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THOMASVILLE BANCSHARES INC  
Form 10KSB  
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-KSB

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Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2001

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Commission File Number 0-25929

THOMASVILLE BANCSHARES, INC.

A Georgia Corporation  
(IRS Employer Identification No.58-2175800)  
301 North Broad Street  
Thomasville, Georgia 31792  
(229) 226-3300

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Securities Registered Pursuant to Section 12(b)  
of the Securities Exchange Act of 1934:

None  
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Securities Registered Pursuant to Section 12(g)  
of the Securities Exchange Act of 1934:

Common Stock, \$1.00 par value  
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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
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Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.  [X]

Revenue for the fiscal year ended December 31, 2001: \$11,349,551

The aggregate market value of the Common Stock of the Registrant held by nonaffiliates of the Registrant (1,082,799 shares) on March 15, 2002 was \$17,324,784. As of such date, no organized trading market existed for the Common Stock of the Registrant. The aggregate market value was computed by reference to the fair market value of the Common Stock of the Registrant based on recent sales of the Common Stock. For the purposes of this response, directors, officers and holders of 5% or more of the Registrant's Common Stock are considered the affiliates of the Registrant.

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The number of shares outstanding of the Registrant's Common Stock, as of March 25, 2002: 1,395,000 shares of \$1.00 par value Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE  
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Portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with its 2002 Annual Meeting of Shareholders are incorporated by reference in response to Part III of this Report.

Transitional Small Business Disclosure Format (check one)      Yes      No      X  
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PART I

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES  
LITIGATION REFORM ACT OF 1995

Certain statements in this Annual Report on Form 10-KSB contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "expect," "estimate," "anticipate," "believe," "target," "plan," "project," or "continue" or the negatives thereof or other variations thereon or similar terminology, and are made on the basis of management's plans and current analyses of the Company, its business and the industry as a whole. These forward-looking statements are subject to risks and uncertainties, including, but not limited to, economic conditions, competition, interest rate sensitivity and exposure to regulatory and legislative changes. The above factors, in some cases, have affected, and in the future could affect, the Company's financial performance and could cause actual results for fiscal 2002 and beyond to differ materially from those expressed or implied in such forward-looking statements. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

ITEM 1. DESCRIPTION OF BUSINESS  
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GENERAL

Thomasville Bancshares, Inc., a Georgia corporation (the "Company"), was formed in March 1995 to act as the holding company for Thomasville National Bank (the "Bank"). The Bank opened for business in October 1995, and presently operates two branches in Thomasville, Georgia. The Bank is a full service commercial bank, without trust powers, and offers a full range of interest-bearing and non-interest-bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement and Keogh accounts, regular interest-bearing statement savings accounts, certificates of deposit, commercial loans, real estate loans, home equity loans and consumer/ installment loans. In addition, the Bank provides such consumer services as U.S. Savings Bonds, travelers checks, cashiers checks, safe deposit boxes, bank by mail services, direct deposit and automatic teller services.

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The holding company structure was adopted as a mechanism to enhance the Bank's ability to serve its future customers' requirements for financial services. The Company provides flexibility for expansion of the banking business through the acquisition of other financial institutions and provision of additional banking-related services which the traditional commercial bank may not provide under present laws. For example, banking regulations require that the Bank maintain a minimum ratio of capital to assets. In the event that the Bank's growth is such that this minimum ratio is not maintained, the Company may borrow funds, subject to the capital adequacy guidelines of the Federal Reserve Board, and contribute them to the capital of the Bank, or raise capital otherwise in a manner which is unavailable to the Bank under existing banking regulations.

### MARKET AREA AND COMPETITION

The market area of the Bank consists of Thomas County, Georgia and is focused on Thomasville, the county seat. Thomas County has been experiencing steady growth in both jobs and banking deposits in recent years. [Thomasville is a regional and commercial medical center for Southwest Georgia]. Thomas County maintains a steady industrial and agricultural base, which has been expanding in recent years. The largest employers in the county include the John D. Archbold Memorial Hospital and Warners (foundation garments). Agricultural activities in the county are supported by the second-largest fresh vegetable market in Georgia and a daily cash market for hogs, cattle and poultry.

The populations of Thomasville and Thomas County are approximately 18,162 and 42,737, respectively. The median household income in Thomas County in 2001 was approximately \$21,142 and the unemployment rate was 3.9% as of December 2001. Real estate values in the Bank's market area have generally appreciated over the last five years.

Competition among financial institutions in the Bank's market area is intense. There are three commercial banks and a total of ten branches in Thomasville and four additional branches in smaller communities in Thomas County. In addition, there is one savings and loan association in Thomasville. There are also four credit unions headquartered in Thomas County.

Financial institutions primarily compete with one another for deposits. In turn, a bank's deposit base directly affects the bank's loan activities and general growth. Primary methods of competition include interest rates on deposits and loans, service charges on deposit accounts and the offering of unique financial services products. The Bank is competing with financial institutions that have much greater financial resources, and that may be able to offer more services and possibly better terms to their customers. However, the management of the Bank believes that the Bank will be able to attract sufficient deposits to enable the Bank to compete effectively with other area financial institutions.

The Bank competes with existing area financial institutions other than commercial banks and savings and loan associations, including insurance companies, consumer finance companies, brokerage houses, credit unions and other business entities which have recently been invading the traditional banking markets. Due to the growth of the Thomasville area, it is anticipated that additional competition will continue from new entrants to the market.

### DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following is a presentation of the average consolidated balance

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sheet of the Company for the years ended December 31, 2001 and 2000. This presentation includes all major categories of interest-earning assets and interest-bearing liabilities:

	Year Ended December 31, 2001 -----	Year Ended December 31, 2000 -----
<u>Average Consolidated Assets</u>		
Cash and due from banks	\$ 3,967,783	\$ 3,617,758
Tax-exempt securities	-	121,918
Taxable securities	9,076,158	7,459,190
Federal funds sold	5,133,405	3,193,656
Net loans	119,551,575	99,289,816
Total interest-earning assets	\$133,761,138	\$110,064,580
Other assets	5,390,064	5,557,934
Total assets	\$143,118,985 =====	\$119,240,272 =====
<u>Average Consolidated Liabilities And Stockholders' Equity</u>		
Non-interest-bearing deposits	\$ 14,355,929	\$ 13,280,206
NOW and money market deposits	57,151,326	43,374,521
Savings deposits	3,384,723	3,063,659
Time deposits	51,192,465	43,759,960
Other borrowings	2,923,481	2,918,698
Other liabilities	698,854	805,542
Total liabilities	\$129,706,778	\$107,202,586
Stockholders' equity	13,412,207 -----	12,037,686 -----
Total liabilities and stockholders' equity	\$143,118,985 =====	\$119,240,272 =====

The following is a presentation of an analysis of the net interest earnings of the Company for the periods indicated with respect to each major category of interest-earning asset and each major category of interest-bearing liability:

	Year Ended December 31, 2001 -----		
<u>Assets</u>	Average Amount	Interest Earned/Paid	Average Yield/Rate
Taxable securities	\$ 9,076,158	\$ 588,166	6.48%
Federal funds sold	5,133,405	190,606	3.71%
Net loans	119,551,575 (1)	9,760,452 (2)	8.16%
Total earning assets	\$133,761,138 =====	\$10,539,224 =====	7.88%
 <u>Liabilities</u>			
NOW and money market deposits	\$ 57,151,326	\$ 1,976,502	3.46%
Savings deposits	3,384,723	93,218	2.75%
Time deposits	51,192,465	3,000,036	5.86%

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Other borrowings	2,923,481	138,262	4.73%
	-----	-----	
Total interest-bearing liabilities	\$114,651,995	\$ 5,208,018	4.54%
	=====	=====	
Net yield on earning assets			3.99%
			=====

- 
- (1) At December 31, 2001, \$595,646 in loans were not accruing interest.
  - (2) Interest earned on net loans includes \$260,881 in loan fees and loan service fees.

