

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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.

In September 2001, the Bank formed an operating subsidiary, TNB Financial Services, Inc., a Georgia corporation with trust powers. On March 31, 2004, TNB Financial Services was liquidated, with all of its operations being transferred to TNB Trust Services, a division of the Bank.

In July 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. In July 2004, JPC's name was changed to TNB Financial Services, Inc. ("TNBFS").

At December 31, 2004, the Bank and TNBFS together managed approximately \$302 million in trust, agency and custody accounts.

2

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.

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, and 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.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

3

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, 2004 and 2003. This presentation includes all major categories of interest-earning assets and interest-bearing liabilities:

	Year Ended December 31,		
	2004	2003	2002
	(In thousands)		
AVERAGE CONSOLIDATED ASSETS			
Cash and due from banks	\$ 5,831	\$ 5,095	\$ 4,115
Taxable securities	12,176	8,022	7,636
Federal funds sold	3,929	5,405	4,443
Net loans	189,927	166,639	146,018
Total interest-earning assets	206,032	\$ 180,066	\$ 158,097
Other assets	9,835	7,341	8,255
Total assets	\$ 221,698	\$ 192,502	\$ 170,467

AVERAGE CONSOLIDATED LIABILITIES AND STOCKHOLDERS' EQUITY

Non-interest-bearing deposits	\$ 21,505	\$ 18,031	\$ 16,308
NOW and money market deposits	94,840	84,214	67,648
Savings deposits	6,510	5,298	4,425
Time deposits	54,182	51,253	53,534
Other borrowings	25,711	16,595	12,230
Other liabilities	943	706	1,698
Total liabilities	\$ 203,691	\$ 176,097	155,843
Stockholders' equity	18,007	16,405	14,624
Total liabilities and stockholders' equity	\$ 221,698	\$ 192,502	\$ 170,467

4

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, 2004			Year Ended December 31, 2003			Year Ended Dec	
Average Amount	Interest Earned/ Paid	Average Yield/ Rate	Average Amount	Interest Earned/ Paid	Average Yield/ Rate	Average Amount	Inte Ear Pa
-----	-----	-----	-----	-----	-----	-----	-----

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

	-----	-----	-----	-----	-----	-----
Interest paid on:						
NOW deposits						
and money market	\$ 151	\$ 42	\$ 193	\$ 750	\$ (938)	\$ (188)
Savings deposits	12	--	12	19	(32)	(13)
Time deposits	100	(378)	(278)	(94)	(552)	(646)
Other borrowings	269	(94)	175	184	(9)	175
	-----	-----	-----	-----	-----	-----
Total interest expense	532	(430)	102	859	(1,531)	(672)
	-----	-----	-----	-----	-----	-----
Change in net						
interest income	\$ 995	\$ 275	\$1,270	\$ 262	\$ 746	\$1,008
	=====	=====	=====	=====	=====	=====

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.

6

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, 2004		Year Ended December 31, 2003		Year Ended December 31, 2002	
Deposit Category	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid	Average Amount	Average Rate Paid
	-----	-----	-----	-----	-----	-----
	(Dollars in thousands)					
Non-interest-bearing						
demand deposits	\$21,505	N/A	\$18,031	N/A	\$16,308	N/A
NOW and money						
market deposits	94,840	1.45%	84,214	1.40%	67,648	2.02%
Savings deposits	6,510	1.00%	5,298	1.00%	4,425	1.49%
Time deposits	54,182	2.52%	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, 2004:

Time Certificates of Deposit	At December 31, 2004
-----	-----
	(In thousands)
3 months or less	\$ 3,858
3-6 months	5,288
6-12 months	20,492

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

over 12 months	3,195

Total	\$32,833
	=====

LOAN PORTFOLIO

The Bank engages in a full complement of lending activities, including commercial/industrial, consumer and real estate loans. As of December 31, 2004, the Bank had a legal lending limit for unsecured loans of up to \$3,050,000 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.

