

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2008

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2008**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	2
Consolidated statements of income	3
Consolidated statements of comprehensive income.....	4
Consolidated statements of stockholders' equity	5
Consolidated statements of cash flows.....	6
Notes to consolidated financial statements.....	7-34

INDEPENDENT AUDITOR'S REPORT

**Board of Directors and Stockholders
Thomasville Bancshares, Inc.
Thomasville, Georgia**

We have audited the accompanying consolidated balance sheets of **Thomasville Bancshares, Inc. and Subsidiary** (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Thomasville Bancshares, Inc., and Subsidiary at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Francis & Co., CPAs

Atlanta, Georgia
March 12, 2009

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007**

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and due from banks	\$ 5,283,104	7,378,479
Interest-bearing deposits in banks	50,394	62,667
Federal funds sold	1,083,494	356,826
Securities available for sale, at fair value	13,134,210	15,248,444
Restricted equity securities, at cost	1,876,100	1,363,150
Other equity securities, at cost	290,000	290,000
Loans	303,728,814	277,258,448
Less allowance for loan losses	<u>5,091,483</u>	<u>3,805,826</u>
Loans, net	298,637,331	273,452,622
Premises and equipment, net	6,127,164	6,339,880
Goodwill	3,372,259	3,372,259
Accrued interest receivable	2,622,770	3,569,586
Other assets	<u>2,532,611</u>	<u>1,733,306</u>
	<u>\$ 335,009,437</u>	<u>\$ 313,167,219</u>
 <u>Liabilities and Stockholders' Equity</u>		
Deposits		
Noninterest-bearing	\$ 28,766,288	\$ 28,814,382
Interest-bearing	<u>248,426,975</u>	<u>235,461,066</u>
Total deposits	277,193,263	264,275,448
Federal funds purchased and securities sold under agreements to repurchase	661,816	3,989,326
Federal Home Loan Bank borrowings	20,050,000	9,716,667
Junior subordinated debentures	4,124,000	4,124,000
Accrued interest payable	534,263	808,404
Other liabilities	<u>210,909</u>	<u>340,297</u>
Total liabilities	<u>302,774,251</u>	<u>283,254,142</u>
 Commitments and contingencies		
 Stockholders' equity		
Common stock, par value \$1.00; 10,000,000 shares authorized; 2,968,931 and 2,962,867 issued and outstanding	2,968,931	2,962,867
Paid-in capital	9,104,881	8,705,047
Retained earnings	20,099,337	18,253,199
Accumulated other comprehensive income (loss)	<u>62,037</u>	<u>(8,036)</u>
Total stockholders' equity	<u>32,235,186</u>	<u>29,913,077</u>
	<u>\$ 335,009,437</u>	<u>\$ 313,167,219</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Interest income		
Interest and fees on loans	\$ 18,089,014	\$ 20,782,583
Interest on taxable securities	480,886	644,561
Interest on federal funds sold	102,513	1,077,984
Interest on deposits in other banks	1,463	1,701
	<u>18,673,876</u>	<u>22,506,829</u>
Interest expense		
Interest on deposits	6,547,338	10,645,562
Interest on other borrowings	979,398	696,919
	<u>7,526,736</u>	<u>11,342,481</u>
Net interest income	11,147,140	11,164,348
Provision for loan losses	2,125,000	595,000
Net interest income after provision for loan losses	<u>9,022,140</u>	<u>10,569,348</u>
Noninterest income		
Trust and investment services	2,545,742	2,562,212
Service charges on deposit accounts	790,024	707,379
Other service charges, commissions and fees	252,706	228,994
Data processing fees	234,642	201,060
Mortgage origination fees	90,273	235,379
Other	150,118	113,633
	<u>4,063,505</u>	<u>4,048,657</u>
Noninterest expense		
Salaries and employee benefits	4,459,406	4,581,861
Equipment	586,251	573,402
Occupancy	364,522	343,394
Data processing	464,909	495,000
Advertising and marketing	359,021	408,778
Legal and accounting	337,395	361,829
Other operating	1,449,643	1,400,034
	<u>8,021,147</u>	<u>8,164,298</u>
Income before income taxes	5,064,498	6,453,707
Applicable income taxes	1,734,636	2,003,658
Net income	<u>\$ 3,329,862</u>	<u>\$ 4,450,049</u>
Basic earnings per share	<u>\$ 1.12</u>	<u>\$ 1.50</u>
Diluted earnings per share	<u>\$ 1.08</u>	<u>\$ 1.45</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Net income	<u>\$ 3,329,862</u>	<u>\$ 4,450,049</u>
Other comprehensive income:		
Net unrealized holding gains arising during period, net of tax of \$36,097 and \$65,045	<u>70,073</u>	<u>126,262</u>
Total other comprehensive income	<u>70,073</u>	<u>126,262</u>
Comprehensive income	<u>\$ 3,399,935</u>	<u>\$ 4,576,311</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>				
Balance, December 31, 2006	2,957,698	\$ 2,957,698	\$ 8,298,041	\$ 14,987,978	\$ (134,298)	\$ 26,109,419
Net income	-	-	-	4,450,049	-	4,450,049
Cash dividend declared, \$0.40 per share	-	-	-	(1,184,828)	-	(1,184,828)
Other comprehensive income	-	-	-	-	126,262	126,262
Issuance of common stock	4,969	4,969	116,890	-	-	121,859
Exercise of stock options	200	200	1,800	-	-	2,000
Stock-based compensation	-	-	151,446	-	-	151,446
Issuance of restricted stock	-	-	136,870	-	-	136,870
Balance, December 31, 2007	<u>2,962,867</u>	<u>2,962,867</u>	<u>8,705,047</u>	<u>18,253,199</u>	<u>(8,036)</u>	<u>29,913,077</u>
Net income	-	-	-	3,329,862	-	3,329,862
Cash dividend declared, \$0.50 per share	-	-	-	(1,483,724)	-	(1,483,724)
Other comprehensive income	-	-	-	-	70,073	70,073
Issuance of common stock	5,198	5,198	97,496	-	-	102,694
Exercise of stock options	866	866	7,794	-	-	8,660
Stock-based compensation	-	-	151,444	-	-	151,444
Issuance of restricted stock	-	-	143,100	-	-	143,100
Balance, December 31, 2008	<u>2,968,931</u>	<u>\$ 2,968,931</u>	<u>\$ 9,104,881</u>	<u>\$ 20,099,337</u>	<u>\$ 62,037</u>	<u>\$ 32,235,186</u>