Assets	Year Ended December 31, 2000		
	Average Amount	Interest Earned/Paid	Average Yield/Rate
-----	-----	-----	-----
Tax-exempt securities	\$ 121,918	\$ 4,227	5.25% (1)
Taxable securities	7,459,190	441,161	5.91%
Federal funds sold	3,193,656	201,287	6.30%
Net loans	99,289,816 (2)	9,226,566 (3)	9.29%
	-----	-----	
Total earning assets	\$110,064,580	\$9,873,241	8.97%
	=====	=====	
Liabilities			
-----			
NOW and money market deposits	\$ 43,374,521	\$1,802,192	4.15%
Savings deposits	3,063,659	91,895	3.00%
Time deposits	43,759,960	2,616,346	5.98%
Other borrowings	2,918,698	159,582	5.47%
	-----	-----	
Total interest-bearing liabilities	\$ 93,116,838	\$4,670,015	5.02%
	=====	=====	
Net yield on earning assets			4.72%
			=====

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- (1) The average yield on tax-exempt securities is tax equivalent.
  - (2) At December 31, 2000, \$118,256 in loans were not accruing interest.
  - (3) Interest earned on net loans includes \$189,268 in loan fees and loan service fees.

RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

The effect on interest income, interest expense and net interest income during the periods indicated, of changes in average balance and rate from the corresponding prior period is shown below. The effect of a change in average balance has been determined by applying the average rate in the earlier period to the change in average balance in the later period, as compared with the earlier period. Changes resulting from average balance/rate variances are included in changes resulting from rate. The balance of the change in interest income or expense and net interest income has been attributed to a change in average rate.

Year Ended December 31, 2001  
 Compared to  
 Year Ended December 31, 2000  
 -----  
 Increase (decrease) due to:

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	Volume -----	Rate -----	Total -----
	(In \$ thousands)		
Interest earned on:			
Tax-exempt securities	\$ (4)	\$ --	\$ (4)
Taxable securities	102	45	147
Federal funds sold	23	(34)	(11)
Net loans	1,322	(788)	534
	-----	-----	-----
Total interest income	1,443	(777)	666
	-----	-----	-----
Interest paid on:			
NOW and money market deposit	365	(191)	174
Savings deposits	1	--	1
Time deposits	436	(52)	384
Other borrowings	1	(22)	(21)
	-----	-----	-----
Total interest expense	803	(265)	538
	-----	-----	-----
Change in net interest income	\$ 640	\$ (512)	\$ 128
	=====	=====	=====

Year Ended December 31, 2000  
Compared to  
Year Ended December 31, 1999

	Volume -----	Rate -----	Total -----
	Increase (decrease) due to:		
	(In \$ thousands)		
Interest earned on:			
Tax-exempt securities	\$ (13)	\$ 1	\$ (12)
Taxable securities	106	9	115
Federal funds sold	(161)	125	(36)
Net loans	1,634	252	1,886
	-----	-----	-----
Total interest income	1,566	387	1,953
	-----	-----	-----
Interest paid on:			
NOW and money market deposit	364	180	544
Savings deposits	19	--	19
Time deposits	267	184	451
Other borrowings	68	8	76
	-----	-----	-----
Total interest expense	718	372	1,090
	-----	-----	-----
Change in net interest income	\$ 848	\$ 15	\$ 863
	=====	=====	=====

DEPOSITS

The Bank offers a full range of interest-bearing and non-interest-bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement and Keogh accounts, regular interest-bearing statement savings accounts and certificates of deposit with fixed and variable rates and a range of maturity date options. The sources of deposits are residents, businesses and employees of businesses within the Bank's market area, obtained through the personal solicitation of the Bank's officers and directors, direct mail solicitation and advertisements published

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in the local media. The Bank pays competitive interest rates on time and savings deposits up to the maximum permitted by law or regulation. In addition, the Bank has implemented a service charge fee schedule competitive with other financial institutions in the Bank's market area, covering such matters as maintenance fees on checking accounts, per item processing fees on checking accounts and returned check charges.

The following table presents, for the periods indicated, the average amount of and average rate paid on each of the following deposit categories:

Deposit Category	Year Ended December 31, 2001		Year Ended December 31, 2000	
	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
Non interest-bearing demand deposits	\$14,355,929	N/A	\$13,280,206	N/A
NOW and money market deposits	57,151,326	3.46%	43,374,521	4.15%
Savings deposits	3,384,723	2.75%	3,063,659	3.00%
Time deposits	51,192,465	5.86%	43,759,960	5.98%

The following table indicates amounts outstanding of time certificates of deposit of \$100,000 or more and respective maturities at December 31, 2001:

	Time Certificate of Deposits
3 months or less	\$ 6,726,718
3-6 months	3,111,675
6-12 months	6,625,214
over 12 months	8,909,086
Total	\$25,372,693

### LOAN PORTFOLIO

The Bank engages in a full complement of lending activities, including commercial/industrial, consumer and real estate loans. As of December 31, 2001, the Bank had a legal lending limit for unsecured loans of up to \$1,950,000 to any one person. See "Supervision and Regulation."

While risk of loss in the Bank's loan portfolio is primarily tied to the credit quality of its various borrowers, risk of loss may also increase due to factors beyond the Bank's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the Bank's real estate portfolio. Of the Bank's target areas of lending activities, commercial loans are generally considered to have greater risk than real estate loans or consumer installment loans.

Management of the Bank intends to originate loans and to participate with other banks with respect to loans which exceed the Bank's lending limits. Management of the Bank does not believe that loan participations necessarily pose any greater risk of loss than loans which the Bank originates.

The following is a description of each of the major categories of loans in the Bank's loan portfolio:

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### COMMERCIAL, FINANCIAL AND AGRICULTURAL LOANS

Commercial lending is directed principally towards businesses whose demands for funds fall within the Bank's legal lending limits and which are potential deposit customers of the Bank. This category of loans includes loans made to individual, partnership or corporate borrowers, and obtained for a variety of business purposes. Particular emphasis is placed on loans to small- and medium-sized businesses. The primary repayment risk for commercial loans is the failure of the business due to economic or financial factors. Although the Bank typically looks to a commercial borrower's cash flow as the principal source of repayment for such loans, many commercial loans are secured by inventory, equipment, accounts receivable, and other assets.

### CONSUMER LOANS

The Bank's consumer loans consist primarily of installment loans to individuals for personal, family and household purposes, including automobile loans to individuals and pre-approved lines of credit. This category of loans also includes lines of credit and term loans secured by second mortgages on the residences of borrowers for a variety of purposes, including home improvements, education and other personal expenditures. In evaluating these loans the Bank reviews the borrower's level and stability of income and past credit history and the impact of these factors on the ability of the borrower to repay the loan in a timely manner. In addition, the Bank maintains a proper margin between the loan amount and collateral value.

### REAL ESTATE LOANS

The Bank's real estate loans consist of residential first and second mortgage loans, residential construction loans and commercial real estate loans to a limited degree. These loans are made consistent with the Bank's appraisal policy and real estate lending policy which detail maximum loan-to-value ratios and maturities. These loan-to-value ratios are sufficient to compensate for fluctuations in the real estate market to minimize the risk of loss to the Bank.

The following table presents various categories of loans contained in the Bank's loan portfolio as of the dates indicated and the total amount of all loans for such periods:

Type of Loan	As of December 31, 2001	As of December 31, 2000
Commercial, financial and agricultural	\$ 40,032,109	\$ 29,605,383
Real estate-construction	6,333,530	3,510,851
Real estate-mortgage	80,747,146	64,975,926
Installment and other loans to individuals	8,787,723	10,391,363
Subtotal	135,900,508	108,483,523
Less: Allowance for possible loan losses	(1,564,769)	(1,365,057)
Total (net of allowances)	\$134,335,739	\$107,118,466

The following is a presentation of an analysis of maturities of certain loans as of December 31, 2001:

Type of Loan	Due in 1 Year of Less	Due After 1 to 5 Years	Due After 5 Years	Total
-----	-----	-----	-----	-----



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(In thousands)

Commercial, financial and agricultural	\$30,613	\$8,898	\$ 521	\$40,032
Real estate-construction	6,334	--	--	6,334
	-----	-----	-----	-----
	\$36,947	\$8,898	\$ 521	\$46,366
	=====	=====	=====	=====

For the above loans, the following is a presentation of an analysis of sensitivities to changes in interest rates as of December 31, 2001:

Type of Loan	Due in 1 Year of Less	Due After 1 to 5 Years	Due After 5 Years	Total
-----	-----	-----	-----	-----
	(In thousands)			
Predetermined interest rate	\$ 8,133	\$3,619	\$ --	\$11,752
Floating interest rate	28,814	5,279	521	34,614
	-----	-----	-----	-----
	\$36,947	\$8,898	\$ 521	\$46,366
	=====	=====	=====	=====

The Bank considers impaired loans to include all restructured loans, loans on which the accrual of interest has been discontinued and all other loans which are performing according to the loan agreement, but may have substantive indication of potential credit weakness. At December 31, 2001 and 2000, the total recorded investment in impaired loans, all of which had allowances determined in accordance with FASB Statements No. 114 and No. 118, amounted to approximately \$4,640,644 and \$3,295,241, respectively. The average recorded investment in impaired loans amounted to approximately \$3,835,462 and \$1,813,399 for the years ended December 31, 2001 and 2000, respectively. The allowance for loan losses related to impaired loans amounted to approximately \$934,727 and \$683,847 at December 31, 2001 and 2000, respectively. Interest income recognized on impaired loans for the years ended December 31, 2001 and 2000 amounted to \$351,311 and \$178,982, respectively. The amount of interest recognized on impaired loans using the cash method of accounting was not material for the years ended December 31, 2001 and 2000. The Bank has no commitments to lend additional funds to borrowers whose loans have been modified.

