial real estate loans, 30% were residential real estate loans and 15% were construction, development and land loans. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in Central Florida could adversely affect the value of our assets, our revenues, results of operations and financial condition.

With most of our loans concentrated in Central Florida, a decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to the financial strength and cash flow characteristics of the borrower in each case, the Banks often secure loans with real estate collateral. At December 31, 2007, approximately 84% of our loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

An inadequate allowance for loan losses would reduce our earnings

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. We maintain an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectibility is considered questionable. If management s assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb losses, or if the bank regulatory authorities require the Banks to increase the allowance for loan losses as a part of their examination process, our earnings and capital could be significantly and adversely affected.

Table of Contents

The building of market share through our de novo branching strategy could cause our expenses to increase faster than revenues

We intend to continue to build market share in Central Florida through our de novo branching strategy. There are considerable costs involved in opening branches and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our new branches can be expected to negatively impact our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, we have no assurance our new branches will be successful even after they have been established.

Our recent results may not be indicative of our future results

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent and rapid growth may distort some of our historical financial ratios and statistics. In the future, we may not have the benefit of several recently favorable factors, such as a generally favorable interest rate environment or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate our capital resources following this offering will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Changes in interest rates may negatively affect our earnings and the value of our assets

Changes in interest rates may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense, our largest recurring expenditure. In a period of rising interest rates, our interest expense could increase in different amounts and at different rates while the interest that we earn on our assets may not change in the same amounts or at the same rates. Accordingly, increases in interest rates could decrease our net interest income.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds or result in our lenders requiring additional collateral from us under our loan agreements. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

Table of Contents

Competition from financial institutions and other financial service providers may adversely affect our profitability

The banking business is highly competitive and we experience competition in each of our markets from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. While we believe we can and do successfully compete with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, we can give no assurance this strategy will be successful.

We are subject to extensive regulation that could limit or restrict our activities

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

We are dependent upon the services of our management team

Our future success and profitability is substantially dependent upon the management and banking abilities of our senior executives. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management and sales and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in retaining such personnel. We also cannot guarantee that members of our executive management team will remain with us. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Our Holding Company owns no real property. We occupy office space in the main office building of CenterState Bank, one of our subsidiary Banks, which is located at 1101 First Street South, Suite 202, Winter Haven, Florida 33880. Our Company, through our Banks, currently operates a total of 37 banking offices. Of these offices there are two mini offices in active adult communities. These offices are leased for nominal amounts, and generally consist of a room that is set aside for us in the community club house or community center. These offices are opened for abbreviated periods and cater to the residents of the gated community. Of the

35 full service offices, we lease six, two of these six we built the building but are leasing the land. Also, we are operating three offices in temporary locations during the construction of their permanent sites (Crystal River, Deer Creek and Eustis), and all the remaining offices (26) we own without encumbrances. *See* Note 4 to the Consolidated Financial Statements of our Company included in this Annual Report on Form 10-K beginning at page 67 for additional information regarding our premises and equipment.

Item 3. Legal Proceedings

Our Banks are periodically parties to or otherwise involved in legal proceedings arising in the normal course of business, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to their respective businesses. We do not believe that there is any pending or threatened proceeding against the Banks which would have a material adverse effect on our consolidated financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our Company security holders during the fourth quarter of the year ended December 31, 2007.

Table of Contents

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The shares of our Common Stock are traded on the Nasdaq National Market System. The following sets forth the high and low trading prices for trades of our Common Stock that occurred during 2007 and 2006. Historical per share data has been adjusted to reflect our May 2006 two for one stock split.

	2007		2006	
	High	**Low**	**High**	**Low**
1st Quarter	$ 21.50	$ 17.01	$ 19.57	$ 17.08
2nd Quarter	19.99	16.32	22.74	17.88
3rd Quarter	18.52	15.36	21.05	18.16
4th Quarter	16.10	11.75	22.26	19.10

As of December 31, 2007, there are 12,436,407 shares of common stock outstanding. There were approximately 1,054 registered shareholders as of that date, as reported by our transfer agent, Continental Stock Transfer & Trust Company.

Dividends

We have historically paid cash dividends on a quarterly basis, on the last business day of the calendar quarter. The following sets forth per share cash dividends paid during 2007 and 2006. Historical per share data has been adjusted to reflect our May 2006 two for one stock split.

	2007	2006
1st Quarter	$ 0.035	$ 0.035
2nd Quarter	$ 0.035	$ 0.035
3rd Quarter	$ 0.04	$ 0.035
4th Quarter	$ 0.04	$ 0.035

The payment of dividends is a decision of our Board of Directors based upon then-existing circumstances, including our rate of growth, profitability, financial condition, existing and anticipated capital requirements, the amount of funds legally available for the payment of cash dividends, regulatory constraints and such other factors as the Board determines relevant. The source of funds for payment of dividends by our Holding Company is dividends received from our Banks, or excess cash available at the Holding Company level. Payments by our subsidiary Banks to our Holding Company are limited by law and regulations of the bank regulatory authorities. There are various statutory and contractual limitations on the ability of our Banks to pay dividends to our Holding Company. The bank regulatory agencies also have the general authority to limit the dividends paid by banks if such payment may be deemed to constitute an unsafe and unsound practice. Our subsidiaries may not pay dividends from their paid-in surplus. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one/tenth of the bank s net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. As to a state bank, no dividends may be paid at a time when the Bank s net income from the preceding two years is a loss or which would cause the capital accounts of the Bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Department or a Federal regulatory agency.

Table of Contents

Share Repurchases

We did not repurchase any shares of our common stock during 2007.

Stock Plans

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled Equity Compensation Plan Information in our Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders is incorporated herein by reference.

Performance Graph

Shares of our common stock are traded on the NASDAQ National Market System. The following graph compares the yearly percentage change in cumulative shareholder return on the Company s common stock, with the cumulative total return of the SNL Southeast Bank Index and the NASDAQ Bank Index, since December 31, 2002 (assuming a $100 investment on December 31, 2002 and reinvestment of all dividends).

	2002	2003	2004	2005	2006	2007
CenterState Banks of Florida, Inc.	100	98	166	181	220	129
SNL Southeast Bank Index	100	126	149	152	179	135
NASDAQ Bank Index	100	130	144	138	153	119

Table of Contents

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with management s discussion and analysis of financial condition and results of operations, and the consolidated financial statements and footnotes thereto, of the Company at December 31, 2007 and 2006, and the three year period ended December 31, 2007, presented elsewhere herein.

Selected Consolidated Financial Data

For the twelve month period ending or as of December 31

(Dollars in thousands except for share and per share data)	2007	2006	2005	2004	2003
SUMMARY OF OPERATIONS:					
Total interest income	$ 75,173	$ 59,113	$ 40,266	$ 29,088	$ 25,802
Total interest expense	(32,825)	(22,010)	(11,722)	(7,874)	(7,532)
Net interest income	42,348	37,103	28,544	21,214	18,270
Provision for loan losses	(2,792)	(717)	(1,065)	(1,270)	(1,243)
Net interest income after provision for loan losses	39,556	36,386	27,479	19,944	17,027
Non-interest income	7,332	6,136	5,380	4,932	4,687
Sale of bank shell	1,000				
Gain on sale of branches				1,844	
Non-interest expense	(36,192)	(29,204)	(22,805)	(19,780)	(17,547)
Income before income taxes	11,696	13,318	10,054	6,940	4,167
Income taxes	(3,897)	(4,859)	(3,724)	(2,567)	(1,541)
Net income	$ 7,799	$ 8,459	$ 6,330	$ 4,373	$ 2,626
PER COMMON SHARE DATA:					
Basic earnings per share	$ 0.64	$ 0.77	$ 0.68	$ 0.59	$ 0.39
Diluted earnings per share	$ 0.63	$ 0.75	$ 0.66	$ 0.57	$ 0.39
Book value per share	$ 11.92	$ 10.54	$ 9.26	$ 7.09	$ 6.23
Tangible book value per share	$ 9.28	$ 9.38	$ 8.77	$ 6.45	$ 5.18
Dividends per share	$ 0.15	$ 0.14	$ 0.13	$ 0.12	$ 0.11
Actual shares outstanding	12,436,407	11,129,020	10,500,772	8,137,426	6,738,760
Weighted average shares outstanding	12,108,590	10,964,890	9,357,046	7,500,316	6,729,648
Diluted weighted average shares outstanding	12,294,537	11,232,059	9,629,194	7,656,308	6,857,638
BALANCE SHEET DATA:					
Assets	$ 1,217,430	$ 1,077,102	$ 871,521	$ 753,779	$ 608,896
Total loans	841,405	657,963	516,658	441,005	413,898
Allowance for loan loss	10,828	7,355	6,491	5,685	4,850
Total deposits	972,620	892,806	717,337	659,630	538,235
Short-term borrowings	75,646	52,792	42,811	24,627	17,465
Corporate debenture	12,500	10,000	10,000	10,000	10,000
Shareholders equity	148,282	117,332	97,241	57,664	41,963
Tangible capital	115,439	104,386	92,087	52,438	36,651
Goodwill	28,118	9,863	4,675	4,675	4,675
Core deposit intangible (CDI)	4,725	3,083	479	551	637
Average total assets	1,189,268	981,640	808,177	673,669	550,866
Average loans	791,886	605,236	482,819	421,229	374,567
Average interest earning assets	1,068,591	894,286	744,298	618,589	503,292
Average deposits	963,033	807,471	678,149	584,442	488,952
Average interest bearing deposits	775,282	610,732	496,046	445,358	393,528

Average interest bearing liabilities	854,251	670,562	544,663	481,468	412,457
Average shareholders equity	138,425	109,794	78,037	51,340	40,955

21

Table of Contents

Selected Consolidated Financial Data continued

For the twelve month period ending or as of December 31

(Dollars in thousands except for share and per share data)	2007	2006	2005	2004	2003
SELECTED FINANCIAL RATIOS:					
Return on average assets	0.66%	0.86%	0.78%	0.65%	0.48%
Return on average equity	5.63%	7.70%	8.11%	8.52%	6.41%
Dividend payout	23%	18%	19%	21%	28%
Efficiency (1)	73%	68%	67%	76%	76%
Net interest margin, tax equivalent basis (2)..	4.01%	4.17%	3.84%	3.43%	3.63%
Net interest spread, tax equivalent basis (3)...	3.25%	3.35%	3.27%	3.06%	3.30%
CAPITAL RATIOS:					
Tier 1 leverage ratio	10.78%	11.23%	12.35%	8.60%	7.84%
Risk-based capital					
Tier 1	13.80%	15.60%	18.10%	13.40%	11.30%
Total	14.97%	16.60%	19.23%	14.61%	12.48%
Average equity to average assets	11.64%	11.18%	9.66%	7.62%	7.43%
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.12%	0.08%	0.05%	0.07%	0.12%
Allowance to period end loans	1.29%	1.12%	1.26%	1.29%	1.17%
Allowance for loan losses to non-performing loans	266%	1,206%	430%	634%	366%
Non-performing assets to total assets	0.40%	0.06%	0.18%	0.17%	0.27%
OTHER DATA:					
Banking locations	37	30	26	25	25
Full-time equivalent employees	371	320	275	257	254

(1) Efficiency ratio is non-interest expense divided by the sum of net interest income before the provision for loan losses plus non-interest income, exclusive of non-recurring items.

(2) Net interest margin is net interest income divided by total average earning assets.

(3) Net interest spread is the difference between the average yield on earning assets and the average yield on average interest bearing liabilities.

Quarterly Financial Information

The following table sets forth, for the periods indicated, certain consolidated quarterly financial information. This information is derived from our unaudited financial statements which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods. The sum of the four quarters of earnings per share may not equal the total earnings per share for the full year due to rounding. This information should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this document. The results for any quarter are not necessarily indicative of results for future periods. Historical earnings per share data have been adjusted to reflect our May 2006 two for one stock split.

Table of Contents

Selected Quarterly Data

(Dollars are in thousands)

(Dollars in thousands except for per share data)	2007				2006			
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Interest income	$ 19,191	$ 19,839	$ 19,623	$ 16,520	$ 16,264	$ 15,934	$ 14,724	$ 12,191
Interest expense	(8,586)	(8,938)	(8,379)	(6,922)	(6,642)	(6,298)	(5,143)	(3,927)
Net interest income	10,605	10,901	11,244	9,598	9,622	9,636	9,581	8,264
Provision for loan losses	(1,605)	(529)	(376)	(282)	(142)	(129)	(206)	(240)
Net interest income after								
Provision for loan losses	9,000	10,372	10,868	9,316	9,480	9,507	9,375	8,024
Non-interest income	1,923	1,959	1,903	1,540	1,584	1,550	1,490	1,495
Sale of bank shell	1,000							
Securities gain (loss)	5	2					17	
Non-interest expenses	(9,315)	(9,442)	(9,362)	(8,073)	(7,854)	(7,463)	(7,297)	(6,590)
Income before income tax expense	2,613	2,891	3,409	2,783	3,210	3,594	3,585	2,929
Income tax expense	(854)	(939)	(1,129)	(975)	(1,019)	(1,343)	(1,378)	(1,119)
Net income	$ 1,759	$ 1,952	$ 2,280	$ 1,808	$ 2,191	$ 2,251	$ 2,207	$ 1,810
Basic earnings per common share	$ 0.14	$ 0.16	$ 0.18	$ 0.16	$ 0.20	$ 0.20	$ 0.20	$ 0.17
Diluted earnings per common share	$ 0.14	$ 0.15	$ 0.18	$ 0.16	$ 0.19	$ 0.20	$ 0.19	$ 0.17

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Some of the statements in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities Exchange Act of 1934. These statements related to future events, other future financial performance or business strategies, and include statements containing terminology such as may, will, should, expects, scheduled, plans, intends, anticipates, estimates, potential, or continue or the negative of such terms or other comparable terminology. Actual events or results may differ materially from the results anticipated in these forward looking statements, due to a variety of factors, including, without limitation: the effects of future economic conditions; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and the level and composition of deposits, loan demand, and the values of loan collateral; and the effects of competition from other commercial banks, thrifts, consumer finance companies, and other financial institutions operating in our market area and elsewhere. All forward looking statements attributable to our Company are expressly qualified in their entirety by these cautionary statements. We disclaim any intent or obligation to update these forward looking statements, whether as a result of new information, future events or otherwise. There is no assurance that future results, levels of activity, performance or goals will be achieved.

Our discussion and analysis of earnings and related financial data are presented herein to assist

investors in understanding the financial condition of our Company at December 31, 2007 and 2006, and the results of operations for the years ended December 31, 2007, 2006 and 2005. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein. Historical per share data has been adjusted to reflect our May 2006 two for one stock split.

Executive Summary

Our consolidated financial statements include the accounts of CenterState Banks of Florida, Inc. (the Parent Company, Company, CenterState or CSFL), and our four wholly owned subsidiary banks, and their wholly owned subsidiary, C.S. Processing, Inc.

23

Table of Contents

Our subsidiary banks operate through 37 locations in nine counties throughout Central Florida, providing traditional deposit and lending products and services to its commercial and retail customers. C.S. Processing is a wholly owned subsidiary of our subsidiary Banks, which provides item processing services and certain information technology services for these subsidiary Banks.

On April 2, 2007, we closed on our acquisition of Valrico Bancorp, Inc. (VBI) and its wholly owned subsidiary Valrico State Bank (VSB). The $36,100,000 purchase price was a combination of 65% stock and 35% cash. Other costs including change of control payments, accelerated deferred compensation arrangements and other transaction costs approximated $3,200,000. The total cost of the transaction was approximately $39,300,000. VSB opened for business in 1989 and operated through four banking locations in Hillsborough County, Florida. A fifth location, also in Hillsborough County, opened in May 2007. VSB is operating as a separate wholly owned subsidiary, similar to our other subsidiary banks. This acquisition resulted in additional goodwill and core deposit intangible (CDI) of approximately $18,256,000 and $2,484,000, respectively. Refer to Note 21 in the Company s current year consolidated financial statements for additional information.

We opened several new branch offices during 2007. During February, we opened a new location in Osceola County (St. Cloud, Florida), during August we opened one in Hernando County (Brooksville, Florida), and as discussed above, we opened a new VSB location in Hillsborough County during May. We have three branch offices still operating out of temporary locations while their permanent facilities are being constructed. The construction of two of these branch offices are very near completion, the other one has barely begun construction.

On November 30th of this year we closed a set of related transactions that effectively resulted in combining two of our subsidiary Banks into one and selling the shell of the other. The two Banks that we combined were CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL). CSWFL was the surviving bank and its name was subsequently changed to CenterState Bank, N.A. We effectively sold the shell of our Mid FL Bank to an out of state bank for $1,000,000. The expenses related to this transaction were approximately $100,000.

With the acquisition of VSB, we were operating through five wholly owned subsidiary Banks. Subsequent to combining CSWFL and Mid FL we are back to four. At December 31, 2007, our four subsidiary Banks are operating an aggregate of 37 banking locations in nine Counties in central Florida as summarized in the table below:

Subsidiary Banks	**No. of locations**	**Counties**
CenterState Bank Central Florida, N.A. (Central)	7	Osceola, Orange
CenterState Bank, N.A. (CSB/West)	13	Pasco, Hernando, Citrus, Sumter, Lake
CenterState Bank of Florida (CSB/Polk)	12	Polk
Valrico State Bank (VSB)	5	Hillsborough

Our Company s principal asset is its ownership of the Banks. Accordingly, our consolidated results of operations are primarily dependent upon the results of operations of the Banks. Through our subsidiary Banks, we conduct commercial banking business consisting of attracting deposits from the general public and applying those funds to the origination of commercial, consumer and real estate loans (including commercial loans collateralized by real estate). Our profitability depends primarily on net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) less the interest expense incurred on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned and paid on these balances. Net interest income is dependent upon the interest rate spread which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. The interest rate spread is impacted by interest

Table of Contents

rates, deposit flows, and loan demand. Additionally, and to a lesser extent, our profitability is affected by such factors as the level of non-interest income and expenses, the provision for credit losses, and the effective tax rate. Non-interest income consists primarily of service fees on deposit accounts and related services, and to a lesser extent commission earned on brokering single family home loans, and commissions earned on the sale of mutual funds, annuities and other non traditional and non insured investments. Non-interest expense consists of compensation, employee benefits, occupancy and equipment expenses, and other operating expenses.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. Accounting policies are described in detail in Note 1 of the notes to the consolidated financial statements. The critical accounting policies require management s judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable incurred losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance for loan losses is determined based on our assessment of several factors: reviews and evaluation of individual loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry concentrations, historical loan loss experiences and the level of classified and nonperforming loans.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

A standardized loan grading system is utilized at each of our subsidiary Banks. The grading system is integral to our risk assessment function related to lending. Loan officers of each Bank assign a loan grade to their newly originated loans in accordance with the standard loan grades. Throughout the lending relationship, the loan officer is responsible for periodic reviews, and if warranted he/she will downgrade or upgrade a particular loan based on specific events and/or analyses. We use a loan grading system of 1 through 7. Grade 1 is excellent and grade 7 is doubtful. Loans graded 5 or higher are placed on a watch list each month end and reported to that particular Bank s board of directors. The Company s loan review officer, who is independent of the lending function and is not an employee of any subsidiary bank, periodically reviews each Bank s loan portfolio and lending relationships. He may disagree with a particular Bank s grade on a particular loan and subsequently downgrade or upgrade such loan(s) based on his risk analysis. As such, our lending process is decentralized, but our credit review process is centralized.