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
OPERATING ACTIVITIES		
Net income	\$ 3,329,862	\$ 4,450,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan loss	2,125,000	595,000
Provision for deferred taxes	(397,677)	(85,879)
Depreciation	390,846	364,768
Stock based compensation	151,444	151,446
(Increase) decrease in interest receivable	946,816	(664,166)
Increase (decrease) in interest payable	(274,140)	256,673
Increase (decrease) in taxes payable	93,404	(205,928)
Gain on sale of fixed assets	-	(10,987)
Net other operating activities	(239,976)	276,829
Total adjustments	2,795,717	677,756
Net cash provided by operating activities	6,125,579	5,127,805
INVESTING ACTIVITIES		
(Increase) decrease in interest-bearing deposits in banks	12,273	(57,338)
Purchases of securities available for sale	(18,367,446)	(9,527,155)
Proceeds from maturities of securities available for sale	20,587,850	7,883,566
(Increase) decrease in federal funds sold	(726,668)	17,257,338
Increase in loans, net	(29,324,596)	(34,951,817)
Net change in restricted equity securities	(512,950)	(96,501)
Proceeds from sale of fixed assets	-	185,779
Proceeds from sale of foreclosed assets	1,594,345	-
Purchase of premises and equipment	(178,130)	(978,689)
Net cash used in investing activities	(26,915,322)	(20,284,817)
FINANCING ACTIVITIES		
Increase in deposits	12,917,815	3,571,336
Repayment of other borrowings	(3,666,667)	(2,500,000)
Proceeds from other borrowings	14,000,000	4,875,000
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(3,327,510)	3,989,326
Issuance of common stock, net	102,694	121,859
Issuance of restricted stock	143,100	136,870
Proceeds from exercise of stock options	8,660	2,000
Dividends paid	(1,483,724)	(1,184,828)
Net cash provided by financing activities	18,694,368	9,011,563
Net decrease in cash and due from banks	(2,095,375)	(6,145,449)
Cash and due from banks at beginning of year	7,378,479	13,523,928
Cash and due from banks at end of year	\$ 5,283,104	\$ 7,378,479
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 7,800,876	\$ 11,085,808
Cash paid for income taxes	\$ 1,986,000	\$ 2,242,557

See Notes to Consolidated Financial Statements.

**THOMASVILLE BANCSHARES, INC.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Thomasville Bancshares, Inc. and Subsidiary (the "Company") is a one-bank holding company whose principal activity is the ownership and management of its wholly-owned commercial bank subsidiary, Thomasville National Bank (the "Bank"). The Bank has two locations in Thomasville, Thomas County, Georgia. The Bank provides a full range of banking services to individual and corporate customers in its primary market area of Thomas County, Georgia and surrounding counties. The Bank also offers trust and money management services through TNB Financial Services, a division of the Bank.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation; such reclassifications had no impact on net income or stockholders' equity.

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and contingent assets and liabilities. The determination of the adequacy of the allowance for loan losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral.