As of December 31, 2001, there were no loans not disclosed above that are classified for regulatory purposes as doubtful, substandard or special mention which (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

Accrual of interest is discontinued on a loan when management of the Bank determines upon consideration of economic and business factors affecting collection efforts that collection of interest is doubtful. At December 31, 2001, no loans were over 90 days past due but still accruing interest. As of December 31, 2001, seven loans with an aggregate principal balance of \$555,097 were considered to be "troubled-debt restructured," and 24 loans with an aggregate balance of \$595,646 were on non-accrual status.

### SUMMARY OF LOAN LOSS EXPERIENCE

An analysis of the Bank's loss experience is furnished in the following table for the periods indicated, as well as a breakdown of the allowance for possible loan losses:

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## Analysis of the Allowance for Possible Loan Losses

	Year ended December 31,	
	2001	2000
Balance at beginning of period	\$1,365,057	\$1,109,707
Charge-offs:		
Real estate loans	\$ (61,265)	\$ (203,014)
Installment and other loans to individuals	(118,423)	(36,825)
Commercial, financial, agricultural	(51,290)	(18,875)
Recoveries	15,690	4,064
Net charge-offs	(215,288)	(254,650)
Additions charged to operations	415,000	510,000
Balance at end of period	\$1,564,769	\$1,365,057
Ratio of net charge-offs during the period to average loans outstanding during the period	0.18%	0.26%

At December 31, 2001 and 2000 the allowance was allocated as follows:

	At December 31, 2001		At December 31, 2000	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial, financial and agricultural	\$ 510,000	29.5%	\$ 396,000	27.3%
Real estate - construction	103,000	4.7%	67,000	3.2%
Real estate - mortgage	771,000	59.3%	706,000	59.9%
Installment and other loans to individuals	146,000	6.5%	164,000	9.6%
Unallocated	34,769	N/A	32,057	N/A
Total	\$1,564,769	100.0%	\$1,365,057	100.0%

### LOAN LOSS RESERVE

In considering the adequacy of the Bank's allowance for possible loan losses, management has focused on the fact that as of December 31, 2001, 29.5% of outstanding loans are in the category of commercial loans, which includes commercial, industrial and agricultural loans. Commercial loans are generally considered by management as having greater risk than other categories of loans in the Bank's loan portfolio. However, 93.5% of these commercial loans at December 31, 2001 were made on a secured basis. Management believes that the secured condition of the preponderant portion of

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its commercial loan portfolio greatly reduces any risk of loss inherently present in commercial loans.

The Bank's consumer loan portfolio is also well secured. At December 31, 2001, 91.2% of the Bank's consumer loans were secured by collateral primarily consisting of automobiles, boats and other personal property. Management believes that these loans involve less risk than commercial loans.

Real estate mortgage loans constituted 59.3% of outstanding loans at December 31, 2001. The loans in this category represent residential and commercial real estate mortgages where the amount of the original loan generally does not exceed 85% of the appraised value of the collateral. These loans are considered by management to be well secured with a low risk of loss.

A review of the loan portfolio by an independent firm is conducted annually. The purpose of this review is to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. The review includes analyses of historical performance, the level of non-conforming and rated loans, loan volume and activity, review of loan files and consideration of economic conditions and other pertinent information. Upon completion, the report is approved by the Board and management of the Bank. In addition to the above review, the Bank's primary regulator, the Office of the Comptroller of the Currency (the "OCC"), also conducts an annual examination of the loan portfolio. Upon completion, the OCC presents its report of findings to the Board and management of the Bank. Information provided from the above two independent sources, together with information provided by the management of the Bank and other information known to members of the Board, are utilized by the Board to monitor, on a quarterly basis, the loan portfolio. Specifically, the Board attempts to identify risks inherent in the loan portfolio (e.g., problem loans, potential problem loans and loans to be charged off), assess the overall quality and collectibility of the loan portfolio, and determine amounts of the allowance for loan losses and the provision for loan losses to be reported based on the results of their review.

### INVESTMENTS

As of December 31, 2001, investment securities comprised approximately 4.7% of the Bank's assets and net loans comprised approximately 87.6% of the Bank's assets. The Bank invests primarily in direct obligations of the United States, obligations guaranteed as to principal and interest by the United States, obligations of agencies of the United States and certificates of deposit issued by commercial banks. In addition, the Bank enters into Federal Funds transactions with its principal correspondent banks, and acts as a net seller of such funds. The sale of Federal Funds amounts to a short-term loan from the Bank to another bank.

The following table presents, for the dates indicated, the book value of the Bank's investments. All securities held at December 31, 2001 and 2000 were categorized as available-for-sale.

	December 31,	
	2001	2000
	----	----
Obligations of U.S. Treasury and other U.S. Agencies	\$ 5,792,695	\$10,825,563
Corporate equity	240,000	240,000
Other securities	466,667	--
Federal Reserve and		

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Federal Home Loan Bank stock	635,800	570,500
	-----	-----
Total	\$ 7,135,162	\$11,636,063
	=====	=====

The following table indicates as of December 31, 2001 the amount of investments due in (i) one year or less, (ii) one to five years, (iii) five to ten years, and (iv) over ten years:

	Amount	Weighted Average Yield
	-----	-----
Obligation of U.S. Treasury and other U.S. Agencies:		
0 - 1 years	\$ 2,045,089	5.36%
Over 1 through 5 years	2,969,356	5.15%
Over 5 through 10 years	778,250	5.68%
Other securities		
Over 5 through 10 years	466,667	10.13%
Federal Reserve Bank and Federal Home Loan Bank Stock, no maturity	635,800	6.78%
Corporate equity, no maturity	240,000	--
	-----	
Total	\$ 7,135,162	5.57%
	=====	=====

### RETURN ON EQUITY AND ASSETS

Returns on average consolidated assets and average consolidated equity for the periods indicated were as follows:

	Years ended December 31,	
	2000	1999
	-----	-----
Return on Average Assets	1.18%	1.27%
Return on Average Equity	12.50%	12.60%
Average Equity to Average Assets Ratio	9.40%	10.10%
Dividend Payout Ratio	--	--

### ASSET/LIABILITY MANAGEMENT

It is the objective of the Bank to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Certain of the officers of the Bank are responsible for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix, stability and leverage of all sources of funds while adhering to prudent banking practices. It is the overall philosophy of management to support asset growth primarily through growth of core deposits, which include deposits of all categories made by individuals, partnerships and corporations. Management of the Bank seeks to invest the largest portion of the Bank's assets in commercial, consumer and real estate loans.

The Bank's asset/liability mix is monitored on a daily basis with a monthly report reflecting interest-sensitive assets and interest-sensitive liabilities being prepared and presented to the Bank's Board of Directors. The objective of this policy is to control interest-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest

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rates on the Bank's earnings.

### CORRESPONDENT BANKING

Correspondent banking involves the providing of services by one bank to another bank which cannot provide that service for itself from an economic or practical standpoint. The Bank purchases 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 participations with correspondent banks. Such correspondent arrangements are governed, in part, by the provisions of 12 C.F.R. 32.107 and OCC Banking Circular 181 (Rev.) (August 2, 1984).

The Bank sells loan participations to correspondent banks with respect to loans which exceed the Bank's lending limit. As compensation for services provided by a correspondent, the Bank may maintain certain balances with such correspondents in non-interest bearing accounts. At December 31, 2001, the Bank had outstanding participations totaling \$4,558,708.

### DATA PROCESSING

The Bank performs a full range of data processing services internally, including an automated general ledger, deposit accounting, commercial, real estate and installment lending data processing, central information file and ATM processing.

### EMPLOYEES

At March 15, 2002, the Bank employed 38 persons on a full-time basis, including nine officers, and two persons on a part-time basis. The Bank plans to hire additional persons as needed, including additional tellers and financial service representatives.