We maintain an allowance for loan losses that we believe is adequate to absorb probable losses inherent in our loan portfolio. The allowance consists of two components. The first component consists of amounts specifically reserved (specific allowance) for specific loans identified as impaired, as defined by Statement of Financial Accounting Standard No. 114 (SFAS 114). Impaired loans are those loans that management has estimated will not repay as agreed upon. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principle and interest eventually, and therefore no specific reserve is warranted.

The second component, which we refer to as Statement of Financial Accounting Standard No. 5 (SFAS 5) loans, is a general reserve (general allowance) on all of the Company s loans other than those identified as impaired. We group these loans into categories with similar characteristics and then apply a loss factor to each group which is derived from our historical loss factor for that category adjusted for current internal and external environmental factors, as well as for certain loan grading factors. The aggregate of these two components results in our total allowance for loan losses.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of assets of business acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values. We acquired CenterState Bank of Florida, in Winter Haven, Florida, on December 31, 2002, CenterState Bank Mid Florida on March 31, 2006 and Valrico State Bank on April 2, 2007. Consequently, we were required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair value, which involves estimates based on third party valuations, such as appraisals, internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization period for such intangible assets. In addition, purchase acquisitions typically result in recording goodwill, which is subject to ongoing periodic impairment tests based on the fair value of the reporting unit compared to its carrying amount, including goodwill. As of November 30, 2007, the required annual impairment test of goodwill was performed and no impairment existed as of the valuation date. If for any future period we determine that there has been impairment in the carrying value of our goodwill balances, we will record a charge to our earnings, which could have a material adverse effect on our net income. Goodwill and intangible assets are described further in Note 5 of the notes to the consolidated financial statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006.

Net Income

Our net income for the year ended December 31, 2007 was $7,799,000 or $0.64 per share (basic) and $0.63 per share (diluted), compared to $8,459,000 or $0.77 per share (basic) and $0.75 per share (diluted) for the year ended December 31, 2006.

Our return on average assets (ROA) and return on average equity (ROE) for the year ended December 31, 2007 were 0.66% and 5.63%, as compared to the ROA and ROE of 0.86% and 7.70%, for the year ended December 31, 2006.

The significant items contributing to our 2007 net income compared to 2006 are discussed below.

Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income increased $5,245,000 or 14% to $42,348,000 during the year ended December 31, 2007 compared to $37,103,000 for the same period in 2006. The increase was the result of a $16,060,000 increase in interest income less a $10,815,000 increase in interest expense.

Interest earning assets averaged $1,068,591,000 during the year ended December 31, 2007 as compared to $894,286,000 for the same period in 2006, an increase of $174,305,000, or 19%. The yield on average interest earning assets increased 42 basis points (bps) to 7.03% (46bps to 7.09% tax equivalent basis) during the year ended December 31, 2007, compared to 6.61% (6.63% tax equivalent basis) for the same period in 2006. The combined net effects of the $174,305,000 increase in average interest earning assets and the 42bps (46bps tax equivalent basis) increase in yield on average interest earning assets resulted in the $16,060,000 ($16,392,000 tax equivalent basis) increase in interest income between the two years.

Interest bearing liabilities averaged $854,251,000 during the year ended December 31, 2007 as compared to $670,562,000 for the same period in 2006, an increase of $183,689,000, or 27%. The cost of average interest bearing liabilities increased 56bps to 3.84% during the year ended December 31, 2007, compared to 3.28% for the same period in 2006. The combined net effects of the $183,689,000 increase in average interest bearing liabilities and the 56bps increase in cost of average interest bearing liabilities resulted in the $10,815,000 increase in interest expense between the two years.

See the tables Average Balances Yields & Rates, and Analysis Of Changes In Interest Income And Expenses below.

Average Balances Yields & Rates

(Dollars are in thousands)

	Years Ended December 31,					
	2007			2006		
	Average Balance	**Interest Inc / Exp**	**Average Rate**	**Average Balance**	**Interest Inc / Exp**	**Average Rate**
ASSETS:						
Loans (1) (2) (7)	$ 791,886	$ 61,971	7.83%	$ 605,236	$ 46,549	7.69%
Securities available for sale taxable	191,674	9,388	4.90%	217,709	9,169	4.21%
Securities available for sale tax exempt (7)	35,933	1,824	5.08%	8,542	468	5.48%
Federal funds sold and other	49,098	2,531	5.15%	62,799	3,136	4.99%
TOTAL INTEREST EARNING ASSETS	$ 1,068,591	$ 75,714	7.09%	$ 894,286	$ 59,322	6.63%
Allowance for loan losses	(9,114)			(7,130)		
All other assets	129,791			94,484		
TOTAL ASSETS	$ 1,189,268			$ 981,640		
LIABILITIES & SHAREHOLDERS EQUITY						
Deposits:						
Now	$ 125,468	$ 1,375	1.10%	$ 100,268	$ 659	0.66%
Money market	114,457	3,314	2.90%	106,707	2,651	2.48%
Savings	53,195	431	0.81%	48,053	343	0.71%
Time deposits	482,162	23,570	4.89%	355,704	15,337	4.31%
Repurchase agreements	58,329	2,582	4.43%	49,830	2,156	4.33%
Other borrowed funds (3)	8,765	532	6.07%	0	0	0.00%
Corporate debenture (4)	11,875	1,021	8.60%	10,000	864	8.64%
TOTAL INTEREST BEARING LIABILITIES	$ 854,251	$ 32,825	3.84%	$ 670,562	$ 22,010	3.28%
Demand deposits	187,751			196,739		
Other liabilities	8,841			4,545		
Shareholders equity	138,425			109,794		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,189,268			$ 981,640		
NET INTEREST SPREAD (tax equivalent basis) (5)			3.25%			3.35%

NET INTEREST INCOME (tax equivalent basis)	$ 42,889	$ 37,312
NET INTEREST MARGIN (tax equivalent basis) (6)	4.01%	4.17%

27

(1) Loan balances are net of deferred origination fees and costs.
(2) Interest income on average loans includes loan fee recognition of $523 and $521 for the years ended December 31, 2007 and 2006, respectively.
(3) Includes short-term (usually overnight) Federal Home Loan Bank advances and Federal Funds Purchased.
(4) Includes net amortization of origination costs and amortization of purchase accounting adjustment of $16 and $38 during year ended December 31, 2007 and 2006, respectively.
(5) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(6) Represents net interest income divided by total earning assets.
(7) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.

Analysis of Changes in Interest Income and Expenses

(Dollars are in thousands)

	Net Change Dec 31, 2007 versus 2006		
	Volume	**Rate**	**Net Change**
INTEREST INCOME			
Loans (tax equivalent basis)	$ 14,593	$ 829	$ 15,422
Securities available for sale taxable	(1,172)	1,391	219
Securities available for sale tax exempt	1,393	(37)	1,356
Federal funds sold and other	(703)	98	(605)
TOTAL INTEREST INCOME (tax equivalent basis)	$ 14,111	$ 2,281	$ 16,392
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 196	$ 520	$ 716
Money market accounts	202	461	663
Savings	39	49	88
Time deposits	5,982	2,251	8,233
Repurchase agreements	375	51	426
Other borrowed funds	532		532
Corporate debenture	161	(4)	157
TOTAL INTEREST EXPENSE	$ 7,487	$ 3,328	$ 10,815
NET INTEREST INCOME (tax equivalent basis)	$ 6,624	$ (1,047)	$ 5,577

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses (expense) increased $2,075,000, to $2,792,000 during the year ending December 31, 2007 compared to $717,000 for the comparable period in 2006. Our policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings, and is decreased by charge-offs, net of recoveries on prior loan charge-offs. Therefore, the provision for loan losses

28

Table of Contents

(Income Statement effect) is a residual of management s determination of allowance for loan losses (Balance Sheet approach). In determining the adequacy of the allowance for loan losses, we consider those levels maintained by conditions of individual borrowers, the historical loan loss experience, the general economic environment, the overall portfolio composition, and other information. As these factors change, the level of loan loss provision changes. See credit quality and allowance for loan losses regarding the allowance for loan losses for additional information.

Non-Interest Income

Non-interest income for the year ended December 31, 2007 was $8,332,000 compared to $6,136,000 for the comparable period in 2006. This increase was the result of the following components listed in the table below (Amounts listed are in thousands of dollars).

(in thousands of dollars)	2007	2006	$ increase (decrease)	% Increase (decrease)
Service charges on deposit accounts	$ 4,436	$ 3,401	$ 1,035	30.4%
Commissions from mortgage broker activities	187	341	(154)	(45.2)%
Commissions from sale of mutual funds and annuities	586	695	(109)	(15.7)%
Debit card and ATM fees	905	592	313	52.9%
Loan related fees	381	315	66	21.0%
BOLI income	353	277	76	27.4%
Other service charges and fees	497	451	46	10.2%
(Loss) gain on sale or disposition of fixed assets	(20)	47	(67)	(142.6)%
Gain on sale of securities	7	17	(10)	(58.8)%
Subtotal	$ 7,332	$ 6,136	$ 1,196	19.5%
Sale of bank charter	1,000		1,000	100.0%
Total non-interest income	$ 8,332	$ 6,136	$ 2,196	35.8%

As previously reported, the Company and two of its subsidiary banks, (CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL)), Atlantic Southern Financial Group, Inc. (a Georgia Corporation) and it s wholly owned subsidiary, Atlantic Southern Bank (collectively referred to as Atlantic Southern) entered into several related agreements (the Transaction) which closed on November 30, 2007. In summary, a description of the Transaction is as follows: CSWFL effectively purchased substantially all the assets and assumed the liabilities of Mid FL, except for the Mid FL main office (a leased office) and a minimum amount of deposits and capital required by banking laws. Atlantic Southern then acquired Mid FL, through a merger. Atlantic Southern paid to the Company an amount equal to the remaining amount of capital of Mid FL (after the sale (transfer) by Mid FL of its assets and liabilities to CSWFL) plus an additional amount of $1,000,000. Atlantic Southern then transferred Mid FL s main office to CSWFL. The Company recognized a gain on the sale of $1,000,000 (included in non interest income) less transaction expenses of approximately $100,000. Transaction expenses are included in non interest expense. The Company continues to operate the same locations operated by CSWFL and Mid FL, except we are now operating these locations under one charter instead of two. All customer loan and deposit accounts/relationships have been retained by the Company. Following the Transaction, CSWFL changed its name to CenterState Bank, N.A.

Excluding the sale of the Mid FL bank shell, our remaining non-interest income increased by $1,196,000 or 19.5% in 2007 compared to 2006. We acquired Mid FL on March 31, 2006, and, as such, we recognized nine months of non interest income generated by Mid FL in 2006, compared to twelve months in 2007. In addition, we acquired VSB on April 2, 2007, and, as such, in this case, we recognized nine months of non interest income generated by VSB in 2007 compared to nothing in 2006. When removing these two subsidiaries from the above non-interest income table, the remaining difference between the two years decreases from $1,196,000, or 19.5% to approximately $439,000, or 7.4%. This remaining increase is primarily due to our general business growth.

Table of Contents

Commissions from mortgage broker activities is dependent on market place forces including supply and demand of single family residential property in our local markets, and the interest rate environment which primarily effects refinancing activity. As the residential real estate market in Florida deteriorated, activity decreased, resulting in decreased commissions earned in 2007 compared to 2006.

Sales of mutual funds and annuities are somewhat dependent on market place forces, but primarily dependent on the successful efforts of our investment sales representatives.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2007 increased $6,988,000, or 23.9%, to $36,192,000, compared to $29,204,000 for 2006. The table below breaks down the individual components. Amounts are in thousands of dollars.

(in thousands of dollars)	2007	2006	$ increase (decrease)	% Increase (decrease)
Employee salaries and wages	$ 14,825	$ 12,063	$ 2,762	22.9%
Employee incentive/bonus compensation	1,501	2,061	(560)	(27.2)%
Employee stock option expense	509	594	(85)	(14.3)%
Health insurance and other employee benefits	2,266	1,760	506	28.8%
Payroll taxes	1,120	932	188	20.2%
Other employee related expenses	840	647	193	29.8%
Incremental direct cost of loan origination	(1,034)	(1,096)	62	5.7%
Total salaries, wages and employee benefits	$ 20,027	$ 16,961	$ 3,066	18.1%
Occupancy expense	4,201	3,443	758	22.0%
Depreciation of premises and equipment	2,305	1,935	370	19.1%
Supplies, stationary and printing	690	607	83	13.7%
Marketing expenses	1,096	585	511	87.4%
Data processing expense	1,452	1,105	347	31.4%
Legal, auditing and other professional fees	1,101	673	428	63.6%
Bank regulatory related expenses	468	326	142	43.6%
Postage and delivery	308	276	32	11.6%
ATM related expenses	495	434	61	14.1%
CDI amortization	842	514	328	63.8%
Other expenses	3,207	2,345	862	36.8%
Total non-interest expense	$ 36,192	$ 29,204	$ 6,988	23.9%

From a macro viewpoint, the most significant components when comparing current year non-interest expense to prior year are the acquisitions of Mid FL and VSB. We acquired Mid FL on March 31, 2006, and, as such, we recognized nine months of non-interest expense generated by Mid FL during 2006, compared to twelve months in 2007. We acquired VSB on April 2, 2007, and, as such, we recognized nine months of non-interest expense generated by VSB in 2007, compared to nothing in 2006. When removing these two subsidiaries from the above non-interest expense table, the remaining difference between the two years decreases from $6,988,000, or 23.9% to approximately $1,793,000, or 6.7%. This remaining increase is primarily due to our general business growth. The narrative below discusses changes in selected line items year to year.

Our largest non-interest expense is employee and employee related expenses. Total salaries, wages and employee benefits for 2007 accounted for 55% of our total non-interest expense, compared to 58% for 2006. Looking at the table above, employee salaries and wages increased by$2,762,000, or 22.9% to $14,825,000 for 2007, compared to $12,063,000 for 2006. Removing the Mid FL component (approximately $1,200,000 in 2007 and $799,000 in 2006) and the VSB component ($1,641,000 in 2007 and nothing in 2006), reduces the net increase from $2,762,000, or 22.9%, to $720,000, or 6.4%. This remaining increase of $720,000 was due to a combination of increase in average FTEs (full time equivalent employees) year to year (289 FTEs versus 283 FTEs, excluding Mid FL and VSB) and salary increases commensurate with our market environment.

We use a combination of performance incentive/bonus guidelines to motivate our employees to perform. These are primarily all tied to earnings performance metrics. As our net income increases and our assets grow, our employee incentive/bonus compensation also increases. Although our total assets grew (primarily due to the VSB acquisition), our net income decreased by 7.8% year to year. Although we have more employees in 2007 versus 2006, primarily due to the 60 FTEs we acquired with the VSB transaction, which would increase our incentive/bonus expense, our actual incentive/bonus compensation decreased by $560,000, or 27.2% year to year, which is directionally consistent with the philosophy of our incentive/bonus guidelines.

Employee health insurance expense increased by $506,000, or 28.8% year to year as listed in the table above. Removing VSB employee health insurance expense (approximately $175,000 VSB was not included in our 2006 expense) results in an adjusted increase of approximately $331,000, or 18.8%. A small part of this increase is related to the increase in FTEs (exclusive of VSB FTEs), but the largest portion is reflective of the increasing costs occurring in the health insurance industry. We have been proactive in this area during 2007. Effective October 1, 2007, we changed insurance company and third party administrators, and effective January 1, 2008, we initiated a Health Savings Account plan (HSA), as well as other consumer driven initiatives. We don t necessarily expect a decrease in employee health insurance expense in 2008, but we do expect very little, if any, increase in this expense from our 2007 levels.

The acquisitions of Mid FL and VSB, as discussed above, significantly influenced our increase in overall operating expenses. In addition, but to a lesser extent, our branching activity also had an increasing effect on operating expenses. Below is a list of our branching activity during 2006 and 2007.

Subsidiary Bank	date opened	branch identification and comments	Average Deposits Dec 2007
CSB/West (formerly Mid FL)	Sep-06	Eustis office Lake County operating out of a temporary location, construction on new permanent facility expected to start in first quarter 2008	$ 6,532,000
CSB/Polk	Oct-06	South Lakeland office Polk County operating out of a permanent facility, new construction	$ 11,619,000
CSB/Polk	Oct-06	Deer Creek office Polk County operating out of a temporary facility, construction on new permanent office completed in January 2008	$ 1,128,000
Central	Feb-07	Ashton office Osceola County operating out of a permanent facility, new construction	$ 5,933,000
VSB	May-07	Fishhawk office Hillsborough County operating out of a permanent facility, new construction	$ 2,380,000
CSB/West	Aug-07	Brooksville office Hernando County operating out of a permanent facility leased property	$ 519,000

Table of Contents

As shown in the non-interest expense table above, marketing expenses increased by $511,000, or 87.4% year to year. VSB s marketing expense represents $104,000 of this $511,000 increase. The remaining increase in this item relates to the checking account marketing campaign currently in place at one of our banks. This campaign started during the fourth quarter of 2006.

Legal, auditing and other professional fees increased by $428,000. The increase was a result of legal fees of approximately $90,000 related to the sale of bank shell, $141,000 related to VSB and the remaining amount is due to the continuing increase in bank regulation and requirements.

