THOMASVILLE BANCSHARES INC
Form 10-Q
November 14, 2008

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2008**

**OR**

**¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ______ to ______**

**Commission File No. 0-25929**

# THOMASVILLE BANCSHARES, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Georgia** | **58-2175800** |
| **(State of Incorporation)** | **(I.R.S. Employer Identification No.)** |

**301 North Broad Street, Thomasville, Georgia 31792**

**(Address of Principal Executive Offices)**

**(229) 226-3300**

**(Registrant s Telephone Number)**

**Not Applicable**

**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large Accelerated ¨ | Accelerated filer ¨ |
| Non-Accelerated filer ¨ | Smaller reporting company x |
| (Do not check if a smaller reporting company) | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS: State the number of shares outstanding of each of the issuer s classes of common equity as of the latest practicable date.

Common stock, $1.00 par value per share 2,968,931 shares issued and outstanding as of November 3, 2008.

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

| | Unaudited 2008 | Audited 2007 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | **$ 4,619,347** | $ 7,378,479 |
| Interest-bearing deposits in banks | **50,221** | 62,667 |
| Federal funds sold | **6,987,405** | 356,826 |
| Securities available for sale, at fair value | **10,512,404** | 15,248,444 |
| Restricted equity securities, at cost | **1,872,700** | 1,363,150 |
| Other equity securities, at cost | **290,000** | 290,000 |
| Loans | **289,526,529** | 277,258,448 |
| Less: allowance for loan losses | **3,987,289** | 3,805,826 |
| Loans, net | **285,539,240** | 273,452,622 |
| Premises and equipment, net | **6,223,739** | 6,339,880 |
| Goodwill | **3,372,259** | 3,372,259 |
| Accrued interest receivable | **2,383,602** | 3,569,586 |
| Other assets | **1,808,761** | 1,733,306 |
| | **$ 323,659,678** | $ 313,167,219 |
| **Liabilities and Stockholders Equity** | | |
| Deposits | | |
| Noninterest-bearing | **$ 24,250,520** | $ 28,814,382 |
| Interest-bearing | **240,886,899** | 235,461,066 |
| Total deposits | **265,137,419** | 264,275,448 |
| Federal funds purchased and securities sold under agreements to repurchase | **676,197** | 3,989,326 |
| Federal Home Loan Bank borrowings | **20,216,666** | 9,716,667 |
| Junior subordinated debentures | **4,124,000** | 4,124,000 |
| Accrued interest payable | **609,109** | 808,404 |
| Other liabilities | **895,459** | 340,297 |
| Total liabilities | **291,658,850** | 283,254,142 |
| **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 | **9,011,219** | 8,705,047 |
| Retained earnings | **20,053,996** | 18,253,199 |
| Accumulated other comprehensive loss | **(33,318)** | (8,036) |
| Total stockholders equity | **32,000,828** | 29,913,077 |

| | |
|---|---|
| **$ 323,659,678** | $ 313,167,219 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

**FOR THE THREE MONTHS**

**ENDED SEPTEMBER 30, 2008 AND 2007**

| | 2008 | 2007 |
|---|---|---|
| **Interest income** | | |
| Interest and fees on loans | **$ 4,429,393** | 5,340,906 |
| Interest on taxable securities | **105,809** | 188,047 |
| Interest on federal funds sold | **22,971** | 159,503 |
| Interest on deposits in other banks | **344** | 418 |
| | **4,558,517** | 5,688,874 |
| **Interest expense** | | |
| Interest on deposits | **1,489,573** | 2,770,315 |
| Interest on other borrowings | **277,313** | 179,136 |
| | **1,766,886** | 2,949,451 |
| Net interest income | **2,791,631** | 2,739,423 |
| **Provision for loan losses** | **75,000** | 60,000 |
| Net interest income after provision for loan losses | **2,716,631** | 2,679,423 |
| **Noninterest income** | | |
| Service charges on deposit accounts | **209,783** | 176,055 |
| Other service charges, commissions and fees | **60,550** | 58,458 |
| Trust and investment services | **655,183** | 628,634 |
| Mortgage origination fees | **12,457** | 48,644 |
| Other | **106,782** | 87,165 |
| | **1,044,755** | 998,956 |
| **Noninterest expense** | | |
| Salaries and employee benefits | **1,164,429** | 1,096,409 |
| Equipment | **148,086** | 140,123 |
| Occupancy | **89,401** | 86,015 |
| Data processing | **121,128** | 108,545 |
| Advertising and marketing | **62,240** | 84,432 |
| Legal and accounting | **63,449** | 90,840 |
| Other operating | **361,609** | 363,324 |
| | **2,010,342** | 1,969,688 |
| Income before income taxes | **1,751,044** | 1,708,691 |
| **Applicable income taxes** | **653,079** | 627,317 |
| Net income | **$ 1,097,965** | 1,081,374 |
| **Basic earnings per share** | **$ 0.37** | 0.37 |

| | | | |
|---|---|---|---|
| **Diluted earnings per share** | **$** | **0.36** | 0.35 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE NINE MONTHS**

