THOMASVILLE BANCSHARES INC
Form 10KSB
March 30, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended December 31, 2003

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

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

None

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

Common Stock, $1.00 par value

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 X No

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. [ ]

Revenue for the fiscal year ended December 31, 2003: $12,519,111

The aggregate market value of the common stock of the Registrant held by nonaffiliates of the Registrant (1,108,287 shares) on March 24, 2004 was $24,936,457. 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.

The number of shares outstanding of the Registrant's common stock, as of March 24, 2004: 1,467,352 shares of $1.00 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with its 2004 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 ____

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 2004 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

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, with 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.

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.

On July 1, 2002, the Company acquired all of the issued and outstanding capital stock of Joseph Parker & Company, Inc. ("JPC"), a Georgia corporation and federally registered investment advisory firm located in Thomasville, Georgia. JPC provides investment management services primarily to individuals and businesses located in South Georgia and managed approximately $200 million in assets at December 31, 2003.

In September 2001, the Bank formed an operating subsidiary, TNB Financial Services, Inc., a Georgia corporation with trust powers. This subsidiary provides asset management services to clients located primarily in the Bank's market area. At December 31, 2003, TNB Financial Services had approximately $110 million in trust, agency and custody accounts.

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 Flowers Industries, Inc. 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 18,000 and 42,000, respectively. The median household income in Thomas County in 2003 was approximately $ 27,155 and the unemployment rate was 3.3% as of December 2003. 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 nine 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 sheet of the Company for the years ended December 31, 2003 and 2002. This presentation includes all major categories of interest-earning assets and interest-bearing liabilities:

AVERAGE CONSOLIDATED ASSETS

	Year Ended December 31, 2003	Year Ended December 31, 2002
	(In thousands)	
Cash and due from banks	$ 5,095	$ 4,115
Taxable securities	$ 8,022	$ 7,636
Federal funds sold	5,405	4,443
Net loans	166,639	146,018
Total interest-earning assets	$ 180,066	$ 158,097
Other assets	7,341	8,255
Total assets	$ 192,502	$ 170,467

AVERAGE CONSOLIDATED LIABILITIES AND STOCKHOLDERS' EQUITY

	Year Ended December 31, 2003	Year Ended December 31, 2002
Non-interest-bearing deposits	$ 18,031	$ 16,308
NOW and money market deposits	84,214	67,648
Savings deposits	5,298	4,425
Time deposits	51,253	53,534
Other borrowings	16,595	12,230
Other liabilities	706	1,698
Total liabilities	$ 176,097	$ 155,843
Stockholders' equity	16,405	14,624
Total liabilities and stockholders' equity	$ 192,502	$ 170,467

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, 2003			Year Ended December 31, 2002		
	Average Amount	Interest Earned/ Paid	Average Yield/ Rate	Average Amount	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Taxable securities	$ 8,022	$ 298	3.71%	$ 7,636	$ 403	5.28%

Federal funds sold	5,405	56	1.04%	4,443	78	1.76%
Net loans	166,639(1)	10,091(2)	6.06%	146,018(3)	9,628(4)	6.59%
Total earning assets	$180,066	$10,445	5.80%	$158,097	$10,109	6.39%
Liabilities						
NOW and money market deposits	$ 84,214	$ 1,180	1.40%	$ 67,648	$ 1,368	2.02%
Savings deposits	5,298	53	1.00%	4,425	66	1.49%
Time deposits	51,253	1,644	3.21%	53,534	2,290	4.28%
Other borrowings	16,595	697	4.20%	12,230	522	4.27%
Total interest bearing liabilities	$157,360	$ 3,574	2.27%	$137,837	$ 4,246	3.08%
Net yield on earning assets			3.82%			3.71%

(1) At December 31, 2003, $106 in loans were not accruing interest.
(2) Interest earned on net loans includes $423 in loan fees and loan service fees.
(3) At December 31, 2002, $188 in loans were not accruing interest.
(4) Interest earned on net loans includes $373 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, 2003 compared with Year Ended December 31, 2002			Year Ended December 31, 2002 compared with Year Ended December 31, 2001		
	Increase (decrease) due to:					
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest earned on:						
Tax-exempt securities	$ --	$ --	$ --	$ --	$ --	$ --
Taxable securities	21	(126)	(105)	(85)	(100)	(185)
Federal funds sold	25	(47)	(22)	(23)	(90)	(113)
Net loans	1,075	(612)	463	875	(1,007)	(132)
Total interest income	1,121	(785)	336	767	(1,197)	(430)