The CDI amortization increase between the two years is due to the April 2, 2007 acquisition of VSB and a full year of amortization versus nine months in 2006 for the March 31, 2006 acquisition of Mid FL.

Income Tax Provision

The income tax provision for the year ended December 31, 2007, was $3,897,000, an effective tax rate of 33.3%, as compared to $4,859,000 for the year ended December 31, 2006, an effective tax rate of 36.5%. This year we had more tax exempt interest income from tax exempt securities than last year, which is a decreasing effect on our effective tax rate. We also had more Bank Owned Life Insurance (BOLI) income this year than last year, which is also tax exempt and also results in a decreasing effect on our effect tax rate. In addition, we also had less stock option expense this year relating to incentive stock options which are not tax deductible expenses, resulting in a decreasing effect on our effective tax rate. Income taxes are described and discussed further in Note 10 of our notes to our consolidated financial statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005.

Net Income

Our net income for the year ended December 31, 2006 was $8,459,000 or $0.77 per share (basic) and $0.75 per share (diluted), compared to $6,330,000 or $0.675 per share (basic) and $0.655 per share (diluted) for the year ended December 31, 2005.

Our return on average assets (ROA) and return on average equity (ROE) for the year ended December 31, 2006 were 0.86% and 7.70%, as compared to the ROA and ROE of 0.78% and 8.11%, for the year ended December 31, 2005.

Net income increased approximately $2,129,000 or 34% to $8,459,000 for the year ended December 31, 2006, compared to $6,330,000 for the same period during 2005. Earnings per share (basic) increased by $0.095, or 14% during this same period. We acquired the Mid FL bank on March 31, 2006. Therefore, nine months of Mid FL net income (approximately $496,000) was included in our 2006 consolidated net income amount. Average shares outstanding during 2006 issued pursuant to the Mid FL transaction was approximately 416,000. Basic earnings per share, $0.77, would be reduced to approximately $0.75 without Mid FL. Mid FL appears to have been accretive to our basic earnings per share in 2006 by approximately $0.02. All remaining growth in net income and earnings per share resulted from the continuing growth of our business, helped out by expansion in our net interest margin in 2006 compared to 2005 (4.15% versus 3.84%). The significant line items contributing to our 2006 net income compared to 2005 are discussed below.

Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income increased $8,559,000 or 30% to $37,103,000 during the year ended December 31, 2006 compared to $28,544,000 for the year ended December 31, 2005. The $8,559,000 increase was a combination of an $18,847,000 increase in interest income offset by a $10,288,000 increase in interest expense.

Table of Contents

Average interest earning assets increased $149,988,000 to $894,286,000 during the year ended December 31, 2006, compared to $744,298,000 for the year ended December 31, 2005. The yield on average interest earning assets increased 120bps to 6.61% (121bps to 6.63% tax equivalent basis) during the year ended December 31, 2006, compared to 5.41% (5.42% tax equivalent basis) for the same period in 2005. The combined net effects of the $149,988,000 increase in average interest earning assets and the 120bps (121bps tax equivalent basis) increase in yield on average interest earning assets resulted in the $18,847,000 ($18,986,000 tax equivalent basis) increase in interest income between the two years.

Interest bearing liabilities averaged $670,562,000 during the year ended December 31, 2006 as compared to $544,663,000 for the same period in 2005, an increase of $125,899,000, or 23%. The cost of average interest bearing liabilities increased 113bps to 3.28% during the year ended December 31, 2006, compared to 2.15% for the same period in 2005. The combined net effects of the $125,899,000 increase in average interest bearing liabilities and the 113bps increase in cost of average interest bearing liabilities resulted in the $10,288,000 increase in interest expense between the two years.

See the tables Average Balances Yields & Rates, and Analysis Of Changes In Interest Income And Expenses below.

Average Balances Yields & Rates

(Dollars are in thousands)

	Years Ended December 31,					
	2006			2005		
	Average Balance	Interest Inc / Exp	Average Rate	Average Balance	Interest Inc / Exp	Average Rate
ASSETS:						
Loans (1) (2) (7)	$ 605,236	$ 46,549	7.69%	$ 482,819	$ 32,590	6.75%
Securities taxable	217,709	9,169	4.21%	206,110	6,015	2.92%
Securities tax exempt (7)	8,542	468	5.48%	244	13	5.33%
Federal funds sold and other	62,799	3,136	4.99%	55,125	1,718	3.12%
TOTAL INTEREST EARNING ASSETS	$ 894,286	$ 59,322	6.63%	$ 744,298	$ 40,336	5.42%
Allowance for loan losses	(7,130)			(6,143)		
All other assets	94,484			70,022		
TOTAL ASSETS	$ 981,640			$ 808,177		
LIABILITIES & SHAREHOLDERS EQUITY						
Deposits:						
Now	$ 100,268	$ 659	0.66%	$ 99,909	$ 317	0.32%
Money market	106,707	2,651	2.48%	105,625	1,505	1.42%
Savings	48,053	343	0.71%	48,739	201	0.41%
Time deposits	355,704	15,337	4.31%	241,773	7,988	3.30%
Repurchase agreements	49,830	2,156	4.33%	38,210	1,013	2.65%
Other borrowed funds (3)	0	0	0.00%	407	16	3.93%
Corporate debenture (4)	10,000	864	8.64%	10,000	682	6.82%
TOTAL INTEREST BEARING LIABILITIES	$ 670,562	$ 22,010	3.28%	$ 544,663	$ 11,722	2.15%
Demand deposits	196,739			182,103		
Other liabilities	4,545			3,374		
Shareholders equity	109,794			78,037		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 981,640			$ 808,177		
NET INTEREST SPREAD (tax equivalent basis) (5)			3.35%			3.27%

NET INTEREST INCOME (tax equivalent basis)	$ 37,312	$ 28,614
NET INTEREST MARGIN (tax equivalent basis) (6)..	4.17%	3.84%

Table of Contents

(1) Loan balances are net of deferred fees/cost of origination.
(2) Interest income on average loans includes fee recognition of $521 and $269 for the years ended December 31, 2006 and 2005, respectively.
(3) Includes short-term (usually overnight) Federal Home Loan Bank advances and Federal Funds Purchased.
(4) Includes amortization of origination costs of $38 and $38 during year ended December 31, 2006 and 2005, respectively.
(5) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(6) Represents net interest income divided by total earning assets.
(7) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.

Analysis of Changes in Interest Income and Expenses

(Dollars are in thousands)

	Net Change Dec 31, 2006 versus 2005		
	Volume	Rate	Net Change
INTEREST INCOME			
Loans (tax equivalent basis)	$ 9,006	$ 4,953	$ 13,959
Securities available for sale taxable	355	2,799	3,154
Securities available for sale tax exempt	455		455
Federal funds sold and other	266	1,152	1,418
TOTAL INTEREST INCOME	$ 10,082	$ 8,904	$ 18,986
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 1	$ 341	$ 342
Money market accounts	16	1,130	1,146
Savings	(3)	145	142
Time deposits	4,461	2,888	7,349
Repurchase agreements	371	772	1,143
Other borrowed funds	(16)		(16)
Corporate debenture		182	182
TOTAL INTEREST EXPENSE	$ 4,830	$ 5,458	$ 10,288
NET INTEREST INCOME	$ 5,252	$ 3,446	$ 8,698

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses is charged to earnings to bring the total loan loss allowance to a level deemed appropriate by management and is based upon historical experience, the volume and type of lending conducted by us, the amount of nonperforming loans, general economic conditions, particularly as they relate to our market areas, and other environmental factors related to the collectibility of our loan portfolio. As these factors change, the level of loan loss allowance changes. As such, the provision for loan loss (income statement) is the difference

Table of Contents

between the loan loss allowance (balance sheet) at the beginning and end of the period, net of current period loan charge-offs and recoveries of previously charged off loans. The provision was $717,000 for the year ending December 31, 2006 compared to $1,065,000 for the same period in 2005, a decrease of $348,000. There were several factors effecting the provision period to period (e.g. net differences in net charge-offs and recoveries), however, the primary reason for the decrease in the provision between the periods was due to a decrease in specific reserves on impaired loans of $645,000. The specific reserve on impaired loans at December 31, 2006 was $372,000 compared to $1,017,000 at December 31, 2005.

Non-Interest Income

Non-interest income for the year ended December 31, 2006 was $6,136,000 compared to $5,380,000 for the comparable period in 2005. This increase was the result of the following components listed in the table below (Amounts listed are in thousands of dollars).

(in thousands of dollars)	2006	2005	$ increase (decrease)	% increase (decrease)
Service charges on deposit accounts	$ 3,401	$ 3,222	$ 179	5.6%
Commissions from mortgage broker activities	341	499	(158)	(31.7)%
Loan related fees	315	283	32	11.3%
Commissions from sale of mutual funds and annuities	695	321	374	116.5%
Rental income	203	203		%
Debit card and ATM fees	592	508	84	16.5%
BOLI income	277	43	234	544.2%
Other service charges and fees	248	298	(50)	(16.8)%
Gain (loss) on sale of fixed assets	47	(2)	49	n/a
Gain (loss) on sale of securities	17	(3)	20	n/a
Gain on sale of other real estate owned		8	(8)	n/a
Total non-interest income	$ 6,136	$ 5,380	$ 756	14.1%

Our general business growth helped increase fee income in general. Mid FL s non-interest income is included in 2006 income, but not 2005. Mid Florida s total non interest income contribution for 2006 was approximately $214,000, of which about $117,000 relates to service charges on deposit accounts. Partially off-setting these increasing effects on our deposit account service charges were rising interest rates and the related effect on the earnings credit on our commercial (business) checking accounts. That is, as interest rates rise, the earnings credit on checking accounts has increased thereby reducing checking account service fees, producing a decreasing effect in service charges on deposit accounts. Another off-setting decreasing effect on deposit account service charges was the merger of two of our subsidiary banks in January 2006. One of the banks had been charging customers for checking accounts (i.e. non-business checking accounts). Subsequent to the merger, that product has been changed to free checking, which produced a decreasing effect on service charges on deposit accounts. The reason we changed to free checking was to conform to our other banks and to better align ourselves to the local competition.

We purchased the majority of our BOLI on October 31, 2005. As such, we only had two months of income in 2005, compared to twelve months of earnings in 2006. BOLI is single premium life insurance placed on certain Bank officers. BOLI income is recognized as the cash surrender value of the insurance policies grow. BOLI income is generally tax deferred indefinitely.

Commissions from mortgage broker activities is dependent on market place forces including supply and demand of single family residential property in our local markets, and the interest rate environment which primarily effects refinancing activity.

Table of Contents

Sales of mutual funds and annuities are also dependent on market place forces including the successful efforts of our investment sales representatives.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2006 increased $6,399,000, or 28%, to $29,204,000, compared to $22,805,000 for 2005. The table below breaks down the individual components. Amounts are in thousands of dollars.

(in thousands of dollars)	2006	2005	$ increase (decrease)	% increase (decrease)
Employee salaries and wages	$ 12,063	$ 10,006	$ 2,057	20.6%
Employee incentive/bonus compensation	2,061	1,233	828	67.2%
Employee stock option expense	594		594	n/a
Health insurance and other employee benefits	1,760	1,180	580	49.2%
Payroll taxes	932	753	179	23.8%
Other employee related expenses	647	448	199	44.4%
Incremental direct cost of loan origination	(1,096)	(997)	(99)	9.9%
Total salaries, wages and employee benefits	$ 16,961	$ 12,623	$ 4,338	34.4%
Occupancy expense	3,443	2,780	663	23.8%
Depreciation of premises and equipment	1,935	1,642	293	17.8%
Supplies, stationary and printing	607	522	85	16.3%
Marketing expenses	585	447	138	30.9%
Data processing expense	1,105	961	144	15.0%
Legal, auditing and other professional fees	673	577	96	16.6%
Bank regulatory related expenses	326	316	10	3.2%
Postage and delivery	276	270	6	2.2%
ATM related expenses	434	399	35	8.8%
CDI amortization	514	72	442	613.9%
Other expenses	2,345	2,196	149	6.8%
Total non-interest expense	$ 29,204	$ 22,805	$ 6,399	28.1%

The most significant component when comparing current year non interest expense to prior year is the March 31, 2006 acquisition of Mid FL. Mid FL non interest expense is included in the current year but not in 2005. Mid FL s total 2006 non interest expense was approximately $2,292,000. Excluding Mid FL, our net increase would adjust from $6,399,000, or 28.1%, to $4,107,000, or 18.0% ($6,399,000 minus $2,292,000).

Our largest non-interest expense is employee and employee related expenses. Total salaries, wages and employee benefits for 2006 accounted for 58% of our total non-interest expense (57% excluding stock option expense), compared to 55% for 2005. Effective January 1, 2006, we were required to expense employee stock options pursuant to Statement of Financial Accounting Standard No. 123(R). Prior to 2006, we were not required to record an estimated expense for stock options in our financial statements. We recorded an expense of $594,000 in 2006, which was approximately 2% of our total non interest expense.

Looking at the table above, employee salaries and wages increased by 20.6% to $12,063,000 for 2006, compared to $10,006,000 for 2005. To analyze this $2,057,000 increase, removing the Mid FL component of salary expense (approximately $799,000), results in an adjusted increase of $1,258,000, or 12.6%. This increase is a result of an increase in average FTEs, exclusive of Mid FL (291 in 2006 compared to 266 in 2005), as well as salary increases commensurate with our market environment.

Table of Contents

We use a combination of performance incentive / bonus guidelines to motivate our employees to perform. These are primarily all tied to earnings performance metrics. As our net income increases, our employee incentive/bonus compensation also increases.

Employee health insurance expense increased by $580,000, or 49.2% year to year as listed in the table above. Removing Mid FL employee health insurance expense (approximately $121,000 Mid FL was not included in our 2005 expense) results in an adjusted increase of approximately $459,000, or 38.9%. Part of this increase is related to the increase in FTEs (exclusive of Mid FL FTEs), and the remaining amount is reflective of the increasing costs occurring in the health insurance industry.

Incremental direct cost of loan origination, represents direct incremental cost of originating loans for our portfolio (successful efforts) that are required to be capitalized and amortized to interest income over the life of the related loan pursuant to Statement of Financial Accounting Standard No. 91. The amount that we capitalize is dependent on not just the cost, but the volume of loans successfully originated.

We added one new branch in October 2005 (Crystal River), which is still operating out of a temporary location until we complete the construction of a new permanent facility. The new facility is expected to be ready during the first half of 2008. We opened a new office in September 2006 (Eustis) and one in October 2006 (Deer Creek), both in temporary facilities until we construct permanent facilities. The Deer Creek facility was recently completed in January 2008. The Eustis facility just began construction during January 2008. We also opened a new branch in a newly constructed permanent facility in October 2006. This accounts for some of the additional FTEs year to year, the rest is due to the continual growth of our business. The increase in the remainder of our non-interest expense was primarily due to the continual growth of our business.

Income Tax Provision

The income tax provision for the year ended December 31, 2006, was $4,859,000, an effective tax rate of 36.5%, as compared to $3,724,000 for the year ended December 31, 2005, an effective tax rate of 37.0%. This year we had more tax exempt interest income from tax exempt securities than last year, which is a decreasing effect on our effective tax rate. We also had more BOLI income this year than last year, which is also tax exempt and also results in a decreasing effect on our effect tax rate. In the other direction, we had stock option expense this year relating to incentive stock options which are not tax deductible expenses, resulting in an increasing effect on our effective tax rate. This year we also crossed into a higher federal tax bracket, which is an increasing effect on our effective tax rate. Income taxes are described and discussed further in Note 10 of our notes to our consolidated financial statements.

COMPARISON OF BALANCE SHEETS AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

Overview

Our total assets grew by $140,328,000, or 13%, from $1,077,102,000 at December 31, 2006 to $1,217,430,000 at December 31, 2007. The growth was due to the acquisition of VSB on April 2, 2007, as previously discussed. At the time of the transaction, VSB s total assets at acquisition were approximately $184,090,000. Excluding the VSB acquisition, total assets decreased by approximately $43,762,000, or 4%.

Securities

We account for our investments at fair value and classify them as available for sale. Unrealized holding gains and losses are included as a separate component of shareholders equity, net of the effect of deferred income taxes.

Table of Contents

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the security.

If a security has a decline in fair value below its amortized cost that is other than temporary, then the security will be written down to its new cost basis by recording a loss in the statement of operations. We do not engage in trading activities as defined in Statement of Financial Accounting Standard Number 115.

Our available for sale portfolio totaled $199,434,000 at December 31, 2007 and $235,350,000 at December 31, 2006, or 16% and 22%, respectively, of total assets. See the tables below for a summary of security type, maturity and average yield distributions.

We use our security portfolio primarily as a source of liquidity and a base from which to pledge assets for repurchase agreements and public deposits. When our liquidity position exceeds expected loan demand, other investments are considered as a secondary earnings alternative. Typically, we remain short-term in our decision to invest in certain securities. As these investments mature, they will be used to meet cash needs or will be reinvested to maintain a desired liquidity position. We have designated all of our securities as available for sale to provide flexibility, in case an immediate need for liquidity arises. We believe the composition of the portfolio offers flexibility in managing our liquidity position and interest rate sensitivity, without adversely impacting our regulatory capital levels. The available for sale portfolio is carried at fair market value and had a net unrealized gain of approximately $1,135,000 at December 31, 2007, compared to a net unrealized loss of approximately $1,052,000 at December 31, 2006.

We invest primarily in direct obligations of the United States, obligations guaranteed as to the principal and interest by the United States, mortgage backed securities, Municipal securities and obligations of agencies of the United States. In addition, we enter into federal funds transactions with our principal correspondent banks, and act as a net seller of such funds. The Federal Reserve Bank and the Federal Home Loan Bank also require equity investments to be maintained by us, which are shown separately in our consolidated balance sheet.

The tables below summarize the maturity distribution of securities, weighted average yield by range of maturities, and distribution of securities for the periods provided (dollars are in thousands).