7

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.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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,				
	2004	2003	2002	2001	2000
	(In thousands)				
Commercial, financial and agricultural	\$ 48,498	\$ 43,179	\$ 34,841	\$ 40,032	\$ 29,605
Real Estate - construction	7,919	9,834	11,588	6,334	3,511
Real Estate - mortgage	138,978	117,167	101,046	80,747	64,976
Installment and other loans to individuals	11,158	11,531	9,147	8,788	10,391
Subtotal	206,553	181,711	156,622	135,901	108,484
Less: allowance for possible loan losses	(2,225)	(1,961)	(1,722)	(1,565)	(1,365)
Total (net of allowances)	\$204,328	\$179,750	\$154,900	\$134,336	\$107,118

The following is a presentation of an analysis of maturities of certain loans as of December 31, 2004:

Type of Loan -----	Due 1	Due	Due	Total
	Year or Less	After 1 to	After	
		5 Years	5 Years	
	(In thousands)			
Commercial, financial and agricultural	\$38,902	\$ 9,596	\$ --	\$48,498
Real Estate - construction	7,919	--	--	7,919
Total	\$46,821	\$ 9,596	\$ --	\$56,417

For the above loans, the following is a presentation of an analysis of sensitivities to changes in interest rates as of December 31, 2004:

Interest Category -----	Due 1	Due	Due	Total
	Year or Less	After 1 to	After	
		5 Years	5 Years	
	(In thousands)			
Predetermined interest rate	\$ 9,410	\$ 2,780	\$ --	\$12,190
Floating interest rate	37,411	6,816	--	44,227
Total	\$46,821	\$ 9,596	\$ --	\$56,417

At December 31, 2004 and 2003, 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 \$3,582,215 and \$2,922,261, respectively. The average recorded investment in impaired loans amounted to approximately \$3,111,468 and \$3,332,748 for 2004 and 2003, respectively. The allowance related to impaired loans amounted to approximately \$435,817 and \$340,885 at December 31, 2004 and 2003, 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

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

loans for 2004 and 2003 amounted to \$213,496 and \$184,326, respectively. The amount of interest recognized on impaired loans using the cash method of accounting was not material for 2004 and 2003. Loans on non-accrual status at December 31, 2004 and 2003 had outstanding balances of \$1,806,413 and \$105,752, respectively. Interest recognized on non-accruing loans at December 31, 2004 and 2003 was \$68,356 and \$4,228, respectively. The Bank has no commitments to lend additional funds to borrowers whose loans have been modified.

8

As of December 31, 2004, 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. The following table provides information regarding certain loan classifications.

	At December 31,									
	2004		2003		2002		2001		2000	
	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal	Aggregate Princi- # pal
	Loans	Balance	Loans	Balance	Loans	Balance	Loans	Balance	Loans	Balance
Loans over 90 days past due but still accruing interest	6	\$ 165,777	8	\$ 70,613	2	\$ 12,869	0	\$ --	4	\$30,890
Loans considered to be "trouble- debt" restruc- tured	1	\$ 186,974	1	\$151,386	1	\$151,196	7	\$555,097		
Loans on non- accrual status	21	\$1,806,413	7	\$105,752	14	\$188,122	24	\$595,646		

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:

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

ANALYSIS OF THE ALLOWANCE FOR POSSIBLE LOAN LOSSES

	Year Ended December 31,				
	2004	2003	2002	2001	2000

	(Dollars in thousands)				
Balance at beginning of period	\$1,961	\$1,722	\$1,565	\$1,365	\$1,110
Charge-offs:					
Real estate loans	(10)	(120)	(51)	(61)	(203)
Installments and other loans to individuals	(67)	(65)	(55)	(118)	(37)
Commercial loans	(181)	(7)	(39)	(51)	(19)
Recoveries	12	11	62	16	4
	-----	-----	-----	-----	-----
Net charge-offs	(246)	(181)	(83)	(215)	(255)
Additions charged to operations	510	420	240	415	510
	-----	-----	-----	-----	-----
Balance at end of period	\$2,225	\$1,961	\$1,722	\$1,565	\$1,365
	=====	=====	=====	=====	=====
Ratio of net charge-offs during the period to average loans outstanding during the period	.13%	.11%	.06%	.18%	.26%
	=====	=====	=====	=====	=====

