SOUTHWEST GEORGIA FINANCIAL CORP
Form 10-Q
August 15, 2011

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 June 30, 2011

[ ] Transition report under Section 13 or 15(d) of the Exchange Act.
For the transition period from to __________

Commission file number 1-12053

SOUTHWEST GEORGIA FINANCIAL CORPORATION

(Exact Name Of Small Business Issuer as specified in its Charter)

Georgia	**58-1392259**
(State Or Other Jurisdiction Of Incorporation Or Organization)	**(I.R.S. Employer Identification No.)**

201 FIRST STREET, S.E., MOULTRIE, GEORGIA 31768

Address Of Principal Executive Offices

(229) 985-1120 _

Registrant's Telephone Number, Including Area Code

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if smaller reporting company)
Accelerated filer [ ]	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding At July 20, 2011
Common Stock, $1 Par Value	2,547,837

SOUTHWEST GEORGIA FINANCIAL CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2011

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2011 and December 31, 2010

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
ASSETS		
Cash and due from banks	$5,605,180	$5,111,869
Interest-bearing deposits in other banks	6,479,099	10,958,766
Cash and cash equivalents	12,084,279	16,070,635
Investment securities available for sale, at fair value	44,665,061	54,945,921
Investment securities held to maturity (fair value approximates $46,454,133 and $46,570,196)	45,619,064	46,255,446
Federal Home Loan Bank stock, at cost	2,087,500	1,649,900
Total investment securities	92,371,625	102,851,267
Loans	176,692,329	157,758,504
Less: Unearned income	(25,280)	(25,874)
Allowance for loan losses	(2,910,947)	(2,754,614)
Loans, net	173,756,102	154,978,016
Premises and equipment, net	9,581,117	9,221,341
Foreclosed assets, net	2,919,028	3,288,121
Intangible assets	658,151	640,876
Bank owned life insurance	4,496,617	3,029,314
Other assets	5,507,263	6,324,361
Total assets	$301,374,182	$296,403,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
NOW accounts	$36,202,856	$29,238,582
Money Market	42,934,966	50,468,227
Savings	24,611,003	22,635,415
Certificates of deposit $100,000 and over	32,545,737	32,472,318
Other time accounts	61,455,755	65,858,838
Total interest-bearing deposits	197,750,317	200,673,380
Noninterest-bearing deposits	45,267,829	38,857,679
Total deposits	243,018,146	239,531,059
Short-term borrowed funds	2,000,000	2,000,000
Long-term debt	24,000,000	24,000,000
Other liabilities	4,423,300	4,097,279
Total liabilities	273,441,446	269,628,338
Stockholders' equity:		
Common stock - $1 par value, 5,000,000 shares authorized, 4,293,835 shares issued	4,293,835	4,293,835

Capital surplus	31,701,533	31,701,533
Retained earnings	18,636,891	17,925,895
Accumulated other comprehensive income (loss)	(585,728)	(1,031,875)
Treasury stock, at cost 1,745,998 shares for 2011 and 2010	(26,113,795)	(26,113,795)
Total stockholders' equity	27,932,736	26,775,593
Total liabilities and stockholders' equity	$301,374,182	$296,403,931

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	(Unaudited) 2011	(Unaudited) 2010	(Unaudited) 2011	(Unaudited) 2010
Interest income:				
Interest and fees on loans	$2,688,219	$2,564,250	$5,103,104	$4,964,877
Interest on taxable securities available for sale	390,303	496,012	799,299	1,095,555
Interest on taxable securities held to maturity	177,294	160,805	344,799	290,750
Interest on tax exempt securities	159,206	141,685	315,561	282,975
Dividends	3,537	0	6,985	0
Interest on deposits in other banks	6,641	15,817	19,752	29,688
Total interest income	3,425,200	3,378,569	6,589,500	6,663,845
Interest expense:				
Interest on deposits	355,179	535,064	745,915	1,115,813
Interest on federal funds purchased	1,786	2	1,787	2
Interest on other short-term borrowings	9,387	35,168	17,129	69,949
Interest on long-term debt	200,465	173,126	398,728	344,350
Total interest expense	566,817	743,360	1,163,559	1,530,114
Net interest income	2,858,383	2,635,209	5,425,941	5,133,731
Provision for loan losses	150,000	150,000	300,000	300,000
Net interest income after provision for loan losses	2,708,383	2,485,209	5,125,941	4,833,731
Noninterest income:				
Service charges on deposit accounts	334,460	401,330	701,778	786,497
Income from trust services	55,137	66,536	110,634	120,892
Income from retail brokerage services	105,193	109,695	174,859	170,808
Income from insurance services	309,541	291,379	662,183	610,380
Income from mortgage banking services	470,061	360,457	772,777	688,597
Provision for foreclosed property losses	(75,000)	(125,000)	(150,000)	(125,000)
Net gain (loss) on sale or disposition of assets	(71,098)	0	(53,204)	2,816
Net gain on the sale of securities	188,533	627,678	220,559	534,973
Net loss on the impairment of equity securities	(12,265)	0	(12,265)	0
Other income	134,518	118,243	308,676	278,135
Total noninterest income	1,439,080	1,850,318	2,735,997	3,068,098
Noninterest expense:				
Salaries and employee benefits	1,911,054	1,758,490	3,816,716	3,438,380
Occupancy expense	225,999	211,366	455,117	415,136
Equipment expense	181,123	184,598	361,719	359,888
Data processing expense	260,261	250,604	517,722	494,729
Amortization of intangible assets	55,816	51,910	107,725	103,819
Other operating expenses	724,780	632,485	1,345,420	1,282,800
Total noninterest expenses	3,359,033	3,089,453	6,604,419	6,094,752
Income before income taxes	788,430	1,246,074	1,257,519	1,807,077
Provision for income taxes	197,361	340,257	291,739	494,361
Net income	$591,069	$905,817	$965,780	$1,312,716

Earnings per share of common stock:				
Net income, basic	$0.23	$0.36	$0.38	$0.52
Net income, diluted	$0.23	$0.36	$0.38	$0.52
Dividends paid per share	$—	$—	$0.10	$0.10
Weighted average shares outstanding	2,547,837	2,547,837	2,547,837	2,547,837
Diluted average shares outstanding	2,547,839	2,547,837	2,547,894	2,547,952

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	(Unaudited) 2011	(Unaudited) 2010	(Unaudited) 2011	(Unaudited) 2010
Net income	$591,069	$905,817	$965,780	$1,312,716
Other comprehensive income, net of tax:				
Unrealized gain on securities available for sale, net of tax expense of $222,650 and $0 for the quarter and of $229,834 and $269,311 for the year	432,202	(1)	446,148	522,780
Total comprehensive income	$1,023,271	$905,816	$1,411,928	$1,835,496