Interest paid on:						
NOW deposits and money market	$ 750	$ (938)	$ (188)	$ 481	$(1,090)	$ (690)
Savings deposits	19	(32)	(13)	58	(85)	(27)
Time deposits	(94)	(552)	(646)	145	(855)	(710)
Other borrowings	184	(9)	175	396	(12)	384
Total interest expense	859	(1,531)	(672)	803	(2,042)	(962)
Change in net interest income	$ 262	$ 746	$1,008	$ (313)	$ 845	$ 532

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 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:

	Year Ended December 31, 2003		Year Ended December 31, 2002	
Deposit Category	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	(Dollars in thousands)			
Non-interest-bearing demand deposits	$18,031	N/A	$16,308	N/A
NOW and money market deposits	84,214	1.40%	67,648	2.02%
Savings deposits	5,298	1.00%	4,425	1.49%
Time deposits	51,253	3.21%	53,534	4.28%

The following table indicates amounts outstanding of time certificates of deposit of $100,000 or more and respective maturities at December 31, 2003:

Time Certificates of Deposit	At December 31, 2003
	(In thousands)
3 months or less	$ 6,710
3-6 months	3,005
6-12 months	4,687
over 12 months	4,323
Total	$18,725

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LOAN PORTFOLIO

The Bank engages in a full complement of lending activities, including commercial/industrial, consumer and real estate loans. As of December 31, 2003, the Bank had a legal lending limit for unsecured loans of up to $2,690,000 to any one person.

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.

The Bank participates with other banks with respect to loans originated by the Bank 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 other loans.

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

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:

	As of	As of

Type of Loan	December 31, 2003	December 31, 2002
	(In thousands)	
Commercial, financial and agricultural	$ 43,179	$ 34,841
Real Estate - construction	9,834	11,588
Real Estate - mortgage	117,167	101,046
Installment and other loans to individuals	11,531	9,147
Subtotal	181,711	156,622
Less: allowance for possible loan losses	(1,961)	(1,722)
Total (net of allowances)	$179,750	$154,900

The following is a presentation of an analysis of maturities of certain loans as of December 31, 2003:

Type of Loan	Due 1 Year of Less	Due After 1 to 5 Years	Due After 5 Years	Total
		(In thousands)		
Commercial, financial and agricultural	$33,652	$ 6,480	$ --	$32,525
Real Estate - construction	8,612	4,269	--	20,488
Total	$42,264	$10,749	$ --	$53,013

For the above loans, the following is a presentation of an analysis of sensitivities to changes in interest rates as of December 31, 2003:

Interest Category	Due 1 Year of Less	Due After 1 to 5 Years	Due After 5 Years	Total
		(In thousands)		
Predetermined interest rate	$26,045	$ 6,480	$ --	$32,525
Floating interest rate	16,219	4,269	--	20,488
Total	$42,262	$10,749	$ --	$53,013

At December 31, 2003 and 2002, 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 $2,922,261 and $3,650,260, respectively. The average recorded investment in impaired loans amounted to approximately $3,332,748 and $4,329,882 for 2003 and 2002, respectively. The allowance related to impaired loans amounted to approximately $340,885 and $320,451 at December 31, 2003 and 2002, respectively. The balance of the allowance in excess of the above specific reserves is available to absorb the inherent losses of all other loans. Interest income recognized on impaired loans for 2003 and 2002 amounted to $184,326 and $269,985, respectively. The amount of interest recognized on impaired loans using the cash method of accounting was not material for 2003 and 2002. Loans on non-accrual status at December 31, 2003 and 2002 had outstanding balances of $105,752 and $188,122, respectively. Interest recognized on non-accruing loans at December 31, 2003 and 2002 was $4,228 and $8,112, respectively. The Bank has no commitments to lend additional funds to borrowers whose loans have been modified.