9

At December 31, of each of the last five years the allowance was allocated as follows:

	At December 31,							
	2004		2003		2002		2001	
	-----		-----		-----		-----	
	Percent of loans in each category to total		Percent of loans in each category to total		Percent of loans in each category to total		Percent of loans in each category to total	
	Amount	loans	Amount	loans	Amount	loans	Amount	loans
	-----	-----	-----	-----	-----	-----	-----	-----
	(Dollars in thousands)							
Commercial, Financial and Agricultural	\$ 680	23.5%	\$ 590	23.8%	\$ 490	22.2%	\$ 510	29.0%
Real Estate - Construction	130	3.8%	150	5.4%	190	7.4%	103	4.0%
Real Estate - Mortgage	1,150	67.3%	990	64.5%	870	64.5%	771	59.0%
Installment and Other								
Loans to Individuals	210	5.4%	220	6.3%	150	5.9%	146	6.0%
Unallocated	55	N/A	11	N/A	22	N/A	35	N/A
	-----	-----	-----	-----	-----	-----	-----	-----
Total	\$2,225	100.0%	\$1,961	100.0%	\$1,722	100.0%	\$1,565	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====

LOAN LOSS RESERVE

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

As of December 31, 2004, 23.5% 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, 96.5% of these commercial loans at December 31, 2004 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, 2004, 94.0% 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 67.3% of outstanding loans at December 31, 2004. 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 evaluate management's determination of 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.

10

INVESTMENTS

As of December 31, 2004, investment securities comprised approximately 7.7% of the Bank's assets and net loans comprised approximately 85.2% 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, 2004, 2003 and 2002 were categorized as available for sale.

December 31,

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

	2004	2003	2002
	----	----	----
	(In thousands)		
Obligations of U.S.			
Treasury and other U.S. Agencies	\$16,396	\$7,691	\$6,128
Corporate equity	290	240	240
Other securities	348	400	450
Federal Reserve Bank and Federal Home Loan Bank Stock	1,387	1,080	840
	-----	-----	-----
Total	\$18,421	\$9,411	\$7,658
	=====	=====	=====

The following table indicates as of December 31, 2004 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, 2004	
	Amount	Weighted Average Yield
	-----	-----
	(Dollars in thousands)	
Obligations of U.S.		
Treasury and other U.S. Agencies:		
0 - 1 year	\$5,817	1.86%
Over 1 through 5 years	9,569	3.59%
Over 5 through 10 years	1,010	5.23%
Other securities:		
0 - 1 year	--	--
Over 1 through 5 years	--	--
Over 5 through 10 years	348	10.5%
Federal Reserve Bank and Federal Home Loan Bank Stock, no maturity	1,387	3.95%
Corporate equity, no maturity	290	1.03%
	-----	-----
Total	\$18,421	3.25%
	=====	=====

11

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,		
	2004	2003	2002
	----	----	----
Return on average assets	1.20%	1.02%	1.03%
Return on average equity	14.7%	11.9 %	12.0%
Average equity to average assets ratio	8.1%	8.5 %	8.6%
Dividend payout ratio	25.4%	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

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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, 2004, the Bank had outstanding participations totaling \$11,092,490.

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 28, 2005, the Bank employed 53 persons on a full-time basis, including 16 officers, and 5 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

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

SunTrust Bank, Atlanta serves as the Transfer Agent and Registrar for the Company's common stock.