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30,	
	(Unaudited)	(Unaudited)
Cash flows from operating activities:	2011	2010
Net income	$965,780	$1,312,716
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Provision for loan losses	300,000	300,000
Provision for foreclosed asset losses	150,000	0
Depreciation	381,469	369,337
Net amortization and (accretion) of investment securities	182,501	103,728
Cash surrender value of bank owned life insurance	61,837	54,913
Amortization of intangibles	107,725	103,819
Loss on sale/writedown of foreclosed assets	58,204	0
Net loss on the impairment of equity securities	12,265	0
Net gain on sale of securities	(220,559)	(534,973)
Net gain on disposal of other assets	(5,000)	(2,816)
Funds held related to mortgage banking activities	483,865	(126,751)
Change in:		
Other assets	306,124	229,301
Other liabilities	(157,844)	(277,405)
Net cash provided by operating activities	2,626,367	1,531,869
Cash flows from investing activities:		
Proceeds from calls, paydowns and maturities of securities HTM	8,269,128	0
Proceeds from calls, paydowns and maturities of securities AFS	7,019,734	5,280,561
Proceeds from sale of securities available for sale	11,914,598	17,973,354
Purchase of securities held to maturity	(7,772,847)	(12,392,420)
Purchase of securities available for sale	(8,249,195)	(1,633,218)
Net change in loans	(19,175,086)	829,814
Purchase bank owned life insurance	(1,400,002)	0
Expenditures for improvements to other real estate owned	(42,401)	0
Purchase of premises and equipment	(741,246)	(1,465,317)
Proceeds from sales of other assets	332,291	175,248
Net cash provided for investing activities	(9,845,026)	8,768,022
Cash flows from financing activities:		
Net change in deposits	3,487,087	4,556,398
Cash dividends paid	(254,784)	(254,784)
Net cash provided for financing activities	3,232,303	4,301,614
Increase(decrease) in cash and cash equivalents	(3,986,356)	14,601,505
Cash and cash equivalents - beginning of period	16,070,635	23,296,417

Cash and cash equivalents - end of period	$12,084,279	$37,897,922
NONCASH ITEMS:		
Increase in foreclosed properties and decrease in loans	$97,000	$120,165
Unrealized gain (loss) on securities available for sale	$675,981	$792,090

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SOUTHWEST GEORGIA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

Southwest Georgia Financial Corporation (the "Corporation"), a bank-holding company organized under the laws of Georgia, provides deposit, lending, and other financial services to businesses and individuals primarily in the Southwest region of Georgia. The Corporation and its subsidiaries are subject to regulation by certain federal and state agencies.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The interim consolidated financial statements should be read in conjunction with the Corporation's 2010 Annual Report on Form 10K.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Southwest Georgia Financial Corporation and Subsidiaries (the "Corporation") conform to generally accepted accounting principles and to general practices within the banking industry. The following is a description of the more significant of those policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Southwest Georgia Financial Corporation and its wholly-owned direct and indirect Subsidiaries, Southwest Georgia Bank (the "Bank") and Empire Financial Services, Inc. ("Empire"). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Nature of Operations

The Corporation offers comprehensive financial services to consumer, business, and governmental customers through its banking offices in southwest Georgia. Its primary deposit products are savings and certificates of deposit, and its primary lending products are consumer and commercial mortgage loans. The Corporation provides, in addition to conventional banking services, investment planning and management, trust management, mortgage banking, and commercial and individual insurance products. Insurance products and advice are provided by the Bank's Southwest Georgia Insurance Services Division. Mortgage banking for primarily commercial properties is provided by Empire, a mortgage banking services subsidiary.

The Corporation's primary business is providing banking services through the Bank to individuals and businesses principally in Colquitt County, Baker County, Thomas County, Worth County, Lowndes County and the surrounding counties of southwest Georgia. The Bank also operates Empire Financial Services, Inc. in Milledgeville, Georgia. Our new full-service banking center in Valdosta, Georgia opened in June 2010 and a mortgage origination office was opened in January 2011 in Valdosta, Georgia. A second location has been secured for a new banking center in Valdosta that is expected to be opened by the first quarter of 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements 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 relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with these evaluations, management obtains independent appraisals for significant properties.

A substantial portion of the Corporation's loans are secured by real estate located primarily in Georgia. Accordingly, the ultimate collection of these loans is susceptible to changes in the real estate market conditions of this market area.

Cash and Cash Equivalents and Statement of Cash Flows

For purposes of reporting cash flows, the Corporation considers cash and cash equivalents to include all cash on hand, deposit amounts due from banks, interest-bearing deposits in other banks, and federal funds sold. The Corporation maintains its cash balances in several financial institutions. Accounts at the financial institutions are secured by the Federal Deposit Insurance Corporation up to $250,000. Uninsured deposits aggregate to $190,089.45 at June 30, 2011.

Investment 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 or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value with unrealized gains and losses reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale 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 in accordance with ASC 320-10-65, 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 Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation has been calculated primarily using the straight-line method for buildings and building improvements over the assets estimated useful lives. Equipment and furniture are depreciated using the modified accelerated recovery system method over the assets estimated useful lives for financial reporting and income tax purposes for assets purchased on or before December 31, 2003. For assets acquired since 2003, the Corporation used the straight-line method of depreciation. The following estimated useful lives are used for financial statement purposes:

Land improvements	5 – 31 years
Building and improvements	10 – 40 years

Machinery and equipment	5 – 10 years
Computer equipment	3 – 5 years
Office furniture and fixtures	5 – 10 years

All of the Corporation's leases are operating leases and are not capitalized as assets for financial reporting purposes. Maintenance and repairs are charged to expense and betterments are capitalized.

Long-lived assets are evaluated regularly for other-than-temporary impairment. If circumstances suggest that their value may be impaired and the write-down would be material, an assessment of recoverability is performed prior to any write-down of the asset. Impairment on intangibles is evaluated at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount should be assessed. Impairment, if any, is recognized through a valuation allowance with a corresponding charge recorded in the income statement.

Loans and Allowances for Loan Losses

Loans are stated at principal amounts outstanding less unearned income and the allowance for loan losses. Interest income is credited to income based on the principal amount outstanding at the respective rate of interest except for interest on certain installment loans made on a discount basis which is recognized in a manner that results in a level-yield on the principal outstanding.

Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest income becomes doubtful. Accrual of interest on such loans is resumed when, in management’s judgment, the collection of interest and principal becomes probable.

Fees on loans and costs incurred in origination of most loans are recognized at the time the loan is placed on the books. Because loan fees are not significant, the results on operations are not materially different from the results which would be obtained by accounting for loan fees and costs as amortized over the term of the loan as an adjustment of the yield.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to 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. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans 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. Allowance for loan loss for impaired loans is determined in accordance with ASC 310-10-35.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance is an amount which management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on evaluation of the collectibility of loans and prior loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolios, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality, and review of specific problem loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based upon changes in economic conditions. Also, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Foreclosed Assets

In accordance with policy guidelines and regulations, properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value at the date of foreclosure, establishing a new cost basis. 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. A valuation allowance is established to record market value changes in foreclosed assets. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. As of June 30, 2011, the valuation allowance for foreclosed asset losses was $425,000.

Intangible Assets

Intangible assets are amortized over a determined useful life using the straight-line basis. These assets are evaluated annually as to the recoverability of the carrying value. The remaining intangibles have a remaining life of two to eight years.

Credit Related Financial Instruments

In the ordinary course of business, the Corporation has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Retirement Plans

The Corporation and its subsidiaries have post-retirement plans covering substantially all employees. The Corporation makes annual contributions to the plans in amounts not exceeding the regulatory requirements.

Income Taxes

The Corporation and its subsidiaries file a consolidated income tax return. Each subsidiary computes its income tax expense as if it filed an individual return except that it does not receive any portion of the surtax allocation. Any benefits or disadvantages of the consolidation are absorbed by the parent company. Each subsidiary pays its allocation of federal income taxes to the parent company or receives payment from the parent company to the extent that tax benefits are realized.

The Corporation reports income under Accounting Standards Codification Topic 740, *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences and tax credits will be realized.

The Corporation adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), included in FASB ASC Subtopic 740-10, *Income Taxes*, as of June 30, 2006. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Corporation's financial statement for the quarter ending June 30, 2011.