As of December 31, 2003, 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, 2003, eight loans with an aggregate principal of $70,613 were over 90 days past due but still accruing interest. As of December 31, 2003, one loan with an aggregate principal balance of $151,386 was considered to be "troubled-debt restructured," and seven loans with an aggregate balance of $105,752 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:

ANALYSIS OF THE ALLOWANCE FOR POSSIBLE LOAN LOSSES

	Year Ended December 31, 2003	Year Ended December 31, 2002
	(Dollars in thousands)	
Balance at beginning of period	$1,722	$1,565
Charge-offs:		
Real estate loans	(120)	(51)
Installments and other loans to individuals	(65)	(55)
Commercial loans	(7)	(39)
Recoveries	11	62
Net charge-offs	(181)	(83)
Additions charged to operations	420	240
Balance at end of period	$1,961	$1,722
Ratio of net charge-offs during the period to average loans outstanding during the period	.11%	.06%

At December 31, 2003 and 2002 the allowance was allocated as follows:

	At December 31, 2003		At December 31, 2002	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans

	(Dollars in thousands)			
Commercial, Financial and Agricultural	$ 590	23.8%	$ 490	22.2%
Real Estate - Construction	150	5.4%	190	7.4%
Real Estate - Mortgage	990	64.5%	870	64.5%
Installment and Other Loans to Individuals	220	6.3%	150	5.9%
Unallocated	11	N/A	22	N/A
Total	$1,961	100%	$1,722	100%

LOAN LOSS RESERVE

As of December 31, 2003, 23.8% of outstanding loans were in the category of commercial loans, which includes commercial, industrial and agricultural loans. Although commercial loans are generally considered by management as having greater risk than other categories of loans in the Bank's loan portfolio, 93.5% of these commercial loans at December 31, 2003 were made on a secured basis. Management believes that the secured condition of the preponderant portion of 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, 2003, 88.3% 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 64.5% of outstanding loans at December 31, 2003. 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, 2003, investment securities comprised approximately 4.6% of the Bank's assets and net loans comprised approximately 87.5% 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, 2003 and 2002 were categorized as available for sale.

	December 31, 2003	December 31, 2002
	(In thousands)	
Obligations of U.S. Treasury and other U.S. Agencies	$7,691	$6,128
Corporate equity	240	240
Other securities	400	450
Federal Reserve Bank and Federal Home Loan Bank Stock	1,080	840
Total	$9,411	$7,658

The following table indicates as of December 31, 2003 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:

	At December 31, 2003	
	Amount	Weighted Average Yield
	(Dollars in thousands)	
Obligations of U.S. Treasury and other U.S. Agencies:		
0 - 1 year	$2,364	2.1%
Over 1 through 5 years	3,920	3.5%
Over 5 through 10 years	1,407	4.4%
Other securities:		
0 - 1 year	--	
Over 1 through 5 years	--	
Over 5 through 10 years	400	9.5%
Federal Reserve Bank and Federal Home Loan Bank Stock, no maturity	1,080	4.9%
Corporate equity, no maturity	240	1.0%
Total	$9,411	3.6%

RETURN ON EQUITY AND ASSETS

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

	Year Ended December 31, 2003	Year Ended December 31, 2002

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Return on average assets	1.02%	1.03%
Return on average equity	11.9 %	12.0 %
Average equity to average assets ratio	8.5 %	8.6 %
Dividend payout ratio	33.2 %	32.5 %

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 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.

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, 2003, the Bank had outstanding participations totaling $10,311,103.

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, 2004, the Bank employed 43 persons on a full-time basis, including 15 officers, and 3 persons on a part-time basis.

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 Company's common stock.

SUPERVISION AND REGULATION

The following discussion is only intended to provide brief summaries of significant statutes and regulations that affect the banking industry and therefore is not a complete description of those statutes and regulations. Changes in applicable laws or regulations, and in the policies of regulators, may have a material effect on the Company's business and prospects. Management cannot accurately predict the nature or extent of the effects on the Company's business and earnings that fiscal or monetary policies, or new federal or state laws, may have in the future.

THE COMPANY

GENERAL. As a bank holding company, the Company is subject to the Bank Holding Company Act of 1956, which places the Company under the supervision of the Board of Governors of the Federal Reserve. The Company must file annual reports with the Federal Reserve and must provide it with such additional information as it may require. In addition, the Federal Reserve periodically examines the Company and the Bank.

BANK HOLDING COMPANY REGULATION. In general, the Bank Holding Company Act limits bank holding company business to owning or controlling banks and engaging in other banking-related activities. Bank holding companies must obtain the Federal Reserve Board's approval before they:

* acquire direct or indirect ownership or control of any voting shares of any bank that results in total ownership or control, directly or indirectly, of more than 5% of the voting shares of such bank;
* merge or consolidate with another bank holding company; or
* acquire substantially all of the assets of any additional banks.