SUPERVISION AND REGULATION

The following discussion sets forth some of the material elements of the regulatory framework applicable to bank holding companies and their subsidiaries and provides some specific information relative to the Company. The regulatory framework is intended primarily for the protection of depositors and the Bank Insurance Fund and not for the protection of security holders and creditors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

THE COMPANY

GENERAL. As a bank holding company, the Company is regulated under the Bank Holding Company Act of 1956 (the "BHC Act"), as well as other federal and state laws governing the banking business. The Federal Reserve Board is the primary regulator of the Company, and supervises the Company's activities on a continual basis. The Bank is also subject to regulation and supervision by various regulatory authorities, including the Federal Reserve Board, the Office of the Comptroller of the Currency (the "OCC") and the Federal Deposit Insurance Corporation (the "FDIC").

BANK HOLDING COMPANY REGULATION. In general, the BHC 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. With certain exceptions, the BHC 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 Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "Modernization Act"), enacted on November 12, 1999, amended the BHC Act and,

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

- * allows bank holding companies that qualify as "financial holding companies" to engage in a substantially broader range of non-banking activities than was permissible under prior law;
- * allows insurers and other financial services companies to acquire banks;
- * allows national banks, and some state banks, either directly or through operating subsidiaries, to engage in certain non-banking financial activities;
- * removes various restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and
- * establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

If the Company, which has not obtained qualification as a "financial holding company," were to do so in the future, the Company would be eligible to engage in, or acquire companies engaged in, the broader range of activities that are permitted by the Modernization Act, provided that if any of the Company's banking subsidiaries were to cease to be "well capitalized" or "well managed" under applicable regulatory standards, the Federal Reserve Board could, among other things, place limitations on the Company's ability to conduct these broader financial activities or, if the deficiencies persisted, require the Company to divest the banking subsidiary. In addition, if the Company were to be qualified as a financial holding company and any of its banking subsidiaries were to receive a rating of less than satisfactory under the Community Reinvestment Act of 1977 (the "CRA"), the Company would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. The broader range of activities that financial holding companies are eligible to engage in includes those that are determined to be "financial in nature", including insurance underwriting, securities underwriting and dealing, and making merchant banking investments in commercial and financial companies.

TRANSACTIONS WITH AFFILIATES. The Company and the Bank are deemed to be 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 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.

SOURCE OF STRENGTH. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. This support may be required at times when, absent that Federal Reserve Board policy, the Company may not find itself able to provide it. Capital loans by a bank holding company to any of its subsidiary

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

14

Federal law also authorizes the OCC to order an assessment of the Company if the capital of the Bank were to become impaired. If the Company failed to pay the assessment within three months, the OCC could order the sale of the Company's stock in the Bank to cover the deficiency.

SUBSIDIARY DIVIDENDS. The Company is a legal entity separate and distinct from the Bank. A major portion of the Company's revenues results from amounts paid as dividends to the Company by the Bank. The OCC's prior approval is required if the total of all dividends declared by a national bank in any calendar year will exceed the sum of that bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses.

In addition, the Company and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal regulatory authority is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. The appropriate federal regulatory authorities have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

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 OCC, 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 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 CRA requires that, in connection with examinations of financial institutions within their jurisdiction, the OCC 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

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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 (the "FDICIA"), 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.

15

INTERSTATE BANKING AND BRANCHING. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "IBBEA") 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 IBBEA requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. The IBBEA also prohibits the interstate acquisition of a bank if, as a result, the bank holding company would control more than ten percent of the total United States insured depository deposits or more than thirty percent, or the applicable state law limit, of deposits in the acquired bank's state. The federal banking agencies prohibit banks from using their interstate branches primarily for deposit production and have accordingly implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Georgia has "opted in" to the IBBEA 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 FDIC. All insured banks are required to pay semi-annual deposit insurance premium assessments to the FDIC.

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 FDIC, the OCC and the Federal Reserve Board use risk-based capital guidelines for banks and bank holding companies. These are designed to make

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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 Board 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.