The Corporation recognizes penalties related to income tax matters in income tax expense. The Corporation is subject to U.S. federal and Georgia state income tax audit for returns for the tax period ending December 31, 2010.

The Internal Revenue Service (IRS) completed an audit of the Corporation's tax returns in May 2010 for periods ending December 31, 2009, 2008, and 2007. Adjustments from the examiner and payments to the IRS approximated $337,000. The result of the audit did not have a material impact on the Corporation's financial statements. Thus, no FIN 48 liability was recorded for additional tax, interest or penalties. We are aware of no additional material uncertain tax positions which would require a FIN 48 liability to be recorded for the current year.

Trust Department

Trust income is included in the accompanying consolidated financial statements on the cash basis in accordance with established industry practices. Reporting of such fees on the accrual basis would have no material effect on reported income.

Servicing and Origination Fees on Loans

The Corporation from the Bank's subsidiary, Empire, recognizes as income in the current period all loan origination and brokerage fees collected on loans originated and closed for investing participants. Loan servicing fees are based on a percentage of loan interest paid by the borrower and recognized over the term of the loan as loan payments are received. Empire does not directly fund any mortgages and acts as a service-oriented broker for participating mortgage lenders. Fees charged for continuing servicing fees are comparable with market rates charged in the industry. Based on these facts and after a thorough analysis and evaluation of deferred mortgage servicing costs as defined under ASC 860, they are insignificant and immaterial to be recognized. Late charges assessed on past due payments are recognized as income by the Corporation when collected.

Advertising Costs

It is the policy of the Corporation to expense advertising costs as they are incurred. The Corporation does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheet. Costs expensed during the second quarter of 2011 were $39,217 and $83,396 for the six-month period.

Recent Market and Regulatory Developments

The financial services industry is facing unprecedented challenges in the face of the current national and global economic crisis. The global and U.S. economies are experiencing significantly reduced business activity. Dramatic declines in the housing market during the past two years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital; to merge with larger and stronger institutions; and, in some cases, to fail. The Corporation is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. As a result, the Corporation is carrying a prepaid asset of $807 thousand as of June 30, 2011. The Corporation's quarterly risk-based deposit insurance assessments will be paid from this amount until the amount is exhausted or until December 30, 2014, when any amount remaining would be returned to the Corporation.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (The Act) became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the Corporation become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act also permanently raises the current standard maximum FDIC deposit insurance amount to $250,000.

On November 9, 2010, the FDIC adopted the final rule that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (IDIs) in anticipation of the expiration of the TAGP on December 31, 2010. The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010, and terminates on December 31, 2012. Unlike the TAGP, The Act definition of noninterest-bearing transaction accounts does not include either low-interest Negotiable Order of Withdrawal (NOW) accounts or Interest on Lawyer Trust Accounts (IOLTAs). The final rule included notice and disclosure requirements that IDIs were required to implement by December 31, 2010.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Presentation of Comprehensive Income," which revises how entities present comprehensive income in their financial statements. The ASU requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. In a continuous statement of comprehensive income, an entity would be required to present the components of the income statement as presented today, along with the components of other comprehensive income. In the two-statement approach, an entity would be required to present a statement that is consistent with the income statement format used today, along with a second statement, which would immediately follow the income statement, that would include the components of other comprehensive income. The ASU eliminates the option for presenting components of other comprehensive income as part of the statement of changes in stockholders' equity, requires that the statement of comprehensive income directly follows the income statement (if using the two statement approach), and requires that reclassification adjustments from other comprehensive income to net income are presented on the face of the financial statements. The ASU does not change the items that an entity must report in other comprehensive income. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Corporation's financial position or results of operations.

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In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU is a result of joint efforts by the FASB and the International Accounting Standards Board ("IASB") to develop a single, converged fair value framework for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards ("IFRSs"). This ASU is largely consistent with existing fair value measurement principles in U.S. GAAP; however, some of the components of this ASU could change how fair value measurement guidance in ASC 820, "Fair Value Measurements and Disclosures," is applied. This ASU does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. The Corporation is already disclosing its fair value measurements in compliance with the converged guidance, and the adoption of this guidance is not expected to have a material effect on the Corporation's financial position or results of operations.

In April 2011, the FASB issued ASU 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring." ASU 2011-02 provides guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties in order to determine when a restructured loan is a troubled debt restructuring. This ASU is effective for the Corporation's financial statements for annual and interim periods beginning on or after June 15, 2011, and must be applied retrospectively to the beginning of the period of adoption. The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements.

In January 2011, the FASB issued ASU 2011-01 which temporarily defers the effective date in ASU 2010-20 for disclosure about troubled debt restructuring by creditors to coincide with the effective date of ASU 2011-02 clarifying what constitutes a troubled debt restructuring. The adoption of this disclosure-only guidance is not expected to have an effect on the Corporation's financial statements.

In December 2010, the FASB issued ASU 2010-29 "Business Combinations (Topic 805)—Disclosures of Supplementary Pro Forma Information for Business Combinations." The amendments in this update affect any public entity as defined in Topic 805 that enters into business combinations that are material on an individual or aggregate basis. The amendments in the update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after December 15, 2010. The Corporation did not have any material business combination(s) for the periods presented. The adoption of this update did not have an effect on the Corporation's financial statements.

In December 2010, the FASB issued ASU 2010-28 "Intangibles – Goodwill and Other (Topic 350)—When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The amendments in this update affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. For public entities, the amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation does not have any reporting units with zero or negative carrying amounts, therefore the adoption of this update did not have an effect on the Corporation's financial statements.

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In July 2010, the FASB issued ASU 2010-20 “Receivables (Topic 310)—Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which added disclosure requirements concerning the credit quality of an entity’s allowance for loan losses and financing receivables. The new disclosures that relate to information as of the end of the reporting period is effective as of December 31, 2010, whereas the disclosures related to activity that occurred during the reporting periods is effective January 1, 2011. The adoption of this guidance did not have a material effect on the Corporation’s financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, “Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements.” ASU 2010-09 addresses both the interaction of the requirements of Topic 855 with the SEC’s reporting requirements and the intended breadth of the reissuance disclosures provisions related to subsequent events. ASU 2010-09 is effective immediately. The adoption of the new guidance did not have a material impact on the Corporation’s consolidated financial statements.

In January 2010, the FASB issued ASU 2010-04, “Accounting for Various Topics – Technical Corrections to SEC Paragraphs.” ASU 2010-04 makes technical corrections to existing SEC guidance including the following topics: accounting for subsequent investments, termination of an interest rate swap, issuance of financial statements - subsequent events, use of residential method to value acquired assets other than goodwill, adjustments in assets and liabilities for holding gains and losses, and selections of discount rate used for measuring defined benefit obligation. The adoption of the new guidance did not have a material impact on the Corporation’s consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers’ disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Corporation’s consolidated financial statements.

NOTE 2

Fair Value Measurements

Effective January 1, 2008, the Corporation adopted Accounting Standards Codification (“ASC”) 820, which provides a framework for measuring fair value under generally accepted accounting principles. ASC 820 applies to all financial statement elements that are being measured and reported on a fair value basis.

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. From time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and foreclosed real estate. Additionally, the Corporation is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy:

Under ASC 820, the Corporation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded inactive markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Cash and Cash Equivalents:

For disclosure purposes for cash, due from banks and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale:

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Investment Securities Held to Maturity:

Investment securities held to maturity are not recorded at fair value on a recurring basis. For disclosure purposes, fair value measurement is based upon quoted prices, if available.

