

North Atlanta National Bank's Stakeholders' Report

3rd Quarter

2005

North Atlanta National Bank Selected A Finalist For Prestigious Community Bank Of The Year Award

North Atlanta National Bank was selected as one of the four finalists for the 2005 Quality Service Award & Georgia's Community Bank of the Year. The award, given by the Community Bankers Association of Georgia (CBA), is presented to the community bank in Georgia that "demonstrates superior banking operations distinguished by clear quality standards, exemplified by well-trained employees and conveyed to the public through superior client service."

The 2005 finalists, as well as the winner, Piedmont Bank, were recently announced at the CBA's 37th Annual Convention and Trade Show in Boston.

"Since North Atlanta National Bank was founded in 1998, we have put a premium on working at the highest possible level across the bedrock areas of soundness, service and community," said Chairman and CEO **Jimmy Walker**. "These form the foundation of the bank and of the customer service-oriented culture that we live day in and day out. Being recognized for the fifth consecutive year among the elite group of finalists for this award – from among the more than 330 CBA member banks – is a testament to the success of our approach."

Under the direction of former Vice President **Ashley Madray** and Loan Operations Specialist **Amanda Coy**, the bank submitted an application that included a notebook documenting its quality service standards, employee motivation, complaint process, community involvement, financial condition, and how the bank distinguishes itself as a leader in quality service. A panel of judges from across the state reviewed the applications to identify the most qualified applicants and chose North Atlanta National Bank and three other finalists. "Mystery Shoppers" then visited each of the four finalists and submitted their notes to the selection committee for final review.

"The credit for this achievement is shared by every one of our employees," Walker continued. "From our tellers to our loan officers to our business development staff to the bank's executives, every interaction with every prospective and existing customer is viewed as an opportunity to demonstrate the qualities that set North Atlanta National Bank apart from other banks. Our employees do a remarkable job of delivering an unmatched level of service that truly distinguishes NANB from all the rest."



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Chairman's Letter

Double, Double Toil, and Trouble

*"And you all know, security
Is mortals' chiefest enemy."*

– Hecate addressing the three witches in "Macbeth"

The Stoics considered the secret to happiness to lie in the ability to recognize those things that one can control versus the things outside of your control. This thought crossed my mind as we waited at the final banquet of the Community Bankers Association convention to learn if North Atlanta National Bank would win the 2005 Quality Service Award. As we now know, another bank won the grand prize.

Being disappointed, I asked myself why we continue to compete for this recognition. NANB is the only bank to have been a finalist five years in a row, a feat in which our stakeholders can take pride. I suspect the lack of other long-term participants is a reflection of the possibility that they see the application process as simply a contest and give up after two or three tries if they do not win. Yet we continue to toil.

At North Atlanta National Bank we remain steadfastly committed to the creed of "Service, Soundness and Community" and to our motto "Experience the Difference." We decided to embrace these values before we knew that there was an award that would allow us to test ourselves in achieving them. We recognized that the values required to achieve success in the service arena are good for our clients – and thus also the bank – and they are something we can control.

Conversely, there is much that we cannot control. Rising interest rates may be good for the bank – to a point. But in any case, we have no control over such changes in market forces. Rising fuel prices cause trouble for our clients, but, again, we have no control over the direction of fuel prices.

Just as a tropical storm brewing in the Atlantic may bring much-needed rain to farmers, or a devastating hurricane to a city, there are cauldrons bubbling to cause events that we have yet to fully imagine. Some events will be perceived as blessings, and some as curses. And in some cases, the same event will be perceived doubly, as both a blessing and a curse, depending on the observer's reaction.

In the case of the CBA's Quality Service Award, I believe we have been blessed by the results, especially if our reaction causes us not to feel secure in thinking we are completely achieving our values, but rather that we need to double our toil to provide our clients an excellent experience.



Jimmy Walker
Chairman and CEO

NANB's Disaster Preparedness

In the wake of Hurricanes Katrina and Rita, we wanted to reassure all of our Stakeholders that NANB is well-prepared for emergencies and natural disasters. Our customers' deposits are safe, and they would have continued access to their funds in the event of a disaster.

All banks in the United States are required by law to have extensive disaster recovery plans and multiple backup systems in place to protect customer accounts, and state and federal regulators routinely examine each bank on their preparations.