16

The FDIC, the OCC and the Federal Reserve Board also employ 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 or bank may leverage its equity capital base. A minimum leverage ratio of 3% is required for the most highly rated bank holding companies and banks. Other bank holding companies and banks and bank holding companies seeking to expand, however, are required to maintain leverage ratios of at least 4% to 5%.

The FDICIA created a statutory framework of supervisory actions indexed to the capital level of the individual institution. Under regulations adopted by the FDIC, the OCC and the Federal Reserve Board, 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.

OTHER LAWS AND REGULATIONS

INTERNATIONAL MONEY LAUNDERING ABATEMENT AND ANTI-TERRORIST FINANCING ACT OF 2001. On October 26, 2001, the USA PATRIOT Act was enacted. It includes the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the "IMLAFA") and strong measures to prevent, detect and prosecute terrorism and international money laundering. As required by the IMLAFA, the federal banking agencies, in cooperation with the U.S. Treasury Department, established rules that generally apply to insured depository institutions and U.S. branches and agencies of foreign banks.

Among other things, the new rules require that financial institutions implement reasonable procedures to (1) verify the identity of any person opening an account; (2) maintain records of the information used to verify the person's identity; and (3) determine whether the person appears on any list of known or suspected terrorists or terrorist organizations. The rules also prohibit banks from establishing correspondent accounts with foreign shell banks with no physical presence and encourage cooperation among financial institutions, their regulators and law enforcement to share information regarding individuals, entities and organizations engaged in terrorist acts or money laundering activities. The rules also limit a financial institution's liability for submitting a report of suspicious activity and for voluntarily disclosing a possible violation of law to law enforcement.

SARBANES-OXLEY ACT OF 2002. The Sarbanes-Oxley Act of 2002 (the "SOA")

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

was enacted to address corporate and accounting fraud. It established a new accounting oversight board that enforces 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 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 SOA requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings. To deter wrongdoing, it (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.

PRIVACY. Under the Modernization Act, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the Modernization Act affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

17

FUTURE LEGISLATION. Changes to federal and state laws and regulations can affect the operating environment of bank holding companies and their subsidiaries in substantial and unpredictable ways. From time to time, various legislative and regulatory proposals are introduced. These proposals, if codified, may change banking statutes and regulations and the Company's operating environment in substantial and unpredictable ways. If codified, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon the Company's financial condition or results of operation.

ITEM 2. DESCRIPTION OF PROPERTY

The Bank's main office is located at 301 North Broad Street in Thomasville, Georgia. The building contains approximately 10,000 square feet of finished space. The building contains a lobby, a vault, eight offices, four teller stations, three drive-in windows, a boardroom conference facility and a loan operations area. The Bank's main office also serves as the Company's executive offices.

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

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

windows and a drive-up ATM.

The Bank also owns an approximately 5,000 square foot office building located adjacent to the main office of the Bank. The building contains the Bank's bookkeeping area and operations, TNB Trust Services Division offices, and TNB Financial Services, Inc. offices.

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, 2004 to a vote of security holders of the Company.

18

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 2004 and 2003, 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. These prices reflect the 2-for-1 stock split effected in July 2004.

	High	Low
	----	---
2003		

First quarter	\$11.00	\$ 9.75
Second quarter	11.00	9.75
Third quarter	11.00	10.00
Fourth quarter	11.00	10.50
2004		

First quarter	\$11.25	\$10.75
Second quarter	11.38	11.00
Third quarter	12.75	12.00
Fourth quarter	13.25	12.00

HOLDERS OF COMMON STOCK

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

As of March 15, 2005, the number of holders of record of the Company's common stock was 650.

CASH DIVIDENDS

The Company paid a cash dividend of \$0.46 per share in July 2004 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.