Federal Home Loan Bank Stock:

For disclosure purposes the carrying value of other investments approximate fair value.

Loans:

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan losses. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC 310, *Accounting by Creditors for Impairment of a Loans,* (ASC 310). The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan 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 Corporation records the impaired loan as nonrecurring Level 3.

For disclosure purposes, the fair value of fixed rate loans which are not considered impaired, is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For unimpaired variable rate loans, the carrying amount is a reasonable estimate of fair value for disclosure purposes.

Foreclosed Assets:

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate 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 Corporation records the other real estate asset as nonrecurring Level 3.

Deposits:

For disclosure purposes, the fair value of demand deposits, savings accounts, NOW accounts and money market deposits is the amount payable on demand at the reporting date, while the fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using current rates at which comparable certificates would be issued.

Federal Funds Purchased:

For disclosure purposes the carrying amount for Federal funds purchased is a reasonable estimate of fair value due to the short-term nature of these financial instruments.

FHLB Advances:

For disclosure purposes the fair value of the FHLB fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to Extend Credit and Standby Letters of Credit:

Because commitments to extend credit and standby letters of credit are made using variable rates and have short maturities, the carrying value and the fair value are immaterial for disclosure.

Assets Recorded at Fair Value on a Recurring Basis:

The table below presents the recorded amount of assets measured at fair value on a recurring basis as of June 30, 2011.

	Level 1	Level 2	Level 3	Total
Investment securities available for sale	$172,000	$44,493,061	$ 0	$44,665,061

Assets Recorded at Fair Value on a Nonrecurring Basis:

The Corporation may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of June 30, 2011.

	Level 1	Level 2	Level 3	Total
Foreclosed assets	$ 0	$2,919,028	$ 0	$2,919,028
Impaired loans	0	4,208,846	0	4,208,846
Total assets at fair value	$ 0	$7,127,874	$ 0	$7,127,874

The carrying amount and estimated fair values of the Corporation's assets and liabilities which are required to be either disclosed or recorded at fair value at June 30, 2011, and December 31, 2010, are as follows:

	June 30, 2011		December 31, 2010	
	Carrying Amount (Dollars in thousands)	Estimated Fair Value	Carrying Amount (Dollars in thousands)	Estimated Fair Value
Assets:				
Cash and cash equivalents	$12,084	$12,084	$16,071	$16,071
Investment securities available for sale	44,665	44,665	54,946	54,946
Investment securities held to maturity	45,619	46,454	46,255	46,570
Federal Home Loan Bank stock	2,088	2,088	1,650	1,650
Loans	$173,756	$172,592	$154,978	$153,293
Liabilities:				
Deposits	$243,018	$243,387	$239,531	$240,009
FHLB advances	$26,000	$27,334	$26,000	$27,678

Limitations:

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statement element. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates included herein are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the fair value of assets and liabilities that are not required to be recorded or disclosed at fair value like premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 3

Investment Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities as shown in the consolidated balance sheets and their estimated fair values at June 30, 2011, and December 31, 2010, were as follows:

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Securities Available For Sale:

June 30, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government Treasury securities	$11,109,816	$32,810	$206,606	$10,936,020
State and municipal securities	3,054,000	162,360	0	3,216,360
Residential mortgage-backed securities	29,067,339	1,275,342	2,000	30,340,681
Total debt securities AFS	43,231,155	1,470,512	208,606	44,493,061
Equity securities	174,549	0	2,549	172,000
Total securities AFS	$43,405,704	$1,470,512	$211,155	$44,665,061

December 31, 2010	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government Treasury securities	$11,061,282	$0	$427,752	$10,633,530
State and municipal securities	5,655,242	190,509	0	5,845,751
Residential mortgage-backed securities	37,423,357	1,090,228	114,746	38,398,839
Total debt securities AFS	54,139,881	1,280,737	542,498	54,878,120
Equity securities	222,664	0	154,863	67,801
Total securities AFS	$54,362,545	$1,280,737	$697,361	$54,945,921

Securities Held to Maturity:

June 30, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government Agency securities	$2,995,045	$16,485	$0	$3,011,530
State and municipal securities	23,333,680	374,146	59,540	23,648,286
Residential mortgage-backed securities	19,290,339	514,957	10,979	19,794,317
Total securities HTM	$45,619,064	$905,588	$70,519	$46,454,133

December 31, 2010	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government Agency securities	$6,999,651	$13,189	$5,080	$7,007,760
State and municipal securities	17,682,419	252,077	138,934	17,795,562
Residential mortgage-backed securities	21,573,376	276,011	82,513	21,766,874
Total securities HTM	$46,255,446	$541,277	$226,527	$46,570,196

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in continuous loss position, follows:

June 30, 2011	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Temporarily impaired debt securities:				
U.S. Government Treasury securities	$206,606	$8,938,281	$ 0	$ 0
State and municipal securities	0	0	0	0
Residential mortgage-backed securities	2,000	949,063	0	0
Total debt securities AFS	208,606	9,887,344	0	0
Temporarily impaired equity securities	0	0	0	0
Other-than-temporarily impaired equity securities	2,549	172,000	0	0
Total securities available for sale	$211,155	$10,059,344	$ 0	$ 0
Securities Held to Maturity				
Temporarily impaired debt securities:				
U.S. Government Agency	$0	$0	$ 0	$ 0
State and municipal securities	59,540	6,218,710	0	0
Residential mortgage-backed securities	10,979	991,527	0	0
Total securities held to maturity	$70,519	$7,210,237	$ 0	$ 0

December 31, 2010	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Temporarily impaired debt securities:				
U.S. Government Treasury securities	$427,752	$10,633,530	$0	$0
State and municipal securities	0	0	0	0
Residential mortgage-backed securities	114,746	6,443,200	0	0
Total debt securities AFS	542,498	17,076,730	0	0
Temporarily impaired equity securities	0	0	12,208	57
Other-than-temporarily impaired equity securities	0	0	142,655	67,744
Total securities available for sale	$542,498	$17,076,730	$154,863	$67,801
Securities Held to Maturity				
Temporarily impaired debt securities:				
U.S. Government Agency	$5,080	$1,994,920	$0	$0

State and municipal securities	138,934	6,795,789	0	0
Residential mortgage-backed securities	82,513	3,819,645	0	0
Total securities held to maturity	$226,527	$12,610,354	$0	$0

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. Management assesses whether an other-than-temporary impairment is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, other-than-temporary impairment is considered to have occurred if the Corporation intends to sell the security, if it is more likely than not the Corporation will be required to sell the security before recovery of its amortized cost basis or if the present values of expected cash flows is not sufficient to recover the entire amortized cost.

As of June 30, 2011, the Corporation's other-than-temporarily impaired equity security was one issue of Fannie Mae preferred stock of $174,549 of amortized cost, unrealized loss of $2,549 recognized in accumulated other comprehensive income and fair value of $172,000. As of December 31, 2010, the Corporation's other-than-temporarily impaired equity securities were two issues of Fannie Mae and Freddie Mac preferred stock of $210,399 of amortized cost, unrealized loss of $142,655 recognized in accumulated other comprehensive income and fair value of $67,744. In March 2011, the Corporation sold the remaining shares of Freddie Mac preferred stock. Previously in 2008, the Corporation took a charge against earnings of $4,104,901 for the impairment of these preferred stock issues.

In the second quarter of 2011, it was determined that common stock held in the Corporation's investment portfolio of a FDIC problem bank was impaired and a loss of $12,265 was recognized.