Banks have a proven record of safeguarding customer deposits and reopening quickly after almost all unexpected events. In fact, all the banks in Mississippi were up and running two days after Katrina hit, according to the Mississippi Bankers Association. Post 9-11 procedures and Y2K preparations strengthened the banking industry's ability to deal with a broad range of disruptions. In short, the safest place for your money is in the bank. It is FDIC-insured and conveniently accessible. And rest assured that NANB has backup systems and recovery plans in place to handle any contingency.

NANB is reaching out to Katrina victims in its own way. A family friend of Construction Loan Officer **Kimberly Bryant** from Biloxi, Miss., lost her condo, possessions and car due to the storm. She is currently living with Kimberly and her husband, Chris, until she can recover from Katrina and start to rebuild her life again.

Alan Henderson, brother of **Jama Henderson**, a Customer Service Representative at the Bank, attended school at New Orleans Baptist Theological Seminary. He has relocated to Birmingham, Ala., and is continuing his classes on the Internet. NANB has supplied him with gift cards, books and clothing to help him get back on his feet.

How to Guard Against ‘Phishing’

With the growing popularity of online banking, you are at greater risk than ever to identity theft. The fastest-growing form of identity theft is “phishing” – spam e-mails that prompt you to visit imposter Websites that ask for personal and financial data such as Social Security numbers, birth dates, credit card numbers, etc.

North Atlanta National Bank feels it is important to alert our customers to the danger of phishing and educate you on how to recognize the signs of these bogus e-mails and what you can do to protect yourselves.

How Phishing is Done

Here’s how phishing commonly works. E-mails claiming to be from NANB (or some other bank you may or may not have a relationship with) ask for updated personal or financial information regarding one or several of your accounts. Often, the e-mails warn that accounts will be shut down unless you provide the information. You are asked to click on an icon or link to be directed to the bank’s Website.

The link directs you to a fake Webpage that is mocked up to look exactly like the bank’s Website, or actually takes you to the bank’s Website, at which time a pop-up window comes up in front of your page. The phony Webpage or pop-up window asks you to divulge personal and financial information that the scam artists then collect and use to defraud you.

How to Protect Yourself

The best way to protect yourself is to stay current on how to recognize the signs of this scam and to adhere to protective guidelines published by the Federal Trade Commission (FTC), the Better Business Bureau, and the Anti-Phishing Working Group (APWG).

First, be aware of North Atlanta National Bank’s Website security policy (and the security policy of all institutions you do business with). Ours – a link from the Home Page and Account Access page – states a clear company policy that explains exactly how we interact with customers regarding their personal information, and what you should do if you suspect fraud. We regularly send our privacy statement and security policy to customers via direct mail as well, and attempt to further educate customers through pieces such as this article.

Top Anti-Phishing Tips

There are several key points that you should heed regarding phishing and identity theft protection (again, these tips cover all companies with which you do business):

- North Atlanta National Bank never asks our customers to update personal or financial information via e-mail, nor asks for such information via a pop-up window. You should never divulge personal or account information over the phone or on a Website unless you initiated the transaction and can verify with whom you’re dealing.
- Do not click on any suspicious links that purport to take you to a section of a Website. You should always type in the Web address manually; the link may be a fake.
- When you need to conduct online transactions, you should make sure the site is using encryption, which usually is demonstrated in at least one of two ways. You should look for a locked yellow padlock icon on your browser’s status bar (see example at right). The absence of this is a good indicator of an imposter Website. You can also check to see if the Internet address in the browser’s address field has changed from http: to https: (the “s” means “secure”).
- Suspect e-mail should be deleted or sent to the FTC at www.uce@ftc.gov. If you believe you have been defrauded, you can file a complaint at www.ftc.gov.
- Call the phone number on our Privacy Policy, 678-277-8400, or e-mail us at www.nanb.com, if you have any questions or suspicions about correspondence seemingly coming from our institution.
- Routinely review your credit card and bank statements to check for unauthorized charges, as well as regularly review your credit report. (All three major credit bureaus now offer one free credit report every year; check out Experian, www.experian.com, Equifax, www.equifax.com, or TransUnion, www.transunion.com.)
- For additional guidance on how to protect yourself against phishing attempts, you can visit the FTC consumer help site at www.consumer.gov.