Cash, Due from Banks and Cash Flows

For purposes of reporting cash flows, cash and due from banks include cash on hand, cash items in process of collection and amounts due from banks. Cash flows from interest-bearing deposits in banks, loans, federal funds sold, restricted equity securities, deposits, federal funds purchased and securities sold under agreements to repurchase are reported net.

The Bank is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The total of those reserve balances was approximately \$115,000 and \$408,000 at December 31, 2008 and 2007, respectively.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in other banks are primarily overnight funds or funds which mature within one year and are carried at costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income, net of the related deferred tax effect. Equity securities without a readily determinable fair value are classified as available for sale and recorded at cost. Restricted equity securities without a readily determinable fair value are recorded at cost.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of specific securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are reported at their outstanding principal balances less unearned income and the allowance for loan losses. Interest income is accrued on the outstanding principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash-basis or cost-recovery method until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectibility of existing loans and prior loss experience. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows, or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for major improvements of the Company's premises and equipment are capitalized and depreciated over their estimated useful lives. Repairs and maintenance are expensed in the period incurred. When assets are sold or disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the Company's income statement. The estimated useful lives of the Company's premises and equipment are as follows:

Building	39 years
Furniture and equipment	3-7 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Company performed its annual test of impairment in the fourth quarter and determined that there was no impairment in the carrying value of goodwill assigned to its subsidiary bank as of November 1, 2008.

Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are expensed. The carrying amount of foreclosed assets at December 31, 2008 was \$420,542. The Company had no foreclosed assets at December 31, 2007.

Trust and Money Management

Property and funds held by the Company and its subsidiary in a fiduciary or other capacity for the benefit of its customers are not included in the accompanying consolidated financial statements since such items are not assets of the Company. Income earned from fees charged against trust assets, including money management services, are recognized in the Company's consolidated income statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

A valuation allowance for deferred tax assets is required when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income (in the near-term based on current projections), and tax planning strategies. Management believes that the Company will generate sufficient operating earnings to realize the deferred tax benefits.

Stock-Based Compensation

At December 31, 2008, the Company had options outstanding under three stock-based employee compensation plans, which are described in more detail in Note 10. The plans have been accounted for under FASB No. 123R, Share-Based Payment, for the years ended December 31, 2008 and 2007, utilizing the “modified prospective” method as described in FASB No. 123R. In the “modified prospective” method, compensation cost is recognized for all stock-based payments granted after the effective date and for all unvested awards granted prior to the effective date.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net income by the sum of the weighted-average number of shares of common stock outstanding and potential common shares that are dilutive. Potential common shares consist of stock options and restricted stock.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Standards

SFAS No. 141, "Business Combinations (Revised 2007)." SFAS 141R replaces SFAS 141, "Business Combinations," and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, "Accounting for Contingencies." SFAS 141R is expected to have a significant impact on the Company's accounting should it enter into any business combinations closing on or after January 1, 2009.

SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157, with the exception of certain provisions, became effective for the Company on January 1, 2008 (see Note 16 - Fair Value of Financial Instruments).

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. SFAS 159 became effective for the Company on January 1, 2008. The adoption of this statement did not have a significant impact on the Company's financial statements.

SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Standards (Continued)

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The hierarchical guidance provided by SFAS 162 did not have a significant impact on the Company's financial statements.

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109." Interpretation 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interpretation 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. The adoption of Interpretation 48 on January 1, 2007 did not significantly impact the Company's financial statements.

FSP No. 48-1 "Definition of Settlement in FASB Interpretation No. 48." FSP 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP 48-1 was effective retroactively to January 1, 2007 and did not significantly impact the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES

The amortized cost and fair value of securities available for sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008:				
U. S. Government sponsored Agencies	\$ 13,040,215	\$ 94,387	\$ (392)	\$ 13,134,210
 December 31, 2007:				
U. S. Government sponsored Agencies	\$ 15,260,619	\$ 16,837	\$ (29,012)	\$ 15,248,444

The amortized cost and fair value of securities available for sale as of December 31, 2008 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due within one year	\$ 2,703,048	\$ 2,710,923
Due from one to five years	10,337,167	10,423,287
Total	\$ 13,040,215	\$ 13,134,210

Securities with a carrying value of \$11,707,000 and \$11,209,000 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. During 2008, the Company also entered into a \$9,000,000 standby letter of credit with the Federal Home Loan Bank to secure certain public deposits in lieu of pledging securities.

There were no sales of securities during the years ended December 31, 2008 and 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (Continued)

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2008 and 2007.