	One year or less		Over one through five years		Over five through ten years		Over ten years		Total	
	$	%	$	%	$	%	$	%	$	%
AVAILABLE-FOR-SALE										
US treasury securities	$ 2,011	4.92%	$ 1,027	4.81%		%		%	$ 3,038	4.88%
US government agencies	3,002	4.48%	27,347	5.21%	6,092	5.64%	4,057	5.78%	40,498	5.28%
State, county, & municipal		%	6,217	4.41%	8,240	5.35%	23,725	5.56%	38,182	5.33%
Mortgage-backed securities	14,096	3.72%	93,397	4.99%	6,187	4.66%	4,036	5.11%	117,716	4.83%
Total	$ 19,109	3.97%	$ 127,988	5.01%	$ 20,519	5.22%	$ 31,818	5.53%	$ 199,434	5.01%

Table of Contents

Distribution of Investment Securities

(Dollars are in thousands)

	December 31, 2007		December 31, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AVAILABLE-FOR-SALE						
US treasury securities	$ 3,001	$ 3,038	$ 40,425	$ 40,265	$ 94,396	$ 93,734
US government agencies	39,771	40,498	38,783	38,732	26,817	26,491
State, county, & municipal	38,325	38,182	27,837	27,981	1,135	1,129
Mortgage-backed securities	117,202	117,716	129,357	128,372	97,452	95,615
Other investment					400	400
Total	$ 198,299	$ 199,434	$ 236,402	$ 235,350	$ 220,200	$ 217,369

Loans

Lending-related income is the most important component of our net interest income and is a major contributor to profitability. The loan portfolio is the largest component of earning assets, and it therefore generates the largest portion of revenues. The absolute volume of loans and the volume of loans as a percentage of earning assets is an important determinant of net interest margin as loans are expected to produce higher yields than securities and other earning assets. Average loans during the year ended December 31, 2007, were $791,886,000, or 74% of average earning assets, as compared to $605,236,000, or 68% of average earning assets, for the year ending December 31, 2006. Total loans, net of unearned fees and cost, at December 31, 2007 and 2006 were $841,405,000 and $657,963,000, respectively, an increase of $183,442,000, or 28%. This represents a loan to total asset ratio of 69% and 61% and a loan to deposit ratio of 87% and 74%, at December 31, 2007 and 2006, respectively. The increase in loans during this period was partially attributable to our acquisition of VSB (approximately $121,842,000) and the remaining amount was normal business growth.

Total residential real estate loans totaled $209,186,000 and total commercial real estate loans totaled $385,669,000, making up approximately 25% and 46% (combined total of approximately 71%) of the loan portfolio as of December 31, 2007, respectively. Construction, development, land loans totaled $108,615,000, or 13% of the loan portfolio. Commercial loans totaled $78,231,000, or 9% of the loan portfolio. Consumer and all other loans totaled $60,687,000, or 7% of the loan portfolio.

Loan concentrations are considered to exist where there are amounts loaned to multiple borrowers engaged in similar activities, which collectively could be similarly impacted by economic or other conditions and when the total of such amounts would exceed 25% of total capital. Due to the lack of diversified industry and the relative proximity of markets served, the Company has concentrations in geographic as well as in types of loans funded.

Table of Contents

The tables below provide a summary of the loan portfolio composition and maturities for the periods provided below.

Loan Portfolio Composition

(Dollars are in thousands)

Types of Loans

at December 31:	**2007**	**2006**	**2005**	**2004**	**2003**
Real estate loans:					
Residential	$ 209,186	$ 180,869	$ 148,090	$ 129,796	$ 140,826
Commercial	385,669	291,536	219,094	179,846	157,586
Construction, development, land	108,615	60,950	36,352	20,032	16,930
Total real estate loans	703,470	533,355	403,536	329,674	315,342
Commercial	78,231	68,948	63,475	64,984	59,175
Consumer and other loans	60,687	56,684	50,413	46,883	39,908
Total loans gross	842,388	658,987	517,424	441,541	414,425
Less: unearned fees/costs	(983)	(1,024)	(766)	(536)	(527)
Total loans	841,405	657,963	516,658	441,005	413,898
Less: allowance for loan losses	(10,828)	(7,355)	(6,491)	(5,685)	(4,850)
Total loans, net	$ 830,577	$ 650,608	$ 510,167	$ 435,320	$ 409,048

The repayment of loans is a source of additional liquidity for the Company. The following table sets forth the loans maturing within specific intervals at December 31, 2007.

Loan Maturity Schedule

(Dollars are in thousands)

	December 31, 2007			
	0 12 Months	**1 5 Years**	**Over 5 Years**	**Total**
All loans other than construction	$ 182,636	$ 338,827	$ 212,310	$ 733,773
Real estate construction	59,742	38,807	10,066	108,615
Total	$ 242,378	$ 377,634	$ 222,376	$ 842,388
Fixed interest rate	$ 96,065	$ 299,691	$ 97,491	$ 493,247
Variable interest rate	146,313	77,943	124,885	349,141
Total	$ 242,378	$ 377,634	$ 222,376	$ 842,388

The information presented in the above table is based upon the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity structure of the loan portfolio. *See* Liquidity and Market Risk Management for a discussion regarding the repricing structure of the loan portfolio.

Table of Contents

Credit Quality and Allowance for Loan Losses

We maintain an allowance for loan losses that we believe is adequate to absorb probable losses inherent in our loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings and decreased by loan charge-offs net of recoveries of prior period loan charge-offs. Loans are charged against the allowance when management believes collection of the principal is unlikely.

The allowance consists of two components. The first component consists of amounts reserved for impaired loans, as defined by Statement of Financial Accounting Standard No. 114. Impaired loans are those loans that management has estimated will not repay as agreed upon. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principle and interest eventually, and therefore no specific reserve is warranted.

The second component is a general reserve on all of the Company s loans other than those identified as impaired. We group these loans into five general categories with similar characteristics as listed below:

Residential real estate loans

Commercial real estate loans

Construction, development, land loans

Commercial loans (not collateralized by real estate)

Consumer and all other loans (not collateralized by real estate)

We then apply an adjusted loss factor to each group of loans to determine the total amount of this second component of our allowance for loan losses. The adjusted loss factor for each category of loans is a derivative of our historical loss factor for that category, adjusted for current internal and external environmental factors, as well as for certain loan grading factors. The environmental factors that we consider are listed below.

We consider changes in the levels of and trends in past due loans, non-accrual loans and impaired loans, and the volume and severity of adversely classified or graded loans. Also, we consider changes in the value of underlying collateral for collateral-dependent loans.

We consider levels of and trends in charge-offs and recoveries.

We consider changes in the nature and volume of the portfolio and in the terms of loans.

We consider changes in lending policies, procedures and practices, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses. We also consider changes in the quality of our loan review system.

We consider changes in the experience, ability, and depth of our lending management and other relevant staff.

We consider changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments (national and local economic trends and conditions).

We consider the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio (industry conditions).

We consider the existence and effect of any concentrations of credit, and changes in the level of such concentrations.

Table of Contents

In the table below we have shown the two components, as discussed above, of our allowance for loan losses at December 31, 2007 and 2006.

(amounts are in thousands of dollars)	December 31, 2007	December 31, 2006	increase (decrease)
Impaired loans	$ 11,803	$ 4,986	$ 6,817
Component 1 (specific allowance)	812	372	440
Specific allowance as percentage of impaired loans	6.88%	7.46%	(58bps)
Total loans other than impaired loans	829,602	652,977	176,625
Component 2 (general allowance)	10,016	6,983	3,033
General allowance as percentage of non impaired loans	1.21%	1.07%	14bps
Total loans	841,405	657,963	183,442
Total allowance for loan losses	10,828	7,355	3,473
Allowance for loan losses as percentage of total loans	1.29%	1.12%	17bps

During 2007, we observed increasing trends in our loan delinquencies and non-accrual loans. We also observed a degradation of real estate values nationally in general, and within Florida specifically. We believe the changes in these trends differ significantly enough from historical trends such that we have added additional risk factors to specific loan categories.

As shown in the table above, our allowance for loan losses (ALLL) as a percentage of total loans outstanding was 1.29% at December 31, 2007 and 1.12% at December 31, 2006. Our ALLL increased by $3,473,000 during this twelve month period. Of this amount, $3,033,000 relates to an increase in our Component 2, or general allowance, of which $1,617,000 relates to the acquisition of VSB and $1,416,000 is due to changes in this component s risk factors, as discussed above, and the growth in the loan portfolio.

The remaining $440,000 increase is due to an increase in our Component 1, or specific allowance. This Component is the result of specific allowance analyses prepared for each of our impaired loans.

We are committed to the early recognition of problems and to maintaining a sufficient allowance. We believe our allowance for loan losses at December 31, 2007 was adequate. The table below sets forth the activity in the allowance for loan losses for the periods presented.

Table of Contents

Activity in Allowance for Loan Losses

(Dollars are in thousands)

	2007	2006	2005	2004	2003
Balance, beginning of year	$ 7,355	$ 6,491	$ 5,685	$ 4,850	$ 4,055
Loans charged-off:					
Commercial	(206)	(368)	(225)	(133)	(298)
Real estate mortgage	(386)	(131)		(112)	(85)
Consumer	(405)	(99)	(134)	(105)	(151)
Total loans charged-off	(997)	(598)	(359)	(350)	(534)
Recoveries on loans previously charged-off:					
Commercial	1	53	52	7	29
Real estate mortgage	16	9	31	3	24
Consumer	44	36	17	35	33
Total loan recoveries	61	98	100	45	86
Net loans charged-off	(936)	(500)	(259)	(305)	(448)
Provision for loan losses charged to expense	2,792	717	1,065	1,270	1,243
Adjustment relating to sale of branches				(130)	
Acquisition of Mid FL		647			
Acquisition of VSB	1,617				
Balance, end of year	$ 10,828	$ 7,355	$ 6,491	$ 5,685	$ 4,850
Total loans at year end	$ 841,405	$ 657,963	$ 516,658	$ 441,005	$ 413,898
Average loans outstanding	$ 791,886	$ 605,236	$ 482,819	$ 421,229	$ 374,567
Allowance for loan losses to total loans at year end	1.29%	1.12%	1.26%	1.29%	1.17%
Net charge-offs to average loans outstanding	0.12%	0.08%	0.05%	0.07%	0.12%

Non-performing loans consist of non-accrual loans and loans past due 90 days or more and still accruing interest. Non-performing assets consist of non-performing loans plus other real estate owned (OREO) and repossessed assets other than real estate. We place loans on non-accrual status when they are past due 90 days and management believes the borrower s financial condition, after giving consideration to economic conditions and collection efforts, is such that collection of interest is doubtful. When we place a loan on non-accrual status, interest accruals cease and uncollected interest is reversed and charged against current income. Subsequent collections reduce the principal balance of the loan until the loan is returned to accrual status.

At December 31, 2007 we had 35 non-accrual loans with a total aggregate balance of $3,797,000. The largest loan in the group is $1,170,000 and is secured by a combination of commercial and residential real estate. The average size loan in this group is approximately $109,000. In terms of dollars, approximately 52% of our non-accrual loans are commercial and commercial real estate, 34% is secured by residential real estate, 4% is secured by land and the remaining 10% are consumer and other loans. Only one loan with a balance of less than $10,000 is unsecured. At December 31, 2007, loans past due 90 or more days and still accruing interest totaled $277,000.

Other real estate owned (OREO) is real estate that the Company has obtained ownership through foreclosure or other repossession process. At December 31, 2007, the Company had four properties in OREO consisting of two single family homes ($304,000 combined), one mobile home with land ($46,000) and one commercial real estate property with building ($233,000).

At December 31, 2007 repossessed assets other than real estate consisted of three mobile homes with an aggregate balance of $170,000.

Total non-performing assets as of December 31, 2007, increased $4,182,000 or 648% to $4,827,000, compared to $645,000 as of December 31, 2006. Non-performing assets, as a percentage of total assets at December 31, 2007 and December 31, 2006, were 0.40% and 0.06%, respectively.

Non-performing loans as of December 31, 2007, increased $3,464,000 or 568% to $4,074,000, compared to $610,000 as of December 31, 2006. Non-performing loans, as a percentage of total loans at December 31, 2007 and December 31, 2006, were 0.48% and 0.09%, respectively.

Interest income not recognized on non-accrual loans was approximately $78,000, $16,000 and $35,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Interest income recognized on impaired loans was approximately $642,000, $363,000 and $18,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The average recorded investment in impaired loans during 2007, 2006 and 2005 were $8,315,000, $5,032,000 and $987,000, respectively. The table below summarizes non-performing assets for the periods provided.

Non-Performing Assets

(Dollars are in thousands)

	December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Non-accrual loans	$ 3,797	$ 448	$ 852	$ 890	$ 1,078
Past due loans 90 days or more and still accruing interest	277	162	658	7	246
Total non-performing loans	4,074	610	1,510	897	1,324
Other real estate owned (OREO)	583			384	282
Repossessed assets other than real estate	170	35	39	24	35
Total non-performing assets	$ 4,827	$ 645	$ 1,549	$ 1,305	$ 1,641
Total non-performing loans as a percentage of total loans	0.48%	0.09%	0.29%	0.20%	0.32%
Total non-performing assets as a percentage of total assets	0.40%	0.06%	0.18%	0.17%	0.27%
Allowance for loan losses as a percentage of non-performing loans	266%	1,206%	430%	634%	366%
Restructured loans	$	$	$	$	$
Recorded investment in impaired loans	$ 14,885	$ 4,986	$ 6,346	$ 1,053	$ 368
Allowance for loan losses related to impaired loans	$ 1,182	$ 372	$ 1,017	$ 406	$ 132

We are continually analyzing our loan portfolio in an effort to recognize and resolve our problem assets as quickly and efficiently as possible. While we believe we use the best information available at the time to make a determination with respect to the allowance for loan losses, we recognize that many factors can adversely impact various segments of our markets, and subsequent adjustments in the allowance may be necessary if future economic indications or other factors differ from the assumptions used in making the initial determination or if regulatory policies change. We continuously focus our attention on promptly identifying and providing for potential problem loans, as they arise. Although the total allowance for loan losses is available to absorb losses from all loans, management allocates the reserve among loan portfolio categories for informational and regulatory reporting purposes. Regulatory examiners may require us to recognize additions to the allowance based upon the regulators judgments about the information available to them at the time of their examination, which may differ from our judgments about the allowance for loan losses.

Table of Contents

While no portion of the allowance is in any way restricted to any individual loan or group of loans, and the entire allowance is available to absorb losses from any and all loans, the following table summarizes our allocation of allowance for loan losses by loan category and loans in each category as a percentage of total loans, for the periods presented. Dollar amounts are in thousands.

	December 31,					
	2007		2006		2005	
Real estate loans:						
Residential	$ 1,441	25%	$ 998	28%	$ 992	29%
Commercial	5,202	46%	2,969	44%	2,888	42%
Construction, development, land	1,636	13%	1,213	9%	435	7%
Total real estate loans	8,279	84%	5,180	81%	4,315	78%
Commercial loans	1,413	9%	1,271	10%	1,303	12%
Consumer and other loans	929	7%	904	9%	841	10%
Unallocated	207				32	
Total	$ 10,828	100%	$ 7,355	100%	$ 6,491	100%

	December 31,			
	2004		2003	
Real estate loans:				
Residential	$ 876	29%	$ 815	34%
Commercial	2,562	41%	1,927	38%
Construction, development, land	324	4%	237	4%
Total real estate loans	3,762	74%	2,979	76%
Commercial loans	1,184	15%	1,301	14%
Consumer and other loans	665	11%	570	10%
Unallocated	74			
Total	$ 5,685	100%	$ 4,850	100%

Bank Premises and Equipment

Bank premises and equipment was $55,458,000 at December 31, 2007 compared to $39,879,000 at December 31, 2006, an increase of $15,579,000 or 39%. Of this amount, $9,289,000 represents the purchase of premises and equipment pursuant to the April 2, 2007 acquisition of VSB as discussed previously. The remaining amount of the increase ($6,290,000) is the result of purchases and construction costs totaling $8,595,000 less $2,305,000 of depreciation expense. Most of these costs relate to the construction of the two branch offices completed in the first half of 2007 (Ashton in Osceola County and FishHawk in Hillsborough County) and two branch offices currently under construction (Deer Creek in Polk County and Crystal River in Citrus County).

We operate from 37 banking locations in nine central Florida Counties. Three of these locations are operating out of temporary facilities while their permanent offices are under construction. The construction is almost complete on two, and the other one just began construction. Excluding these temporary facilities, which are rented, we lease seven of our banking offices and own the remainder. See Note 4 to our consolidated financial statements for additional information.

Deposits

Total deposits increased $79,814,000, or 9%, to $972,620,000 as of December 31, 2007, compared to $892,806,000 at December 31, 2006. The increase in deposits during this period was attributable to our acquisition of VSB (approximately $130,614,000). Excluding the deposits acquired pursuant to the VSB

Table of Contents

transaction, the Company s deposits decreased by $50,800,000, or 5.7%. Deposit growth, especially in core deposits (i.e. non time deposit accounts) continues to be a challenge. Our subsidiary Presidents have initiated various incentive programs throughout their Banks as well as other marketing efforts targeted at deposit growth. We believe there are several forces causing this slow down in deposit growth, including the interest rate environment which may have enticed customers to shift from lower yielding accounts to higher yielding time deposits and the slow down in real estate activity in Florida, which translates into less transactions which equates to lower balances held in title company accounts and other real estate related accounts.

The generation of deposits within our market area serves as our primary source of funds for investment principally in loans. The tables below summarize selected deposit information for the periods indicated.

Average deposit balance by type and average interest rates

(Dollars are in thousands)

	2007		2006		2005	
	Average Balance	**Average Rate**	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**
Non interest bearing demand deposits	$ 187,751	0.00%	$ 196,739	0.00%	$ 182,103	0.00%
NOW accounts	125,468	1.10%	100,268	0.66%	99,909	0.32%
Money market accounts	114,457	2.90%	106,707	2.48%	105,625	1.42%
Savings accounts	53,195	0.81%	48,053	0.71%	48,739	0.41%
Time deposits	482,162	4.89%	355,704	4.31%	241,773	3.30%
Total	$ 963,033	2.98%	$ 807,471	2.35%	$ 678,149	1.48%

Maturity of time deposits of $100,000 or more

(Dollars are in thousands)

	December 31,		
	2007	**2006**	**2005**
Three months or less	$ 98,752	$ 60,495	$ 28,106
Three through six months	88,224	68,047	24,057
Six through twelve months	76,652	60,311	31,364
Over twelve months	33,673	38,780	46,672
Total	$ 297,301	$ 227,633	$ 130,199

Repurchase Agreements

We enter into borrowing arrangements with retail business customers by agreements to repurchase (repurchase agreements) under which we pledge investment securities owned and under our control as collateral against the one-day borrowing arrangement. These arrangements are not transactions with investment bankers or brokerage firms, but rather, with several of our larger commercial customers who periodically have excess cash balances and do not want to keep those balances in non interest bearing checking accounts. Because our Banks are not permitted to pay interest on commercial checking accounts, we offer an arrangement via a repurchase agreement whereby balances are transferred from their checking account into a repurchase agreement arrangement which we will pay a daily adjustable interest rate of the federal fund rate minus an amount that generally ranges between 0.35% and 0.75%.