Subject to certain state laws, a bank holding company that is adequately capitalized and adequately managed may acquire the assets of both in-state and out-of-state banks. Under the Gramm-Leach-Bliley Act, a bank holding company meeting certain qualifications may apply to the Federal Reserve Board to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain activities deemed financial in nature, such as securities brokerage and insurance underwriting.

With certain exceptions, the Bank Holding Company Act prohibits bank holding companies from acquiring direct or indirect ownership or control of voting shares in any company that is not a bank or a bank holding company unless the Federal Reserve Board determines such activities are incidental or closely related to the business of banking.

The Change in Bank Control Act of 1978 requires a person (or group of persons acting in concert) acquiring "control" of a bank holding company to provide the Federal Reserve Board with 60 days' prior written notice of the proposed acquisition. Following receipt of this notice, the Federal Reserve Board has 60 days (or up to 90 days if extended) within which to issue a notice disapproving the proposed acquisition. In addition, any "company" must obtain the Federal Reserve Board's approval before acquiring 25% (5% if the "company" is a bank holding company) or more of the outstanding shares or otherwise obtaining control over the Company.

FINANCIAL SERVICES MODERNIZATION. The laws and regulations that affect banks and bank holding companies recently underwent significant changes as a result of the Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act of 1999. Generally, the act (i) repealed the historical restrictions on preventing banks from affiliating with securities firms, (ii) provided a uniform framework for the activities of banks, savings institutions and their holding companies, (iii) broadened the activities that may be conducted by national banks and banking subsidiaries of bank holding companies, (iv) provided an enhanced framework for protecting the privacy of consumers' information and (v) addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

Bank holding companies may now engage in a wider variety of financial activities than permitted under previous law, particularly insurance and securities activities. In addition, in a change from previous law, a bank holding company may be owned, controlled or acquired by any company engaged in financially related activities, so long as such company meets certain regulatory requirements. The act also permits national banks (and certain state banks), either directly or through operating subsidiaries, to engage in certain non-banking financial activities.

TRANSACTIONS WITH AFFILIATES. The Company and the Bank are deemed affiliates within the meaning of the Federal Reserve Act, and transactions between affiliates are subject to certain restrictions. Generally, the Federal Reserve Act limits the extent to which a financial institution or its subsidiaries may engage in "covered transactions" with an affiliate. It also requires all transactions with an affiliate, whether or not "covered transactions," to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

TIE-IN ARRANGEMENTS. The Company and the Bank cannot engage in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor the Bank may condition an extension of credit on either a requirement that the customer obtain additional services provided by either of the Company or the Bank, or an agreement by the customer to refrain from obtaining other services from a competitor. The Federal Reserve Board has adopted exceptions to its anti-tying rules that allow banks greater flexibility to package products with their affiliates. These exceptions were designed to enhance competition in banking and non-banking products and to allow banks and their affiliates to provide more efficient, lower cost service to their customers.

STATE LAW RESTRICTIONS. As a Georgia business corporation, the Company may be subject to certain limitations and restrictions under applicable Georgia corporate law. In addition, although the Bank is a national bank and therefore primarily regulated by the Office of the Comptroller of the Currency, Georgia banking law may restrict certain activities of the Bank.

THE BANK

GENERAL. The Bank, as a national banking association, is subject to regulation and examination by the OCC. The federal laws that apply to the Bank regulate, among other things, the scope of its business, its investments, its reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not to protect shareholders of the Company or the Bank.

COMMUNITY REINVESTMENT ACT. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their jurisdiction, the Office of the Comptroller of the Currency evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those banks. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

INSIDER CREDIT TRANSACTIONS. Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders, or any related interests of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with persons not covered above and who are not employees. Also, such extensions of credit must not involve more than the normal risk of repayment or present other unfavorable features.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 each federal banking agency has prescribed, by regulation, noncapital safety and soundness standards for institutions under its authority. These standards cover internal controls, information systems, and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. Management believes that the Bank meets all such standards.