19

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 principal asset is its ownership of the Bank. Accordingly, the Company's results of operations are primarily dependent upon its results of operations of the Bank. The Bank conducts a commercial banking business consisting of attracting both retail and business deposits, and applying those funds to the origination of commercial, consumer and real estate loans (including commercial loans collateralized by real estate). The Bank's profitability depends primarily on net interest income, which is the difference between interest income generated from interest-earning assets (i.e., loans and investments) less the interest expense incurred on interest-bearing liabilities (i.e., customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned and paid on these balances. Net interest income is dependent upon the Bank's interest-rate spread, which is the difference between the average yield earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. The interest rate spread is impacted by interest rates, deposit flows, and loan demand. Additionally, and to a lesser extent, the Bank's profitability is affected by such factors as the level of noninterest income and expenses, the provision for loan losses, and its effective tax rate. Noninterest income consists primarily of service charges and fees. Noninterest expense consists of salaries and employee benefits, occupancy expenses, professional fees, and other operating expenses.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

The Company's results of operations are also dependent upon the results of operations of TNBFS. The earnings of TNBFS are generated primarily through fees received for asset management services.

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.

20

VALUATION OF GOODWILL/INTANGIBLE ASSETS AND ANALYSIS FOR IMPAIRMENT. In its endeavor to enhance shareholders' value, the Company acquired TNBFS (formerly Joseph Parker & Co., Inc.) in July 2002. TNBFS is a well established money management firm with approximately \$200 million under management. The Company utilized the purchase method to reflect the acquisition of TNBFS. 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 2004, total assets increased by \$34.4 million to \$239.9 million. Cash and cash equivalents increased by \$0.1 million to \$6.6 million; securities increased by \$9.0 million to \$18.4 million; loans increased by \$24.6 million to \$204.3 million; and all remaining assets increased by \$0.7 million to \$10.5 million.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

To fund the growth in assets, deposits increased by \$33.7 million to \$199.2 million; borrowings decreased by \$0.5 million to \$19.4 million; federal funds purchased decreased by \$1.2 million to \$1.1 million; and the equity accounts increased by \$2.2 million to \$19.5 million.

Net Interest 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, 2004			Year Ended December 31, 2003		
	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
	(Dollars in thousands)					
Federal funds sold	\$ 3,929	\$ 62	1.58%	\$ 5,405	\$ 56	1.04%
Securities	12,176	442	3.63%	8,022	298	3.71%
Loans, net	189,927	11,313	5.96%	166,639	10,091	6.06%
	-----	-----		-----	-----	
Total earning assets	\$206,032	\$11,817	5.74%	\$180,066	\$10,445	5.80%
	=====	=====		=====	=====	
Interest bearing deposits	\$155,532	\$ 2,805	1.80%	\$140,765	\$ 2,877	2.04%
Other borrowings	25,711	872	3.39%	16,595	697	4.20%
	-----	-----		-----	-----	
Total interest -bearing liabilities	\$181,243	\$ 3,677	2.03%	\$157,360	\$ 3,574	2.27%
	=====	=====		=====	=====	
Net yield on earning assets			3.95%			3.82%

Net yield on interest-earning assets for 2004 and 2003 was 3.95% and 3.82%, 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.

21

Non-Interest Income

Non-interest income for 2004 and 2003 amounted to \$2,598,675 and \$2,074,606, respectively. As a percent of average assets, non-interest income increased from 1.07% in 2003 to 1.17% in 2004. The increase in non-interest income is primarily due to fee income generated by TNBFS for money management services, as well as fee income generated by the Bank for trust services. The Bank was also able to increase fees for services, such as data processing, it provides to other financial institutions.

The following table summarizes the major components of non-interest income for the years ended December 31, 2004 and 2003.

Year ended December 31,	

2004	2003

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

	----	----
	(In thousands)	
Fees, money management	\$ 1,025	\$ 918
Service fees on deposit accounts	644	662
Trust services	474	273
Miscellaneous, other	456	222
	-----	-----
Total non-interest income	\$ 2,599	\$ 2,075
	=====	=====

Non-Interest Expense

Non-interest expense increased from \$5,499,396 in 2003 to \$6,002,620 in 2004. As a percent of total average assets, non-interest expense decreased from 2.86% in 2003 to 2.71% in 2004. The increase is primarily due to costs associated with the expansion of TNBFS as well as the Bank's trust department. However, as evidenced by the fact that non-interest expense, as a percent of total average assets, decreased from calendar year 2003 to 2004, the Company has achieved a higher degree of efficiency.