Table of Contents

The daily average balance of these short-term borrowing agreements for the years ended December 31, 2007, 2006 and 2005, was approximately $58,329,000, $49,830,000 and $38,210,000, respectively. Interest expense for the same periods was approximately $2,582,000, $2,156,000 and $1,013,000, respectively, resulting in an average rate paid of 4.43%, 4.33% and 2.65% for the years ended December 31, 2007, 2006, and 2005, respectively. The table below summarizes our repurchase agreements for the periods presented.

Schedule of short-term borrowing (1)

(Dollars are in thousands)

	Maximum outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2007	$ 74,526	$ 58,329	4.43%	$ 33,128	2.93%
2006	54,812	49,830	4.33%	52,792	4.39%
2005	49,046	38,210	2.65%	41,811	3.38%

(1) Consist of securities sold under agreements to repurchase

Other borrowed funds

From time to time we borrow on a short-term basis, usually over-night, either through Federal Home Loan Bank advances or Federal Funds Purchased. The table below summarizes our repurchase agreements for the periods presented.

Schedule of short-term borrowing (1)

(Dollars are in thousands)

	Maximum outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2007	$ 42,518	$ 8,765	6.07%	$ 42,518	4.44%
2006			%		%
2005	4,500	407	3.93%	1,000	4.50%

(1) Consist of Federal Home Loan Bank advances and Federal Funds Purchased

Corporate debenture

We formed CenterState Banks of Florida Statutory Trust I (the Trust) for the purpose of issuing trust preferred securities. On September 22, 2003, we issued a floating rate corporate debenture in the amount of $10,000,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture of the Company. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 305 basis points). The rate is subject to change quarterly. The rate in effect during the quarter ended December 31, 2007 was 8.28%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve Board, if then required. Related debt issuance costs of $188,000 were capitalized and are being amortized to

interest expense over a five year period. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2004, Valrico Bancorp Inc. (VBI) formed Valrico Capital Statutory Trust (Valrico Trust) for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2007 was 7.82%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by VBI or the Valrico Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI pursuant to the merger agreement, including VBI s corporate debenture and related trust preferred security discussed above. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

Liquidity and Market Risk Management

Market and public confidence in our financial strength and financial institutions in general will largely determine our access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily and weekly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations cost-effectively and to meet current and future potential obligations such as loan commitments, lease obligations, and unexpected deposit outflows. In this process, we focus on both assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

Interest rate sensitivity refers to the responsiveness of interest-earning assets and interest-bearing liabilities to changes in market interest rates. The rate sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities, at a given time interval, including both floating rate instruments and instruments which are approaching maturity. The measurement of our interest rate sensitivity, or gap, is one of the principal techniques we use in our asset/liability management effort. Each of our Banks, generally attempts to maintain a range, set by policy, between rate-sensitive assets and liabilities by repricing periods. Each of our Banks set their own range, approved by their board of directors. If any of our Banks fall outside their pre-approved range, it requires board action and board approval, by that particular Bank s board of directors. The asset mix of our balance sheet is evaluated continually in terms of several variables: yield, credit quality, and appropriate funding sources and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

Our gap and liquidity positions are reviewed periodically to determine whether or not changes in policies and procedures are necessary to achieve financial goals. At December 31, 2007, approximately 41% of total gross loans were adjustable rate. Approximately 59% of our investment securities ($117,716,000 fair value) are invested in U.S. Government Agency mortgage backed securities. Although most of these have maturities in excess of five years, these are amortizing instruments that generate cash flows each month. The duration (average life of expected cash flows) of our securities at December 31, 2007 was approximately 3.4 years. Deposit

Table of Contents

liabilities, at that date, consisted of approximately $135,442,000 (14%) in NOW accounts, $142,203,000 (15%) in money market accounts and savings, $535,886,000 (55%) in time deposits and $159,089,000 (16%) in non-interest bearing demand accounts.

The table below presents the market risk associated with our financial instruments. In the Rate Sensitivity Analysis table, rate sensitive assets and liabilities are shown by repricing periods. The estimated fair value of each instrument category is also shown in the table. While these estimates of fair value are based on our judgment of the most appropriate factors, there is no assurance that, if we had to dispose of such instruments at December 31, 2007, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2007, should not necessarily be considered to apply at subsequent dates.

RATE SENSITIVITY ANALYSIS

December 31, 2007

(Dollars are in thousands)

	0 - 1Yr	1 - 2Yrs	2 - 3Yrs	3 - 4Yrs	4 - 5Yrs	5 Ys +	TOTAL	Est. Fair Value
INTEREST EARNING ASSETS								
Fixed rate loans (3)	$ 96,064	$ 69,755	$ 72,999	$ 74,067	$ 82,870	$ 97,492	$ 493,247	$ 495,883
Average interest rates	7.22%	7.13%	7.41%	7.92%	7.79%	7.45%	7.48%	
Variable rate loans (3)	267,247	13,699	15,767	21,200	13,518	17,710	349,141	349,141
Average interest rates	7.63%	6.78%	6.58%	6.67%	6.80%	6.71%	7.41%	
Investment securities (1)	17,922	18,836	17,692	25,131	4,083	114,635	198,299	199,434
Average interest rates	3.94%	4.23%	4.61%	5.08%	4.67%	4.95%	4.77%	
Federal funds sold and other (2)	47,563						47,563	47,563
Average interest rates	3.90%						3.90%	
Total interest-earning assets	$ 428,796	$ 102,290	$ 106,458	$ 120,398	$ 100,471	$ 229,837	$ 1,088,250	$ 1,092,021
	6.97%	6.55%	6.82%	7.10%	7.53%	6.14%	6.81%	
INTEREST BEARING								
LIABILITIES								
NOW accounts	$ 135,442	$	$	$	$	$	$ 135,442	135,442
Average interest rates	0.93%						0.93%	
Money Market Accounts	93,076						93,076	93,076
Average interest rates	2.63%						2.63%	
Savings Accounts	49,127						49,127	49,127
Average interest rates	0.66%						0.66%	
Time deposits	467,442	44,495	12,877	5,383	5,689		535,886	536,600
Average interest rates	4.95%	4.62%	4.51%	5.82%	4.70%		4.92%	
Securities sold under repurchase agreements	33,128						33,128	33,128
Average interest rates	2.93%						2.93%	
Other borrowed funds (4)	42,518						42,518	42,518
Average interest rates	4.44%						4.44%	
Corporate debenture	12,500						12,500	12,500
Average interest rates	8.19%						8.19%	
Total Interest-Bearing Liabilities	$ 833,233	$ 44,495	$ 12,877	$ 5,383	$ 5,689	$ 115	$ 901,677	$ 902,391
	3.73%	4.62%	4.51%	5.82%	4.70%	0.91%	3.80%	
Interest sensitivity gap	(404,437)	57,795	93,581	115,015	94,782	229,722		
Cumulative gap	(404,437)	(346,642)	(253,061)	(138,046)	(43,264)	186,573		
Cumulative gap (RSA/RSL) (5)	0.51	0.61	0.72	0.85	0.95	1.21		

(1) Securities are shown at amortized cost. Includes $117,202 (amortized cost basis) of mortgage backed securities of which the majority are fixed rate. Although most have maturities greater than five years, these are amortizing instruments which generate cash flows on a monthly basis.
(2) Includes federal funds sold and interest earning Federal Reserve stock and Federal Home Loan Bank stock.
(3) Loans are shown at gross value.
(4) Includes federal funds purchased and Federal Home Loan Bank advances.
(5) Rate sensitive assets (RSA) divided by rate sensitive liabilities (RSL), cumulative basis.

Table of Contents

As stated earlier, the rate sensitivity table above summarizes our interest earning assets and interest bearing liabilities by repricing periods at a point in time. It does not include assumptions about sensitivity to changes in various interest rates by asset or liability type, correlation between macro environment market rates and specific product types, lag periods, cash flows or other assumptions and projections. However, in addition to static gap analysis, our Banks also use simple simulation models to estimate the sensitivity of their net interest income to changes in interest rates. Simulation is a better technique than gap analysis because variables are changed for the various rate conditions. Each category s interest change is calculated as rates ramp up and down. In addition, the repayment speeds and repricing speeds are changed. Rate Shock is a method for stress testing the net interest margin over the next four quarters under several rate change levels. These levels span in 100bps increments up and down from the current interest rates. In order to simulate activity, maturing balances are replaced with the new balances at the new rate level, and repricing balances are adjusted to the new rate shock level. The interest is recalculated for each level along with the new average yield. Net interest margin is then calculated and a margin risk profile is developed. The results of these calculations, as of December 31, 2007 looking four quarters into the future, for our combined Banks, are summarized in the table below.

change in interest rates	-400 bps	-300 bps	-200 bps	-100 bps	0 bps	+100 bps	+200 bps	+300 bps	+400 bps
resulting effect on net									
interest income (a)	-1.18%	-0.53%	-0.05%	0.16%	current	-0.38%	-0.90%	-1.45%	-1.96%

(a) The percentage change in each of these boxes represents a percentage change from the net interest income (dollars) that the models projected for the next four quarters. To put this in perspective, as an example, our net interest income for 2007 was $42,348,000. Assuming a 100bps decrease in rates, our models are suggesting that our net interest income would increase by 0.16%, or approximately $68,000. Likewise, assuming a 100bps increase in rates, our models are suggesting that our net interest income would decrease by 0.38%, or approximately $161,000. It is important to reiterate again, that these models are built on a multitude of assumptions and predictions. This is not an exact science. The benefit that we see is measuring our overall interest rate risk profile. Although we are by no means suggesting the exactness of the numbers above, what we see as a take away is that regardless of a plus or minus 400 bps changes in interest rates, the result is not catastrophic to our future earnings. We believe that our interest rate risk is manageable and under control as of December 31, 2007.

Simulation and rate shock stress testing our net interest income (NIM) is a forward looking analysis. That is, it estimates, based on various assumptions, what the effect on our NIM might be given various changes in future interest rates. Another way of analyzing our interest rate risk profile is looking at history. The table below measures the correlation between our NIM and market interest rates over an eight year period starting at the beginning of 2000 and ending on December 31, 2007. We used Prime as a surrogate for market interest rates. This simple correlation is not perfect because we ignore changes in duration of our asset/liability portfolio over time and changes in the slope of the yield curve over time. However, it will demonstrate that over time our asset/liability portfolio generally tended to be asset sensitive. That is, in general, over this historical period, when market interest rates increased, our NIM increased, and when market interest rates decreased, our NIM decreased. In the table below, the Prime rate is measured by the vertical bars, and their scale is on the left hand side of the graph. Each bar represents a month. Our NIM is represented by the line graph and its scale is on the right hand side of the graph. The line graph is connecting a series of dots, which represents our NIM for a given quarter.

Table of Contents

Net Interest Margin vs. Prime

Although the graph above and our earlier discussion, indicates that we have historically been asset sensitive, we believe we are less asset sensitive today that in the past and could be approaching a slight liability sensitive position. The reason for this statement is as follows. Four years ago (2003) 55% of our loan portfolio was variable rate of which most were tied to Prime and adjusted daily or monthly. Today, December 31, 2007, only 41% of our loan portfolio is variable rate. The result is that our loan portfolio is not as sensitive to interest rate changes today as it was in the past. In the past, our investment securities were very short term. We invested primarily in short-term U.S. Treasuries with terms generally less than two years. Today, 59% of our investment securities are U.S. Government Agency mortgage backed securities and 19% are tax exempt municipal securities which tend to be fixed rate long term. Four years ago, the duration of our investment securities portfolio was approximately 1.6 years. Today (December 31, 2007), it is approximately 3.4 years. By lengthening the duration of our investment securities, we have made this portfolio less sensitive to changes in interest rates today, than it was in the past. In terms of the liability side of the balance sheet, consider two funding sources. First, the deposit funding source least sensitive to changes in interest rates is non interest bearing checking accounts. Four years ago, non interest bearing checking accounts represented approximately 22% of our total deposits. Today, at December 31, 2007, they represent only about 16% of our total deposits. Second, consider the deposit funding source most sensitive to interest rate changes, time deposits. Four years ago time deposits were about 40% of our total deposits, two years ago they were about 37% of our total deposits, and had been as low as 32%. At December 31, 2007 time deposits represented approximately 55% of our total deposits.

Managing interest rate risk is a dynamic process. Our philosophy is to not try to guess the market in either direction. We do not want to be excessively assets sensitive or excessively liability sensitive. We try to manage our asset/liability portfolio with the goal of optimizing our yield without taking on excessive interest rate risk.

Contractual Obligations

While our liquidity monitoring and management considers both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on our future obligations. In the table, all deposits with indeterminate maturities, such as demand deposits, checking accounts, savings accounts and money market accounts, are presented as having a maturity of one year or less.

Table of Contents

(in thousands of dollars)	December 31, 2007 Total	Due in one year or less	Due over one year and less than three years	Due over three years and less than five years	Due over five Years
Contractual commitments:					
Deposit maturities	$ 972,620	$ 904,093	$ 54,145	$ 14,382	$
Securities sold under agreements to repurchase	33,128	33,128			
Corporate debenture	12,500				12,500
Other borrowed funds	42,518	42,518			
Deferred compensation	1,858	1,556	302		
Operating lease obligations	1,975	566	589	496	324
Total	$ 1,064,599	$ 981,861	$ 55,036	$ 14,878	$ 12,824

Primary Sources and Uses of Funds

Our primary sources of funds during the year ended December 31, 2007 included a $47,425,000 decrease in investments and securities net of maturities/sales, a $11,854,000 increase in borrowings, $8,665,000 in funds provided by operations, net cash from the acquisition of VSB of $7,650,000, $675,000 of proceeds received upon exercise of stock options by our employees, $210,000 of proceeds from the sale of OREO, and a $47,573,000 decrease in federal funds sold and other cash items.

Our primary uses of funds during 2007 included a $62,840,000 increase in net loans outstanding, a $50,777,000 net decrease in deposits, $8,615,000 net purchases of premises and equipment including construction costs, and $1,820,000 in dividends paid to our shareholders.

Capital Resources

Total stockholders equity at December 31, 2007 was $148,282,000, or 12.2% of total assets compared to $117,332,000, or 10.9% of total assets at December 31, 2006. The $30,950,000 increase was primarily the result of the following items: common stock issued pursuant to the acquisition of VSB ($22,443,000), plus net income ($7,799,000), plus exercise of stock options ($676,000), plus stock based compensation expense pursuant to Statement of Accounting Standard No. 123(R) ($509,000), plus net change of unrealized gain in securities available for sale ($1,343,000), less dividends paid ($1,820,000).

The bank regulatory agencies have established risk-based capital requirements for banks. These guidelines are intended to provide an additional measure of a bank s capital adequacy by assigning weighted levels of risk to asset categories. Banks are also required to systematically maintain capital against such off- balance sheet activities as loans sold with recourse, loan commitments, guarantees and standby letters of credit. These guidelines are intended to strengthen the quality of capital by increasing the emphasis on common equity and restricting the amount of loan loss reserves and other forms of equity such as preferred stock that may be included in capital. Each of our Company s subsidiary Banks objective is to maintain its current status as a well-capitalized institution as that term is defined by its regulators.

Under the terms of the guidelines, banks must meet minimum capital adequacy based upon both total assets and risk-adjusted assets. All banks are required to maintain a minimum ratio of total capital to risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to risk-weighted assets of 4%. Adherence to these guidelines has not had an adverse impact on our Company.

Selected consolidated capital ratios at December 31, 2007, and 2006 were as follows:

Capital Ratios

(Dollars are in thousands)

	Actual		Well Capitalized		Excess
	Amount	Ratio	Amount	Ratio	Amount
As of December 31, 2007:					
Total capital: (to risk weighted assets):	$ 138,070	15.0%	$ 92,231	10.0%	$ 45,839
Tier 1 capital: (to risk weighted assets):	$ 127,242	13.8%	$ 55,339	6.0%	$ 71,903
Tier 1 capital: (to average assets):	$ 127,242	10.8%	$ 58,995	5.0%	$ 68,247
As of December 31, 2006:					
Total capital: (to risk weighted assets):	$ 122,387	16.6%	$ 73,716	10.0%	$ 48,671
Tier 1 capital: (to risk weighted assets):	$ 115,032	15.6%	$ 44,230	6.0%	$ 70,802
Tier 1 capital: (to average assets):	$ 115,032	11.2%	$ 51,236	5.0%	$ 63,796

Effects of Inflation and Changing Prices

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on the performance of a financial institution than the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. In addition, inflation affects financial institutions increased cost of goods and services purchased, the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders equity. Commercial and other loan originations and refinancings tend to slow as interest rates increase, and can reduce our earnings from such activities.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements, other than approved and unfunded loans and letters and lines of credit to our customers in the ordinary course of business.

Accounting Pronouncements

Refer to Note 1(x) in our Notes to Consolidated Financial Statements for a discussion on the effects of new accounting pronouncements.

Table of Contents

Item 7A. Quantitative and qualitative disclosures about market risk.

Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. Our market risk is composed primarily of interest rate risk. Each of our subsidiary Banks has an Asset/Liability Committee (ALCO) which is responsible for reviewing the interest rate sensitivity position, and establishing policies to monitor and limit the exposure to interest rate risk for their specific Bank. Substantially all of our interest rate risk exposure relates to the financial instrument activity of each of our subsidiary Banks. As such, the board of directors of each subsidiary Bank is responsible to review and approve the policies and guidelines established by their Bank s ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is measured and monitored through gap analysis, which measures the amount of repricing risk associated with the balance sheet at specific points in time. See Liquidity and Market Risk Management presented in Item 7 above for quantitative disclosures in tabular format, as well as additional qualitative disclosures.

Item 8. Financial Statements and Supplementary Data

The financial statements of our Company as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 are set forth in this Form 10-K at page 67.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures*. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial officers of the Company concluded that the Company s disclosure controls and procedures were adequate.

(b) *Changes in internal controls.* The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers.