INTERSTATE BANKING AND BRANCHING. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits nationwide interstate banking and branching under certain circumstances. This legislation generally authorizes interstate branching and relaxes federal law restrictions on interstate banking. Currently, bank holding companies may purchase banks in any state, and states may not prohibit such purchases. Additionally, banks are permitted to merge with banks in other states as long as the home state of neither merging bank has "opted out." The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Under recent Federal Deposit Insurance Corporation regulations, banks are prohibited from using their interstate branches primarily for deposit production. The Federal Deposit Insurance Corporation has accordingly implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Georgia has "opted in" to the Interstate Act and allows in-state banks to merge with out-of-state banks subject to certain requirements. Georgia law generally authorizes the acquisition of an in-state bank by an out-of-state bank by merger with a Georgia financial institution that has been in existence for at least 3 years prior to the acquisition. With regard to interstate bank branching, out-of-state banks that do not already operate a branch in Georgia may not establish de novo branches in Georgia.

DEPOSIT INSURANCE. The deposits of the Bank are currently insured to a maximum of $100,000 per depositor through a fund administered by the Federal Deposit Insurance Corporation. All insured banks are required to pay semi-annual deposit insurance premium assessments to the Federal Deposit Insurance Corporation.

CAPITAL ADEQUACY. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. If capital falls below minimum guideline levels, the holding company or bank may be denied approval to acquire or establish additional banks or nonbank businesses or to open new facilities.

The Federal Deposit Insurance Corporation and Federal Reserve use risk-based capital guidelines for banks and bank holding companies. These are designed to make such capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. The guidelines are minimums, and the Federal Reserve has noted that bank holding companies contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain ratios well in excess of the minimum. The current guidelines require all bank holding companies and federally-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier 1 capital. Tier 1 capital for bank holding companies includes common shareholders' equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less intangibles except as described above.

The Federal Reserve also employs a leverage ratio, which is Tier 1 capital as a percentage of total assets less intangibles, to be used as a supplement to risk-based guidelines. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The Federal Reserve requires a minimum leverage ratio of 3%. However, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, the Federal Reserve expects an additional cushion of at least 1% to 2%.

The Federal Deposit Insurance Corporation Improvement Act created a statutory framework of supervisory actions indexed to the capital level of the individual institution. Under regulations adopted by the Federal Deposit Insurance Corporation, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier 1 risk-based capital ratio, and leverage ratio, together with certain subjective factors. Institutions which are deemed to be "undercapitalized" depending on the category to which they are assigned are subject to certain mandatory supervisory corrective actions.

RECENT SIGNIFICANT CHANGES IN BANKING LAWS AND REGULATIONS

SARBANES-OXLEY ACT OF 2002. On July 30, 2002, the Sarbanes-Oxley Act of 2002 (the "Act") to address corporate and accounting fraud. The Act establishes a new accounting oversight board that will enforce auditing standards and restricts the scope of services that accounting firms may provide to their public company audit clients. Among other things, it also (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission (the "SEC"); (ii) imposes new disclosure requirements regarding internal controls, off-balance-sheet transactions, and pro forma (non-GAAP) disclosures; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by certain public companies; and (iv) requires companies to disclose whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one "audit committee financial expert."

The Act requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings. To deter wrongdoing, the Act, (i) subjects bonuses issued to top executives to disgorgement if a restatement of a company's financial statements was due to corporate misconduct; (ii) prohibits an officer or director from misleading or coercing an auditor; (iii) prohibits insider trades during pension fund "blackout periods"; (iv) imposes new criminal penalties for fraud and other wrongful acts; and (v) extends the period during which certain securities fraud lawsuits can be brought against a company or its officers.

ITEM 2. DESCRIPTION OF PROPERTY

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.

JPC leases an approximately 2,800 square foot office space located in Thomasville, Georgia.

TNB Financial Services owns an approximately 3,000 square foot office building located adjacent to the main office of the Bank.

The Company does not own or lease any real property.

ITEM 3. LEGAL PROCEEDINGS

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

No matter was submitted during the quarter ended December 31, 2003 to a vote of security holders of the Company.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

The Company's common stock is quoted in the "pink sheets." The following table sets forth the high and low bid prices for the Company's common stock during 2002, as reported in the pink sheets. These prices reflect inter-dealer quotations without retail mark-ups, markdowns, or commissions and may not necessarily represent actual transactions.

	High	Low
2002		
First quarter	$17.00	$14.50
Second quarter	22.00	15.00
Third quarter	21.25	18.00
Fourth quarter	22.00	18.00
2003		
First quarter	$22.00	$19.00
Second quarter	22.00	19.50
Third quarter	22.00	20.00
Fourth quarter	22.00	21.00

HOLDERS OF COMMON STOCK

As of December 31, 2003, the number of holders of record of the Company's common stock was 675.