**ENDED SEPTEMBER 30, 2008 AND 2007**

| | 2008 | 2007 |
|---|---|---|
| **Interest income** | | |
| Interest and fees on loans | **$ 13,788,289** | $ 15,373,545 |
| Interest on taxable securities | **370,532** | 470,189 |
| Interest on federal funds sold | **87,350** | 731,461 |
| Interest on deposits in other banks | **1,261** | 937 |
| | **14,247,432** | 16,576,132 |
| **Interest expense** | | |
| Interest on deposits | **5,115,111** | 7,922,165 |
| Interest on other borrowings | **745,058** | 511,752 |
| | **5,860,169** | 8,433,917 |
| Net interest income | **8,387,263** | 8,142,215 |
| **Provision for loan losses** | **225,000** | 190,000 |
| Net interest income after provision for loan losses | **8,162,263** | 7,952,215 |
| **Noninterest income** | | |
| Service charges on deposit accounts | **593,149** | 514,809 |
| Other service charges, commissions and fees | **184,818** | 169,542 |
| Trust and investment services | **2,036,055** | 1,908,076 |
| Mortgage origination fees | **80,793** | 193,250 |
| Other | **290,104** | 235,450 |
| | **3,184,919** | 3,021,127 |
| **Noninterest expense** | | |
| Salaries and employee benefits | **3,449,160** | 3,359,216 |
| Equipment | **443,183** | 428,824 |
| Occupancy | **271,430** | 261,931 |
| Data processing | **357,284** | 373,797 |
| Advertising and marketing | **252,779** | 277,595 |
| Legal and accounting | **254,209** | 218,147 |
| Other operating | **1,100,810** | 1,042,877 |
| | **6,128,855** | 5,962,387 |
| Income before income taxes | **5,218,327** | 5,010,955 |
| **Applicable income taxes** | **1,933,806** | 1,755,768 |
| Net income | **$ 3,284,521** | $ 3,255,187 |
| **Basic earnings per share** | **$ 1.11** | $ 1.10 |

| | | | | |
|---|---|---|---|---|
| **Diluted earnings per share** | **$** | **1.07** | $ | 1.06 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

**FOR THE THREE MONTHS**

**ENDED SEPTEMBER 30, 2008 AND 2007**

| | 2008 | 2007 |
|---|---|---|
| **Net income** | **$ 1,097,965** | $ 1,081,374 |
| **Other comprehensive income:** | | |
| Net unrealized holding gains arising during period, net of tax of $72,539 and $59,300 | **140,811** | 115,112 |
| **Total other comprehensive income** | **140,811** | 115,112 |
| **Comprehensive income** | **$ 1,238,776** | $ 1,196,486 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE NINE MONTHS**

**ENDED SEPTEMBER 30, 2008 AND 2007**

| | 2008 | 2007 |
|---|---|---|
| **Net income** | **$ 3,284,521** | $ 3,255,187 |
| **Other comprehensive income (loss):** | | |
| Net unrealized holding (losses) gains arising during period, net of (benefits) tax of $(13,024) and $42,434 | **(25,282)** | 82,371 |
| **Total other comprehensive gain (loss)** | **(25,282)** | 82,371 |
| **Comprehensive income** | **$ 3,259,239** | $ 3,337,558 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)**

**AND FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Common Stock Shares | Common Stock Par Value | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **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 dividends paid, $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** | 2,962,867 | 2,962,867 | 8,705,047 | 18,253,199 | (8,036) | 29,913,077 |
| Net income | | | | 3,284,521 | | 3,284,521 |
| Cash dividends paid, $0.50 per share | | | | (1,483,724) | | (1,483,724) |
| Other comprehensive loss | | | | | (25,282) | (25,282) |
| 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 | | | 113,582 | | | 113,582 |
| Issuance of restricted stock | | | 87,300 | | | 87,300 |
| **Balance, September 30, 2008** | 2,968,931 | $ 2,968,931 | $ 9,011,219 | $ 20,053,996 | $ (33,318) | $ 32,000,828 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

**FOR THE NINE MONTHS**

**ENDED SEPTEMBER 30, 2008 AND 2007**

| | 2008 | 2007 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | **$ 3,284,521** | $ 3,255,187 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan loss | **225,000** | 190,000 |
| Depreciation | **298,000** | 268,562 |
| Stock based compensation | **113,582** | |
| Decrease (increase) in interest receivable | **1,185,984** | (629,310) |
| (Decrease) increase in interest payable | **(199,295)** | 406,195 |
| Increase (decrease) in taxes payable | **383,125** | (100,466) |
| Net other operating activities | **109,606** | 250,995 |
| Total adjustments | **2,116,002** | 385,976 |
| Net cash provided by operating activities | **5,400,523** | 3,641,163 |
| **INVESTING ACTIVITIES** | | |
| Decrease (increase) in interest-bearing deposits in banks | **12,446** | (28,756) |
| Purchases of securities available for sale | **(7,374,963)** | (7,012,264) |
| Proceeds from calls and maturities of securities available for sale | **12,072,697** | 3,480,000 |
| Increase in federal funds sold | **(6,630,579)** | (22,804,629) |
| Increase in loans, net | **(12,311,618)** | (33,442,079) |
| Net change in restricted equity securities | **(509,550)** | (30,901) |
| Net purchases of premises and equipment | **(181,859)** | (631,135) |
| Net cash used in investing activities | **(14,923,426)** | (60,469,764) |
| **FINANCING ACTIVITIES** | | |
| Increase in deposits | **861,971** | 48,274,948 |
| Repayment of other borrowings | **(3,500,001)** | (1,458,334) |
| Proceeds from other borrowings | **14,000,000** | 2,000,000 |
| (Decrease) increase in securities sold under agreements to repurchase | **(3,313,129)** | 781,973 |
| Issuance of common stock, net | **102,694** | 107,519 |
| Issuance of restricted stock | **87,300** | 104,500 |
| Proceeds from exercise of stock options | **8,660** | |
| Dividends paid | **(1,483,724)** | (1,184,828) |
| Net cash provided by financing activities | **6,763,771** | 48,625,778 |
| Net decrease in cash and due from banks | **(2,759,132)** | (8,202,823) |
| Cash and due from banks at beginning of year | **7,378,479** | 13,523,928 |
| Cash and due from banks at end of year | **$ 4,619,347** | $ 5,321,105 |
| **Supplemental Disclosures** | | |
| Cash paid for interest | **$ 6,059,464** | $ 8,027,722 |
| Cash paid for income taxes | **1,511,000** | 1,550,000 |

**See Notes to Consolidated Financial Statements.**

**THOMASVILLE BANCSHARES, INC.**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Thomasville Bancshares, Inc. (the Company ) and subsidiary have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and the nine-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in Form 10-K for the year ended December 31, 2007.

The consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet 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, contingent assets and liabilities and deferred tax assets.

## 2. 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, is recognized in the Company s consolidated income statements.

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

### 3. 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. Potential common shares consist of stock options and restricted stock.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Net income | **$ 1,097,965** | $ 1,081,374 | **$ 3,284,521** | $ 3,255,187 |
| Weighted average common shares outstanding | **2,968,125** | 2,962,071 | **2,965,914** | 2,959,885 |
| Effect of dilutive stock options and restricted stock | **111,885** | 103,722 | **111,803** | 102,267 |
| Weighted average dilutive common shares outstanding | **3,080,010** | 3,065,793 | **3,077,717** | 3,062,152 |

### 4. 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. At September 30, 2008, there were no shares available for grant under the plans.

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**4. STOCK-BASED COMPENSATION PLANS (Continued)**

At September 30, 2008, there was approximately $461,574 of unrecognized compensation cost related to stock-based payments, which is expected to be recognized over a weighted-average period of 3.2 years.

**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 officers which grants to each person restricted shares of the Company s common stock for attending Board/Committee meetings and 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. At September 30, 2008, 102,082 shares of restricted stock were outstanding.

**5. FAIR VALUE MEASUREMENTS**

On January 1, 2008, the Company adopted FASB No. 157, Fair Value Measurements. FASB No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB 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.

FASB No. 157 emphasizes that fair value is market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**5. FAIR VALUE MEASUREMENTS (Continued)**

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liabilities, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The table below presents the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Available for sale investment securities | $ | $ 10,512,404 | $ | $ 10,512,404 |
| Total assets at fair value | $ | $ 10,512,404 | $ | $ 10,512,404 |

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

*This Analysis should be read in conjunction with the 2007 Annual Report on Form 10-K and the consolidated financial statements & related notes included in this quarterly filing. The Company s accounting policies, which are described in detail in Form 10-K, are integral to understanding the results reported. The Company s accounting policies require management s judgment in valuing assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. This Analysis contains forward-looking statements with respect to business and financial matters. Actual results may vary significantly from those contained in these forward-looking statements. See the section entitled Forward-Looking Statements within this Analysis.*

**DESCRIPTION OF BUSINESS**

Thomasville Bancshares, Inc., a Georgia corporation, was formed in March 1995 to organize and act as the holding company for Thomasville National Bank (the Bank ), a national banking association. The Bank opened for business in October 1995, and presently operates two branches in Thomasville, Georgia. The Bank is a full service commercial bank, with trust powers, and offers a full range of 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 investment services through TNB Financial Services, a division of the Bank.

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

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA ) was enacted. Under the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the U.S. Department of Treasury announced the Capital Purchase Program under the EESA, pursuant to which the Treasury intends to make senior preferred stock investments in participating banks, thrifts and bank holding companies that will qualify as Tier I capital. Although both the Company and the Bank meet all applicable regulatory capital requirements and will remain well capitalized, the Company is evaluating whether to participate in the Capital Purchase Program.

On October 27, 2008 the Company filed a preliminary Proxy Statement and Schedule 13E-3 with the Securities and Exchange Commission ( SEC ) disclosing the Company s plan to submit to shareholders for approval amendments to its Articles of Incorporation ( Articles ) enabling the Company to deregister its common stock with the SEC. Amendments to the Articles would convert certain common shareholders to a new class of preferred stock.

**FINANCIAL CONDITION**

Consolidated assets totaled $323,659,678 at September 30, 2008, up $10,492,459 or 3.35% from year-end 2007. Asset growth was concentrated in the loan portfolio and federal funds sold. Specifically, loans grew $12,268,081 or 4.42% and federal funds sold increased $6,630,579. Available for sale securities declined $4,736,040 or 31.06% from year end 2007. Loans comprised approximately 93.63%, investment securities, 3.40%, and federal funds sold, 2.26%, of earning assets at September 30, 2008 versus 93.29%, 5.13%, and 0.12% respectively at December 31, 2007. Overall, earning assets were approximately 95.54% of total assets at September 30, 2008 compared to 94.90% at year end. Refer to the Liquidity section of this Analysis for details on deposits and other funding sources.

*Available for sale Investment Securities*

On a carrying value basis, investment securities decreased $4,736,040 or 31.06% since December 31, 2007. At September 30, 2008, the security portfolio was comprised of primarily U.S. Government sponsored agency securities. Overall, securities comprised 3.40% of earning assets at September 30, 2008, down 173 basis points from year-end 2007 levels. Management believes the credit quality of the investment portfolio remains sound.

The amortized cost and estimated fair value of investment securities are delineated in the table below:

**Investment Securities by Category**

**September 30, 2008**

***(In thousands)***

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available for sale:** | | | | |
| U. S. Government sponsored agencies | $ 10,563 | $ 22 | $ (73) | $ 10,512 |

As shown, the market value of the securities portfolio reflected $51,000 in net unrealized losses at September 30, 2008; refer to the Capital Adequacy section of this Analysis for more details on investment securities and related fair value. The Company has a concentration in the obligations of U.S. Government sponsored agencies.