<u>Description of Securities</u>	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2008:						
U. S. Government						
sponsored agencies	\$ 2,002,660	\$ (392)	\$ -	\$ -	\$ 2,002,660	\$ (392)
Total temporarily impaired securities	\$ 2,002,660	\$ (392)	\$ -	\$ -	\$ 2,002,660	\$ (392)
 December 31, 2007:						
U. S. Government						
sponsored agencies	\$ -	\$ -	\$ 7,705,214	\$ (29,012)	\$ 7,705,214	\$ (29,012)
Total temporarily impaired securities	\$ -	\$ -	\$ 7,705,214	\$ (29,012)	\$ 7,705,214	\$ (29,012)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2008, two debt securities, in the aggregate, have unrealized losses less than 1% from the Company's amortized cost basis. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and industry analysts' reports. As management has the intent and ability to hold the securities until maturity, or for the foreseeable future and due to the fact that the unrealized losses related primarily to changes in interest rates and do not affect the expected cash flows of the underlying collateral or issuer, no declines are deemed to be other than temporary.

Restricted equity securities consist of the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Federal Home Loan Bank stock	\$ 1,473,700	\$ 968,700
Federal Reserve Bank stock	402,400	394,450
	\$ 1,876,100	\$ 1,363,150

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS

The composition of loans is summarized as follows:

	December 31,	
	2008	2007
Commercial, financial and agricultural	\$ 48,950,131	\$ 51,405,898
Real estate - construction	15,006,040	15,117,970
Real estate - farmland	31,830,085	28,914,942
Real estate - residential	115,187,309	98,749,803
Real estate - commercial	71,531,192	60,152,880
State and political subdivisions	10,700,029	12,644,975
Consumer	9,358,025	9,543,981
Other	1,166,003	727,999
Total loans	303,728,814	277,258,448
Allowance for loan losses	(5,091,483)	(3,805,826)
Loans, net	\$ 298,637,331	\$ 273,452,622

Changes in the allowance for loan losses for the years ended December 31, 2008 and 2007 are as follows:

	Years Ended December 31,	
	2008	2007
Balance, beginning of year	\$ 3,805,826	\$ 3,364,533
Provision for loan losses	2,125,000	595,000
Loans charged off	(869,771)	(165,494)
Recoveries of loans previously charged off	30,428	11,787
Balance, end of year	\$ 5,091,483	\$ 3,805,826

The following is a summary of information pertaining to impaired loans:

	As of and for the Years Ended December 31,	
	2008	2007
Impaired loans without a valuation allowance	\$ 285,000	\$ -
Impaired loans with a valuation allowance	59,360	262,800
Total impaired loans	\$ 344,360	\$ 262,800
Valuation allowance related to impaired loans	\$ 3,100	\$ 26,300
Average investment in impaired loans	\$ 607,600	\$ 118,900
Foregone interest	\$ 23,150	\$ 850

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS (Continued)

There was no significant amount of interest income recognized on impaired loans for the years ended December 31, 2008 and 2007.

Loans on nonaccrual status amounted to approximately \$344,360 and \$262,800 at December 31, 2008 and 2007, respectively. Loans past due ninety days or more and still accruing interest amounted to \$119,591 and \$200,991 at December 31, 2008 and 2007, respectively.

In the ordinary course of business, the Company has granted loans to certain related parties, including executive officers, directors and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the year ended December 31, 2008 are as follows:

Balance, beginning of year	\$ 28,458,205
Advances	2,638,981
Repayments	<u>(1,188,428)</u>
Balance, end of year	<u><u>\$ 29,908,758</u></u>

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31	
	2008	2007
Land	\$ 2,123,729	\$ 2,117,254
Buildings	4,345,593	4,307,892
Furniture and equipment	2,631,633	2,587,362
Construction in progress	<u>13,566</u>	<u>2,338</u>
	9,114,521	9,014,846
Accumulated depreciation	<u>(2,987,357)</u>	<u>(2,674,966)</u>
Total premises and equipment	<u><u>\$ 6,127,164</u></u>	<u><u>\$ 6,339,880</u></u>

Depreciation expense was \$390,846 and \$364,768 for the years ended December 31, 2008 and 2007, respectively.

There was no significant amount of estimated costs to complete construction in progress projects at December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. DEPOSITS

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2008 and 2007 was \$53,014,000 and \$47,141,000, respectively. The scheduled maturities of time deposits at December 31, 2008 are as follows:

Due within one year	\$ 62,367,778
Due from one to five years	15,477,445
Due from five to ten years	1,093,030
Due after 10 years	<u>99,050</u>
Total time deposits	<u>\$ 79,037,303</u>

At December 31, 2008 and 2007, the Company held brokered time deposits in the amount of \$22,025,000 and \$14,025,000, respectively.

At December 31, 2008 and 2007, overdraft deposit accounts reclassified to loans totaled \$166,336 and \$517,907, respectively.

NOTE 6. FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Federal funds purchased represent unsecured borrowings from other banks and generally mature daily. Federal funds purchased at December 31, 2007 were \$1,777,000. There were no federal funds purchased at December 31, 2008.