DIVIDENDS

The Company paid a cash dividend of $0.40 per share in June 2002 and a cash dividend of $0.45 per share in June 2003. 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 and related notes included elsewhere herein.

OVERVIEW

The Company's results of operations are largely dependent on interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, borrowings, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes, and the relative levels of interest rates and economic activity.

For 2003, the Company anticipated a higher net interest income as the Bank continued to expand its base of earning assets. While it was evident early on that interest rates would not increase, management was confident in its ability to reduce the Bank's cost of funds faster than the reduction in the yield on earning assets. This coupled with an expansion in earning assets would compensate for the anticipated compression in the net yield on earning assets.

To mitigate the impact of a declining interest rate environment, the Company focused on non-interest income opportunities, especially fee income from JPC and TNBF. The Company also focused on reducing its cost of funds as rates continued to decline. Management believes that it was successful on both fronts, as fee income increased by $709,000 to $2,075,000, and interest expense was reduced by $672,000 to $3,574,000.

Looking ahead to 2004, the Company expects continued compression in the net yield on earning assets. Management plans to mitigate the impact of the continued compression with prudent asset growth, non-interest income growth generation, and expense control. Additionally, there are a number of initiatives that are expected to contribute to 2004 and beyond. These initiatives include:

* combining the operations of JPC with TNBF to achieve higher productivity and lower costs; and
* investment in additional new business development capabilities and process improvements within the lending area.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the most critical accounting policies upon which its financial condition depends, and which involve the most complex or subjective decisions or assessments are as follows:

ALLOWANCE FOR LOAN LOSSES. Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Company's allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. Management uses historical information to assess the adequacy of the allowance for loan losses as well as the prevailing business environment; as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charge-off and reduced by loans charged-off. For a full discussion of the Company's methodology of assessing the adequacy of the allowance for loan losses, see the "Allowance for Loan Losses" discussion below, as well as Note 2 in the Company's consolidated financial statements included in this Report.

INCOME TAXES. The Company estimates income tax expense based on the amount it expects to owe various tax authorities. Taxes are discussed in more detail in Note 13 of the consolidated financial statements. Accrued taxes represent the net estimated amount due to or to be received from taxing authorities. In estimating accrued taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of its tax position. Although the Company uses available information to record accrued income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws influencing the Company's overall tax position.

VALUATION OF GOODWILL/INTANGIBLE ASSETS AND ANALYSIS FOR IMPAIRMENT. In its endeavor to enhance shareholders' value, the Company acquired Joseph Parker & Co., Inc. ("JPC") in July 2002. JPC is a well established money management firm with approximately $200 million under management. The Company utilized the purchase method to reflect the acquisition of JPC. Accordingly, the Company was required to record assets acquired and liabilities assumed at their fair value which is an estimate determined by the use of internal or other valuation techniques. These valuation estimates result in goodwill and other intangible assets. Goodwill is subject to ongoing periodic impairment tests and is evaluated using various fair value techniques including multiples of price/equity and price/earnings ratios.

RESULTS OF OPERATIONS

For 2003, total assets grew by $20.1 million to $205.5 million. Cash and cash equivalents decreased by $7.0 million to $6.5 million; securities grew by $1.8 million to $9.4 million; loans expanded by $24.8 million to $179.7 million; and all remaining assets grew by $.5 million to $9.8 million.

To fund the growth in assets, the Company was able to increase deposits by $11.6 million to $165.5 million; borrowings grew by $4.7 million to $19.9 million; federal funds purchased grew by $2.3 million to $2.3 million; and the equity accounts expanded by $1.5 million to $17.3 million.

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, 2003			Year Ended December 31, 2002		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Federal funds sold	$ 5,405	$ 56	1.04%	$ 4,443	$ 78	1.76%
Securities	8,022	298	3.71%	7,636	403	5.28%
Loans, net	166,639	10,091	6.06%	146,018	9,628	6.59%
Total earning assets	$180,066	$10,445	5.80%	$158,097	$10,109	6.39%
Interest bearing deposits	$140,765	$ 2,877	2.04%	$125,607	$ 3,724	2.96%
Other borrowings	16,595	697	4.20%	12,230	522	4.27%
Total interest -bearing liabilities	$157,360	$ 3,574	2.27%	$137,837	$ 4,246	3.08%
Net yield on earning assets			3.82%			3.71%

Net yield on interest-earning assets for 2003 and 2002 was 3.82% and 3.71%, respectively. The Company was able to increase its net yield on earning assets despite a general decline in the interest rate environment. This was achieved primarily due to a robust loan demand, and management's ability to reduce the cost of funds faster than the reduction in the yield on earning assets.