At June 30, 2011, the debt securities with unrealized losses have depreciated 1.6% from the Corporation's amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. Management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale. Also, no declines in debt securities are deemed to be other-than-temporary.

NOTE 4

Loans and Allowance for Loan Losses

The composition of the Corporation's loan portfolio at June 30, 2011 and December 31, 2010, was as follows:

	June 30, 2011	December 31, 2010
Commercial, financial and agricultural loans	$35,324,355	$27,851,844
Real estate:		
Construction loans	11,556,523	16,900,325
Commercial mortgage loans	60,092,855	47,649,217
Residential loans	58,168,203	51,609,504
Agricultural loans	6,771,791	8,428,009
Deposit account overdrafts	299,607	127,189
Consumer loans	4,478,995	5,192,416
Loans Outstanding	176,692,329	157,758,504

Unearned discount	(25,280)	(25,874)
Allowance for loan losses	(2,910,947)	(2,754,614)
Net loans	$173,756,102	$154,978,016

The Corporation’s only significant concentration of credit at June 30, 2011, occurred in real estate loans which totaled approximately $137 million. However, this amount was not concentrated in any specific segment within the market or geographic area.

Beginning in 2009, certain 1-4 family mortgage loans were pledged to Federal Home Loan Bank to secure outstanding advances. At June 30, 2011, $26,861,788 loans were pledged in this capacity.

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The following table shows maturities as well as interest sensitivity of the commercial, financial, agricultural, and construction loan portfolio at June 30, 2011.

	Commercial, Financial, Agricultural and Construction
Distribution of loans which are due:	
In one year or less	$16,646,116
After one year but within five years	26,409,404
After five years	3,825,358
Total	$46,880,878

The following table shows, for such loans due after one year, the amounts which have predetermined interest rates and the amounts which have floating or adjustable interest rates at June 30, 2011.

	Loans With Predetermined Rates	Loans With Floating Rates	Total
Commercial, financial, agricultural and construction	$25,888,600	$4,346,162	$30,234,762

The following table presents information concerning outstanding balances of nonperforming loans and foreclosed assets for the indicated period.

	Nonperforming loans					
	Nonaccrual Loans	Past-Due Loans	Renegotiated Loans	Potential Problem Loans	Total	Foreclosed Assets
June 30, 2011	$377,644	$ 0	$ 0	$730,680	$1,108,324	$2,919,028
December 31, 2010	$186,331	$ 0	$ 34,012	$829,894	$1,050,237	$3,288,121

The following table is a summary of average loans outstanding during the reported period, changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off by loan category, and additions to the allowance which have been charged to operating expenses.

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
Average loans outstanding	$172,366,651	$160,760,831	$166,745,141	$160,606,862
Amount of allowance for loan losses at beginning of period	$2,870,462	$2,635,659	$2,754,614	$2,532,856
Amount of loans charged off during period:				
Commercial, financial and agricultural	116,955	99,507	153,119	119,454
Real estate:				
Construction	0	30,312	0	30,312
Commercial	0	0	0	0
Residential	0	0	0	0
Agricultural	0	0	0	0
Installment	0	9,647	8,333	40,208
Total loans charged off	116,955	139,466	161,452	189,974
Amount of recoveries during period:				
Commercial, financial and agricultural	900	244,824	5,320	245,952
Real estate:				
Commercial	0	0	0	0
Residential	4,677	0	6,731	0
Agricultural	0	0	0	0
Installment	1,863	17,950	5,734	20,133
Total loans recovered	7,440	262,774	17,785	266,085
Net loans charged off (recovered) during period	109,515	(123,308)	143,667	(76,111)
Additions to allowance for loan losses charged to operating expense during period	150,000	150,000	300,000	300,000
Amount of allowance for loan losses at end of period	$2,910,947	$2,908,967	$2,910,947	$2,908,967
Ratio of net charge-offs (recoveries) to average loans outstanding for the period	0.25%	(0.31)%	0.17%	(0.10)%

Management has allocated the allowance for loan losses within the categories of loans set forth in the table below according to amounts deemed reasonably necessary to provide for possible losses. The amount of the allowance applicable to each category and the percentage of loans in each category to total loans are presented below.

	June 30, 2011		December 31, 2010	
Category	Allocation	% of Total Loans	Allocation	% of Total Loans
Commercial, financial and agricultural	$372,897	20.0 %	$133,636	17.7 %
Real estate:				
Construction	1,368,856	6.6 %	1,395,722	10.7 %
Commercial	672,789	34.0 %	685,994	30.2 %
Residential	285,146	32.9 %	301,902	32.7 %
Agricultural	0	3.8 %	0	5.3 %
Installment	211,259	2.7 %	237,360	3.4 %
Total	$2,910,947	100.0 %	$2,754,614	100.0 %

Appraisal Policy

When a loan is first identified as a problem loan, the appraisal is reviewed to determine if the appraised value is still appropriate for the collateral. For the duration that a loan is considered a problem loan, the appraised value of the collateral is monitored on a quarterly basis. If significant changes occur in market conditions or in the condition of the collateral, a new appraisal will be obtained.

Nonaccrual Policy

The Corporation does not accrue interest on any loan (1) that is maintained on a cash basis due to the deteriorated financial condition of the borrower, (2) for which payment in full of principal or interest is not expected, or (3) upon which principal or interest has been past due for ninety days or more unless the loan is well secured and in the process of collection.

A loan subsequently placed on nonaccrual status may be returned to accrual status if (1) all past due interest and principal is paid with expectations of any remaining contractual principal and interest being repaid or (2) the loan becomes well secured and in the process of collection.

Loans placed on nonaccrual status amounted to $377,644 and $186,331 at June 30, 2011, and December 31, 2010, respectively. There were no past due loans over ninety days and still accruing at June 30, 2011, and December 31, 2010. The accrual of interest is discontinued when the loan is placed on nonaccrual status. Interest income that would have been recorded on these nonaccrual loans in accordance with their original terms totaled $6,462 and $4,365 as of June 30, 2011, and December 31, 2010, respectively. In 2010, a settlement was made of a $1,282,905 loan placed on interest nonaccrual in 2009.

The following table presents an age analysis of past due loans and nonaccrual loans segregated by class of loans. We do not have any accruing loans that are 90 days or more past due.

Age Analysis of Past Due Loans
As of June 30, 2011

	30-89 Days Past Due	Greater than 90 Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
Commercial, financial and	$139,088	$0	$139,088	$13,828	$35,171,439	$35,324,355

agricultural loans						
Real estate:						
Construction loans	457,197	0	457,197	0	11,099,326	11,556,523
Commercial mortgage loans	485,408	0	485,408	318,808	59,288,639	60,092,855
Residential loans	1,503,460	0	1,503,460	29,306	56,635,437	58,168,203
Agricultural loans	0	0	0	0	6,771,791	6,771,791
Consumer & other loans	23,791	0	23,791	15,702	4,739,109	4,778,602
Total loans	$2,608,944	$0	$2,608,944	$377,644	$173,705,741	$176,692,329

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to 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.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans 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.

At June 30, 2011, and December 31, 2010, impaired loans amounted to $4,208,846 and $4,083,365, respectively. Included in the allowance for loan losses was $0 related to impaired loans at June 30, 2011 and December 31, 2010. The large majority of the Corporation's impaired loans were partially charged-off to their fair value determined primarily using the loans' collateral fair value. Therefore, no reserve amount was recorded in the allowance for loan losses for these impaired loans.