(c) *Management s report on internal control over financial reporting.* The effectiveness of the Company s internal control over financial reporting as of December 31, 2007 has been audited by Crowe Chizek and Company LLC, an independent registered public accounting firm, as stated in their report which is included herein. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations, also referred to as the Treadway Commission. Based upon our evaluation under the framework in *Internal Control Integrated Framework,* management concluded that our internal control over financial reporting was effective as of December 31, 2007.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Company has a Code of Ethics that applies to its principal executive officer and principal

financial officer (who is also its principal accounting officer), a copy of which is included with this

Form 10-K as Exhibit 14.1. The information contained under the sections captioned Directors and

Executive Officers under Proposal One Election of Directors, and in the sections captioned Audit Committee Report and Section 16(a) Reportin Requirements, in the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 29, 2008, to be filed with the SEC pursuant to Regulation 14A within 120 days of their registrant s fiscal year end (the Proxy Statement), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned Information About the Board of Directors and Its Committees under Proposal One Election of Directors, and the sections captioned Executive Compensation and Benefits, and Compensation Committee Report, in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information contained in the section captioned Directors and Management and Principal

Stock Ownership under Election of Directors, and under the table captioned Equity Compensation Plan Information, in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in the section entitled Certain Transactions under Executive

Compensation and Benefits and the section entitled Director Independence in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained in the section captioned Independent Auditors in the Proxy

Statement is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

Table of Contents

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

ment)
e Company s Form 8-K dated April 25, 2006).

e Registration Statement)
ion Statement)*
the Company s Proxy Statement dated March 25, 2004)*
o the Company s Form 8-K dated January 11, 2006)*
resident, CEO and Chairman of the Board, James J. Antal, Senior Vice President, CFO and Corporate Secretary (Incorporated by reference to Exhibit 10.1 to the Con
t, Senior Vice President, Treasurer and Chief Operations Officer, and the Company s four subsidiary bank Presidents Thomas E. White, John C. Corbett and Timoth
Company s Proxy Statement dated March 30, 2007)*
esident Timothy A. Pierson.
ted March 26, 2004)

* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. and SUBSIDIARIES

Index to consolidated financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

CenterState Banks of Florida, Inc.

Winter Haven, Florida

We have audited the accompanying consolidated balance sheets of CenterState Banks of Florida, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the years then ended. We also have audited the Company s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s report on internal control over financial reporting contained in Item 9A.(c) of the accompanying Form 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the 2007 and 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CenterState Banks of Florida, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Chizek and Company LLC

Fort Lauderdale, Florida

March 6, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

CenterState Banks of Florida, Inc.:

We have audited the accompanying consolidated statements of operations, changes in stockholders equity and comprehensive income, and cash flows of CenterState Banks of Florida, Inc. and subsidiaries for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above represent fairly, in all material respects, the results the operations and the cash flows of CenterState Banks of Florida, Inc. and subsidiaries for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 10, 2006

Certified Public Accountants

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2006

(in thousands of dollars, except per share data)

	2007	2006
Assets		
Cash and due from banks	$ 30,293	$ 40,385
Federal funds sold and money market account	42,155	79,636
Cash and cash equivalents	72,448	120,021
Investment securities available for sale, at fair value	199,434	235,350
Loans	841,405	657,963
Less allowance for loan losses	(10,828)	(7,355)
Net loans	830,577	650,608
Accrued interest receivable	5,843	5,035
Federal Home Loan Bank and Federal Reserve Bank stock	5,408	2,665
Bank premises and equipment, net	55,458	39,879
Deferred income taxes, net	1,120	1,898
Goodwill	28,118	9,863
Core deposit intangible	4,725	3,083
Bank owned life insurance	9,728	7,320
Other real estate owned	583	
Prepaid expenses and other assets	3,988	1,380
Total assets	$ 1,217,430	$ 1,077,102
Liabilities and Stockholders Equity		
Deposits:		
Interest bearing	$ 813,531	$ 669,204
Noninterest bearing	159,089	223,602
Total deposits	972,620	892,806
Securities sold under agreement to repurchase	33,128	52,792
Corporate debentures	12,500	10,000
Other borrowed funds	42,518	
Accrued interest payable	1,940	993
Accounts payable and accrued expenses	6,442	3,179
Total liabilities	1,069,148	959,770
Stockholders equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value: 40,000,000 shares authorized; 12,436,407 and 11,129,020 shares issued and outstanding at December 31, 2007 and 2006, respectively	124	111
Additional paid-in capital	110,604	86,989
Retained earnings	36,857	30,878

Accumulated other comprehensive income (loss)	697	(646)
Total stockholders equity	148,282	117,332
Total liabilities and stockholders equity	$ 1,217,430	$ 1,077,102

See accompanying notes to the consolidated financial statements

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2007, 2006 and 2005

(in thousands of dollars, except per share data)

	2007	2006	2005
Interest income:			
Loans	$ 61,873	$ 46,469	$ 32,524
Investment securities available for sale:			
Taxable	9,388	9,169	6,015
Tax-exempt	1,381	339	9
Federal funds sold and other	2,531	3,136	1,718
	75,173	59,113	40,266
Interest expense:			
Deposits	28,690	18,990	10,011
Securities sold under agreement to repurchase	2,582	2,156	1,013
Corporate debentures	1,021	864	682
Other borrowing	532		16
	32,825	22,010	11,722
Net interest income	42,348	37,103	28,544
Provision for loan losses	2,792	717	1,065
Net interest income after provision for loan losses	39,556	36,386	27,479
Other income:			
Service charges on deposit accounts	4,436	3,401	3,222
Commissions from mortgage broker activities	187	341	499
Commissions from sale of mutual funds and annuities	586	695	321
Debit card and ATM fees	905	592	508
Loan related fees	381	315	283
Sale of bank shell	1,000		
BOLI income	353	277	43
Gain (loss) on sale of securities	7	17	(3)
(Loss) gain on sale of other real estate owned	(5)		8
Other service charges and fees	482	498	499
	8,332	6,136	5,380
Other expenses:			
Salaries, wages and employee benefits	20,027	16,961	12,623
Occupancy expense	4,201	3,443	2,780
Depreciation of premises and equipment	2,305	1,935	1,642
Supplies, stationary and printing	690	607	522
Marketing expenses	1,096	585	447
Data processing expense	1,452	1,105	961
Legal, audit and other professional fees	1,101	673	577
Core deposit intangible (CDI) amortization	842	514	72
Bank regulatory expenses	468	326	316
ATM related expenses	495	434	399
Postage and delivery	308	276	270
Other expenses	3,207	2,345	2,196

Total other expenses	36,192	29,204	22,805
Income before provision for income taxes	11,696	13,318	10,054
Provision for income taxes	3,897	4,859	3,724
Net income	$ 7,799	$ 8,459	$ 6,330
Earnings per share:			
Basic	$ 0.64	$ 0.77	$ 0.68
Diluted	$ 0.63	$ 0.75	$ 0.66
Common shares used in the calculation of earnings per share:			
Basic	12,108,590	10,964,890	9,357,046
Diluted	12,294,537	11,232,059	9,629,194

See accompanying notes to the consolidated financial statements.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

Years ended December 31, 2007, 2006, and 2005

(in thousands of dollars)

	Number of Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders equity
Balances at January 1, 2005	4,068,713	$ 41	$ 39,545	$ 18,849	$ (771)	$ 57,664
Comprehensive income:						
Net income				6,330		6,330
Unrealized holding loss on available for sale securities, net of deferred income taxes of $600					(995)	(995)
Total comprehensive income						5,335
Dividends paid ($0.13 per share)				(1,225)		(1,225)
Stock options exercised	31,673		613			613
Public stock offering (net of cost)	1,150,000	11	34,843			34,854
Balances at December 31, 2005	5,250,386	$ 52	$ 75,001	$ 23,954	$ (1,766)	$ 97,241
Comprehensive income:						
Net income				8,459		8,459
Unrealized holding gain on available for sale securities, net of deferred income taxes of $659					1,120	1,120
Total comprehensive income						9,579
Dividends paid ($0.14 per share)				(1,535)		(1,535)
Stock options exercised, including tax benefit	46,579		488			488
Stock based compensation expense			594			594
Shares issued pursuant to the acquisition of Mid FL	277,305	3	10,962			10,965
Stock split	5,554,750	56	(56)			
Balances at December 31, 2006	11,129,020	$ 111	$ 86,989	$ 30,878	$ (646)	$ 117,332
Comprehensive income:						
Net income				7,799		7,799
Unrealized holding gain on available for sale securities, net of deferred income taxes of $844					1,343	1,343
Total comprehensive income						9,142
Dividends paid ($0.15 per share)				(1,820)		(1,820)
Stock options exercised, including tax benefit	67,470	1	675			676
Stock based compensation expense			509			509
Shares issued pursuant to the acquisition of VSB	1,239,917	12	22,431			22,443
Balances at December 31, 2007	12,436,407	$ 124	$ 110,604	$ 36,857	$ 697	$ 148,282

	2007	2006	2005
Disclosure of reclassification amounts:			
Unrealized holding gain (loss) arising during the year, net of income taxes	$ 1,347	$ 1,131	$ (997)
Add: reclassified adjustments for (gain) loss included in net income, net of income taxes, at December 31, 2007, 2006 and 2005 of $3, $6 and $1,	(4)	(11)	2

respectively			
Net unrealized gain (loss) on securities, net of income taxes	$ 1,343	$ 1,120	$ (995)

See accompanying notes to the consolidated financial statements.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2007, 2006 and 2005

(in thousands of dollars)

	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 7,799	$ 8,459	$ 6,330
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,792	717	1,065
Depreciation of premises and equipment	2,305	1,935	1,642
Amortization of purchase accounting adjustments	513	444	4
Net amortization/accretion of investment securities	119	162	378
Net deferred loan origination fees	(250)	78	231
Loss (gain) on sale of other real estate owned	5		(8)
Loss (gain) on sale or disposal of fixed assets	20	(10)	2
Deferred income taxes	(1,366)	155	(228)
Realized (gain) loss on sale or call of available for sale securities	(7)	(17)	3
Stock based compensation expense	509	594	
Bank owned life insurance income	(353)	(277)	(43)
Gain on sale of bank shell	(1,000)		
Cash provided by (used in) changes in:			
Net change in accrued interest receivable, prepaid expenses, and other assets	(2,335)	(1,517)	(988)
Net change in interest payable, accounts payable and accrued expenses	(1,087)	(98)	2,274
Net cash provided by operating activities	7,664	10,625	10,662
Cash flows from investing activities:			
Purchases of investment securities available for sale	(16,612)	(56,233)	(61,843)
Purchases of mortgage backed securities available for sale	(16,819)	(56,583)	(78,570)
Purchases of FHLB and FRB stock	(1,981)	(385)	(1,056)
Proceeds from callable investment securities available for sale	1,250		
Proceeds from maturities of investment securities available for sale	38,000	78,250	81,500
Proceeds from pay-downs of mortgage backed securities available for sale	32,486	28,385	27,559
Proceeds from sales of investment securities available for sale	10,966	117	2,993
Proceeds from sales of FHLB and FRB stock	135		
Purchase of bank owned life insurance		(1,000)	(6,000)
Increase in loans, net of repayments	(62,840)	(88,548)	(76,143)
Purchases of premises and equipment, net	(8,615)	(9,550)	(4,884)
Proceeds from sale of bank shell	1,000		
Proceeds from sale of other real estate owned	210		392
Net cash from acquisition of Valrico State bank	7,650		
Net cash from acquisition of Mid FL bank		13,646	
Net cash used in investing activities	(15,170)	(91,901)	(116,052)
Cash flows from financing activities:			
Net (decrease) increase in deposits	(50,777)	97,437	57,775
Net (decrease) increase in securities sold under agreement to repurchase	(19,664)	10,981	17,184
Net increase (decrease) in other borrowed funds	31,518	(1,000)	1,000
Net proceeds from common stock issuance			34,854
Stock options exercised, including tax benefit in 2007 and 2006	676	488	613
Dividends paid	(1,820)	(1,535)	(1,225)
Net cash (used in) provided by financing activities	(40,067)	106,371	110,201

Net increase (decrease) in cash and cash equivalents	(47,573)	25,095	4,811
Cash and cash equivalents, at beginning of year	120,021	94,926	90,115
Cash and cash equivalents, at end of year	$ 72,448	$ 120,021	$ 94,926
Transfer of loans to other real estate owned	$ 798	$	$
Shares issued pursuant to acquisitions	$ 22,443	$ 10,965	$
Cash paid during the year for:			
Interest	$ 32,568	$ 21,561	$ 11,476
Income taxes	$ 4,292	$ 6,483	$ 2,560

See accompanying notes to the consolidated financial statements.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(1) Nature of Operations and Summary of Significant Accounting Policies

The consolidated financial statements of CenterState Banks of Florida, Inc. (the Company) include the accounts of CenterState Banks of Florida, Inc. (the Parent Company), its four wholly owned subsidiary banks (CenterState Bank of Florida, CenterState Bank, CenterState Bank Central Florida and Valrico State Bank) and their wholly owned subsidiary, C. S. Processing.

During 2007, the Company combined two of its subsidiary banks, CenterState Bank of West Florida and CenterState Bank Mid Florida, and changed the name of the combined bank to CenterState Bank. Also during 2007, the Company acquired Valrico State Bank as described in note 21 of these financial statements.

The Company, through its subsidiary banks, operates through 37 locations in nine Counties throughout Central Florida, providing traditional deposit and lending products and services to its commercial and retail customers. C.S. Processing is a 100% owned subsidiary at December 31, 2007, which provides information technology and item processing services for the Company s four subsidiary banks.

The following is a description of the basis of presentation and the significant accounting and reporting policies, which the Company follows in preparing and presenting its consolidated financial statements.

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Parent Company, its four wholly owned banking subsidiaries (the Banks) and their wholly owned subsidiary, C.S. Processing. The operations of the Company currently consist primarily of the operations of each of the four banks. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include allowance for loan losses, fair values of financial instruments, useful life of intangibles and valuation of goodwill, and fair value estimates of stock-based compensation. Actual results could differ from these estimates.

(c) Cash flow reporting

For purposes of the statement of cash flows, the Company considers cash and due from banks, federal funds sold, money market and non interest bearing deposits in other banks with a purchased maturity of three months or less to be cash equivalents. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(d) Investment securities available for sale

The Company accounts for its investments at fair value and classifies them as available for sale. Unrealized holding gains and losses are included as a separate component of stockholders equity, net of the effect of deferred income taxes.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the security.

(e) Loans

Loans receivable that management has the intent and the Company has the ability to hold for the foreseeable future or payoff are reported at their outstanding unpaid principal balance, less the allowance for loan losses and deferred fees on originated loans.

Loan origination fees and the incremental direct cost of loan origination, are capitalized and recognized in income over the contractual life of the loans. If the loan is prepaid, the remaining unamortized fees and costs are charged or credited to interest income. Amortization ceases for non-accrual loans.

Loans are placed on nonaccrual status when the loan becomes 90 days past due as to interest or principal, or when the full timely collection of interest or principal becomes uncertain, unless the loan is both well secured and in the process of collection. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is written off and accretion of the net deferred loan origination fees cease. The loan is accounted for on the cash or cost recovery method thereafter until qualifying for return to accrual status.

The Company, considering current information and events regarding the borrower s ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the secondary market value of the loan, or the fair value of the collateral for collateral dependent loans. Impaired loans are written down to the extent that principal is judged to be uncollectible and, in the case of impaired collateral dependent loans where repayment is expected to be provided solely by the underlying collateral and there is no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Impairment losses are included in the allowance for loan losses. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(f) Allowance for loan losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are not individually classified as impaired and is based on historical loss experience adjusted for current factors.

(g) Premises and equipment

Company premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets (3 to 40 years). Leasehold improvements are depreciated over the shorter of their useful lives or the term of the lease. Major renewals and betterments of property are capitalized; maintenance, repairs, and minor renewals and betterments are expensed in the period incurred. Upon retirement or other disposition of the asset, the asset cost and related accumulated depreciation are removed from the accounts, and gains or losses are included in income.

(h) Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock

Several of the Company s banks are members of the FHLB and FRB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB and FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as income.

(i) Bank owned life insurance (BOLI)

The Company, through its subsidiary banks, has purchased life insurance policies on certain key executives. Upon adoption of EITF 06-5, which is discussed further below, bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Prior to adoption of EITF 06-5, the Company recorded bank owned life insurance at its cash surrender value.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance){Issue}.* This Issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Company s ability to surrender a policy. The adoption of EITF 06-5 on January 1, 2007 had no impact on the Company s financial condition or results of operation.

(j) Impairment of long-lived assets

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, assets, such as premises and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(k) Goodwill and intangible assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets.*

The core deposit intangible is amortized over a ten-year period on an accelerated basis using the projected decay rates of the underlying core deposits.

(l) Other real estate owned

Real estate acquired in the settlement of loans is recorded at the lower of cost (principal balance of the former loan plus costs of obtaining title and possession) or estimated fair value, less estimated selling costs. Costs relating to development and improvement of the property are capitalized, whereas those relating to holding the property are charged to operations.

(m) Loan commitments and related financial instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(n) Stock based compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-based Payment*, using the modified prospective transition method. Accordingly, the Company has recorded stock-based employee compensation cost using the fair value method starting in 2006.

Prior to January 1, 2006, employee compensation expense under stock options was reported using the intrinsic value method; therefore, no stock-based compensation cost is reflected in net income for the year ending December 31, 2005, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provision of SFAS No. 123, *Accounting for Stock-Based Compensation*, for the year ending December 31, 2005:

	2005
Net income as reported	$ 6,330
Deduct: Stock-based compensation expense	
Determined under fair value based method	(369)
Pro forma net income	$ 5,961
Basic earnings per share as reported	$ 0.68
Pro forma basic earnings per share	$ 0.64
Diluted earnings per share as reported	$ 0.66
Pro forma diluted earnings per share	$ 0.62

(o) Marketing and advertising costs

Marketing and advertising costs are expensed as incurred.

(p) Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption had no affect on the Company s financial statements.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(q) Earnings per common share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Historical earnings and dividends per share have been adjusted to reflect the two for one stock split which occurred in May 2006.

(r) Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of shareholders equity.

(s) Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(t) Restrictions on cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements. These balances do not earn interest.

(u) Dividend restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the banks to the holding company or by the holding company to stockholders.