*Loans*

Loans grew 4.42% or $12,268,081 at September 30, 2008 compared to December 31, 2007. The loan to deposit ratio aggregated 109.2% at September 30, 2008 versus 104.9% at December 31, 2007, and 89.3% a year ago. Despite economic uncertainties within the Company s markets, management is optimistic that loan volumes will continue to grow in 2008. Managerial strategies to increase loan production include continuing competitive pricing on loan products and development of additional loan relationships, all without compromising portfolio quality. During the same period in 2007, net loans increased $33,344,697. Loans outstanding are presented by type in the table on the next page.

***Loans by Category***

***(In thousands)***

| | September 30, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|
| Commercial, financial and agricultural | **$ 48,593** | $ 51,406 | $ 48,132 |
| Real estate construction | **13,948** | 15,118 | 13,081 |
| Real estate farmland | **29,551** | 28,915 | 28,548 |
| Real estate residential | **108,409** | 98,750 | 100,568 |
| Real estate commercial | **67,655** | 60,153 | 58,711 |
| State and political subdivisions | **11,137** | 12,645 | 16,877 |
| Consumer | **9,777** | 9,544 | 9,520 |
| Other | **456** | 728 | 368 |
| Total Loans | **289,526** | 277,259 | 275,805 |
| Allowance for loan losses | **(3,987)** | (3,806) | (3,457) |
| Loans, net | **$ 285,539** | $ 273,453 | $ 272,348 |

Although the Company s loan portfolio is diversified, significant portions of its loans are collateralized by real estate. The Bank s real estate loans consist of residential first and second mortgage loans, residential construction loans and commercial real estate loans. At September 30, 2008, real estate loans approximated $219,563,000 and commitments to extend credit on such loans approximated $15,533,000. 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. In management s opinion, 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. On an aggregate basis, commitments to extend credit and standby letters of credit approximated $33,641,617 at September 30, 2008; because a substantial amount of these contracts expire without being drawn upon, total contractual amounts do not represent future credit exposure or liquidity requirements. The Company has not funded or incurred any losses on letters of credit during 2008.

*Nonperforming Assets*

Nonperforming assets consist of nonaccrual loans, restructured loans, foreclosed real estate and other assets. Total nonperforming assets were $3,566,000 at September 30, 2008, which consisted primarily of: $1,542,000 in nonaccrual loans secured by real estate; $33,000 in consumer loans; and $1,950,000 in restructured loans. Nonperforming assets increased by $1,127,000, or 46.21%, from December 31, 2007, and by $1,414,000, or 63.80%, from September 30, 2007. The primary reason for the $1,127,000 increase in nonperforming assets since December 31, 2007 relates to one large residential real estate loan being moved to nonaccrual status during the third quarter of 2008. This is a real estate mortgage loan on which the borrower has defaulted. In the opinion of management, the loan is adequately-collateralized, and the house securing the loan is currently for sale.

Restructured loans at September 30, 2008 consists of one loan in the amount of $1,950,000 that was restructured during the third quarter of 2007 and is secured by real estate. This loan was restructured to accommodate a slight reduction in the value of the collateral, and the loan is currently performing. In the opinion of management, the loan is well-collateralized and the guarantor of the principal has adequate financial means to repay the loan should the guaranty be called upon.

As a percent of total assets, nonperforming assets totaled 1.10% at September 30, 2008 versus 0.78% at year-end 2007 and 0.61% a year ago. Refer to the subsection entitled Policy Note for criteria used by management in classifying loans as nonaccrual. The allowance for loan losses approximated 1.13 times the nonperforming loans balance at September 30, 2008 versus 1.56 times at year-end 2007 and 1.61 times a year ago. Management is unaware of any other material developments in nonperforming assets at September 30, 2008 that should be presented or otherwise discussed.

There were no loans past due 90 days or more and still accruing interest at September 30, 2008. Management is unaware of any material concentrations within these past due balances. The table below provides further information about nonperforming assets and loans past due 90 plus days and still accruing interest:

***Nonperforming Assets***

***(In thousands)***

| | **September 30, 2008** | **December 31, 2007** | **September 30, 2007** |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Commercial, financial and agricultural | **$** | $ | $ |
| Real estate construction | | | |
| Real estate farmland | | | |
| Real estate residential | **1,542** | 327 | 42 |
| Real estate commercial | | | |
| State and political subdivisions | | | |
| Consumer | **33** | 68 | 66 |
| Other | | | |
| Total nonaccrual loans | **1,575** | 395 | 108 |
| Restructured loans | **1,950** | 2,044 | 2,044 |
| Total nonperforming loans | **3,525** | 2,439 | 2,152 |
| Foreclosed real estate | | | |
| Other repossessed assets | **41** | | |
| Total nonperforming assets | **$ 3,566** | $ 2,439 | $ 2,152 |
| Accruing loans past due 90 days or more | **$** | $ 201 | $ 41 |
| Ratios: | | | |
| Nonperforming loans to net loans | **0.55%** | 0.14% | 0.79% |
| Nonperforming assets to net loans plus foreclosed/repossessed assets | **1.25%** | 0.89% | 0.79% |

*Policy Note.* Loans classified as nonaccrual have been placed in nonperforming, or impaired, status because the borrower s ability to make future principal and/or interest payments has become uncertain. The Company considers a loan to be nonaccrual when the collection of recorded interest or principal is not anticipated in the foreseeable future. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Nonaccrual loans that are impaired are reduced to the lower of the principal balance of the loan or the market value of the underlying real estate or other collateral net of selling costs. Any impairment in the principal balance is charged against the allowance for loan losses. Accrued interest on any loan placed on nonaccrual status is reversed. Interest income on nonaccrual loans, if subsequently recognized, is recorded on a cash basis. No interest is subsequently recognized on nonaccrual (or former nonaccrual) loans until all principal has been brought current and there is an expectation by the Company that the loan will perform as agreed going forward. Foreclosed real estate represents real property acquired by foreclosure or directly by title or deed transfer in settlement of debt. Provisions for subsequent devaluations of foreclosed real estate are charged to operations, while costs associated with improving the properties are generally capitalized.