### MONETARY POLICIES

The results of operations of the Bank are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, changes in reserve requirements against member bank deposits and limitations on interest rates which member banks may pay on time and savings deposits. In view of changing conditions in the national economy and in the money markets, as well as the effect of action by monetary and fiscal authorities, including the Federal Reserve Board, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

### REGISTRAR AND TRANSFER AGENT

SunTrust Bank, Atlanta serves as the Transfer Agent and Registrar for the Common Stock.

### SUPERVISION AND REGULATION

#### GENERAL

The Company and the Bank operate in a highly regulated environment, and their business activities are governed by statute, regulation and administrative policies. The business activities of the Company and the Bank are closely supervised by a number of regulatory agencies, including the Federal Reserve Board, the Office of the Comptroller of the Currency

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("OCC"), the Georgia Banking Department of Banking and Finance (the "Georgia Banking Department") and the Federal Deposit Insurance Corporation ("FDIC").

The Company is regulated by the Federal Reserve Board under the federal Bank Holding Company Act of 1956, as amended, which requires every bank holding company to obtain the prior approval of the Federal Reserve Board before acquiring more than 5% of the voting shares of any bank or all or substantially all of the assets of a bank, and before merging or consolidating with another bank holding company. The Federal Reserve Board (pursuant to regulation and published policy statements) has maintained that a bank holding company must serve as a source of financial strength to its subsidiary banks. In adhering to the Federal Reserve Board policy, the Company may be required to provide financial support to a subsidiary bank at a time when, absent such Federal Reserve Board policy, the Company may not deem it advisable to provide such assistance.

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, restrictions on interstate acquisition of banks by bank holding companies were repealed, such that the Company, or any other bank holding company located in Georgia, may acquire a bank located in any other state, and a bank holding company located outside Georgia may acquire any Georgia-based bank, in either case subject to certain deposit percentage and other restrictions. The legislation also provides that, unless an individual state has elected to prohibit out-of-state banks from operating interstate branches within its territory, adequately capitalized and managed bank holding companies will be able to consolidate their multistate bank operations into a single bank subsidiary and to branch interstate through acquisitions.

De novo branching by an out-of-state bank is permitted only if it is expressly permitted by the laws of the host state. The authority of a bank to establish and operate branches within a state remains subject to applicable state branching laws. The State of Georgia has enacted an interstate banking statute which authorizes bank holding companies located throughout the United States to acquire banks and bank holding companies located in Georgia under certain conditions. Such legislation has had the effect of increasing competition among financial institutions in the Bank's market area and in the State of Georgia generally. Establishment of de novo bank branches in Georgia by out-of-state financial institutions is not permitted under Georgia law.

A bank holding company which has not elected to become a financial holding company under the Gramm-Leach-Bliley Act, as discussed below, will generally be prohibited from acquiring control of any company which is not a bank and from engaging in any business other than the business of banking or managing and controlling banks. However, bank holding companies may still engage in certain activities which have been identified by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto and thus permissible for bank holding companies.

The list of permissible nonbanking activities includes the following activities: extending credit and servicing loans; acting as investment or financial advisor to any person, with certain limitations; leasing personal and real property or acting as a broker with respect thereto; providing management and employee benefits consulting advice and career counseling services to nonaffiliated banks and nonbank depository institutions; operating certain nonbank depository institutions; performing certain trust company functions; providing certain agency transactional services, including securities brokerage services, riskless principal transactions, private placement services, and acting as a futures commission merchant; providing data processing and data transmission services; acting as an insurance agent or underwriter with respect to limited types of insurance; performing real

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estate appraisals; arranging commercial real estate equity financing; providing check-guaranty, collection agency and credit bureau services; engaging in asset management, servicing and collection activities; providing real estate settlement services; acquiring certain debt which is in default; underwriting and dealing in obligations of the United States, the states and their political subdivisions; engaging as a principal in foreign exchange trading and dealing in precious metals; providing other support services such as courier services and the printing and selling of checks; and investing in programs designed to promote community welfare.

In determining whether an activity is so closely related to banking as to be permissible for bank holding companies, the Federal Reserve Board is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition and gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Generally, bank holding companies must obtain approval of the Federal Reserve Board to engage in any activity not previously approved by the Federal Reserve Board or to modify in any material respect an activity for which Federal Reserve Board approval had been obtained.

The Company is also regulated by the Georgia Banking Department under the Financial Institutions Code of Georgia, which requires a Georgia bank holding company to obtain the prior approval of the Georgia Banking Department before (i) acquiring 5% or more of the voting shares of any bank; or (ii) all or substantially all of the assets of a bank; or (iii) before merging or consolidating with any other bank holding company; or (iv) taking any action that causes any company to become a bank holding company; or (v) taking any action that causes a bank to become a subsidiary of a bank holding company. A Georgia bank holding company is generally prohibited from acquiring ownership or control of 5% or more of the voting shares of any bank unless the bank being acquired has been in existence and continuously operating as a bank for a period of five years or more prior to the date of acquisition.

As a national bank, the Bank is subject to the supervision of the OCC and, to a limited extent, the FDIC and the Federal Reserve Board. With respect to expansion, a national bank situated in the State of Georgia must obtain the prior approval of the Georgia Banking Department before establishing any branch offices or bank facilities. The Bank is also subject to Georgia banking and usury laws restricting the amount of interest which it may charge in making loans or other extensions of credit. In addition, the Bank, as a subsidiary of the Company, is subject to restrictions under federal law when dealing with the Company and other affiliates. These restrictions apply to extensions of credit to an affiliate, investments in the securities of an affiliate and the purchase of assets from an affiliate.

Loans and extensions of credit by national banks are subject to legal lending limitations. Under federal law, a national bank may grant unsecured loans and extensions of credit in an amount up to 15% of its unimpaired capital and surplus to any person if the loans and extensions of credit are not fully secured by collateral having a market value at least equal to their face amount. In addition, a national bank may grant loans and extensions of credit to such person up to an additional 10% of its unimpaired capital and surplus, provided that each loan or extension of credit is fully secured by readily marketable collateral having a market value, determined by reliable and continuously available price quotations, at least equal to the amount of funds outstanding. Loans and extensions of credit may exceed the general lending limit if they qualify under one of several exceptions. Such exceptions include certain loans or extensions of credit arising from the

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discount of commercial or business paper, the purchase of bankers' acceptances, loans secured by documents of title, loans secured by U.S. obligations and loans to or guaranteed by the federal government, and loans or extensions of credit which have the approval of the OCC and which are made to a financial institution or to any agent in charge of the business and property of a financial institution.

### GRAMM-LEACH-BLILEY

The Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act of 1999 ("GLBA"), enacted in 1999, enables bank holding companies to acquire insurance companies and securities firms and effectively repeals depression-era laws, that prohibited the affiliation of banks and these other financial services entities under a single holding company. Bank holding companies, and other types of financial services entities, may elect to become financial holding companies under the new law, which will enable them to offer virtually any type of financial service, or services incident to financial services, including banking, securities underwriting, merchant banking and insurance (both underwriting and agency services). The new financial services authorized by the GLBA also may be engaged in by a "financial subsidiary" of a national or state bank, with the exception of insurance or annuity underwriting, insurance company portfolio investments, real estate investment and development, and merchant banking, all of which must be conducted under the financial holding company.

To become a financial holding company, a bank holding company must provide notice to the Federal Reserve Board of its desire to become a financial holding company, and certify to the Federal Reserve Board that each of its bank subsidiaries is "well-capitalized," "well-managed" and has at least a "satisfactory" rating under the Community Reinvestment Act.

The GLBA establishes a system of functional regulation, under which the Federal Reserve Board will regulate the banking activities of financial holding companies and other federal banking regulators will regulate banks' financial subsidiaries. The SEC will regulate securities activities of financial holding companies and state insurance regulators will regulate their insurance activities. The GLBA also provides new protections against the transfer and use by financial institutions of consumers' non-public, personal information.

The implementation of the act increases competition in the financial services sector by allowing many different entities, including banks and bank holding companies, to affiliate and/or to merge with other financial services entities and cross-sell their financial products in order to better serve their current and prospective customers. At this time, the Company does not intend to seek qualification as a financial holding company or to enter into these additional financial services areas.

### DIVIDENDS

The Company is a legal entity separate and distinct from the Bank. The principal source of cash flow for the Company is dividends from the Bank. There are various statutory and regulatory limitations on the payment of dividends by the Bank, as well as dividends paid by the Company to its shareholders.