(v) Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

(w) Segment reporting

The Company follows SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 establishes standards for reporting information about segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company derives its revenues from providing similar banking products and services to customers located throughout the Central Florida Region through similar distribution channels and processes. Operating segments consist of the

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

Company s banking subsidiaries. Management believes that the Company meets the aggregation criteria, as defined by SFAS No. 131, for aggregating its operating segments into the bank segment.

(x) Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation.

(y) ***Effect of new pronouncements***

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155), which permits fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. Under SFAS No. 155, all beneficial interests in a securitization will require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In January 2007, the FASB issued Derivatives Implementation Group Issue B40, *Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets* (DIG Issue B40). DIG Issue B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. SFAS No. 155 and DIG Issue B40 are effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 and DIG Issue B40 did not have a material impact on the Company s consolidated financial position or results of operations.

Effect of newly issued but not yet effective accounting standards:

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The impact of adoption was not material.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value through Earnings (SAB 109). Previously, SAB 105, Application of Accounting Principles to Loan Commitments, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not expect the impact of this standard to be material.

(2) Investment Securities Available for Sale

The amortized cost and estimated fair values of investment securities available for sale at December 31, 2007 and 2006, are as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 3,001	$ 37	$ 0	$ 3,038
Obligations of U.S. government agencies	39,771	728	(1)	40,498
Mortgage backed securities	117,202	832	(318)	117,716
Municipal securities	38,325	131	(274)	38,182
	$ 198,299	$ 1,728	$ (593)	$ 199,434

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	$ 40,425	$ 6	$ (166)	$ 40,265
Obligations of U.S. government agencies	38,783	133	(184)	38,732
Mortgage backed securities	129,357	274	(1,259)	128,372
Municipal securities	27,837	217	(73)	27,981
	$ 236,402	$ 630	$ (1,682)	$ 235,350

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The estimated fair value of investment securities available for sale at December 31, 2007, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage backed securities, are shown separately:

	Estimated Fair Value
Investment securities available for sale	
Due in one year or less	$ 5,013
Due after one year through five years	34,591
Due after five years through ten years	14,332
Due after ten years through thirty years	27,782
Mortgage backed securities	117,716
	$ 199,434

Securities pledged at December 31, 2007 and 2006 had a carrying amount (estimated fair value) of $106,552 and $168,338, respectively. These securities were pledged to secure public deposits and repurchase agreements.

Proceeds from sales of investment securities available for sale were $10,966, $117 and $2,993 for the years ending December 31, 2007, 2006 and 2005, respectively. Gross realized gains (losses) on sales of investment securities available for sale during 2007, 2006 and 2005 were $7, $17 and ($3), respectively.

The following tables show the Company s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006.

	December 31, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$	$	$	$	$	$
Obligations of U.S. government agencies			999	1	999	1
Mortgage backed securities	3,892	49	35,029	269	38,921	318
Municipal securities	17,148	157	5,800	117	22,948	274
Total temporarily impaired securities	$ 21,040	$ 206	$ 41,828	$ 387	$ 62,868	$ 593

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

	December 31, 2006					
	less than 12 months		12 months or more		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 16,872	$ 70	$ 20,391	$ 96	$ 37,263	$ 166
Obligations of U.S. government agencies	3,985	12	12,816	172	16,801	184
Mortgage backed securities	39,256	338	54,218	921	93,474	1,259
Municipal securities	5,370	70	497	3	5,867	73
Total temporarily impaired securities	$ 65,483	$ 490	$ 87,922	$ 1,192	$ 153,405	$ 1,682

U.S. Treasury securities and obligations of U.S. government agencies: The unrealized losses on investments in U.S. Treasury securities and obligations of U.S government agencies were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. Because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Mortgage-backed securities: The unrealized losses on investments in mortgage-backed securities were caused by interest rate increases. Fannie Mae guarantees the contractual cash flows of these securities. It is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Municipal securities: Unrealized losses on municipal securities have not been recognized into income because the issuers bonds are of high quality, management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

(3) Loans

Major categories of loans included in the loan portfolio as of December 31, 2007 and 2006 are:

	December 31,	
	2007	2006
Real estate:		
Residential	$ 209,186	$ 180,869
Commercial	385,669	291,536
Construction, development, land	108,615	60,950
Total real estate	703,470	533,355
Commercial	78,231	68,948
Consumer and other loans	60,687	56,684
	842,388	658,987
Less: Deferred loan origination fees, net	983	1,024

Total loans	841,405	657,963
Less: Allowance for loan losses	10,828	7,355
Total net loans	$ 830,577	$ 650,608

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The following is a summary of information regarding impaired loans at December 31, 2007 and 2006:

	December 31,	
Individually impaired loans were as follows:	**2007**	**2006**
Impaired loans with no allocated allowance for loan losses	$ 9,688	$ 2,522
Impaired loans with allocated allowance for loan losses	2,115	2,464
Total	$ 11,803	$ 4,986
Amount of the allowance for loan losses allocated to impaired loans	$ 812	$ 372

	2007	2006	2005
Average of impaired loans during the year	$ 6,094	$ 5,243	$ 987

Interest income recognized on impaired loans during the impairment period during 2007 was $492. Cash basis interest income recognized during this same period was $432.

Non performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

	December 31,	
Non performing loans were as follows:	**2007**	**2006**
Non accrual loans	$ 3,797	$ 448
Loans past due over 90 days and still accruing interest	$ 277	$ 162

Certain principal stockholders, directors and officers and their related interests were indebted to the Company as summarized below, for the periods ending December 31, 2007, 2006 and 2005:

		December 31,	
	2007	**2006**	**2005**
Balance, beginning of year	$ 14,477	$ 13,538	$ 11,037
Additional new loans	15,452	11,491	9,914
Repayments on outstanding loans	(7,985)	(10,552)	(7,413)
Balance, end of year	$ 21,944	$ 14,477	$ 13,538

At December 31, 2007, 2006 and 2005, certain principal stockholders, directors and officers of the Company and their related interests had $11,702, $14,157 and $5,541, respectively, available in lines of credit.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

Changes in the allowance for loan losses for the years ended December 31, 2007, 2006 and 2005, are as follows:

	December 31,		
	2007	2006	2005
Balance, beginning of year	$ 7,355	$ 6,491	$ 5,685
Provision charged to operations	2,792	717	1,065
Loans charged-off	(997)	(598)	(359)
Recoveries of previous charge-offs	61	98	100
Acquisition of Mid FL Bank		647	
Acquisition of Valrico State Bank	1,617		
Balance, end of year	$ 10,828	$ 7,355	$ 6,491

(4) Bank Premises and Equipment

A summary of bank premises and equipment as of December 31, 2007 and 2006, is as follows:

	December 31,	
	2007	2006
Land	$ 22,516	$ 16,611
Land improvements	606	591
Buildings	26,087	20,080
Leasehold improvements	1,291	1,164
Furniture, fixtures and equipment	11,973	10,760
Construction in progress	6,158	2,064
	68,631	51,270
Less: Accumulated depreciation	13,173	11,391
	$ 55,458	$ 39,879

(5) Goodwill and Intangible Assets

The change in balance for goodwill during the years 2007 and 2006 is as follows:

	2007	2006
Beginning of year	$ 9,863	$ 4,675
Acquired goodwill	18,255	5,188
Impairment		
End of year	$ 28,118	$ 9,863

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

Acquired intangible assets were as followed for years ended December 31, 2007 and 2006:

	December 31, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangibles	$ 6,341	$ 1,616	$ 3,857	$ 774

Estimated amortization expense for each of the next five years:

2008	$ 777
2009	645
2010	548
2011	526
2012	526

(6) Deposits

A detail of deposits at December 31, 2007 and 2006 is as follows:

	December 31,			
	2007	Weighted Average Interest Rate	2006	Weighted Average Interest Rate
Non-interest bearing deposits	$ 159,089	%	$ 223,602	%
Interest bearing deposits:				
Interest bearing demand deposits	135,442	0.9%	110,627	0.9%
Savings deposits	49,127	0.7%	46,806	0.9%
Money market accounts	93,076	2.6%	100,528	2.8%
Time deposits less than $100,000	238,585	4.8%	183,610	4.6%
Time deposits of $100,000 or greater	297,301	5.0%	227,633	4.9%
	$ 972,620	3.1%	$ 892,806	2.7%

The following table presents the amount of certificate accounts at December 31, 2007, maturing during the periods reflected below:

Year	Amount
2008	$ 467,359
2009	38,833
2010	15,312
2011	6,441
2012	7,941
Total	$ 535,886

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

A summary of interest expense on deposits for the years ended December 31, 2007, 2006 and 2005, is as follows:

	December 31, 2007	2006	2005
Interest-bearing demand deposits	$ 1,375	$ 659	$ 317
Savings deposits	431	343	201
Money market accounts	3,314	2,651	1,505
Time deposits less than $100,000	10,244	6,993	4,392
Time deposits of $100,000 or greater	13,326	8,344	3,596
	$ 28,690	$ 18,990	$ 10,011

The Company had deposits from certain principal stockholders, directors and officers and their related interests of approximately $35,180, and $64,313 at December 31, 2007 and 2006, respectively.

(7) Securities Sold Under Agreements to Repurchase

The Company s subsidiary banks enter into borrowing arrangements with their retail business customers by agreements to repurchase (repurchase agreements) under which the banks pledge investment securities owned and under its control as collateral against the one-day borrowing arrangement.

At December 31, 2007 and 2006, the Company had $33,128 and $52,792 in repurchase agreements with weighted average interest rates of 2.93% and 4.39%, respectively. Repurchase agreements are secured by U.S. Treasury securities and government agency securities with fair values of $99,888 and $116,857 at December 31, 2007 and 2006, respectively.

Repurchase agreements averaged $58,329, $49,830 and $38,210 for the years ended December 31, 2007, 2006 and 2005, respectively. The maximum amount outstanding at any month-end for the corresponding periods was $74,526, $54,812 and $49,046, respectively. Total interest expense paid on repurchase agreements for the years ending December 31, 2007, 2006 and 2005, was $2,582, $2,156 and $1,013, respectively, which equates to weighted average interest rates of 4.43%, 4.33% and 2.65%, respectively.

(8) Other Borrowed Funds

From time to time the Company will borrow short-term either through Federal Home Loan Bank advances or Federal Funds Purchased. At year end, advances from the Federal Home Loan Bank were as follows:

	2007	2006
Daily overnight advances, at December 31, 2007 the interest rate was 4.4%	$ 36,000	$
Matures January 2, 2008, interest rate is fixed at 4.6%	1,518	

Matures March 28, 2008, interest rate is fixed at 5.51%	2,000	
Matures December 31, 2008, interest rate is fixed at 4.11%	3,000	
Total	$ 42,518	$

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $183,250 of first mortgage loans under a blanket lien arrangement at year end. Based on this collateral and the Company s holdings of FHLB stock, the Company is eligible to borrow up to $141,720 at year end 2007.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(9) Corporate Debenture

In September 2003, the Company formed CenterState Banks of Florida Statutory Trust I (the Trust) for the purpose of issuing trust preferred securities. On September 22, 2003, the Company issued a floating rate corporate debenture in the amount of $10,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 305 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2004, Valrico Bancorp Inc. (VBI) formed Valrico Capital Statutory Trust (Valrico Trust) for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI pursuant to the merger agreement, including VBI s corporate debenture and related trust preferred security discussed above. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Valrico Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

(10) Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31, 2007, 2006 and 2005, is as follows:

	Current	Deferred	Total
December 31, 2007:			
Federal	$ 4,425	$ (1,171)	$ 3,254
State	838	(195)	643
	$ 5,263	$ (1,366)	$ 3,897
December 31, 2006:			
Federal	$ 3,988	$ 133	$ 4,121
State	716	22	738
	$ 4,704	$ 155	$ 4,859
December 31, 2005:			
Federal	$ 3,375	$ (195)	$ 3,180
State	577	(33)	544

$ 3,952	$ (228)	$ 3,724

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006, are presented below:

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Allowance for loan losses	$ 4,110	$ 2,760
Deferred loan fees	320	395
Stock based compensation	225	118
Deferred compensation	725	
Intangible assets	49	98
Unrealized loss on investment securities available for sale		406
Net operating loss carryforward	26	180
Other	77	
Total deferred tax asset	5,532	3,957
Deferred tax liabilities:		
Premises and equipment, due to differences in depreciation methods and useful lives	(2,232)	(595)
Fair value adjustments	(1,376)	(1,076)
Like kind exchange	(300)	(300)
Unrealized gain on investment securities available for sale	(438)	
Accretion of discounts on investments	(66)	(83)
Other		(5)
Total deferred tax liability	(4,412)	(2,059)
Net deferred tax asset	$ 1,120	$ 1,898

At December 31, 2007 the Company had approximately $68 of net operating loss carryforwards, federal and state, available to offset future taxable income. These carryforwards will begin to expire in 2024.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Florida. The Company is no longer subject to examination by taxing authorities for the years before 2004.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

A reconciliation between the actual tax expense and the expected tax expense, computed by applying the U.S. federal corporate rate of 35 percent (34 percent for 2005) is as follows:

		December 31,	
	2007	**2006**	**2005**
Expected tax expense	$ 4,094	$ 4,661	$ 3,418
Tax exempt interest, net	(515)	(174)	(79)
Bank owned life insurance	(127)	(97)	(15)
State income taxes, net of federal income tax benefits	418	480	366
Other, net	27	(11)	34
	$ 3,897	$ 4,859	$ 3,724

(11) Rent

The Company leases land and certain facilities under noncancellable operating leases. The following is a schedule of future minimum annual rentals under the noncancellable operating leases:

Year ending December 31,	
2008	$ 566
2009	317
2010	272
2011	274
2012	222
Thereafter	324
	$ 1,975

Rent expense for the years ended December 31, 2007, 2006 and 2005, was $626, $555 and $403, respectively, and is included in occupancy expense in the accompanying Consolidated Statements of Operations.

(12) Fair Value of Financial Instruments

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of Federal Home Loan Bank stock or Federal Reserve Bank stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The following tables present the carrying amounts and estimated fair values of the Company s financial instruments:

	December 31, 2007	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 72,448	$ 72,448
Investment securities available for sale	199,434	199,434
FHLB and FRB stock	5,408	n/a
Loans, less allowance for loan losses of $10,828	830,577	833,213
Accrued interest receivable	5,843	5,843
Financial liabilities:		
Deposits:		
Without stated maturities	$ 436,734	$ 436,734
With stated maturities	535,886	536,600
Securities sold under agreement to repurchase	33,128	33,128
Corporate debenture	12,500	12,500
Other borrowed funds	42,518	42,518
Accrued interest payable	1,940	1,940

	December 31, 2006	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 120,021	$ 120,021
Investment securities available for sale	235,350	235,350
FHLB and FRB stock	2,665	n/a
Loans, less allowance for loan losses of $7,355	650,608	648,510
Accrued interest receivable	5,035	5,035
Financial liabilities:		
Deposits:		
Without stated maturities	$ 481,563	$ 481,563
With stated maturities	411,243	411,930
Securities sold under agreement to repurchase	52,792	52,792
Corporate debenture	10,000	10,238
Accrued interest payable	993	993

(13) Regulatory Capital

The Company and the Banks are 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 Company s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets. Management believes, as of December 31, 2007, that the Company meets all capital adequacy requirements to which it is subject.

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

A summary of actual, required, and capital levels necessary to be considered well-capitalized for the Company as of December 31, 2007 and 2006, are presented in the table below.

	Actual		For capital adequacy purposes		To be well capitalized under Prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2007:						
Total capital (to risk weighted assets)	$ 138,070	15.0%	$ 73,785	≥ 8%	$ 92,231	≥ 10%
Tier 1 capital (to risk weighted assets)	127,242	13.8%	36,893	≥ 4%	55,339	≥ 6%
Tier 1 capital (to average assets)	127,242	10.8%	47,196	≥ 4%	58,995	≥ 5%
December 31, 2006:						
Total capital (to risk weighted assets)	$ 122,387	16.6%	$ 58,986	≥ 8%	$ 73,716	≥ 10%
Tier 1 capital (to risk weighted assets)	115,032	15.6%	29,493	≥ 4%	44,230	≥ 6%
Tier 1 capital (to average assets)	115,032	11.2%	40,989	≥ 4%	51,236	≥ 5%

A summary of actual, required, and capital levels necessary to be considered well-capitalized for each of the Company s subsidiary Banks as of December 31, 2007 and 2006, are presented in the table below. During January 2006, First National Bank of Polk County, N.A. and CenterState Bank of Florida, N.A. were merged together. On March 31, 2006, the Company acquired CenterState Bank Mid Florida. On November 30, 2007, CenterState Bank Mid Florida was combined with CenterState Bank West Florida, N.A., after which the combined bank name was changed to CenterState Bank, N.A.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provision	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2007:						
CenterState Bank Central Florida, N.A.						
Total capital (to risk weighted assets)	$ 25,464	12.9%	$ 15,829	≥ 8%	$ 19,786	≥ 10%
Tier 1 capital (to risk weighted assets)	23,149	11.7%	7,914	≥ 4%	11,872	≥ 6%
Tier 1 capital (to average assets)	23,149	9.2%	10,052	≥ 4%	12,564	≥ 5%
CenterState Bank, N.A.						
Total capital (to risk weighted assets)	39,622	12.5%	25,433	≥ 8%	31,792	≥ 10%
Tier 1 capital (to risk weighted assets)	35,734	11.2%	12,717	≥ 4%	19,075	≥ 6%
Tier 1 capital (to average assets)	35,734	12.2%	11,733	≥ 4%	14,667	≥ 5%
CenterState Bank of Florida, N.A.						
Total capital (to risk weighted assets)	35,833	12.9%	22,190	≥ 8%	27,737	≥ 10%
Tier 1 capital (to risk weighted assets)	33,046	11.9%	11,095	≥ 4%	16,642	≥ 6%
Tier 1 capital (to average assets)	33,046	8.1%	16,412	≥ 4%	20,515	≥ 5%
Valrico State Bank						
Total capital (to risk weighted assets)	19,838	14.5%	10,934	≥ 8%	13,667	≥ 10%
Tier 1 capital (to risk weighted assets)	18,119	13.3%	5,467	≥ 4%	8,200	≥ 6%
Tier 1 capital (to average assets)	18,119	11.3%	6,394	≥ 4%	7,992	≥ 5%
December 31, 2006:						
CenterState Bank Central Florida, N.A.						
Total capital (to risk weighted assets)	$ 22,635	13.0%	$ 13,983	≥ 8%	$ 17,479	≥ 10%
Tier 1 capital (to risk weighted assets)	20,877	11.9%	6,992	≥ 4%	10,487	≥ 6%
Tier 1 capital (to average assets)	20,877	8.3%	10,070	≥ 4%	12,588	≥ 5%
CenterState Bank West Florida, N.A.						
Total capital (to risk weighted assets)	25,695	11.1%	18,487	≥ 8%	23,108	≥ 10%
Tier 1 capital (to risk weighted assets)	23,250	10.1%	9,243	≥ 4%	13,865	≥ 6%
Tier 1 capital (to average assets)	23,250	8.5%	10,949	≥ 4%	13,686	≥ 5%
CenterState Bank of Florida, N.A.						
Total capital (to risk weighted assets)	32,276	12.3%	21,005	≥ 8%	26,256	≥ 10%
Tier 1 capital (to risk weighted assets)	29,767	11.3%	10,503	≥ 4%	15,754	≥ 6%
Tier 1 capital (to average assets)	29,797	7.4%	16,006	≥ 4%	20,007	≥ 5%
CenterState Bank Mid Florida						
Total capital (to risk weighted assets)	8,757	12.7%	5,512	≥ 8%	6,889	≥ 10%
Tier 1 capital (to risk weighted assets)	8,234	12.0%	2,756	≥ 4%	4,134	≥ 6%
Tier 1 capital (to average assets)	8,234	9.5%	3,451	≥ 4%	4,314	≥ 5%

(14) Dividends

The Company declared and paid cash dividends of $1,820, $1,535 and $1,225 during the years ended December 31, 2007, 2006 and 2005, respectively. Banking regulations limit the amount of dividends that may be paid by the subsidiary banks to the Company without prior approval of the Bank s regulatory agency. At December 31, 2007, dividends from the subsidiary banks available to be paid to the Company, without prior approval of the Banks regulatory agency, was $28,480, subject to the Banks meeting or exceeding regulatory capital requirements.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(15) Stock Option Plans

On April 24, 2007, the Company s shareholders approved the CenterState 2007 Equity Incentive Plan (the 2007 Plan). The 2007 Plan replaces the 1999 Plan discussed below. The 2007 Plan authorizes the issuance of up to 700,000 shares of the Company stock. Of this amount, 600,000 shares are allocated to employees, all of which may be issued as incentive stock options, and 100,000 shares are allocated to directors. During 2007, the Company granted employee incentive stock options for 84,000 shares, with a weighted average exercise price of $17.32 per share, pursuant to this plan. Options were granted at fair market value of the underlying stock at date of grant. Each option expires ten years from the date of grant. These options vest at a rate of 10% per year for the first eight years and 20% during the ninth year.