Securities sold under repurchase agreements, which are secured borrowings, generally mature within one day to 90 days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a weekly basis. Securities sold under agreements to repurchase at December 31, 2008 and 2007 were \$661,816 and \$2,212,326, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31,	
	2008	2007
Federal Home Loan Bank advance with interest payable monthly at a variable rate of 4.40% maturing December 2008.	\$ -	\$ 3,000,000
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 2.61% maturing February 2009.	8,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 2.77% maturing March 2011.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 3.11% maturing March 2012.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 3.38% maturing March 2013.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 2.35% maturing March 2009.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 2.33% maturing September 2009.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 2.46% maturing March 2010.	1,000,000	-
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 5.26% maturing April 2009.	1,000,000	1,000,000
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 5.12% maturing March 2017.	825,000	925,000
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 5.23% maturing March 2022.	883,333	950,000
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 4.08% maturing March 2013.	1,275,000	1,575,000
Federal Home Loan Bank advance with interest payable monthly at a fixed rate of 4.36% maturing April 2014.	1,066,667	1,266,667
Federal Home Loan Bank advance with interest payable quarterly at a variable rate of 2.19% maturing September 2011.	1,000,000	1,000,000
Total other borrowings	<u>\$ 20,050,000</u>	<u>\$ 9,716,667</u>

Contractual maturities of other borrowings as of December 31, 2008 are as follows:

2009	\$ 11,666,667
2010	1,666,667
2011	2,666,667
2012	1,666,667
2013 and beyond	2,383,332
Total	<u>\$ 20,050,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. OTHER BORROWINGS (Continued)

Advances from the Federal Home Loan Bank are secured by certain qualifying loans of approximately \$60,500,000.

The Company and the Bank have available unused lines of credit with various financial institutions totaling approximately \$81,569,000 and 37,994,000 at December 31, 2008.

NOTE 8. JUNIOR SUBORDINATED DEBENTURES

On March 30, 2005, the Company formed a wholly-owned Delaware statutory business trust, Thomasville Capital Trust I (“Trust I”), which issued \$4,000,000 of guaranteed preferred beneficial interests in the Company’s junior subordinated deferrable interest debentures (the “Trust Preferred Securities”). These debentures qualify as Tier I capital under Federal Reserve Board guidelines. All of the common securities of Trust I are owned by the Company. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by Thomasville Capital Trust I to purchase \$4,124,000 of junior subordinated debentures of the Company, which carry a floating rate based on three-month LIBOR plus 190 basis points, 3.36% at December 31, 2008. The debentures represent the sole asset of Trust I. The Trust Preferred Securities accrue and pay distributions at a floating rate of three-month LIBOR plus 190 basis points per annum, 3.36% at December 31, 2008, of the stated liquidation value of \$1,000 per capital security. The Company has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities, (ii) the redemption price with respect to any Trust Preferred Securities called for redemption by Trust I and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of Trust I. The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures in March 2035, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the debentures purchased by Trust I in whole or in part, on or after March 30, 2010. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, plus any unpaid accrued interest.

NOTE 9. OTHER COMPENSATION AND BENEFIT PLANS

The Company has a profit sharing plan, as well as a savings plan, administered under the provisions of the Internal Revenue Code Section 401(k). During the calendar years 2008 and 2007, the Company contributed \$416,244 and \$509,000, respectively, to the above plans.

NOTE 10. STOCK-BASED COMPENSATION PLANS

The Company has three stock option plans under which it has granted options to its employees to purchase common stock at the fair market price on the date of grant. The plans provide for “incentive stock options” and “non-qualified stock options”. The incentive stock options are intended to qualify under Section 422 of the Internal Revenue Code for favorable tax treatment. It is the Company’s policy to issue new shares for stock option exercises.

Under the plans, the Board of Directors can grant stock options to employees of the Company to purchase up to 139,200 shares of its common stock. On December 31, 2008, there were no additional shares available for grant under these plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. STOCK-BASED COMPENSATION PLANS (Continued)

The Company accounts for its stock option plans under FASB No. 123R, *Share-Based Payment*, utilizing the “modified prospective” method as described in FASB No. 123R. In the “modified prospective” method, compensation cost is recognized for all stock-based payments granted after the effective date and for all unvested awards granted prior to the effective date. FASB No. 123R also requires the tax benefits associated with these stock-based payments to be classified as financing activities in the Consolidated Statements of Cash Flows, rather than as operating cash flows as required under previous regulations.

At December 31, 2008, there was approximately \$423,700 of unrecognized compensation cost related to stock-based payments, which is expected to be recognized over a weighted-average period of 2.9 years.