The payment of dividends by the Company and the Bank may be affected or limited by regulatory requirements and policies, such as the maintenance of adequate capital. If, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which could include the payment of dividends depending on the institution's financial condition), such authority may require, after notice and hearing, that the bank cease and desist from such practice. The FDIC and



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the Federal Reserve Board have issued policy statements that provide, generally, that insured banks and bank holding companies should only pay dividends out of current operating earnings. The Federal Reserve has issued a policy statement to the same effect for bank holding companies. In addition, all insured depository institutions are subject to the capital-based limitations required by the Federal Deposit Insurance Corporation Improvement Act of 1991, as discussed below.

The Bank is restricted in its ability to pay dividends under national banking laws and the regulations of the OCC. The Bank may only pay dividends out of undivided profits, subject to other applicable provisions of law. In addition, the Bank may not declare a dividend until the Bank's surplus equals its stated capital, unless there has been transferred to surplus not less than 10% of the Bank's net income of the preceding two consecutive six-month periods (in the case of an annual dividend). Approval by the OCC is required if the total dividends declared by the Bank in any calendar year exceeds the total of its net income for that year combined with its retained net income for the preceding two years, less any required transfers to surplus.

### CAPITAL ADEQUACY REQUIREMENTS

Both the Company and the Bank are subject to regulatory capital requirements imposed by the Federal Reserve Board and the OCC. The Federal Reserve Board and the OCC have issued risk-based capital guidelines for bank holding companies and banks which make regulatory capital requirements more sensitive to differences in the risk profiles of various banking organizations. The capital adequacy guidelines issued by the Federal Reserve Board are applied to bank holding companies, on a consolidated basis with the banks owned by the holding company, as well as to state member banks. The OCC's risk capital guidelines apply directly to national banks regardless of whether they are a subsidiary of a bank holding company. Both agencies' requirements (which are substantially similar), provide that banking organizations must have capital equivalent to at least 8% of risk-weighted assets. The risk weights assigned to assets are based primarily on credit risks. Depending upon the risk level of a particular asset, it is assigned to a risk category.

For example, securities with an unconditional guarantee by the United States government are assigned to the lowest risk category, while a risk weight of 50% is assigned to loans secured by owner-occupied one to four family residential mortgages, provided that certain conditions are met. The aggregate amount of assets assigned to each risk category is multiplied by the risk weight assigned to that category to determine the weighted values, which are then added together to determine total risk-weighted assets.

The Federal Reserve Board and the OCC have also implemented minimum capital leverage ratios to be used in tandem with the risk-based guidelines in assessing the overall capital adequacy of banks and bank holding companies. Under these rules, banking institutions must maintain a ratio of at least 3% "Tier 1" capital to total weighted risk assets (net of goodwill, certain intangible assets, and certain deferred tax assets). Tier 1 capital includes common shareholders equity, noncumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries.

Both the risk-based capital guidelines and the leverage ratio are minimum requirements. They are applicable to all banking institutions unless the applicable regulating authority determines that different minimum capital ratios are appropriate for a particular institution based upon its circumstances. Institutions operating at or near these ratios are expected to have well-diversified risks, excellent control systems, high asset quality, high liquidity, good earnings, and in general must be considered strong banking organizations, rated composite 1 under the CAMELS rating

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system of banks or the BOPEC rating system of bank holding companies. The OCC requires that all but the most highly-rated banks and all banks with high levels of risk or experiencing or anticipating significant growth maintain ratios of at least 4% Tier 1 capital to total assets. The Federal Reserve Board also requires bank holding companies without a BOPEC-1 rating to maintain a ratio of at least 4% Tier 1 capital to total assets; furthermore, banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the 3% and 4% minimum levels.

The FDIC has also adopted a rule substantially similar to that issued by the Federal Reserve Board, that establishes a minimum leverage ratio of 3% and provides that FDIC-regulated banks with anything less than a CAMELS-1 rating must maintain a ratio of at least 4%. In addition, the FDIC rule specifies that a depository institution operating with less than the applicable minimum leverage capital requirement will be deemed to be operating in an unsafe and unsound manner unless the institution is in compliance with a plan, submitted to and approved by the FDIC, to increase the ratio to an appropriate level. Finally, the FDIC requires any insured depository institution with a leverage ratio of less than 2% to enter into and be in compliance with a written agreement between it and the FDIC (or the primary regulator, with the FDIC as a party to the agreement). Such an agreement should contemplate immediate efforts to acquire the capital required to increase the ratio to an appropriate level. Institutions that fail to enter into or maintain compliance with such an agreement will be subject to enforcement action by the FDIC.

The OCC's guidelines provide that intangible assets are generally deducted from Tier 1 capital in calculating a bank's risk-based capital ratio. However, certain intangible assets which meet specified criteria ("qualifying intangibles") are retained as a part of Tier 1 capital. The OCC has modified the list of qualifying intangibles, currently including only purchased credit card relationships and mortgage and non-mortgage servicing assets, whether originated or purchased and excluding any interest-only strips receivable related thereto. The OCC has amended its guidelines to increase the limitation on such qualifying intangibles from 50% to 100% of Tier 1 capital, of which no more than 25% may consist of purchased credit card relationships and non-mortgage servicing assets.

The risk-based capital guidelines of the OCC, the Federal Reserve Board and the FDIC explicitly include provisions regarding a bank's exposure to declines in the economic value of its capital due to changes in interest rates to ensure that the guidelines take adequate account of interest rate risk. Interest rate risk is the adverse effect that changes in market interest rates may have on a bank's financial condition and is inherent to the business of banking. The exposure of a bank's economic value generally represents the change in the present value of its assets, less the change in the value of its liabilities, plus the change in the value of its interest rate off-balance sheet contracts. Concurrently, the agencies issued a joint policy statement to bankers, effective June 26, 1996, to provide guidance on sound practices for managing interest rate risk. In the policy statement, the agencies emphasize the necessity of adequate oversight by a bank's Board of Directors and senior management and of a comprehensive risk management process. The policy statement also describes the critical factors affecting the agencies' evaluations of a bank's interest rate risk when making a determination of capital adequacy. The agencies' risk assessment approach used to evaluate a bank's capital adequacy for interest rate risk relies on a combination of quantitative and qualitative factors. Banks that are found to have high levels of exposure and/or weak management practices will be directed by the agencies to take corrective action.

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The OCC, the Federal Reserve Board and the FDIC have added a provision to the risk-based capital guidelines that supplements and modifies the usual risk-based capital calculations to ensure that institutions with significant exposure to market risk maintain adequate capital to support that exposure. Market risk is the potential loss to an institution resulting from changes in market prices. The modifications are intended to address two types of market risk: general market risk, which includes changes in general interest rates, equity prices, exchange rates, or commodity prices, and specific market risk, which includes particular risks faced by the individual institution, such as event and default risks. The provision defines a new category of capital, Tier 3, which includes certain types of subordinated debt. The provision automatically applies only to those institutions whose trading activity, on a worldwide consolidated basis, equals either (i) 10% or more of total assets or (ii) \$1 billion or more, although the agencies may apply the provision's requirements to any institution for which application of the new standard is deemed necessary or appropriate for safe banking practices. For institutions to which the modifications apply, Tier 3 capital may not be included in the calculation rendering the 8% credit risk ratio; the sum of Tier 2 and Tier 3 capital may not exceed 100% of Tier 1 capital; and Tier 3 capital is used in both the numerator and denominator of the normal risk-based capital ratio calculation to account for the estimated maximum amount that the value of all positions in the institution's trading account, as well as all foreign exchange and commodity positions, could decline within certain parameters set forth in a model defined by the statute. Furthermore, covered institutions must "backtest," comparing the actual net trading profit or loss for each of its most recent 250 days against the corresponding measures generated by the statutory model. Once per quarter, the institution must identify the number of times the actual net trading loss exceeded the corresponding measure and must then apply a statutory multiplication factor based on that number for the next quarter's capital charge for market risk.