BANK NEWS

Annual Fall Fest BBQ Planned for November

Make plans now to be a part of one of the Bank's best traditions – our Fall Fest BBQ, held annually in November to celebrate our anniversary. This year we will mark our 7-year anniversary with the typical fun, games, raffle prizes and, of course, great BBQ. Look for notices of the specific day and time as we get closer to the event. We hope to see even more than last year's 300 clients, prospects, shareholders and friends!

Jimmy Walker Finalist for Small Business Person of the Year

Jimmy Walker was recently named one of the five finalists for The Greater North Fulton Chamber of Commerce Small Business Person of the Year Award. While he did not win this year's award, he was recognized as a finalist at the Chamber's Eggs & Enterprise Breakfast, as well as in an article in *North Fulton Living* magazine. The write-up on Jimmy concluded: "Expertise in small business issues and personal service are the hallmarks of this highly regarded financial institution."

NANB Announces Staff Promotions

During the 3rd quarter, two NANB employees earned promotions based on their hard work and commitment to the Bank.



Kimberly Bryant, left, and Leslie Green earned promotions during the 3rd quarter. Kimberly will now focus on commercial and construction lending, and Leslie will manage the loan department.

Kimberly Bryant was promoted to Construction Lender. Kimberly is one of the Bank's original employees and has worked with Chairman and CEO Jimmy Walker since 1989. She played a vital role in helping the Bank form the foundation upon which all of its success has been built. Her promotion recognizes her dedication and hard work from Day One. She will now concentrate on commercial and construction lending, as well as business development.

Leslie Green was promoted to Loan Operations and Administration, and will now manage the loan department. Leslie graduated from UNC Charlotte in December 1996 with a degree in Mathematics and a minor in African-American and African Studies, and received an MBA in Human Resource Management from American Intercontinental University. After graduation, she worked in the insurance and banking industries in North Carolina. Leslie joined NANB in December 2002 as Credit Administration Specialist, and was promoted to Bank Officer in December 2003.

Recognizing our employees' contributions to the Bank's success is vitally important. It enables us to perpetuate our client-focused approach to banking, while helping us attract banking professionals who desire to be a part of a business that emphasizes personal service – and professional growth. Congratulations to Kimberly and Leslie!

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BANK PERSONNEL

North Atlanta National Bank is pleased to welcome two new executives and two other new employees who joined the Bank in the third quarter.

Eugene "Gene" B. Ansley Jr. and **Charles "Chuck" H. Gordon Jr.** joined NANB as Senior Vice Presidents of Business Development. Both will work directly with Jimmy Walker to market the Bank to business and individual customer prospects, bring new accounts and relationships to the Bank, and help expand existing customer relationships.

Gene is the owner of the E.B. Ansley Company, LLC, offering advisory, mortgage origination and asset administration services in the area of commercial real estate finance. Gene has more than 25 years' experience in commercial real estate finance, ranging from mortgage origination and mortgage asset administration to managing a national commercial mortgage operation.



Gene Ansley, left, and Chuck Gordon joined NANB as Senior Vice Presidents of Business Development. Both will work directly with Jimmy Walker to market the Bank.

Bank Personnel cont.

Prior to opening his own firm, Gene was senior vice president and manager of SunTrust's commercial mortgage finance department for Georgia, Florida and Tennessee. Previously, he held positions in several other commercial banks and commercial mortgage lenders, including opening the Southeast office of MetLife's mortgage banking operation, MetMor Financial.

In addition, he has held both national and local industry governance positions, having served as chairman of Freddie Mac's National Multifamily Advisory Board, as well as a governor on the Georgia Mortgage Bankers Board of Governors.

Gene holds a business degree in real estate, marketing and management from the University of Georgia and did graduate studies at Georgia State University.

Chuck is president of Renewal Concepts, a company that has provided marketing support, sales development, quality customer service development and leadership development to financial institutions and other service-related businesses since 1988.

He has nearly 30 years' experience in the financial services industry, serving as a branch manager and marketing and training director for Peachtree Bank and Trust Company, as well as senior vice president responsible for both the marketing and training departments of The National Bank of Georgia. He has also worked in market research, sales development and correspondent banking during his career.