Other pertinent information related to the options is as follows:

	2008		2007	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Under option, beginning of the year	137,864	\$ 20.78	138,064	\$ 20.76
Granted	-	-	-	-
Exercised	(866)	(10.00)	(200)	10.00
Forfeited	-	-	-	-
Under option, end of year	136,998	\$ 20.81	137,864	\$ 20.78
Exercisable at end of year	68,598		45,464	
Weighted-average fair value per option of options granted during the year	N/A		N/A	
Total grant date fair value of options vested during the year	\$ 151,530		\$151,530	
Total intrinsic value of options exercised during the year	\$ 8,860		\$ 2,002	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. STOCK-BASED COMPENSATION PLANS (Continued)

The following table presents information on stock options outstanding for the periods shown, less estimated forfeitures:

	Years Ended December 31,	
	2008	2007
Stock options expected to vest:		
Number	136,998	137,864
Weighted average exercise price	\$ 20.81	\$ 20.78
Aggregate intrinsic value	\$ -	\$ 134,152
Weighted average contractual term of options	7.14 years	8.10 years
Stock options vested and currently exercisable:		
Number	68,598	45,464
Weighted average exercise price	\$ 18.68	\$ 16.49
Aggregate intrinsic value	\$ -	\$ 239,302
Weighted average contractual term of options	6.38 years	6.51 years

A further summary about options outstanding at December 31, 2008 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted- Average Contractual Term in Years	Weighted- Average Exercise Price	Number Outstanding	Weighted- Average Exercise Price	
\$ 10.00	4,398	1.0	\$ 10.00	4,398	\$ 10.00	
7.50	5,800	2.0	7.50	5,800	7.50	
7.50	6,800	3.0	7.50	6,800	7.50	
12.75	9,000	6.9	12.75	5,400	12.75	
19.50	9,000	7.0	19.50	5,400	19.50	
23.75	102,000	8.0	23.75	40,800	23.75	
	136,998	7.1	\$ 20.81	68,598	\$ 18.68	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. STOCK-BASED COMPENSATION PLANS (Continued)

Restricted Stock

In March 1996, the Board of Directors of the Company approved a deferred compensation plan (the "Plan") for the Company's and Bank's directors and certain officers which grants to each person restricted shares of the Company's common stock for attending Board/Committee meetings and for bonuses. Shares of restricted stock granted pursuant to the Plan shall not vest until the earlier to occur of: (a) the retirement of a director from the Company's Board of Directors or (b) a change in control of the Company. On several occasions, shares of restricted stock have been awarded to executive officers of the Company and its subsidiary. These shares vest only upon the directors' or officers' retirement, resignation or upon a change in control. For the years ended December 31, 2008 and 2007, 7,908 and 7,058 shares of restricted stock, respectively, were awarded. For the year ended December 31, 2007, 2,420 shares of restricted stock were forfeited. There were no shares of restricted stock forfeited for the year ended December 31, 2008. At December 31, 2008 and 2007, 105,344 and 97,436 shares of restricted stock, respectively, were outstanding.

NOTE 11. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,	
	2008	2007
Current		
Federal	\$ 2,042,412	\$ 1,960,729
State	89,901	128,808
Deferred		
Federal	(397,677)	(85,879)
Total income tax expense	\$ 1,734,636	\$ 2,003,658

The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2008	2007
Tax provision at statutory federal rate	\$ 1,721,929	\$ 2,194,260
Tax-exempt income	(152,448)	(236,381)
State income taxes, net of federal tax benefit	43,956	80,877
Stock-based compensation	51,492	51,492
Amortization of state tax credits	52,908	52,908
Other	16,799	(139,498)
Income tax expense	\$ 1,734,636	\$ 2,003,658

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. INCOME TAXES (Continued)

The components of deferred income taxes are as follows:

	Years Ended December 31,	
	2008	2007
Deferred tax assets:		
Loan loss reserves	\$ 1,731,104	\$ 1,293,981
Deferred compensation	142,382	93,388
Nonaccrual interest	7,831	288
Securities available for sale	-	4,140
	1,881,317	1,391,797
Deferred tax liabilities:		
Depreciation	144,122	125,597
Goodwill	488,176	410,718
Securities available for sale	31,958	-
	664,256	536,315
Net deferred tax assets	\$ 1,217,061	\$ 855,482

NOTE 12. EARNINGS PER SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per share:

	Years Ended December 31,	
	2008	2007
Net income	\$ 3,329,862	\$ 4,450,049
Weighted average number of common shares outstanding	2,966,673	2,959,966
Effect of dilutive options	112,206	110,478
Weighted average number of common shares outstanding used to calculate dilutive earnings per share	3,078,879	3,070,444

At December 31, 2008 and 2007, potential common shares of 111,000 and 102,000, respectively, were not included in the calculation of diluted earnings per share because the exercise of such shares would be antidilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. A summary of the Company's commitments is as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Commitments to extend credit	\$ 24,987,000	\$ 14,012,000
Financial standby letters of credit	<u>1,101,320</u>	<u>2,869,000</u>
Total	<u>\$ 26,088,320</u>	<u>\$ 16,881,000</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2008 and 2007, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2008 and 2007.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial, commercial real estate, residential real estate, construction and development and consumer loans to customers in Thomas and surrounding counties. The ability of the majority of the Company's customers to honor their contractual obligations is dependent on the local economy.