### PROMPT CORRECTIVE ACTION

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"), provides for a number of reforms relating to the safety and soundness of the deposit insurance system, supervision of domestic and foreign depository institutions and improvement of accounting standards. One element of the FDICIA provides for the development of a regulatory monitoring system requiring prompt action on the part of banking regulators with regard to certain classes of undercapitalized institutions. While the FDICIA does not change any of the minimum capital requirements, it directs each of the federal banking agencies to issue regulations putting the monitoring plan into effect. The FDICIA creates five "capital categories" ("well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized") which are defined in the FDICIA and are used to determine the severity of corrective action the appropriate regulator may take in the event an institution reaches a given level of undercapitalization. For example, an institution which becomes "undercapitalized" must submit a capital restoration plan to the appropriate regulator outlining the steps it will take to become adequately capitalized. Upon approving the plan, the regulator will monitor the institution's compliance. Before a capital restoration plan will be approved, any entity controlling a bank (i.e., a holding company) must guarantee compliance with the plan until the institution has been adequately capitalized for four consecutive calendar quarters. The liability of the holding company is limited to the lesser of five percent of the institution's total assets or the amount which is necessary to bring the institution into compliance with all capital standards. In addition, "undercapitalized" institutions will be restricted from paying management fees, dividends and other capital distributions, will be subject to certain asset growth restrictions and will be required to obtain prior approval from the appropriate regulator to open new branches or

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expand into new lines of business.

As an institution's capital levels decline, the extent of action to be taken by the appropriate regulator increases, restricting the types of transactions in which the institution may engage and ultimately providing for the appointment of a receiver for certain institutions deemed to be critically undercapitalized.

The OCC, the Federal Reserve Board and the FDIC have established regulations which, among other things, prescribe the capital thresholds for each of the five capital categories established by the Act. The following table reflects the capital thresholds:

	Total Risk- Based Capital Ratio	Tier 1 Risk- Based Capital Ratio	Tier 1 Leverage Ratio
	-----	-----	-----
Well capitalized(1)	greater than or equal to 10%	greater than or equal to 6%	greater than or equal to 5%
Adequately capitalized(1)	greater than or equal to 8%	greater than or equal to 4%	greater than or equal 4% (2)
Undercapitalized(4)	less than 8%	less than 4%	less than 4% (3)
Significantly undercapitalized(4)	less than 6%	less than 3%	less than 3%
Critically undercapitalized	--	--	less than or equal to 2% (5)

- 
- (1) An institution must meet all three minimums.
  - (2) Greater than or equal to 3% for composite 1-rated institutions, subject to appropriate federal banking agency guidelines.
  - (3) Less than 3% for composite 1-rated institutions, subject to applicable federal banking agency guidelines.
  - (4) An institution falls into this category if it is below the specified capital level for any of the three capital measures.
  - (5) Ratio of tangible equity to total assets.

In addition, the Federal Reserve Board, the OCC and the FDIC have adopted regulations, pursuant to the FDICA, defining operational and managerial standards relating to internal controls, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. Both the capital standards and the safety and soundness standards which the FDICIA seeks to implement are designed to bolster and protect the deposit insurance fund.

### REPORTING REQUIREMENTS

As a national bank, the Bank is subject to examination and review by the OCC. This examination is typically completed on-site every eighteen months and is subject to off-site review at call. The OCC, at will, can access quarterly reports of condition, as well as such additional reports as may be required by the national banking laws.

As a bank holding company, the Company is required to file with the Federal Reserve Board an annual report of its operations at the end of each fiscal year and such additional information as the Federal Reserve Board may require pursuant to the Act. The Federal Reserve Board may also make examinations of the Company and each of its subsidiaries.

The scope of regulation and permissible activities of the Company and the Bank is subject to change by future federal and state legislation. In addition, regulators sometimes require higher capital levels on a case-by-

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case basis based on such factors as the risk characteristics or management of a particular institution. The Company and the Bank are not aware of any attributes of their operating plan that would cause regulators to impose higher requirements.

### ITEM 2. DESCRIPTION OF PROPERTY

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The Bank's main office is located at 301 North Broad Street in Thomasville, Georgia. The building contains approximately 8,500 square feet of finished space and also contains an additional 2,000 square feet of unfinished space which may be built out in the future should the Bank require additional space for expansion. The building contains a lobby, a vault, eight offices, four teller stations, three drive-in windows, a boardroom conference facility, a loan operations area, and an area for the Bank's bookkeeping operations.

The Bank also operates a branch office at 1320 Remington Avenue in Thomasville, Georgia. The branch facility consists of 2,400 square feet of space and contains of a lobby, four inside teller stations, three drive-up windows and a drive-up ATM.

### ITEM 3. LEGAL PROCEEDINGS

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There are no material pending legal proceedings to which the Company or the Bank is a party or of which any of their properties are subject; nor are there material proceedings known to the Company to be contemplated by any governmental authority; nor are there material proceedings known to the Company, pending or contemplated, in which any director, officer or affiliate or any principal security holder of the Company, or any associate of any of the foregoing is a party or has an interest adverse to the Company or the Bank.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

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No matter was submitted during the quarter ended December 31, 2001 to a vote of security holders of the Company.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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#### MARKET INFORMATION

During the period covered by this report and to date, there was no established public trading market for the Company's common stock.

#### HOLDERS OF COMMON STOCK

As of March 15, 2002, the number of holders of record of the Company's

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common stock was 716.

### DIVIDENDS

The following table sets forth the cash dividends declared by the Company on its common stock during the two years ended December 31, 2001:

Year ended December 31, 2001	Dividends
-----	-----
First quarter.....	--
Second quarter.....	\$488,250
Third quarter.....	--
Fourth quarter.....	--
Year ended December 31, 2000	Dividends
-----	-----
First quarter.....	--
Second quarter.....	\$414,000
Third quarter.....	--
Fourth quarter.....	--

Future dividend policy will depend on the Bank's earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors of the Company.

The Bank is restricted in its ability to pay dividends under the national banking laws and by OCC regulations. Pursuant to 12 U.S.C. Section 56, a national bank may not pay dividends from its capital. All dividends must be paid out of undivided profits, subject to other applicable provisions of law. Payments of dividends out of undivided profits is further limited by 12 U.S.C. Section 60(a), which prohibits a bank from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus not less than 1/10 of the Bank's net income of the preceding two consecutive half-year periods (in the case of an annual dividend). Pursuant to 12 U.S.C. Section 60(b), OCC approval is required if the total of all dividends declared by the Bank in any calendar year exceeds the total of its net income for that year combined with its retained net income for the preceding two years, less any required transfers to surplus.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

#### RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements, related notes and statistical information included elsewhere herein.

#### Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

For the year ended December 31, 2001, total assets grew by \$12,160,712 from \$141,107,664 at December 31, 2000 to \$153,268,376 at December 31, 2001. The growth in loans, the Company's primary source of income, outpaced the growth in assets, 24.4% to 8.6%. Despite the decline in economic activities during calendar year 2001, the Company was able to increase its loans and reduce net charge-offs, from \$254,650 for calendar year 2000 to \$215,288 for

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calendar year 2001.

To fund the growth in loans, the Company was able to increase its deposit base by \$6,819,262 and borrowings from the Federal Home Loan Bank by \$4,000,000. The growth in loans enabled the Company to increase its net interest income from \$5,203,226 in 2000 to \$5,331,206 in 2001, despite the severe declines in interest rates experienced in 2001. The Company's net operating expense increased 6.3% during 2001 as compared to 2000, from \$2,242,979 to \$2,383,759.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

For the year ended December 31, 2000, assets grew and earnings improved. Total assets increased by 25.7% from \$112,253,119 in 1999 to \$141,107,664 in 2000. Net loans increased from \$90,122,900 in 1999 to \$107,118,466 in 2000 due to strong loan demand coupled with a focused marketing effort. Net charge-offs for 2000 were \$254,650 compared to \$123,770 in 1999, an increase of \$130,880. At December 31, 2000, the Bank's loan loss reserve ratio was 1.26% of total loans, as compared to 1.23% at December 31, 1999.

Deposits increased during 2000 by \$27,742,509, or 28.3%, from \$98,151,286 to \$125,893,795. The majority of the increase was attributable to marketing efforts. The Bank's investment portfolio increased \$2,599,326, or 28.8%, from \$9,036,737 to \$11,636,063 during 2000.

The Bank's loan to deposit ratio was 85.1% for 2000, compared to 91.8% in 1999. Despite the decline in the above ratio, earnings increased significantly in 2000 because of higher levels of average earning assets, from \$92.5 million in 1999 to \$110.1 million in 2000. Non-interest expense increased by \$287,632 from \$2,605,370 for 1999 to \$2,893,002 for 2000. This increase was the result of a higher level of transactional activity in the Bank. Non-interest income increased by \$35,515 from \$614,508 for 1999 to \$650,023 for 2000. This increase was due to the increase in transactional volume. As a consequence of the increase in net interest margin and non-interest income and despite the increase in overhead expense, net income increased by \$296,026, or 24.2%, from \$1,222,542 in 1999 to \$1,518,568 in 2000.