Chuck is past president of Sales and Marketing Executives International, holds the Certified Marketing Executive (CME) professional designation, and is a frequent speaker and presenter to banking organizations and conferences nationwide. In addition, he has served on the faculty of the Graduate School of Banking at LSU and the Southeastern School of Banking at Vanderbilt University.

Chuck holds a degree in business and commerce from the University of Alabama. He also completed the Graduate School of Banking at LSU and the Bank Marketing Association's Graduate School of Marketing.



The Bank welcomed Jama Henderson as Client Service Representative in the third quarter.

Jama Henderson joined the Bank as a Client Service Representative. She performs a variety of account transactions for customers, including taking deposits, cashing checks, processing loan payments and other payment transactions, and issuing cashier's and travelers checks, among many other duties.

Most importantly, though, she is gaining exposure to all operational aspects of the Bank and is learning the business every day. Moreover, she is always among the first employees to interact with prospective and existing customers – something we view as an opportunity to demonstrate the unmatched level of service that truly distinguishes NANB from all the rest

Raised in Birmingham, Jama is a recent graduate of Auburn University, with a dual degree in business and communications. She held several leadership

positions in the Delta Delta Delta Sorority and served on Auburn's Recruitment Executive Board as the Head Recruitment Counselor. Jama enjoys running, swimming, dancing, tennis, reading and spending time with friends.



Scott Thompson is the Bank's new Commercial Credit Analyst. He joined NANB from Wachovia Securities.

Scott Thompson is North Atlanta National Bank's new Commercial Credit Analyst. He provides analysis and underwriting of commercial loan requests, working closely with commercial loan officers and business development officers. In addition, he conducts annual reviews of the Bank's commercial loan relationships, reviews all commercial real estate appraisals to ensure compliance with all Bank policies and regulatory requirements, and assists in analyzing the Bank's loan portfolio.

Scott joined the Bank from Wachovia Securities, where he worked for five years as a corporate and investment banking analyst. In that position, he provided primary analysis, industry research, company performance and relative value analysis in support of the institution's \$1.2 billion portfolio.

He holds a bachelor's degree in political science and history from Georgia State University. In addition, Scott completed the Risk Management Association Lending Academy and Wachovia's Credit Training Program.

Bank Holidays

As we enter the "holiday season" please be aware that North Atlanta National Bank will be closed in observance of the following holidays:

- Veterans Day – Friday, November 11, 2005**
- Thanksgiving – Thursday, November 24, 2005**

The bank will reopen the following business day.

NORTH ATLANTA NATIONAL BANK

Unaudited Financial Statements for the Periods Ending September 30, 2005, & 2004

Operating Results

The Bank achieved record profits for the third quarter of 2005. Quarterly net profit after tax was \$236,000. The improvement in results over the same quarter in 2004 is attributable to a 38% increase in net interest income, coupled with a 12% decrease in operating expenses. These quarterly results equate to a 10.98% return on equity (ROE) and an earnings per share (EPS) of \$0.25. The Bank's year-to-date net profit after taxes is \$616,000, equating to a 9.85% ROE and an EPS of \$0.65.

Balance Sheet

The Bank's total assets have grown 26% over the same period last year, primarily attributable to a 28% increase in loans. This year-over-year growth was funded by a 15% increase in core deposits, a 22% increase in certificates of deposits, including brokered and Internet CDs, plus \$4 million in borrowed funds.