The following table summarizes the major components of non-interest expense for 2004 and 2003.

	2004	2003
	----	----
	(In thousands)	
Salaries and benefits	\$ 3,252	\$ 3,035
Data processing, ATM	217	193
Professional fees	327	291
Advertising and public relations	337	243
Depreciation, amortization	395	430
Other operating expenses	1,475	1,307
	-----	-----
Total non-interest expense	\$ 6,003	\$ 5,499
	=====	=====

Allowance For Loan Losses

During 2004, the allowance for loan losses increased from \$1,960,822 to \$2,224,845. As a percent of gross loans, the allowance for loan losses remained constant at 1.08% for both 2003 and 2004. Net charge-offs during 2004 amounted to \$245,977, or 0.13% of average loans. 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 0.11% of average loans. As of December 31, 2004, 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.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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 Company's interest rate sensitivity position at December 31, 2004 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	\$114,052	\$ 10,117	\$ 13,889	\$64,296	\$ 4,199	\$206,553
Available-for-sale securities	5,201	--	616	9,819	2,785	18,421
Federal funds sold	662	--	--	--	--	662
Total earning assets	\$119,915	\$ 10,117	\$ 14,505	\$74,115	\$ 6,984	\$225,636
SUPPORTING SOURCE OF FUNDS						
Federal funds purchased	\$ 1,097	\$ --	\$ --	\$ --	\$ --	\$ 1,097
Interest-bearing demand deposits and savings	110,959	--	--	--	--	110,959
Certificates, less than \$100M	13,956	2,473	7,782	5,141	--	29,352
Certificates, \$100M and over	3,858	5,288	20,492	3,195	--	32,833
Borrowings	1,012	2,285	2,024	5,284	--	19,376
Total interest-bearing liabilities	\$130,882	\$ 10,046	\$ 30,298	\$13,620	\$ 8,771	\$193,617
Interest rate sensitivity gap	\$(10,967)	\$ 71	\$(15,793)	\$60,495	\$(1,787)	\$ 32,019
Cumulative gap	\$(10,967)	\$(10,896)	\$(26,689)	\$33,806	\$32,019	\$ 32,019
Interest rate sensitivity gap ratio	0.92	1.01	0.48	5.44	0.80	1.17
Cumulative interest rate						

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

sensitivity gap ratio 0.92 0.92 0.84 1.18 1.17 1.17

As evidenced by the table above, at December 31, 2004, 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.

23

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 monthly 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 increased by \$33.7 million during 2004 and by \$11.6 million in 2003.

Below are the pertinent liquidity balances and ratios at December 31, 2004 and 2003:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Cash and cash equivalents	\$ 6,626	\$ 6,531
Securities	18,421	9,411
CDs, over \$100,000		
to total deposits ratio	16.5%	11.3%
Loan to deposit ratio	102.6%	108.6%
Brokered deposits	18,228	--

Cash and cash equivalents are the primary source of liquidity. At December 31, 2004, cash and cash equivalents amounted to \$6.6 million, representing 2.8% of total assets. Securities available for sale provide a secondary source of liquidity. At December 31, 2004, total securities amounted to \$18.4 million, representing 7.7% of total assets.

At December 31, 2004, large denomination certificates accounted for 16.5% of total deposits. As a percent of total deposits, large denomination certificates increased from 11.3% at December 31, 2003 to 16.5% at December 31, 2004. 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.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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, 2004, the Company had \$18.2 million in brokered deposits, many in large denomination CDs.

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.