Seventy-seven percent of the Company's loan portfolio is concentrated in loans secured by real estate primarily in the Company's market area. Accordingly, the ultimate collectibility of the Company's loan portfolio is susceptible to changes in market conditions in the Company's market areas. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of 25% of the Bank's capital, or approximately \$8,960,000.

NOTE 15. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2008, approximately \$8,800,000 of retained earnings were available for dividend declaration without regulatory approval.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, as defined and of Tier I capital to average assets. Management believes, as of December 31, 2008, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's categories. Prompt corrective action provisions are not applicable to bank holding companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. REGULATORY MATTERS (Continued)

The Bank's actual capital amounts and ratios are presented in the following table (dollars in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	As of December 31, 2008:					
Total Capital to Risk Weighted Assets:						
Thomasville National Bank	\$ 35,719	13.6%	\$ 21,058	8.0%	\$ 26,322	10.0%
Tier I Capital to Risk Weighted Assets:						
Thomasville National Bank	\$ 32,407	12.3%	\$ 10,529	4.0%	\$ 15,973	6.0%
Tier I Capital to Average Assets:						
Thomasville National Bank	\$ 32,407	9.8%	\$ 13,238	4.0%	\$ 16,548	5.0%
As of December 31, 2007:						
Total Capital to Risk Weighted Assets:						
Thomasville National Bank	\$ 33,267	13.4%	\$ 19,874	8.0%	\$ 24,842	10.0%
Tier I Capital to Risk Weighted Assets:						
Thomasville National Bank	\$ 30,153	12.1%	\$ 9,937	4.0%	\$ 14,905	6.0%
Tier I Capital to Average Assets:						
Thomasville National Bank	\$ 30,153	9.0%	\$ 13,559	4.0%	\$ 16,949	5.0%

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances. On February 12, 2008, the FASB issued Staff Position 157-2 which defers the effective date of Statement 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. All other provisions of Statement 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Measurements (Continued)

On October 10, 2008, the FASB issued FSP FAS 157-3, “*Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active.*” This FSP clarified the application of SFAS No. 157 in a market that is not active and reiterated that the results of distressed sales or forced liquidations are not determinative when measuring fair value. It emphasized that when determining fair value, the use of management’s internal assumptions concerning future cash flows discounted at an appropriate risk-adjusted interest rate is acceptable when relevant observable market data do not exist. In some situations, multiple inputs from a variety of sources may provide the best evidence of fair value. The FSP also described how the use of broker quotes should be considered when assessing the relevance of observable and unobservable inputs. The impact of this statement is minimal, as this FSP provides clarification to existing guidance.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Bank uses various methods including market, income and cost approaches. Based on these approaches, the Bank often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Bank utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Bank is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury and U.S. Government-sponsored enterprise debt securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents financial assets measured at fair value on a recurring basis:

Assets/Liabilities Measured at Fair Value December 31, 2008	Fair Value Measurements at December 31, 2008			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Available for sale securities	\$ 13,134,210	-	\$ 13,134,210	-

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan impairment as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan impairment as nonrecurring Level 3. At December 31, 2008, there were no impaired loans reported at fair value utilizing Level 2 valuation inputs. Impaired loans with a carrying value of \$347,460 were reduced by specific valuation allowance allocations totaling \$3,100 to a total reported fair value of \$344,360 based on collateral valuations utilizing Level 3 valuation inputs at December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair Value Option

In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*. SFAS No. 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately on the balance sheet. While SFAS No. 159 became effective for the Company beginning January 1, 2008, the Company has not elected the fair value option that is offered by this statement.

Disclosures about Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash, Due From Banks, Interest-Bearing Deposits in Banks and Federal Funds Sold: The carrying amount of cash, due from banks, interest-bearing deposits in banks and federal funds sold approximates fair value.

Securities: Fair value of securities is based on available quoted market prices. The carrying amount of equity securities with no readily determinable fair value approximates fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted contractual cash flows or underlying collateral values, where applicable.

Deposits: The carrying amount of demand deposits, savings deposits, and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase: The carrying amount of federal funds purchased and securities sold under agreements to repurchase approximates fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Disclosures about Fair Value of Financial Instruments (Continued)

Federal Home Loan Bank Borrowings and Junior Subordinated Debentures: The carrying amount of variable rate borrowings approximates fair value. The fair value of fixed rate Federal Home Loan Bank borrowings is estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar type borrowing arrangements. The carrying amount of the variable rate junior subordinated debentures approximates fair value.