For the periods ended June 30, 2011, and December 31, 2010, the average recorded investment in impaired loans was $4,084,058 and $21,552, respectively. Interest income was recognized for cash payments received on loans while they were impaired of $75,730 and $0 at June 30, 2011, and June 30, 2010, respectively.

The following table presents impaired loans, segregated by class of loans as of June 30, 2011:

	Unpaid Principal Balance	Recorded Investment with Allowance	Related Allowance	Year-to-date Average Recorded Investment
Commercial, financial and agricultural loans	$0	$0	$ 0	$0
Real estate:				
Construction loans	0	0	0	0
Commercial mortgage loans	4,083,365	4,083,365	0	4,083,365
Residential loans	125,481	125,481	0	693
Agricultural loans	0	0	0	0
Consumer & other loans	0	0	0	0
Total loans	$4,208,846	$4,208,846	$ 0	$4,084,058

Credit Risk Monitoring and Loan Grading

The Corporation employs several means to monitor the risk in the loan portfolio including volume and severity of loan delinquencies, nonaccrual loans, internal grading of loans, historical loss experience and economic conditions.

Loans are subject to an internal risk grading system which indicates the risk and acceptability of that loan. The loan grades used by the Corporation are for internal risk identification purposes and do not directly correlate to regulatory classification categories or any financial reporting definitions.

The general characteristics of the risk grades are as follows:

Grade 1 – Exceptional – Loans graded 1 are characterized as having a very high credit quality, exhibit minimum risk to the Corporation and have low administrative cost. These loans are usually secured by highly liquid and marketable collateral and a strong primary and secondary source of repayment is available.

Grade 2 – Above Average – Loans graded 2 are basically sound credits secured by sound assets and/or backed by the financial strength of borrowers of integrity with a history of satisfactory payments of credit obligations.

Grade 3 – Acceptable – Loans graded 3 are secured by sound assets of sufficient value and/or supported by the sufficient financial strength of the borrower. The borrower will have experience in their business area or employed a reasonable amount of time at their current employment. The borrower will have a sound primary source of repayment, and preferably a secondary source, which will allow repayment in a prompt and reasonable period of time.

Grade 4 – Fair – Loans graded 4 are those which exhibit some weakness or downward trend in financial condition and although the repayment history is satisfactory, it requires supervision by bank personnel. The borrower may have little experience in their business area or employed only a short amount of time at their current employment. The loan may be secured by good collateral; however, it may require close supervision as to value and/or quality and may not have sufficient liquidation value to completely cover the loan.

Grade 5 – Other Assets Especially Mentioned – Loans graded 5 contain a discernible weakness; however, the weakness is not sufficiently pronounced so as to cause concern for the possible loss of interest or principal. Loans in this grade are considered to have greater than normal credit risk and are not adequately supported by sufficient readily marketable collateral, financial statements reflecting adequate financial strength and/or earnings and/or a totally satisfactory record of repayment by the borrower.

Grade 6 – Substandard – Loans graded 6 contain clearly pronounced credit weaknesses that are below acceptable credit standards for the Corporation. Such weaknesses may be due to either collateral deficiencies or inherent financial weakness of the borrower, but in either case represents less than acceptable credit risk. Loans in this grade are unsupported by sufficient evidence of the borrower’s sound net worth, repayment capacity or acceptable collateral.

Grade 7 – Doubtful – Loans graded 7 have such a pronounced credit weaknesses that the Corporation is clearly exposed to a significant degree of potential loss of principal or interest. Theses loan generally have a defined weakness which jeopardizes the ultimate repayment of the debt.

Grade 8 – Loss – Loans graded 8 are of such deteriorated credit quality that repayment of principal and interest can no longer be considered. These loans are of such little value that their continuance as an active bank asset is not warranted. As of June 30, 2011, all Grade 8 loans have been charged-off.

The following table presents internal loan grading by class of loans as of June 30, 2011:

	1	2	3	4	5	6	7	Total
Commercial, financial and agricultural loans	$492,291	$15,000	$29,687,541	$4,522,242	$316,736	$290,545	$0	$35,324,355
Real estate:								
Construction loans	0	1,185,147	5,483,918	2,255,537	2,517,084	114,837	0	11,556,523
Commercial mortgage loans	0	11,947	32,422,458	16,895,186	5,857,453	4,905,811	0	60,092,855
Residential loans	30,884	193,881	41,439,410	12,707,081	2,033,106	1,688,283	75,558	58,168,203
Agricultural loans	0	1,102,578	4,266,183	798,136	119,684	485,210	0	6,771,791
Consumer & other loans	434,773	19,724	3,686,376	418,504	113,409	105,816	0	4,778,602
Total loans	$957,948	$2,528,277	$116,985,886	$37,596,686	$10,957,472	$7,590,502	$75,558	$176,692,329

Allowance for Loan Losses Methodology

The allowance for loan losses (ALL) is determined by a calculation based on segmenting the loans into the following categories: (1) impaired loans and nonaccrual loans, (2) loans with a credit risk rating of 5, 6, 7 or 8, (3) other outstanding loans, and (4) other commitments to lend. In addition, unallocated general reserves are estimated based on migration and economic analysis of the loan portfolio.

The ALL is calculated by the addition of the estimated loss derived from each of the above categories. The impaired loans and nonaccrual loans over $50,000 are analyzed on an individual basis to determine if the future collateral value is sufficient to support the outstanding debt of the loan. If an estimated loss is calculated, it is included in the estimated ALL until it is charged to the loan loss reserve. The calculation for loan risk graded 5, 6, 7, or 8, other outstanding loans and other commitments to lend is based on assigning an estimated loss factor based on a twelve quarter rolling historical net loss rate. The estimated requirement for unallocated general reserves from migration and economic analysis is determined by considering (1) trends in asset quality, (2) level and trends in charge-off experience, (3) macroeconomic trends and conditions, (4) micro economic trends and conditions and (5) risk profile of lending activities. Within each of these categories, a high risk factor percentage and a low risk factor percentage from a rating of excessive, high, moderate or low will be determined by management and applied to the loan portfolio. This results in a high and low range of the estimated reserves required. By adding the estimated high and low value from the migration and economic analysis to the estimated reserve from the loan portfolio, a high and low range of total estimated loss reserves is obtained. This amount is then compared to the actual amount in the loan loss reserve.

The calculation of ALL is performed on a monthly basis and is presented to the Loan Committee and the Board of Directors.

Changes in the allowance for loan losses are as follows:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
Beginning balance	$2,870,462	$2,635,659	$2,754,614	$2,532,856
Provision charged to operations	150,000	150,000	300,000	300,000
Loans charged off	(116,955)	(139,466)	(161,452)	(189,974)
Recoveries	7,440	262,774	17,785	266,085
Ending balance	$2,910,947	$2,908,967	$2,910,947	$2,908,967

The following table details activity in the ALL by class of loans for the three and six month periods ended June 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<u>Three months ended June 30, 2011</u>:

	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Allowance for loan losses:							
Beginning balance, March 31, 2011	$ 193,479	$ 1,437,763	$ 706,657	$ 307,488	$ 0	$ 225,075	$ 2,870,462
Charge-offs	116,955	0	0	0	0	0	116,955
Recoveries	900	0	0	4,677	0	1,863	7,440
Net charge-offs	116,055	0	0	(4,677)	0	(1,863)	109,515
Provisions charged to operations	295,473	(68,907)	(33,868)	(27,019)	0	(15,679)	150,000
Balance at end of period, June 30, 2011	$ 372,897	$ 1,368,856	$ 672,789	$ 285,146	$ 0	$ 211,259	$ 2,910,947

<u>Six months ended June 30, 2011</u>:

Total

	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	
Allowance for loan losses:							
Beginning balance, December 31, 2010	$ 133,636	$ 1,395,722	$ 685,994	$ 301,902	$ 0	$ 237,360	$ 2,754,614
Charge-offs	153,119	0	0	0	0	8,333	161,452
Recoveries	5,320	0	0	6,731	0	5,734	17,885
Net charge-offs	147,799	0	0	(6,731)	0	2,599	143,667
Provisions charged to operations	387,060	(26,866)	(13,205)	(23,487)	0	(23,502)	300,000
Balance at end of period, June 30, 2011	$ 372,897	$ 1,368,856	$ 672,789	$ 285,146	$ 0	$ 211,259	$ 2,910,947

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The following tables present the balance in the ALL and the recorded investment in loans by portfolio segment and based on impairment evaluation as of June 30, 2011, and December 31, 2010.