NON-INTEREST INCOME

Non-interest income for 2003 and 2002 amounted to $2,074,606 and $1,365,950, respectively. As a percent of average assets, non-interest income increased from .80% in 2002 to 1.07% in 2003. The increase in non-interest income is primarily due to fee income generated by JPC for money management services, as well as fee income generated by TNBF for financial planning, trusts, wills, estates, and investments. The Bank was also able to increase service charges and other fees on deposit accounts.

The following table summarizes the major components of non-interest income for the years ended December 31, 2003 and 2002.

	Year ended December 31, 2003	2002
	(In thousands)	
Service fees on deposit accounts	$ 918	$ 497
Miscellaneous, other	662	541
Miscellaneous, other	495	328
Total non-interest income	$ 2,075	$ 1,366

NON-INTEREST EXPENSE

Non-interest expense increased from $4,388,752 in 2002 to $5,499,396 in 2003. As a percent of total average assets, non-interest expense increased from 2.57% in 2002 to 2.86% in 2003. The increase is primarily due to costs associated with the expansion of TNBF and JPC. Management expects these costs to stabilize in 2004.

The following table summarizes the major components of non-interest expense for 2003 and 2002.

	2003	2002
	(In thousands)	
Salaries and benefits	$ 3,035	$ 2,261
Data processing, ATM	193	201
Advertising and public relations	243	204
Depreciation, amortization	430	353
Other operating expenses	1,598	1,370
Total non-interest expense	$ 5,499	$ 4,389

ALLOWANCE FOR LOAN LOSSES

During 2003, the allowance for loan losses increased from $1,722,097 to $1,960,822. As a percent of gross loans, the allowance for loan losses declined from 1.10% in 2002 to 1.08% in 2003. Net charge-offs during 2003 amounted to $181,275, or .11% of average loans. During 2002, the allowance for loan losses increased from $1,564,769 to $1,722,097. As a percent of gross loans, the allowance for loan losses declined from 1.15% in 2001 to 1.10% in 2002. Net charge-offs during 2002 amounted to $83,000, or .06% of average loans. As of December 31, 2003, 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 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, 2003 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.

	Within three months	After three months but within six months	After six months but within one year	After one year but within five years	After five years	Total
	(Dollars in thousands)					
EARNING ASSETS						
Loans	$ 81,373	$ 16,005	$ 10,048	$70,646	$ 3,639	$181,711
Available-for-sale securities	--	709	1,656	3,919	3,127	9,411
Federal funds sold	390	--	--	--	--	390
Total earning assets	$ 81,763	$ 16,714	$ 11,704	$74,565	$ 6,766	$191,512
SUPPORTING SOURCE OF FUNDS						
Federal funds purchased	$ 2,264	$ --	$ --	$ --	$ --	$ 2,264
Interest-bearing demand deposits and savings	93,082	--	--	--	--	93,082
Certificates, less than $100M	14,115	7,388	4,822	5,375	--	31,700
Certificates, $100M and over	6,710	3,110	4,187	4,718	--	18,725
Borrowings	83	357	167	6,442	12,845	19,894
Total interest-bearing liabilities	$116,254	$ 10,855	$ 9,176	$16,535	$12,845	$165,665
Interest rate sensitivity gap	$(34,491)	$ 5,859	$ 2,528	$58,030	$(6,079)	$25,847
Cumulative gap	$(34,491)	$(28,632)	$(26,104)	$31,926	$25,847	$25,847
Interest rate sensitivity gap ratio	0.70	1.54	1.28	4.51	0.53	1.16
Cumulative interest rate sensitivity gap ratio	0.70	0.77	0.81	1.21	1.16	1.16

As evidenced by the table above, at December 31, 2003, 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. This 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 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 $11.6 million during 2003 and by $21.2 million in 2002.