*Allowance for Loan Losses*

The Company continuously reviews its loan portfolio and maintains an allowance for loan losses available to absorb losses inherent in the portfolio. The nine-month provision for loan losses at September 30, 2008 totaled $225,000, and net charge-offs, $44,000. The comparable provision and net charge-off amounts at September 30, 2007 were $190,000 and $98,000. Net charge-offs represented 0.016% of average loans at September 30, 2008, while at September 30, 2007 net charge-offs represented 0.038% of average loans. The Company is committed to the early recognition of problem loans and to an appropriate and adequate level of allowance. The adequacy of the allowance is further discussed in the next subsection of this Analysis. Activity in the allowance is presented in the table below:

***Allowance for Loan Losses***

***Nine Months Ended September 30,***

***(In thousands)***

| | 2008 | 2007 |
|---|---|---|
| Allowance for loan losses at beginning of year | **$ 3,806** | $ 3,365 |
| Provision for loan losses | **225** | 190 |
| Charge-offs: | | |
| Commercial, financial, and agricultural | **7** | |
| Real estate construction | | |
| Real estate farmland | | |
| Real estate residential | **30** | |
| Real estate commercial | | 100 |
| State and political subdivisions | | |
| Consumer | **20** | 1 |
| Other | **13** | 6 |
| Total charge-offs | **70** | 107 |
| Recoveries: | | |
| Commercial, financial, and agricultural | | |
| Real estate construction | | |
| Real estate farmland | | |
| Real estate residential | | |
| Real estate commercial | | |
| State and political subdivisions | | |
| Consumer | **22** | 6 |
| Other | **4** | 3 |
| Total recoveries | **26** | 9 |
| Net charge-offs (recoveries) | **44** | 98 |
| Allowance for loan losses at end of period | **$ 3,987** | $ 3,457 |
| Net loans outstanding at end of period | **$ 285,539** | $ 272,348 |
| Average net loans outstanding at end of period | **$ 278,341** | $ 254,564 |

| | | |
|---|---|---|
| Ratios: | | |
| Allowance to net loans | **1.396%** | 1.269% |
| Net charge-offs (recoveries) to average loans | **0.016%** | 0.038% |
| Provision to average loans | **0.081%** | 0.075% |
| Recoveries to total charge-offs | **37.14%** | 8.41% |

*Allowance for Loan Losses (Continued)*

The Company prepares a comprehensive analysis of the allowance for loan losses at least quarterly. The allowance calculation is also reviewed annually by an independent accounting firm. The Bank s Board of Directors is responsible for affirming the allowance methodology and assessing the general and specific allowance factors in relation to estimated and actual net charge-off trends. The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also 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.

*Deposits*

Deposits increased $861,971 or .33% since year-end 2007. Noninterest-bearing deposits decreased $4,563,862 or 15.84%, while interest-bearing deposits increased $5,425,833 or 2.30%, from December 31, 2007. The increase in interest-bearing deposits was reflected in both the interest-bearing demand and time deposits. There was a $2,000,000 decline in time deposits related to the maturity of brokered deposits. Overall, interest-bearing deposits comprised 90.85%, and noninterest-bearing deposits, 9.15%, of total deposits at September 30, 2008. The distribution of interest-bearing balances at September 30, 2008 and certain comparable quarter-end dates is shown in the table below:

**Deposits**

***(Dollars in thousands)***

| | **September 30, 2008** | | **December 31, 2007** | | **September 30, 2007** | |
|---|---|---|---|---|---|---|
| | **Balances** | **Percent of Total** | **Balances** | **Percent of Total** | **Balances** | **Percent of Total** |
| Interest-bearing demand deposits[1] | **$ 157,539** | **65.40%** | $ 156,255 | 66.36% | $ 202,794 | 72.50% |
| Savings | **7,025** | **2.92%** | 6,944 | 2.95% | 6,935 | 2.48% |
| Time certificates | **76,323** | **31.68%** | 72,262 | 30.69% | 69,968 | 25.02% |
| Total interest-bearing deposits | **$ 240,887** | **100.00%** | $ 235,461 | 100.00% | $ 279,697 | 100.00% |

[1] NOW and money market accounts.

*Deposits (Continued)*

The Company had $12,025,000 in brokered deposits at September 30, 2008 representing a decrease of $2,000,000 or 14.26% from December 31, 2007.

Approximately 81.88% of time certificates at September 30, 2008 were scheduled to mature within the next twelve months. The composition of average deposits and the fluctuations therein at September 30, for the last two periods is shown in the Average Balances table included in the Operations section of this Analysis.