June 30, 2011	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other	Total
Allowance for Loan Losses – Ending balances:							
Individually evaluated for impairment	$0	$0	$0	$0	$0	$0	$0
Collectively evaluated for impairment	372,897	1,368,856	672,789	285,146	0	211,259	2,910,947
Balance at end of period	372,897	1,368,856	672,789	285,146	0	211,259	2,910,947
Loans – Ending balances:							
Individually evaluated for impairment	217,245	0	9,283,042	1,300,579	485,209	0	11,286,075
Collectively evaluated for impairment	35,107,110	11,556,523	50,809,813	56,867,624	6,286,582	4,778,602	165,406,254
Balance at end of period	35,324,355	11,556,523	60,092,855	58,168,203	6,771,791	4,778,602	176,692,329
December 31, 2010							
Allowance for Loan Losses – Ending balances:							
Individually evaluated for impairment	0	0	0	0	0	0	0
Collectively evaluated for impairment	133,636	1,395,722	685,994	301,902	0	237,360	2,754,614
Balance at end of period	133,636	1,395,722	685,994	301,902	0	237,360	2,754,614
Loans – Ending balances:							
Individually evaluated for	352,591	6,637,983	9,127,008	1,452,726	1,954,531	0	19,524,839

impairment							
Collectively evaluated for impairment	27,499,253	10,262,342	38,522,209	50,156,778	6,473,478	5,319,605	138,233,665
Balance at end of period	$27,851,844	$16,900,325	$47,649,217	$51,609,504	$8,428,009	$5,319,605	$157,758,504

The following table is a summary of amounts included in the ALL for the impaired loans with specific reserves and the recorded balance of the related loans.

	June 30, 2011	December 31, 2010
Allowance for loss on impaired loans	$0	$0
Recorded balance of impaired loans	$4,208,846	$4,083,365

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Transfers from Loans

Transfers from loans to other real estate owned and repossessed assets are non-cash transactions, and are not included in the statements of cash flow. Such transfers totaled $97,000 and $662,941 for the periods ended June 30, 2011, and December 31, 2010, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this Form 10-Q report contains forward-looking statements within the meaning of the federal securities laws. The Corporation cautions that there are various factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in the Corporation’s forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized.

These factors include risks related to:

- the conditions in the banking system, financial markets, and general economic conditions;
- the Corporation’s ability to raise capital;
- the Corporation’s ability to maintain liquidity or access other sources of funding;
- the Corporation’s construction and land development loans;
- asset quality;
- the adequacy of the allowance for loan losses;
- technology difficulties or failures;
- the Corporation’s ability to execute its business strategy;
- the loss of key personnel;
- competition;

- the impact of the Dodd-Frank Act and related regulations and other changes in financial services laws and regulations;
- changes in regulation and monetary policy;
- losses due to fraudulent and negligent conduct of customers, service providers or employees;
- acquisitions or dispositions of assets or internal restructuring that may be pursued by the Corporation;
- changes in or application of environmental and other laws and regulations to which the Corporation is subject;
- political, legal and local economic conditions and developments;
- financial market conditions and the results of financing efforts;
- changes in commodity prices and interest rates; and
- weather, natural disasters and other catastrophic events and other factors discussed in the Corporation's other filings with the Securities and Exchange Commission.

Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of the Corporation. Any such statement speaks only as of the date the statement was made. The Corporation undertakes no obligation to update or revise any forward-looking statements. Additional information with respect to factors that may cause results to differ materially from those contemplated by such forward-looking statements is included in the Corporation's current and subsequent filings with the Securities and Exchange Commission.

Overview

The Corporation is a full-service community bank holding company headquartered in Moultrie, Georgia. The community of Moultrie has been served by the Bank since 1928. We provide comprehensive financial services to consumer, business and governmental customers, which, in addition to conventional banking products, include a full range of mortgage banking, trust, investment and insurance services. Our primary market area incorporates Colquitt County, where we are headquartered, and Baker, Lowndes, Thomas, and Worth Counties, each contiguous with Colquitt County, and the surrounding counties of southwest Georgia. We have five full-service banking facilities and seven automated teller machines.

Our strategy is to:

- maintain the diversity of our revenue, including both interest and noninterest income through a broad base of business,
- strengthen our sales and marketing efforts while developing our employees to provide the best possible service to our customers,
- expand our market share where opportunity exists, and
- grow outside of our current geographic market either through de-novo branching or acquisitions into areas proximate to our current market area.

We believe that investing in sales and marketing in this challenging market will provide us with a competitive advantage. To that end, we expanded geographically with a new full-service banking center that was completed and opened in June of 2010 and a mortgage origination office that opened in January 2011 both in Valdosta, Georgia. Continuing our expansion in the Valdosta market, we have recently acquired a location to build our second banking center which we expect to be completed by the first quarter of 2012.

The Corporation’s profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets and the interest paid on interest-bearing liabilities. The Corporation’s earning assets are primarily loans, securities, and short-term interest-bearing deposits with banks and the interest-bearing liabilities are principally customer deposits and borrowings. Net interest income is highly sensitive to fluctuations in interest rates. For example, after the overnight borrowing rate for banks reached 5.25% in September of 2007, the Federal Reserve Bank began decreasing it by 5% to a range of 0% to 0.25%. This historically low interest rate level has remained unchanged for the period from October 2008 through June 2011.

Broadening our revenue sources helps to reduce the risk and exposure of our financial results to the impact of changes in interest rates, which are outside of our control. Sources of noninterest income include our insurance agency and Empire, the Corporation’s commercial mortgage banking subsidiary, as well as fees on customer accounts, and trust and retail brokerage services. In the second quarter of 2011, noninterest income was 29.5% of the Corporation's total revenue.

Our profitability is impacted also by operating expenses such as salaries, employee benefits, occupancy, and income taxes. Our lending activities are significantly influenced by regional and local factors such as changes in population, competition among lenders, interest rate conditions and prevailing market rates on competing uses of funds and investments, customer preferences and levels of personal income and savings in the Corporation's primary market area.

The economic downturn continues to challenge our region; however, our strength and stability in the market and our focused efforts enabled us to achieve solid results in the second quarter of 2011. We continued to invest in our people and communities, fully aware of the near-term impact that would have on earnings. Although the economy is slowly recovering, regulatory burdens continue to outpace growth opportunities.

Despite those challenges, we will continue to focus on our customers and believe that our strategic positioning, strong balance sheet and capital levels position us to sustain our franchise, capture market share and build customer loyalty.