Below are the pertinent liquidity balances and ratios at December 31, 2003 and 2002:

	December 31, 2003	December 31, 2002
	(Dollars in thousands)	
Cash and cash equivalents	$ 6,531	$13,542
Securities	9,411	7,658
CDs, over $100,000 to total deposits ratio	11.3%	14.1%
Loan to deposit ratio	108.6%	100.6%
Brokered deposits	--	--

Cash and cash equivalents are the primary source of liquidity. At December 31, 2003, cash and cash equivalents amounted to $6.5 million, representing 3.2% of total assets. Securities available for sale provide a secondary source of liquidity. At December 31, 2003, total securities amounted to $9.4 million, representing 4.6% of total assets.

At December 31, 2003, large denomination certificates accounted for 11.3% of total deposits. As a percent of total deposits, large denomination certificates declined from 14.1% in 2002 to 11.3% in 2003. 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 large denomination CDs 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, 2003, 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.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, the Bank enters into certain off-balance sheet transactions that are connected with meeting the financing needs of its customers. These off-balance sheet arrangements consist of letters of credit and commitments to extend credit.

At December 31, 2003 and 2002, the Company had unused loan commitments of approximately $21.2 million and $17.6 million, respectively. Additionally, standby letters of credit of approximately $2,732,500 and $988,000 were outstanding at December 31, 2003 and 2002, respectively. The majority of these commitments are collateralized by various assets. No material losses are anticipated as a result of these transactions.

CAPITAL ADEQUACY

There are 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 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.

The table below illustrates the Bank's and Company's regulatory capital ratios at December 31, 2003:

	December 31, 2003	Minimum Regulatory Requirement
Bank		
Tier 1 Capital	9.9%	4.0%
Tier 2 Capital	1.3%	N/A
Total risk-based capital ratio	11.2%	8.0%
Leverage ratio	8.1%	3.0%
Company - Consolidated		
Tier 1 Capital	10.5%	4.0%
Tier 2 Capital	1.2%	N/A
Total risk-based capital ratio	11.7%	8.0%
Leverage ratio	8.6%	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.

ITEM 7. FINANCIAL STATEMENTS

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, 2003 and 2002

Consolidated Statements of Income for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There has been no occurrence requiring a response to this Item.

ITEM 8A. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the Company's principal executive, financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures as of December31, 2003. Based on that evaluation, the Company's management, including the Chief Executive Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its subsidiaries required to be included in the Company's Securities and Exchange Commission's filings. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date management carried out this evaluation.

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 2004 Annual Meeting of Shareholders (the "2004 Proxy Statement") is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information relating to executive compensation contained in the 2004 Proxy Statement 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 2004 Proxy Statement is incorporated herein by reference.

With the exception of the equity compensation plan information provided below, the information relating to this item contained in the 2004 Proxy Statement is incorporated herein by reference.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans not approved by security holders (employee stock options)	9,600	$16.77	0
Employee compensation plans approved by security holders	0	-	0
Total	9,600	$16.77	0

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information relating to certain relationships and related transactions contained in the 2004 Proxy Statement 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)
14.1	-	Code of Ethics
21.1	-	Subsidiaries of the Registrant
31.1	-	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	-	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	-	Consolidated 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, 2003.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information relating to principal accountant fees and services contained in the 2004 Proxy Statement is incorporated herein by reference.

SIGNATURES

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 25, 2004

By: /s/ Stephen H. Cheney

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 25, 2004
/s/ Charles H. Hodges, III Charles H. Hodges, III	Executive Vice President and Director	March 25, 2004
/s/ Charles A. Balfour Charles A. Balfour	Director	March 25, 2004
/s/ David A. Cone David A. Cone	Director	March 25, 2004
/s/ Charles E. Hancock, M.D. Charles E. Hancock, M.D.	Director	March 25, 2004
/s/ Harold L. Jackson Harold L. Jackson	Director	March 25, 2004
/s/ David O. Lewis David O. Lewis	Director	March 25, 2004
/s/ Charles W. McKinnon, Jr. Charles W. McKinnon, Jr.	Director	March 25, 2004
/s/ Randall L. Moore Randall L. Moore	Director	March 25, 2004
/s/ Diane W. Parker Diane W. Parker	Director	March 25, 2004
/s/ Cochran A. Scott, Jr. Cochran A. Scott, Jr.	Director	March 25, 2004
/s/ Richard L. Singletary, Jr. Richard L. Singletary, Jr.	Director	March 25, 2004

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