*FHLB Advances*

Advances outstanding with the FHLB totaled approximately $20,216,666 at September 30, 2008, up approximately $10,499,999 from year end 2007. Some of this increase was to offset the decrease in other funding sources such as interest-bearing deposits over the last twelve months. All advances accrue interest at an effective rate than ranges between 2.33% and 5.26% as of September 30, 2008. Interest is payable monthly on all outstanding advances. The year to date interest expense on the advances approximates $545,615 as of September 30, 2008. The advances are collateralized by the pledging of qualifying 1-4 family mortgages included in the loan portfolio as of September 30, 2008.

**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity is the Company s ability to meet all deposit withdrawals immediately, while also providing for the credit needs of customers. The September 30, 2008 financial statements evidence a satisfactory liquidity position as total cash and cash equivalents amounted to $11.7 million, representing 3.60% of total assets. Available for sale securities, which amounted to $10.5 million, or 3.25% of total assets, provide a secondary source of liquidity because they can be converted into cash in a timely manner. The Company s management closely monitors and maintains appropriate levels of interest earning assets and interest bearing liabilities so that maturities of assets are such that adequate funds are provided to meet customer withdrawals and loan demand. The Company is not aware of any trends, demands, commitments, events or uncertainties that will result in or are reasonably likely to result in the Company s liquidity increasing or decreasing in any material way.

The Bank maintains an adequate level of capitalization as measured by the following capital ratios and the respective minimum capital requirements established by the Bank s primary regulator, the Office of the Comptroller of the Currency ( OCC ).

| | **Bank September 30, 2008** | **Minimum Required by Regulator** |
|---|---|---|
| Total capital to risk weighted assets | 13.9% | 8.0% |
| Tier I capital to risk weighted assets | 12.7% | 4.0% |
| Tier I capital to average assets | 10.1% | 4.0% |

*Dividend Policy*

The Company is a legal entity separate and distinct from its subsidiary, and its revenues and liquidity position depend primarily on the payment of dividends from its subsidiary. Banking regulations limit the amount of dividends the Bank may pay without prior approval of the regulatory agencies. Year-to-date, Thomasville National Bank has paid $1,483,828 in cash dividends and has $8,689,000 remaining available to the Company at September 30, 2008 without such prior approval. The Company uses dividends paid by the Bank in order to pay dividends to its own shareholders. Management anticipates that the Company will continue to pay cash dividends on a recurring basis.

*Impact of Inflation*

The effects of inflation on the local economy and the Company s operating results have been relatively modest the last several years. Because substantially all the Company s assets and liabilities, including cash, securities, loans, and deposits, are monetary in nature, their values are less sensitive to the effects of inflation than to changing interest rates. As discussed in the preceding section, the Company attempts to control the impact of interest rate fluctuations by managing the relationship between its interest sensitive assets and liabilities.

**RESULTS OF OPERATIONS**

*For the 3 months ended September 30, 2008 and 2007:*

Net income for the 2008 third quarter totaled $1,097,965, up $16,591 or 1.53% from the same period in 2007. On a per share basis, quarterly basic earnings per share totaled $0.37 at September 30, 2008 and September 30, 2007. Variations in operating results are further discussed within the next three subsections of this Analysis.

*Net Interest Income*

For the quarter ended September 30, 2008, net interest income of $2,791,631 was a $52,208, a 1.91% increase from the $2,739,423 for the comparable period in 2007. Interest earnings on loans, investment securities and federal funds sold declined $911,513 or 17.07%; $82,238 or 43.73%; and $136,532 or 85.60%, respectively, from same period results in 2007. The targeted federal funds rate was changed four individual times by the Federal Reserve during the first quarter of 2008. The target rate was cut by a total of 225 basis points since December 31, 2007 to 2.00% from 4.25%. The federal funds rate did not change during the third quarter of 2008.

*Provision for Loan Losses*

A provision of $75,000 was recorded in the third quarter 2008 compared to $60,000 during the year earlier period. Nonperforming loans increased $1,111,000 during the quarter to $3,525,000 at September 30, 2008. Refer to the subsection entitled Nonperforming Assets for additional discussion. The ratio of nonperforming loans to total loans increased 44 basis points to 1.22% at September 30, 2008, compared with 0.78% at September 30, 2007. The allowance for loan losses as a percentage of total loans was approximately 1.38% at September 30, 2008.

*Noninterest Income and Expense*

Noninterest income increased $45,799 or 4.58% during the third quarter 2008 compared to 2007. The increase in noninterest income is mainly due to an increase in income from trust services and service charges on deposit accounts that was offset by a decrease in mortgage origination fees. The income from trust services increased $26,549 from the third quarter 2008 compared to 2007, which is primarily attributable to the increase in the trust accounts being serviced by TNB Financial Services. The income from service charges on deposit accounts increased $33,728 from the third quarter 2008 compared to 2007, which is primarily attributable to a more stringent collection process initiated by the Company over service charges on deposit accounts. Mortgage origination fees decreased by $36,187 from the third quarter 2008 compared to 2007, which can be attributed to a decrease in the volume of mortgage lending surrounding the overall decline in the real estate market.

Noninterest expense increased $40,654 or 2.06% during the third quarter 2008 compared to 2007. Salaries and data processing accounted for the majority of the change with increases of $68,020 or 6.20%, and $12,583 or 11.59%, respectively, from the third quarter 2007. The increase in salaries and data processing expense was offset by the decline in legal and accounting, and advertising, of $27,391 or 30.15%, and $22,192 or 26.28%, respectively, from the third quarter 2007. The remaining components of noninterest expense were fairly consistent with the expenses recorded during the third quarter 2007.