Statement of Condition (Unaudited & Rounded to \$1,000)	September 30, 2005	September 30, 2004
Assets		
Cash and Due From Banks	\$3,227,000	\$1,358,000
Securities	10,402,000	7,713,000
Federal Funds Sold	0	388,000
Loans (Less Loss Reserve \$1,051m, & \$781m)	94,932,000	74,400,000
Net Premises and Fixed Assets	3,130,000	3,163,000
Other Assets	<u>2,294,000</u>	<u>1,562,000</u>
Total Assets	<u>\$113,620,000</u>	<u>\$ 89,950,000</u>
Liabilities		
Deposits	\$ 99,251,000	\$ 81,224,000
Federal Funds Purchased	1,103,000	0
FHLB Loan	3,000,000	0
Other Liabilities	180,000	215,000
Subordinated Mandatory Convertible Debenture*	<u>1,500,000</u>	<u>1,500,000</u>
Total Liabilities	105,034,000	82,939,000
Capital		
Common Stock	4,725,000	4,385,000
Surplus	4,610,000	4,269,000
Undivided Profits (Loss)	(716,000)	(1,637,000)
Unrealized Gain (Loss) Securities	(33,000)	(6,000)
Total Capital	<u>8,586,000</u>	<u>7,011,000</u>
Total Liabilities & Capital	<u>\$113,620,000</u>	<u>\$ 89,950,000</u>
Book Value Per Share (Undiluted*)	\$9.09	\$7.99
Capital to Asset Ratio	7.56%	7.79%
Capital to Asset Ratio including Subordinated Debenture	8.88%	9.46%

Operating Results (Unaudited & Rounded to \$1,000)	3 Months Ending		9 Months Ended	
	Sept. 30, 2005	Sept 30, 2004	Sept. 30, 2005	Sept 30, 2004
Net Interest Income				
Interest Income	\$1,819,000	\$1,197,000	\$4,984,000	\$3,123,000
Interest Expense	<u>763,000</u>	<u>429,000</u>	<u>2,056,000</u>	<u>1,082,000</u>
Net Interest Income	1,056,000	768,000	2,928,000	2,041,000
Less Provision for Loan Loss	<u>83,000</u>	<u>90,000</u>	<u>253,000</u>	<u>310,000</u>
Net Interest Income after Loan Loss Provision	973,000	678,000	2,675,000	1,731,000
Other Income & Expenses				
Other Operating Income	32,000	33,000	230,000	107,000
Other Operating Expenses	<u>624,000</u>	<u>709,000</u>	<u>2,037,000</u>	<u>2,034,000</u>
Operating Income (Loss) Before Tax & Security Gains	381,000	2,000	868,000	(196,000)
Gain (Loss) on Sale of Securities	<u>0</u>	<u>0</u>	<u>0</u>	<u>1000</u>
Net Profit Before Tax	381,000	2,000	868,000	(195,000)
Tax Expense (Benefit)	<u>145,000</u>	<u>0</u>	<u>252,000</u>	<u>(154,000)</u>
Net Income (Loss) After Taxes	<u>236,000</u>	<u>2,000</u>	<u>616,000</u>	<u>(41,000)</u>
Earnings Per Share (Undiluted*)	\$0.25	\$0.00	\$0.65	(\$0.05)
Efficiency Ratio	57.35%	88.51%	64.50%	94.69%
Return on Average Assets	0.83%	0.01%	0.76%	(0.07%)
Return on Average Equity	10.98%	0.16%	9.85%	(0.89%)

Other Significant Matters

As mentioned in our previous Stakeholders' Report, at the end of the second quarter the Bank lost the services of several officers and support staff who left to join another de novo bank. As anticipated, they have moved clients with whom they had maintained long-term relationships. This process may continue into the fourth quarter. However, our staff has responded to the challenge by bringing in sufficient new business to replace the business that has been lost. Going forward, the loss of customers following the departed bankers should moderate.

**The debenture is convertible into North Atlanta National Bank common stock by the holder at any time. It is convertible or redeemable at the Bank's option any time after December 31, 2007, but in no case later than December 31, 2012. The conversion price is \$8.50 per share. The debenture is included as capital in regulatory risk-based capital calculations. 25,000 shares are currently vested in an Employee Qualified Stock Option Plan. These are included in total grants of 43,000 shares, which vest at the rate of 20% per year, or fully vest in the event of certain defined changes in ownership. The exercise price for these options ranges from \$8.50 to \$10.00. The organizers of the bank were issued warrants for the purchase of 130,000 shares at a price of \$10.00 per share. These warrants currently remain unexercised and expire December 2007.*

SERVICE, SOUNDNESS AND COMMUNITY

SERVICE

PremierECorp from North Atlanta National Bank

Hillary Coy, senior vice president, **Kellie Pressnall**, assistant vice president, and **Kristen Phillips**, operations specialist, all recently received training on the Bank's new Internet cash management product for our business customers. PremierECorp allows real-time account access via the Internet, enabling our business customers to perform virtually any cash management-related transaction from any computer with Internet access. Benefits include the ability to:

- Download account information into Microsoft Excel, Microsoft Money, Quicken and QuickBooks
- Transfer funds between NANB accounts
- Move money from another financial institution to NANB, and vice versa
- Issue stop payments
- View check images
- Originate Automated Clearing House (ACH) transfers for payroll, dues collections, etc.
- Allow specifically authorized employees to make controlled disbursements, transfers and payments
- Monitor employee activity on the site
- Organize accounts, funds transfers and employees into customer-specific groups

The training Hillary, Kellie and Kristen received on PremierECorp will help them seamlessly introduce this exciting new product to the Bank's business customers.

Deposit Documentation

Head Teller **Vickie Ray** attended a presentation that reviewed the contents of documentation used in establishing depository accounts, explained the terminology involved and pointed out in which cases terms may be expanded by law or regulation. The session also covered the legal relationships that are governed by contracts between the depositor and the depository institution. This training will allow Vickie to pass along beneficial information governing deposit documentation to all the Bank's tellers, allowing them to provide even better customer service.

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SOUNDNESS

Defining the Value Proposition of Enterprise Risk Management

Jimmy Walker and **Kellie Pressnall** recently attended this ABA telephone briefing/webcast to learn how to create, protect and enhance shareholder value by managing the uncertainties – both negative and positive – which can influence the Bank's achievement of strategic goals. Specific activities included designing and developing a comprehensive process to identify, prioritize, assess and manage risk exposure and opportunities related to it. In addition, Jimmy and Kellie learned how to integrate enterprise risk management (ERM) into NANB's operations in order to achieve its benefits across the Bank – namely, increased shareholder value.

COMMUNITY



Relay for Life

North Atlanta National Bank participated in its fifth consecutive Relay for Life, an annual event in which cancer survivors share their stories and volunteers walk throughout the night in their honor and to raise money for cancer-related programs. This year's event was held at Centennial High School in Roswell. NANB also served as the Relay's bank this year, with our employees working late to help count the money raised from the event. The funds will be spent on cancer research, education and patient community programs in the Alpharetta area. The event was a great success, and thanks go to all customers and staff who donated their time and money for this extremely worthy cause.

NANB served as the annual Relay for Life's bank this year, staying open late to help count the money raised from the event. It was the fifth consecutive year NANB has participated.

Annual Blood Drive

The American Red Cross works closely with companies, community groups and schools to organize blood drives at places most convenient for donors – namely, the places where they live, work, worship, and play. In fact, 80 percent of blood donations made through the Red Cross are made at blood drives rather than fixed donor centers. This year, more than 25 employees and customers rolled up their sleeves to donate blood during the Bank's annual blood drive. Thanks to all who came out to help give life another chance.

Jimmy Walker was among the more than 25 Bank employees who donated blood during NANB's annual blood drive.



Georgia vs. Georgia Tech Baseball Game – Children's Healthcare of Atlanta

North Atlanta National Bank was a proud sponsor of the annual Children's Healthcare of Atlanta Spring Classic Baseball Game, featuring Georgia vs. Georgia Tech and Marist High School vs. St. Pius X High School. Bank employees, friends and family all enjoyed the tailgating, the games and the overall experience. Funds raised from the event benefit the Brain Tumor Services of Children's Healthcare of Atlanta. Thanks to everyone who came out in support.

(Left to right) Jimmy Walker, Ashley Madray, Janie Gilbert and Linda Dorris were among the employees, friends and family who enjoyed NANB's sponsorship of the annual Children's Healthcare of Atlanta Spring Classic Baseball Game.

Rotary Club of North Fulton Interfaith Prayer Breakfast

NANB sponsored a table at the Rotary Club of North Fulton's annual North Atlanta Interfaith Prayer Breakfast, held in conjunction with the National Day of Prayer. Ten of our employees attended the event, which was held at the Metropolitan Club in Alpharetta and featured keynote speaker Chan Gailey, head football coach at Georgia Tech. Musical entertainment was provided by New Creation, a widely acclaimed choral group. In addition to the keynote address and music, several North Fulton clergy representing different faiths shared words of inspiration with attendees.