24

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, 2004 and 2003, the Company had unused loan commitments of approximately \$25.1 million and \$21.2 million, respectively. Additionally, standby letters of credit of approximately \$4.4 million and \$2.7 were outstanding at December 31, 2004 and 2003, 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, 2004:

	December 31, 2004	Minimum Regulatory Requirement
	-----	-----
Bank		

Tier 1 Capital	10.3%	4.0%
Tier 2 Capital	1.2%	N/A

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

Total risk-based capital ratio	11.5%	8.0%
Leverage ratio	7.7%	3.0%

Company - Consolidated

Tier 1 Capital	10.8%	4.0%
Tier 2 Capital	1.2%	N/A
Total risk-based capital ratio	12.0%	8.0%
Leverage ratio	8.1%	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.

RECENT ISSUANCE OF TRUST PREFERRED SECURITIES

On March 30, 2005, the Company, through a newly formed Delaware statutory trust, completed the sale of \$4.0 million of trust preferred securities (the "Trust Preferred Securities"). The Trust Preferred Securities have a maturity of 30 years and are redeemable beginning in June 2010 or upon the occurrence of certain other conditions. The Company will use approximately \$2.7 million of the proceeds from the sale of the Trust Preferred Securities to repay holding company indebtedness and the remaining approximately \$1.3 million will be contributed as capital to the Bank. The Trust Preferred Securities pay cumulative cash distributions accumulating from the date of issuance at an annual rate of LIBOR plus 1.90% of the liquidation amount of \$1,000 per preferred security on March 31, June 30, September 30 and December 31 of each year. The Trust Preferred Securities will be recorded as subordinated debt on the consolidated balance sheet, but, subject to certain limitations, will qualify as Tier 1 capital for regulatory capital purposes.

25

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, 2004 and 2003

Consolidated Statements of Income for the Years Ended December 31, 2004 and 2003

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2004 and 2003

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.

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

ITEM 8A. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of the end of the fiscal year covered by this Report on Form 10-KSB and have concluded that the Company's disclosure controls and procedures are effective. During the fourth quarter of 2004, there were no changes in the Company's internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION.

Not applicable.

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 2005 Annual Meeting of Shareholders (the "2005 Proxy Statement") is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

The information relating to executive compensation contained in the 2005 Proxy Statement is incorporated herein by reference.

26

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

With the exception of the equity compensation plan information provided below, the information relating to this item contained in the 2005 Proxy Statement is incorporated herein by reference.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average 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)	19,200	\$ 8.36	0
Employee compensation plans approved by security holders	0	-	0

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

Total 19,200 \$ 8.36 0

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information relating to certain relationships and related transactions contained in the 2005 Proxy Statement is incorporated herein by reference.

27

ITEM 13. 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"); (iii) the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000 ("2000 10-KSB"); or the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 ("2003 10-KSB"). 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 (2003 10-KSB)
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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information relating to principal accountant fees and services contained in the 2005 Proxy Statement is incorporated herein by reference.

28

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

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 31, 2005

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 31, 2005
/s/ Charles H. Hodges, III ----- Charles H. Hodges, III	Executive Vice President and Director	March 31, 2005
----- Charles A. Balfour	Director	
/s/ David A. Cone ----- David A. Cone	Director	March 31, 2005
/s/ Charles E. Hancock, M.D. ----- Charles E. Hancock, M.D.	Director	March 31, 2005
/s/ Harold L. Jackson ----- Harold L. Jackson	Director	March 31, 2005
/s/ David O. Lewis ----- David O. Lewis	Director	March 31, 2005
/s/ Charles W. McKinnon, Jr. ----- Charles W. McKinnon, Jr.	Director	March 31, 2005
----- Randall L. Moore	Director	

Edgar Filing: THOMASVILLE BANCSHARES INC - Form 10KSB

/s/ Diane W. Parker ----- Diane W. Parker	Director	March 31, 2005
/s/ Cochran A. Scott, Jr. ----- Cochran A. Scott, Jr.	Director	March 31, 2005
----- Richard L. Singletary, Jr.	Director	
/s/ J. Mark Parker ----- J. Mark Parker	Director	March 31, 2005

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
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