*For the 9 months ended September 30, 2008 and 2007:*

Net income for the nine month period ended September 30, 2008 increased by $29,334 or 0.90% to $3,284,521, as compared with $3,255,187 for the comparable period in 2007. On a per share basis, basic earnings per share grew $0.01 to $1.11 for the nine months ended September 30, 2008 from $1.10 for the same period in 2007. An increase in net interest income and noninterest income along with only a minimal increase in the noninterest expense all contributed to an increase in net earnings for the period. Variations in operating results are further discussed within the next three subsections of this Analysis.

*Net Interest Income*

For the nine month period ended September 30, 2008, net interest income was $8,387,263, a $245,048 or 3.01% increase from the $8,142,215 for the comparable nine month period in 2007. Interest income on loans, investment securities and federal funds sold declined $1,585,256 or 10.31%; $99,657 or 21.20%; and $644,111 or 88.06%, respectively, from comparable period results in 2007. Average earning assets increased approximately $6,297,000 or 2.15% to $299,580,000 compared with $293,283,000 for the 2007 period. Average interest-bearing liabilities increased $1,103,000 or 0.43% to $259,186,000 compared with $258,083,000 during the nine month period ended September 30, 2007. The targeted federal funds rate was changed four individual times by the Federal Reserve during the first quarter of 2008. The target rate was cut by a total of 225 basis points since December 31, 2007 to 2.00% from 4.25%. There has been no change in the rate during the third quarter of 2008. Comparative details about average balances, income/expense, and average yields earned and rates paid on interest-earning assets and liabilities for the last two years are provided in the table on the next page.

**Selected Average Balances, Income/Expense, and Average Yields Earned and Rates Paid**

***Average Balances[3]***

***Nine Months Ended September 30,***

***(Dollars in thousands)***

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | ***Average Balances*** | ***Income/ Expense*** | ***Yields/ Rates*** | ***Average Balances*** | ***Income/ Expense*** | ***Yields/ Rates*** |
| **Assets** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | **$ 282,228** | **$ 13,788** | **6.51%** | $ 258,024 | $ 15,374 | 7.94% |
| Taxable investment securities | **12,213** | **371** | **4.05%** | 16,220 | 470 | 3.86% |
| Federal funds sold | **5,060** | **87** | **2.29%** | 19,019 | 731 | 5.12% |
| Interest-bearing deposits in banks | **79** | **1** | **1.69%** | 20 | 1 | 6.67% |
| Total interest-earning assets | **299,580** | **14,247** | **6.34%** | 293,283 | 16,576 | 7.54% |
| Non-interest earning assets: | | | | | | |
| Cash | **5,999** | | | 11,639 | | |
| Allowance for loan losses | **(3,887)** | | | (3,460) | | |
| Other assets | **16,262** | | | 15,277 | | |
| Total noninterest-earning assets | **18,374** | | | 23,456 | | |
| **Total assets** | **$ 317,954** | | | $ 316,739 | | |
| **Liabilities and Stockholder s Equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings and interest-bearing demand deposits[2] | **$ 160,501** | **$ 2,697** | **2.24%** | $ 186,582 | $ 5,730 | 4.09% |
| Time deposits | **71,312** | **2,418** | **4.52%** | 59,180 | 2,193 | 4.94% |
| Other borrowings | **23,249** | **578** | **3.31%** | 8,197 | 285 | 4.64% |
| Junior subordinated debentures | **4,124** | **167** | **5.40%** | 4,124 | 227 | 7.34% |
| Total interest-bearing liabilities | **259,186** | **5,860** | **3.01%** | 258,083 | 8,435 | 4.36% |
| Non-interest-bearing liabilities and stockholders equity | | | | | | |
| Demand deposits | **26,532** | | | 29,302 | | |
| Other liabilities | **1,279** | | | 2,719 | | |
| Stockholders equity | **30,957** | | | 26,635 | | |
| Total noninterest-bearing liabilities and stockholders equity | **58,768** | | | 58,656 | | |
| Total liabilities and stockholders equity | **$ 317,954** | | | $ 316,739 | | |
| **Interest rate spread** | | | **3.33%** | | | 3.18% |
| **Net interest income** | | **$ 8,387** | | | $ 8,141 | |
| **Net interest margin** | | | **3.73%** | | | 3.70% |

[1] Average loans are shown net of unearned income. Nonperforming loans are included.
[2] NOW and money market accounts.
[3] Averages presented generally represent average daily balances.

*Provision for Loan Losses*

A provision of $225,000 was recorded for the nine month period ended September 30, 2008 compared to $190,000 during the year earlier period. Nonperforming loans increased $1,086,000 to $3,525,000 at September 30, 2008 compared with $2,439,000 at December 31, 2007. Refer to the subsection entitled Nonperforming Assets for additional discussion. The ratio of nonperforming loans to total loans increased 33 basis points to 1.22% at September 30, 2008, compared with 0.89% at December 31, 2007. The allowance for loan losses as a percentage of total loans also increased by one basis point to 1.38% at September 30, 2008 from 1.37% at December 31, 2007.

The intense competition for loans and deposits continues in 2008 and shows no sign of abating. The number of existing financial institutions in the Company s market areas essentially guarantees downward pressure on net interest spreads and margins as all participants struggle to amass and grow market share. Volume of assets and deposits will become even more important as margins decline. Strategies implemented by management to increase average loans outstanding emphasize competitive pricing on loan products and development of additional loan relationships, all without compromising portfolio quality. Management s strategy for deposits is to closely manage anticipated market increases and maintain a competitive position with respect to pricing and products.