### NET INTEREST INCOME

The Company's results of operations are determined by its ability to effectively manage interest income and expense, minimize loan and investment losses, generate non-interest income, and control non-interest expense. Since interest rates are determined by market forces and economic conditions beyond the control of the Company, the ability to generate net interest income is dependent upon the Company's ability to maintain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities, such as deposits and borrowings. Thus, net interest income is the key performance measure of income.

Presented below are various components of assets and liabilities, interest income and expense as well as their yield/cost for the period indicated.

Year Ended December 31, 2001 -----			Year Ended December 31, 2000 -----		
Average Balance	Interest Income/ Expense	Yield Cost	Average Balance	Interest Expense	Yield Cost
-----	-----	-----	-----	-----	-----

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(Dollars in Thousands)

Federal funds sold	\$ 5,133	\$ 191	3.71%	\$ 3,194	\$ 201	6.30%
Securities	9,076	588	6.48%	7,581	445	5.88%
Loans, net	119,552	9,760	8.16%	99,290	9,227	9.29%
	-----	-----		-----	-----	
Total earning assets	\$133,761	\$10,539	7.88%	\$110,065	\$9,873	8.97%
	=====	=====		=====	=====	
Interest bearing deposits	\$111,729	\$ 5,070	4.53%	\$ 90,198	\$4,510	5.00%
Other borrowings	2,923	138	4.73%	2,919	160	5.48%
	-----	-----		-----	-----	
Total interest-bearing liabilities	\$114,652	\$ 5,208	4.54%	\$ 93,117	\$4,670	5.02%
	=====	=====		=====	=====	
Net yield on earning assets			3.99%			4.72%

Net yield on interest-earning assets for the years ended December 31, 2001 and 2000 was 3.99% and 4.72%, respectively. The decline in net yield on earnings assets is attributed to the Federal Reserve Board's aggressive rate reductions during calendar year 2001. In response to the Federal Reserve Board's actions, and to stay competitive in the local banking market, the Company matched the Federal Reserve Board's rate reductions in a timely manner. The Company, however, was unable to reduce its cost of funds as deeply and as quickly as it needed to in order to keep its interest rate margin constant. For the year ended December 31, 2001, the yield on earning assets declined 109 basis points to 7.88% while the cost of funds declined 48 basis points to 4.54%.

NON-INTEREST INCOME

Non-interest income for the years ended December 31, 2001 and 2000 amounted to \$810,327 and \$650,023, respectively. As a percentage of average assets, non-interest income increased from .55% in 2000 to .57% in 2001. The increase in non-interest income as a percent of average earning assets during calendar year 2001 is due to management's efforts and focus to increase fee income in light of the decline in interest margins.

The following table summarizes the major components of non-interest income for the year ended December 31, 2001 and 2000.

	Year Ended December 31,	
	2001	2000
	-----	-----
Service fees on deposit accounts	\$547,325	\$497,589
Miscellaneous, other	263,002	152,434
	-----	-----
Total non-interest income	\$810,327	\$650,023
	=====	=====

NON-INTEREST EXPENSE

Non-interest expense increased from \$2,893,002 in 2000 to \$3,194,086 in 2001. As a percentage of total average assets, non-interest expenses decreased from 2.43% in 2000 to 2.23% in 2001. Management attributes the decrease in the ratio of non-interest expense to average assets to numerous programs and procedures undertaken during 2001 to attain higher operational efficiencies.



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	Year Ended December 31,	
	2001	2000
Non-Interest Expense		
Salaries and benefits	\$1,711,444	\$1,479,560
Data processing, ATM	157,617	183,553
Advertising and public relations	136,623	142,067
Depreciation and amortization	298,327	291,111
Other operating expenses	890,075	796,711
	-----	-----
Total non-interest expense	\$3,194,086	\$2,893,002
	=====	=====

### ALLOWANCE FOR LOAN LOSSES

During 2001, the allowance for loan losses increased from \$1,365,057 to \$1,564,769. During 2001, the allowance for loan losses as a percent of gross loans declined from 1.26% to 1.15%. Net charge-offs during 2001 amounted to \$215,288, or .18% of average loans. During 2000, the allowance for loan losses increased from \$1,109,707 to \$1,365,057. During 2000, the allowance for loan losses as a percent of gross loans increased from 1.23% to 1.26. Net charge-offs during 2000 amounted to \$254,650, or .26% of average loans. As of December 31, 2001, management considers the allowance for loan losses to be adequate to absorb future losses. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional provisions to the allowance will not be required.

### INTEREST RATE SENSITIVITY

Net interest income, the Company's primary source of earnings, fluctuates with significant interest rate movements. To lessen the impact of these margin swings, the balance sheet should be structured so that repricing opportunities exist for both assets and liabilities in roughly equivalent amounts at approximately the same time intervals. Imbalances in these repricing opportunities at any point in time constitute interest rate sensitivity.

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. The general objective of gap management is to manage rate sensitive assets and liabilities so as to reduce the impact of interest rate fluctuations on the net interest margin. Management generally attempts to maintain a balance between rate sensitive assets and liabilities as the exposure period is lengthened to minimize the Company's overall interest rate risk.

The asset mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources and liquidity. To effectively manage the liability mix of the balance sheet, there should be a focus on expanding the various funding sources. The interest rate sensitivity position at December 31, 2001 is presented in the following table. The difference between rate sensitive assets and rate sensitive liabilities, or the interest rate sensitivity gap, is shown at the bottom of the table. Since all interest rates and yields do not adjust at the same pace, the gap is only a general indicator of rate sensitivity.

After		
three	After	
months	six	
but	months	After one

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	Within three months -----	within six months -----	but within one year -----	year but within five years -----	After five years -----	Total -----
(In thousands, except ratios)						
<b>EARNING ASSETS</b>						
Loans	\$75,235	\$ 6,877	\$ 8,143	\$40,198	\$ 5,448	\$135,901
Available-for-sale securities	--	508	1,537	2,969	2,121	7,135
Federal funds sold	356	--	--	--	--	356
	-----	-----	-----	-----	-----	-----
Total earning assets	\$75,591	\$ 7,385	\$ 9,680	\$43,167	\$ 7,569	\$143,392
	=====	=====	=====	=====	=====	=====
<b>SUPPORTING SOURCE OF FUNDS</b>						
Interest-bearing demand deposits and savings	\$65,980	\$ --	\$ --	\$ --	\$ --	\$ 65,980
Certificates, less than \$100M	6,452	5,070	6,564	6,712	--	24,798
Certificates, \$100M and over	6,727	3,111	6,625	8,909	--	25,372
Borrowings	--	--	--	2,000	4,000	6,000
	-----	-----	-----	-----	-----	-----
Total interest- bearing liabilities	\$79,159	\$ 8,181	\$ 13,189	\$17,621	\$ 4,000	\$122,150
	=====	=====	=====	=====	=====	=====
Interest rate sensitivity gap	\$ (3,568)	\$ (796)	\$ (3,509)	\$25,546	\$ 3,569	\$21,242
Cumulative gap	\$ (3,568)	\$ (4,364)	\$ (7,873)	\$17,673	\$21,242	\$21,242
Interest rate sensitivity gap ratio	0.95	0.90	0.73	2.45	1.89	1.17
Cumulative interest rate sensitivity gap ratio	0.95	0.95	0.92	1.15	1.17	1.17

As evidenced by the table above, at December 31, 2001, the Company was liability sensitive up to one year, and asset sensitive thereafter. In a declining interest rate environment, a liability sensitive position (a gap ratio of less than 1.0) is generally more advantageous since liabilities are repriced sooner than assets. Conversely, in a rising interest rate environment, an asset sensitive position (a gap ratio over 1.0) is generally more advantageous as earning assets are repriced sooner than the liabilities. With respect to the Company, an increase in interest rates would reduce income for one year and increase income thereafter. Conversely, a decline in interest rates would increase income for one year and decrease income thereafter. This, however, assumes that all other factors affecting income remain constant.

As the Company continues to grow, management will continuously structure its rate sensitivity position to best hedge against rapidly rising or falling interest rates. The Bank's Asset/Liability Committee meets on a quarterly basis and develops management's strategy for the upcoming period. Such strategy includes anticipations of future interest rate movements.