Accrued Interest: The carrying amount of accrued interest approximates fair value.

Off-Balance-Sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance-sheet financial instruments is based on fees charged to enter into such agreements.

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, due from banks, interest-bearing				
deposits in banks and federal funds sold	\$ 6,416,992	\$ 6,416,992	\$ 7,797,972	\$ 7,797,972
Securities	15,300,310	15,300,310	16,901,594	16,901,594
Loans, net	298,637,331	294,372,378	273,452,622	275,397,000
Accrued interest receivable	2,622,770	2,622,770	3,569,586	3,569,586
Financial liabilities:				
Deposits	277,193,263	278,630,764	264,275,448	264,914,808
Federal funds purchased and securities				
sold under agreements to repurchase	661,816	661,816	3,989,326	3,989,326
Federal Home Loan Bank borrowings	20,050,000	20,191,859	9,716,667	9,793,421
Junior subordinated debentures	4,124,000	4,124,000	4,124,000	4,124,000
Accrued interest payable	534,263	534,263	808,404	808,404

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2008 and 2007 and statements of income and cash flows of Thomasville Bancshares, Inc. for the years ended December 31, 2008 and 2007.

CONDENSED BALANCE SHEETS

	2008	2007
Assets		
Cash	\$ 170,720	\$ 299,670
Investment in subsidiaries	35,965,384	33,640,730
Other equity securities, at cost	290,000	290,000
Other assets	78,432	-
Total assets	\$ 36,504,536	\$ 34,230,400
Liabilities		
Junior subordinated debentures	\$ 4,124,000	\$ 4,124,000
Other liabilities	145,350	193,323
	4,269,350	4,317,323
Stockholders' equity	32,235,186	29,913,077
Total liabilities and stockholders' equity	\$ 36,504,536	\$ 34,230,400

CONDENSED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Income		
Dividends from subsidiary	\$ 1,483,724	\$ 1,184,828
Other income	19,811	21,369
	1,503,535	1,206,197
Expenses		
Interest expense	227,282	302,125
Other	205,331	125,861
Total expenses	432,613	427,986
Income before income tax benefit and equity in undistributed income of subsidiary	1,070,922	778,211
Income tax benefit	155,775	153,442
Income before equity in undistributed income of subsidiary	1,226,697	931,653
Equity in undistributed income of subsidiary	2,103,165	3,518,396
Net income	\$ 3,329,862	\$ 4,450,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17. PARENT COMPANY FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
OPERATING ACTIVITIES		
Net income	\$ 3,329,862	\$ 4,450,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed income of subsidiary	(2,103,165)	(3,518,396)
Other operating activities	(126,377)	255,236
Net cash provided by operating activities	1,100,320	1,186,889
FINANCING ACTIVITIES		
Dividends paid	(1,483,724)	(1,184,828)
Issuance of common stock, net	102,694	121,859
Proceeds from exercise of stock options	8,660	2,000
Issuance of restricted stock	143,100	136,870
Net cash used in financing activities	(1,229,270)	(924,099)
Net increase (decrease) in cash	(128,950)	262,790
Cash at beginning of period	299,670	36,880
Cash at end of year	\$ 170,720	\$ 299,670

NOTE 18. SUBSEQUENT EVENT

During the first quarter of 2009, the Company filed an Amendment to its Articles of Incorporation providing for the reclassification (the "Reclassification") of shares of the Company's common stock held by shareholders of record of fewer than 1,500 shares of common stock into the Company's Series A Preferred Stock, which was approved by the Company's shareholders at a special meeting held on January 15, 2009 and became effective on January 16, 2009 upon the filing of the Articles of Amendment with the Georgia Secretary of State. All other shares of the Company's common stock will remain outstanding and be unaffected by the Reclassification.

As a result of the Reclassification, 216,316 shares of the Company's common stock held by approximately 448 shareholders of record were converted into shares of the Company's Series A Preferred Stock, on the basis of one share of Series A Preferred Stock for each share of common stock. Two shareholders, holding collectively 42,500 shares of the Company's common stock, exercised statutory dissenters' rights with respect to the Reclassification. Assuming these shareholders perfect their dissenters' rights, these shareholders will be entitled to receive the fair value of such shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18. SUBSEQUENT EVENT (Continued)

After the Reclassification, the number of outstanding shares of the Company's common stock was 2,710,115 and the number of common shareholders of record was approximately 173. Additionally, after the Reclassification, the number of outstanding shares of the Company's Series A Preferred Stock was 216,316 and the number of Series A Preferred Stock shareholders of record was approximately 448.

Concurrently with the filing of the final Amendment, the Company filed a Form 15 with the Securities and Exchange Commission to terminate the registration of its common stock under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act") and to suspend its obligation to file reports under Section 15(d) of the Exchange Act.