*Noninterest Income and Expense*

Noninterest income increased $163,792 or 5.42% during the first nine months of 2008 compared to the same period in 2007. A $127,979 or 6.71% increase in trust and investment service income and a $78,340 or 15.22% increase in service charges on deposit accounts were the key factors in the increased nine-month results. The primary reason for the increase in trust and investment service income is increased activity within this area. The primary reason for the increase in service charges on deposit accounts relates to a more stringent collection process initiated over these accounts. An increase of $57,933 or 5.56% in other noninterest income and an increase of $15,276 or 9.01% in other service charges, commissions and fees also contributed to the higher noninterest income. A decline in mortgage origination fees of approximately $112,457 or 58.19% offset some of the increases noted in the other categories of noninterest income. The primary reason for the decline in mortgage origination fees relates to decreased activity resulting from the overall slowdown in the real estate market.

Overall, noninterest expense increased $166,468 or 2.79%, for the nine month period ended September 30, 2008 compared to the same period in 2007. Salaries expense accounted for over 50% of the rise in the noninterest expenses with an increase of $89,944 or 2.68% when compared to September 30, 2007. An increase in legal and accounting expenses of $36,062 or 16.53% and other operating expenses of $57,933 or 5.56% also contributed to the total increase in the noninterest expenses. Components of other operating expense that accounted for the majority of the increase include postage/freight expenses and FDIC assessments. Postage and freight expenses increased by $18,955 or 25.30% while the FDIC assessments increased by $103,476. The large increase in the FDIC assessment is mainly due to restructuring by the FDIC in 2007 that resulted in a one-time credit against the assessments due. When compared to the prior year, net occupancy and equipment expense increased by 3.45% or $23,858 during the first nine months of 2008 compared to 2007. A decline of $16,513 in data processing expenses and $24,816 in advertising and marketing expenses did offset some of the rising costs recognized in the nine months ended September 30, 2008. Other components of noninterest expenses remained fairly consistent with the prior year.

**Recent Accounting Pronouncements**

Recent accounting pronouncements affecting the Company are discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 previously filed with the Securities and Exchange Commission.

Various other accounting proposals affecting the banking industry are pending with the Financial Accounting Standards Board. Given the inherent uncertainty of the proposal process, the Company cannot assess the impact of any such proposals on its financial condition or results of operations.

**Forward-Looking Statements**

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives have made, and may continue to make, various written or oral forward-looking statements with respect to business and financial matters, including statements contained in this report, filings with the Securities and Exchange Commission, and press releases. Generally, the words believe, expect, intend, estimate, anticipate, project, will, should, and similar identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements related to loan growth, deposit growth, per share growth, and statements expressing general sentiment about future operating results and non-historical information, are forward-looking statements within the meaning of the Act. The forward-looking statements are and will be based on management s then current views and assumptions regarding future events and operating performance. The Company undertakes no obligation to publicly update or revise any forward-looking statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. Certain factors that could cause actual results to differ materially from estimates contained in or underlying forward-looking statements include:

Competitive pressures between depository and other financial institutions may increase significantly.

Changes in the interest rate environment may reduce margins and impact funding sources.

General economic or business conditions in the geographic regions and industry in which the Company operates may lead to deterioration in credit quality or a reduced demand for credit.

Legislative or regulatory changes, including changes in accounting standards, monetary policies, and taxation requirements, may adversely affect the Company s business.

Other factors include:

- Changes in consumer spending and saving habits as well as real estate markets.
- Management of costs associated with expansion of existing and development of new distribution channels, and ability to realize increased revenues from these distribution channels.
- The outcome of litigation which depends on judicial interpretations of law and findings of juries.
- The effect of mergers, acquisitions, and/or dispositions and their integration into the Company.
- Other risks and uncertainties as detailed from time to time in Company filings with the Securities and Exchange Commission.

The foregoing list of factors is not exclusive. Many of the factors that will determine actual financial performance and values are beyond the Company s ability to predict or control. In particular, these risks are exacerbated by the recent developments in national and international financial markets. During 2008, the capital and credit markets have experienced extended volatility and disruption. In the last 90 days, the volatility and disruption have reached unprecedented levels. There can be no assurance that these unprecedented recent developments will not materially and adversely affect the business, financial condition and results of operations of the Company. This Analysis should be read in conjunction with the consolidated financial statements and related notes.

**ITEM 4. CONTROLS AND PROCEDURES**

Management has developed and implemented a policy and procedures for reviewing disclosure controls and procedures and internal controls over financial reporting on a quarterly basis. Management, including the Chief Executive Officer (who is both the Company s principal executive and principal financial officer), evaluated the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2008 and, based on their evaluation, the Company s Chief Executive Officer concluded that these controls and procedures are operating effectively. Disclosure controls and procedures are the Company s controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Securities Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure. There were no changes in the Company s internal control over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

## Part II Other Information

**Item 1. Legal Proceedings.**
None

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**
None

**Item 3. Defaults Upon Senior Securities.**
None

**Item 4. Submission of Matters to a Vote of Security Holders.**
None

**Item 5. Other Information.**
None

**Item 6. Exhibits.**

The following exhibits are filed with this report.

| Exhibit Number | Description |
|---|---|
| 3.1 | Articles of Incorporation of the Company (incorporated herein by referenced to the Company s Registration Statement on Form SB-2 under the Securities Act of 1933, Registration Number 33-91536). |
| 3.2 | Bylaws of the Company (incorporated herein by referenced to the Company s Registration Statement on Form SB-2 under the Securities Act of 1933, Registration Number 33-91536). |
| 31.1 | Certification Pursuant to Rule 13a-14(a), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

## SIGNATURES

Pursuant to the requirements 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.

Date: November 14, 2008

By: /s/ Stephen H. Cheney
Stephen H. Cheney
President and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)