**LIQUIDITY**

Liquidity represents the ability to provide steady sources of funds for loan commitments and investment activities, as well as to maintain sufficient

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funds to cover deposit withdrawals and payment of debt and operating obligations. These funds can be obtained by converting assets to cash or by attracting new deposits. The Company's primary source of liquidity is its ability to maintain and increase deposits through the Bank. Deposits grew by \$6.8 million during 2001 and by \$27.7 million in 2000.

Below are the pertinent liquidity balances and ratios at December 31, 2001 and 2000:

	December 31,	
	2001	2000
Cash and cash equivalents	\$ 6,579,878	\$17,115,813
Securities	7,135,162	11,636,063
CDs, over \$100,000 to total deposits ratio	19.1%	17.7%
Loan to deposit ratio	101.2%	85.1%
Brokered deposits	--	--

Cash and cash equivalents are the primary source of liquidity. At December 31, 2001, cash and cash equivalents amounted to \$6.6 million, representing 4.3% of total assets. Securities available for sale provide a secondary source of liquidity. Approximately \$2.0 million of the \$7.1 million in the Bank's securities portfolio is scheduled to mature in 2002.

At December 31, 2001, large denomination certificates accounted for 19.1% of total deposits. Large denomination CDs are generally more volatile than other deposits. As a result, management continually monitors the competitiveness of the rates it pays on its large denomination CDs and periodically adjusts its rates in accordance with market demands. Significant withdrawals of large denomination CDs may have a material adverse effect on the Bank's liquidity. Management believes that since a majority of the above certificates were obtained from Bank customers residing in Thomas County, Georgia, the volatility of such deposits is lower than if such deposits were obtained from depositors residing outside of Thomas County, as outside depositors are believed to be more likely to be interest rate sensitive.

Brokered deposits are deposit instruments, such as certificates of deposit, deposit notes, bank investment contracts and certain municipal investment contracts that are issued through brokers and dealers who then offer and/or sell these deposit instruments to one or more investors. As of December 31, 2001, the Company had no brokered deposits in its portfolio.

Management knows of no trends, demands, commitments, events or uncertainties that should result in or are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way in the foreseeable future.

### CAPITAL ADEQUACY

There are now two primary measures of capital adequacy for banks and bank holding companies: (i) risk-based capital guidelines and (ii) the leverage ratio.

Risk-based capital guidelines measure the amount of a bank's required capital in relation to the degree of risk perceived in its assets and its off-balance sheet items. Under the risk-based capital guidelines, capital is divided into two "tiers." Tier 1 capital consists of common shareholders' equity, non-cumulative and cumulative (bank holding companies only) perpetual preferred stock and minority interest. Goodwill is subtracted from the

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total. Tier 2 capital consists of the allowance for loan losses, hybrid capital instruments, term subordinated debt and intermediate term preferred stock. Banks are required to maintain a minimum risk-based capital ratio of 8.0%, with at least 4.0% consisting of Tier 1 capital.

The second measure of capital adequacy relates to the leverage ratio. The OCC has established a 3.0% minimum leverage ratio requirement. The leverage ratio is computed by dividing Tier 1 capital by total assets. For banks that are not rated CAMELS 1 by their primary regulator, the minimum leverage ratio should be 3.0% plus an additional cushion of at least 1 to 2 percent, depending upon risk profiles and other factors.

In 1996, a new rule was adopted by the Federal Reserve Board, the OCC and the FDIC that added a measure of interest rate risk to the determination of supervisory capital adequacy. In connection with this new rule, those three agencies issued a joint policy statement to bankers, effective June 26, 1996, to provide guidance on sound practices for managing interest rate risk. In the policy statement, the agencies emphasized the necessity of adequate oversight by a bank's board of directors and senior management and of a comprehensive risk management process. The policy statement also describes the critical factors affecting the agencies' evaluations of a bank's interest rate risk when making a determination of capital adequacy. The agencies' risk assessment approach used to evaluate a bank's capital adequacy for interest rate risk relies on a combination of quantitative and qualitative factors. Banks that are found to have high levels of exposure and/or weak management practices will be directed by the agencies to take corrective action.

The table below illustrates the Bank's and Company's regulatory capital ratios at December 31, 2001:

	December 31, 2001 -----	Minimum Regulatory Requirement -----
Bank		
----		
Tier 1 Capital	10.6%	4.0%
Tier 2 Capital	1.2%	N/A
	----	
Total risk-based capital ratio	11.8%	8.0%
	=====	
 Leverage ratio	 9.1%	 3.0%
	=====	
 Company - Consolidated		
-----		
Tier 1 Capital	11.2%	4.0%
Tier 2 Capital	1.3%	N/A
	----	
Total risk-based capital ratio	12.5%	8.0%
	=====	
 Leverage ratio	 9.7%	 3.0%
	=====	

The above ratios indicate that the capital positions of the Company and the Bank are sound and that the Company is well positioned for future growth.

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ITEM 7. FINANCIAL STATEMENTS  
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The following financial statements are filed as Exhibit 99.1 to this report and are incorporated herein by reference:

Independent Auditors' Report

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
-----  
FINANCIAL DISCLOSURE.  
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There has been no occurrence requiring a response to this Item.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
-----  
COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT  
-----

The information relating to directors and executive officers of the Company contained in the Company's definitive Proxy Statement to be delivered to shareholders in connection with the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION  
-----

The information relating to executive compensation contained in the Company's definitive Proxy Statement to be delivered to shareholders in connection with the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
-----

The information relating to security ownership of certain beneficial owners and management contained in the Company's definitive Proxy Statement to be delivered to shareholders in connection with the 2002 Annual Meeting of

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Shareholders is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
-----

The information relating to certain relationships and related transactions contained in the Company's definitive Proxy Statement to be delivered to shareholders in connection with the 2002 Annual Meeting of Shareholders is incorporated herein by reference.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K  
-----

- (a) EXHIBITS. The following exhibits are filed with or incorporated by reference into this report. The exhibits which are denominated by an asterisk (\*) were previously filed as a part of, and are hereby incorporated by reference from (i) the Registration Statement on Form SB-2 under the Securities Act of 1933 for the Company, Registration Number 33-91536 ("SB-2"); (ii) the Registration Statement on Form SB-2 under the Securities Act of 1933 for the Company, Registration Number 333-58545 ("1998 SB-2"); or (iii) the Company's Annual Report on Form 10-K for the year ended December 31, 2000 ("2000 10-K"). The exhibit numbers correspond to the exhibit numbers in the referenced document.

Exhibit No.	Description of Exhibit
-----	-----
*3.1 -	Articles of Incorporation of the Company (SB-2)
*3.2 -	Bylaws of the Company (SB-2)
*10.1 -	Employment Agreement dated January 14, 1998 between the Company and Stephen H. Cheney (1998 SB-2)
*10.2 -	Employment Agreement dated January 14, 1998 between the Company and Charles H. Hodges, III (1998 SB-2)
*10.3 -	2000 Directors' Compensation Plan (2000 10-K)
21.1 -	Subsidiaries of the Registrant
99.1 -	Financial Statements

- (b) REPORTS ON FORM 8-K. No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2001.

SIGNATURES  
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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THOMASVILLE BANCSHARES, INC.

Dated: March 29, 2002

By: /s/ Stephen H. Cheney

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-----  
 Stephen H. Cheney  
 President and Chief Executive Officer  
 (principal executive, financial and  
 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 the dates indicated:

Signature -----	Title -----	Date -----
/s/ Stephen H. Cheney ----- Stephen H. Cheney	President, Chief Executive Officer and Director	March 29, 2002
/s/ Charles H. Hodges, III ----- Charles H. Hodges, III	Executive Vice President and Director	March 29, 2002
/s/ Charles A. Balfour ----- Charles A. Balfour	Director	March 29, 2002
/s/ David A. Cone ----- David A. Cone	Director	March 29, 2002
----- Charles E. Hancock, M.D.	Director	March __, 2002
/s/ Harold L. Jackson ----- Harold L. Jackson	Director	March 29, 2002
----- David O. Lewis	Director	March __, 2002
----- Charles W. McKinnon, Jr.	Director	March __, 2002
----- Randall L. Moore	Director	March __, 2002
/s/ Diane W. Parker ----- Diane W. Parker	Director	March 29, 2002
/s/ Cochran A. Scott, Jr.	Director	March 29, 2002

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-----  
Cochran A. Scott, Jr.

/s/ Richard L. Singletary, Jr. Director

March 29, 2002

-----  
Richard L. Singletary, Jr.

EXHIBIT INDEX  
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Exhibit No -----	Description -----
21.1	Subsidiaries of Registrant
99.1	Financial Statements