In 1999, the Company authorized 730,000 common shares for employees of the Company under an incentive stock option and non-statutory stock option plan (the 1999 Plan). Options were granted at fair market value of the underlying stock at date of grant. Each option expires ten years from the date of grant. Options became 25% vested immediately as of the grant date and continued to vest at a rate of 25% on each anniversary date thereafter until fully vested. At December 31, 2006, there were 104,760 shares available for future grants. There were no stock options granted pursuant to the 1999 Plan during 2007. The 2007 Plan, discussed above, replaced the 1999 Plan. At December 31, 2007 there were 478,074 stock options outstanding which were granted pursuant to the 1999 Plan, of which 456,074 were currently exercisable. No future stock options will be granted from this Plan.

In addition to the 1999 Plan, the Company assumed and converted the stock option plans of its subsidiary banks consistent with the terms and conditions of their respective merger agreements. These options are all vested and exercisable. At December 31, 2007, they represented exercisable options on 182,100 shares of the Company s common stock.

In 2004, the Company s shareholders authorized an Employee Stock Purchase Plan (ESPP). The number of shares of common stock for which options may be granted under the ESPP is 400,000, which amount shall be increased on December 31 of each calendar year. At December 31, 2007, there were no options outstanding pursuant to this plan, and no activity occurred during the twelve month periods ending December 31, 2007 and 2006 relating to our ESPP.

The Company s stock-based compensation consists solely of expense related to stock options. During the twelve month period ended December 31, 2007, the Company recognized approximately $509 of stock-based compensation expense. As of December 31, 2007, the total remaining unrecognized compensation cost related to non-vested stock options, net of estimated forfeitures, was approximately $548. The weighted average period over which this expense is expected to be recognized is 4.6 years.

The Company granted stock options for 84,000, 31,500 and 41,000 shares of common stock during the twelve month periods ending December 31, 2007, 2006 and 2005, respectively. The Company also acquired stock options for 77,456 shares of common stock pursuant to the merger with CenterState Bank Mid Florida (Mid FL) as of the close of business March 31, 2006. These options vested immediately upon change of control, and their fair value was included as a portion of the purchase price paid for Mid FL.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The estimated fair value of options granted during these periods were calculated as of the grant date (as of the merger date for those options acquired pursuant to the merger of Mid FL) using the Black-Scholes option-pricing model. The weighted-average assumptions as of the grant date, and as of the merger date in the case of the Mid FL transaction, are as follows:

	2007	2006	2005
Expected option life	6.4 years	6.9 years	10 years
Risk-free interest rate	4.75%	4.91%	4.37%
Expected volatility	29.7%	29.8%	31.5%
Dividend yield	0.82%	0.76%	0.71%

In 2006, the Company determined the expected life of the stock options using the simplified method approach allowed for plain-vanilla share options granted prior to December 31, 2007 as described in SAB 107. For options granted during 2007 and prior to 2006, the Company determined the expected life of the stock options using historical data adjusted for known factors that would alter historical exercise behavior including announced retirement dates. The risk-free interest rate is based on the U.S. Treasury yield curve in effect as of the grant date. Expected volatility was determined using historical volatility.

SFAS 123R requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation would be reduced for estimated forfeitures prior to vesting. Based on historical data, the Company expects the annual forfeiture rates to be immaterial. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

The weighted-average estimated fair value of stock options granted during the twelve month periods ended December 31, 2007, 2006 and 2005 were $6.33 per share, $8.35 per share and $8.07 per share respectively.

The table below present s information related to stock option activity for the years ended December 31, 2007, 2006 and 2005 (in thousands of dollars):

	2007	2006	2005
Total intrinsic value of stock options exercised	$ 689	$ 910	$ 173
Cash received from stock options exercised	550	467	156
Gross income tax benefit from the exercise of stock options	126	22	

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

A summary of stock option activity for the years ended December 31, 2007, 2006 and 2005 is as follows (dollars are in thousands, except for per share data):

	December 31, 2007		December 31, 2006		December 31, 2005	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	742,236	$ 11.41	706,918	$ 10.43	688,666	$ 9.98
Options granted	84,000	$ 17.32	31,500	$ 18.56	41,000	$ 17.00
Options exercised	(67,470)	$ 8.14	(73,638)	$ 6.34	(18,248)	$ 8.55
Options forfeited	(21,092)	$ 15.47			(4,500)	$ 9.17
Options issued pursuant to Mid FL merger			77,456	$ 12.62		
Options outstanding, end of period	737,674	$ 12.26	742,236	$ 11.41	706,918	$ 10.43

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, December 31, 2007	737,674	$ 12.26	5.7 years	$ 1,426
Options fully vested and expected to vest, December 31, 2007	737,674	$ 12.26	5.7 years	$ 1,426
Options exercisable, December 31, 2007	638,174	$ 11.44	5.2 years	$ 1,426

(16) Employee Benefit Plan

Substantially all of the subsidiary banks employees are covered under the Company s 401(k) compensation and incentive plan. Employees are eligible to participate in the plan after completing six months of continuous employment. The Company contributes an amount equal to a certain percentage of the employees contributions based on the discretion of the Board of Directors. In addition, the Company may also make additional contributions to the plan each year, subject to profitability and other factors, and based solely on the discretion of the Board of Directors. For the years ended December 31, 2007, 2006 and 2005, the Company s contributions to the plan were $668, $842 and $650, respectively, which are included in salary and benefits on the Consolidated Statements of Operations.

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(17) Parent Company Only Financial Statements

Condensed financial statements of CenterState Banks of Florida, Inc. (parent company only) follow:

Condensed Balance Sheet

December 31, 2007 and 2006

	2007	2006
Assets:		
Cash and due from banks	$ 524	$ 1,278
Inter-company receivable from bank subsidiaries	17,000	32,000
Investment in wholly-owned bank subsidiaries	144,769	94,426
Prepaid expenses and other assets	2,034	717
Total assets	$ 164,327	$ 128,421
Liabilities:		
Accounts payable and accrued expenses	$ 3,545	$ 1,089
Corporate debenture	12,500	10,000
Total liabilities	16,045	11,089
Stockholders Equity:		
Common stock	124	111
Additional paid-in capital	110,604	86,989
Retained earnings	36,857	30,878
Accumulated other comprehensive loss	697	(646)
Total stockholders equity	148,282	117,332
Total liabilities and stockholders equity	$ 164,327	$ 128,421

Condensed Statements of Operations

Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Other income	$ 4	$ 22	$ 21
Interest expense	1,021	864	682
Operating expenses	2,721	2,587	1,303

Loss before equity in net earnings of subsidiaries	(3,738)	(3,429)	(1,964)
Equity in net earnings of subsidiaries (net of income tax expense of $5,213, $6,010 and $4,457 at December 31, 2007, 2006 and 2005, respectively)	10,223	10,737	7,561
Net income before income tax benefit	6,485	7,308	5,597
Income tax benefit	(1,314)	(1,151)	(733)
Net income	$ 7,799	$ 8,459	$ 6,330

Table of Contents

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

Condensed Statements of Cash Flows

Years ended December 31, 2007, 2006 and 2005

	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 7,799	$ 8,459	$ 6,330
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in net earnings of subsidiaries	(10,223)	(10,737)	(7,561)
Increase (decrease) in payables and accrued expenses	307	434	120
(Increase) decrease in other assets	(278)	(189)	117
Stock based compensation expense	509	594	
Realized gain on sale of available for sale securities		(17)	
Net cash flows used in operating activities	(1,886)	(1,456)	(994)
Cash flows from investing activities:			
Inter-company receivables from subsidiary banks	15,000	5,000	(37,000)
Cash payments for merger transaction costs	(454)	(279)	
Cash payments to VSB shareholders	(12,223)		
Cash payments to Mid FL shareholders	(47)	(4,207)	
Proceeds from maturities of investment securities AFS		300	
Proceeds from sales of investment securities available for sale		117	
Investment in subsidiaries		(1,000)	(3,000)
Net cash flows used in investing activities	2,276	(69)	(40,000)
Cash flows from financing activities:			
Stock options exercised, net of tax benefit in 2007 and 2006	676	488	613
Dividends paid to shareholders	(1,820)	(1,535)	(1,225)
Net proceeds from common stock issuance			34,854
Net cash flows provided by financing activities	(1,144)	(1,047)	34,242
Net (decrease)increase in cash and cash equivalents	(754)	(2,572)	(6,752)
Cash and cash equivalents at beginning of year	1,278	3,850	10,602
Cash and cash equivalents at end of year	$ 524	$ 1,278	$ 3,850

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(18) Credit Commitments

The Company has outstanding at any time a significant number of commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer s credit worthiness is evaluated on a case-by-case basis. A summary of commitments to extend credit and standby letters of credit written at December 31, 2007 and 2006, are as follows:

	December 31,	
	2007	**2006**
Standby letters of credit	$ 4,481	$ 3,902
Available lines of credit	127,079	122,431
Unfunded loan commitments fixed	15,044	10,498
Unfunded loan commitments variable	9,124	10,985

Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that the collateral or other security is of no value.

The Company s policy is to require customers to provide collateral prior to the disbursement of approved loans. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, real estate and income providing commercial properties.

Standby letters of credit are contractual commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Outstanding commitments are deemed to approximate fair value due to the variable nature of the interest rates involved and the short-term nature of the commitments.

(19) Concentrations of Credit Risk

Most of the Company s business activity is with customers located within Osceola, Orange, Pasco, Hernando, Citrus, Sumter, Lake, Hillsborough and Polk Counties of the State of Florida and portions of adjacent counties. The majority of commercial and mortgage loans are granted to customers doing business or residing in these areas. Generally, commercial loans are secured by real estate, and mortgage loans are secured by either first or second mortgages on residential or commercial property. As of December 31, 2007, substantially all of the Company s loan portfolio was secured. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the economy of Osceola, Orange, Pasco, Hernando, Citrus, Sumter, Lake, Hillsborough and Polk Counties and portions of adjacent counties. The Company does not have significant exposure to any individual customer or counterparty.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

(20) Basic and Diluted Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the periods and the further dilution from stock options using the treasury method. There were 138,000 stock options that were anti dilutive at December 31, 2007. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods presented. All per share data has been adjusted to reflect the Company s May 2006 two for one stock split.

	2007	2006	2005
Numerator for basic and diluted earnings per share:			
Net income	$ 7,799	$ 8,459	$ 6,330
Denominator:			
Denominator for basic earnings per share			
weighted-average shares	12,108,590	10,964,890	9,357,046
Effect of dilutive securities:			
Employee stock options	185,947	267,169	272,148
Denominator for diluted earnings per share			
adjusted weighted-average shares	12,294,537	11,232,059	9,629,194
Basic earnings per share	$ 0.64	$ 0.77	$ 0.68
Diluted earnings per share	$ 0.63	$ 0.75	$ 0.66

(21) Business combinations

On March 31, 2006, the Company acquired 100% of the outstanding shares of CenterState Bank Mid Florida. The purchase price consisted of cash and stock. Each share of Mid FL common stock was exchanged for $4.35 cash and 0.2774 shares of the Company s common stock. Based on the closing price of the Company s common stock on March 31, 2006, the resulting purchase price was $14,559. Other costs include the value of the employee stock options acquired (approximately $760) and transaction expenses of approximately $279. Total cost of the transaction was approximately $15,598. Operating results of CenterState Bank Mid Florida are included in the consolidated financial statements since the date of the acquisition. As a result of this acquisition, the Company expects to further solidify its market share in the Lake County, Florida market, expand its customer base to enhance deposit fee income, and reduce operating costs through economies of scale.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	March 31, 2006 Fair Value
Assets:	
Cash and due from banks	$ 1,813
Federal funds sold	16,240
Securities available for sale	11,090
Loans net	52,689
Premises and equipment	3,345
Goodwill	5,188
Core deposit intangible	3,118
Other assets	533
Total assets	$ 94,016
Liabilities:	
Deposits	$ 78,302
Other liabilities	116
Total liabilities	78,418
Net assets acquired	15,598
Total liabilities and net assets acquired	$ 94,016

On April 2, 2007, the Company acquired 100% of the outstanding shares of Valrico Bancorp, Inc. (VBI) and its wholly owned subsidiary, Valrico State Bank (VSB). The $36,100 purchase price was a combination of 65% stock and 35% cash. Other cost including change of control payments, accelerated deferred compensation arrangements and other transaction costs approximated $3,200. The total cost of the transaction was approximately $39,300. Operating results of VSB are included in the consolidated financial statements since the date of the acquisition. As a result of this acquisition, the Company expects to further solidify its market share in the Hillsborough County, Florida market, expand its customer base to enhance deposit fee income, and reduce operating costs through economies of scale.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2007, 2006 and 2005

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	April 2, 2007 Fair Value
Assets:	
Cash and due from banks	$ 6,789
Federal funds sold	13,039
Securities available for sale	12,177
Loans net	120,226
Premises and equipment	9,289
Goodwill	18,256
Core deposit intangible	2,484
Other assets	1,830
Total assets	$ 184,090
Liabilities:	
Deposits	$ 130,614
Other liabilities	16,898
Total liabilities	147,512
Net assets acquired	36,578
Total liabilities and net assets acquired	$ 184,090

(22) Sale of bank shell

On November 30, 2007 the Company closed a set of related transactions that effectively resulted in combining two of the Company s subsidiary Banks into one and selling the shell of the other. The two Banks that we combined were CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL). CSWFL was the surviving bank and its name was subsequently changed to CenterState Bank, N.A. The Company effectively sold the shell of the Mid FL subsidiary Bank to an out of state bank for $1,000,000.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be duly signed on its behalf by the undersigned, thereunto duly authorized, in the City of Winter Haven, State of Florida, on the 7th day of March, 2008.

CenterState BANKS OF FLORIDA, INC.

/s/ ERNEST S. PINNER
Ernest S. Pinner
Chairman of the Board,
President and Chief Executive Officer

/s/ JAMES J. ANTAL
James J. Antal
Senior Vice President and Chief Financial Officer

(Principal financial officer and principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on March 7, 2008.

Signature	Title
/s/ E. S ERNIE PINNER	Chairman of the Board
E. S. Ernie Pinner	President and Chief Executive Officer
/s/ JAMES H. BINGHAM	Director
James H. Bingham	
/s/ G. ROBERT BLANCHARD, JR.	Director
G. Robert Blanchard, Jr.	
/s/ TERRY W. DONLEY	Director
Terry W. Donley	
/s/ FRANK M. FOSTER, JR.	Director
Frank M. Foster, Jr.	
/s/ GAIL E. GREGG-STRIMENOS	Director
Gail E. Gregg-Strimenos	
/s/ BRYAN W. JUDGE	Director
Bryan W. Judge	
/s/ SAMUEL L. LUPFER, IV	Director

Samuel L. Lupfer, IV

/s/ Lawrence W. Maxwell	Director
Lawrence W. Maxwell	
/s/ Rulon D. Munns	Director
Rulon D. Munns	

Table of Contents

Signature	Title
/s/ G. Tierso Nunez II	Director
G. Tierso Nunez II	
/s/ Thomas E. Oakley	Director
Thomas E. Oakley	
/s/ J. Thomas Rocker	Director
J. Thomas Rocker	

CenterState Banks of Florida, Inc.

Form 10-K

For Fiscal Year Ending December 31, 2007

EXHIBIT INDEX

Exhibit No.	Exhibit
3.4	Amendment to bylaws of CenterState Banks of Florida, Inc.
10.7	Noncompete and Nonsolicitation Agreement between CenterState Banks of Florida, Inc. and subsidiary bank president Timothy A. Pierson.
21.1	Subsidiaries of the Registrant
23.1	Consent of Crowe Chizek and Company LLC
23.2	Consent of KPMG LLP
31.1	Certification of President and Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President and Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002