The Corporation’s nonperforming assets decreased to $3.469 million at the end of June 2011 compared with $4.167 million at June 30, 2010. This decrease is primarily due to the sale of several foreclosed assets.

Critical Accounting Policies

In the course of the Corporation’s normal business activity, management must select and apply many accounting policies and methodologies that lead to the financial results presented in the consolidated financial statements of the Corporation. Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates have on the Corporation’s results of operations. We believe that the allowance for loan losses as of June 30, 2011, is adequate; however, under adverse conditions or assumptions, future additions to the allowance may be necessary. There have been no significant changes in the methods or assumptions used in our accounting policies that would have resulted in material estimates and assumptions changes. Note 1 to the Consolidated Financial Statements provides a description of our significant accounting policies and contributes to the understanding of how our financial performance is reported.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw their funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. In the ordinary course of business, the Corporation’s cash flows are generated from interest and fee income as well as from loan repayments and the maturity or sale of other earning assets. In addition, liquidity is continuously provided through the acquisition of new deposits and borrowings or the rollover of maturing deposits and borrowings. The Corporation strives to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-earning liabilities so its short-term investments balance, at any given time, will adequately cover any reasonably anticipated immediate need for funds. Additionally, the Bank maintains relationships with correspondent banks that could provide funds on short notice, if needed.

The liquidity and capital resources of the Corporation are monitored on a periodic basis by state and Federal regulatory authorities. As determined under guidelines established by these regulatory authorities, the Bank’s liquidity ratios at June 30, 2011, were considered satisfactory. At that date, the Bank’s short-term investments were adequate to cover any reasonably anticipated immediate need for funds. We are not aware of any known trends, events, or uncertainties that will have or that are reasonably likely to have a material adverse effect on the Corporation’s liquidity or operations. At June 30, 2011, the Corporation's and the Bank's risk-based capital ratios were considered adequate based on guidelines established by regulatory authorities. During the six months ended June 30, 2011, total capital increased $1.2 million to $27.9 million and increased $822 thousand from the same period last year. Also, the Corporation continues to maintain a healthy level of capital adequacy as measured by its equity-to-asset ratio of 9.27% as of June 30, 2011. The Corporation is not aware of any events or trends likely to result in a material change in capital resources other than the effects of normal operations on the retention of net earnings. Also, the Corporation's management is not aware of any current recommendations by the regulatory authorities which, if they were implemented, would have a material effect on the Corporation's capital resources.

RESULTS OF OPERATIONS

The Corporation’s results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since interest rates are determined by market forces and economic conditions beyond the control of the Corporation, the ability to generate net interest income is dependent upon the Bank’s ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance measure for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets.

Performance Summary

The Corporation's net income after taxes for the three-month period ending June 30, 2011, was $591 thousand, down $315 thousand, or 34.8%, from net income of $906 thousand for the second quarter of 2010. The decrease in net income reflects $439 thousand lower gains on the sale of securities compared with the second quarter of last year as well as increased salary and employee benefit expenses related to staffing the full-service banking center and mortgage origination office in Valdosta, Georgia.

On a per share basis, net income for the second quarter was $0.23 per diluted share compared with $0.36 per diluted share for the same quarter in 2010. The weighted average common diluted shares outstanding for the quarter were 2.548 million, the same as second quarter last year.

We measure our performance on selected key ratios, which are provided for the previous five quarterly periods.

	2nd Qtr 2011	1st Qtr 2011	4th Qtr 2010	3rd Qtr 2010	2nd Qtr 2010
Return on average total assets	0.76%	0.48%	0.40%	0.31%	1.21 %
Return on average total equity	8.59%	5.57%	4.42%	3.49%	13.56%
Average shareholders’ equity to Average total assets	8.79%	8.57%	9.14%	8.98%	8.95 %
Net interest margin (tax equivalent)	4.21%	3.81%	3.84%	3.76%	4.07 %

Comparison of Statements of Income for the Quarter

Total interest income increased $47 thousand to $3.4 million for the three months ended June 30, 2011, compared with the same period in 2010, reflecting higher interest and fee income on loans of $124 thousand. Partially offsetting this increase was a $68 thousand decrease in interest on investment securities mainly due to reinvesting proceeds from the sale, call or maturity of higher-yielding securities into lower-yielding investments. Total investment securities yield dropped 91 basis points compared with the same quarter a year ago. Also, interest on deposits in other banks decreased $9 thousand when compared with the second quarter of 2010.

Total interest expense decreased $177 thousand, or 23.8%, to $567 thousand in the second quarter of 2011 compared with the same period in 2010. Interest paid on deposits decreased $180 thousand, or 33.6%, during the second quarter of 2011 due to the low interest rate environment. The average rate paid on average time deposits has decreased 56 basis points since June 30, 2010. Interest on total borrowings remained relatively flat compared with the same quarter in 2010.

The primary source of revenue for the Corporation is net interest income, which is the difference between total interest income on earning assets and interest expense on interest-bearing sources of funds. Net interest income improved to $2.9 million for the second quarter of 2011 compared with $2.6 million in net interest income in the 2010 second quarter. Net interest income after provision for loan losses for the second quarter of 2011 was $2.7 million compared with $2.5 million for the same period in 2010. The provision for loan losses was $150 thousand for each of the second quarters of 2011 and 2010. The Corporation's net interest margin was 4.21% for the second quarter of 2011, up 14 basis points from the same period last year. The increase in net interest margin was due to higher loan volume and loan origination fees, reinvestment of excess daily deposits with banks to higher yielding securities, and significantly lower funding costs.

Noninterest income was $1.4 million for the second quarter of 2011, down $411 thousand from the same period in 2010. The change was primarily the result of a decline in the gain on sold securities, of which a $188 thousand gain was recorded in the second quarter of 2011 compared with a $628 thousand gain on the sale of securities in the second quarter last year. A net loss on the sale or disposition of assets was recognized in the second quarter of 2011 representing the sale and writedown of two foreclosed properties. Service charges on deposit accounts also declined $67 thousand, or 16.7%, compared with the second quarter of 2010, primarily due to new Regulation E rules pertaining to overdraft fees enacted last year. Partially offsetting these decreases was a $110 thousand increase in mortgage banking services driven by problem loan resolution at the Corporation's mortgage banking subsidiary. Also contributing was income from insurance services, which increased $19 thousand compared with the second quarter of 2010.

Noninterest expense increased $270 thousand to $3.4 million for the second quarter of 2011 compared with the second quarter of 2010. The largest component of noninterest expense, salaries and employee benefits, increased $153 thousand to $1.9 million for the second quarter due to staff expansion at the Valdosta Banking Center. Occupancy and data processing expense increased $15 thousand and $10 thousand, respectively. Other operating expenses also increased $92 thousand due primarily to higher foreclosed asset expenses. All other components of noninterest expense remained relatively flat.

Comparison of Statements of Income for the Six-month Period

Total interest income for the first six months of 2011 decreased $74 thousand to $6.6 million when compared with the same period in 2010. This decrease was primarily due to a $203 thousand decrease in interest on investment securities due to the sale, maturity or call of higher yielding securities. Interest on deposits in other banks decreased $10 thousand compared with the first half of 2010. These decreases were partially offset by an increase in interest and fees on loans of $138 thousand due to a $6.1 million higher average volume of loans and increased loan origination fees compared with the first half of last year.

Total interest expense for the six-month period ended June 30, 2011, decreased $367 thousand, or 24.0%, compared with the same period in 2010. The decrease in interest expense was primarily related to lower interest paid on interest-bearing deposits of $370 thousand, or 33.2%, compared with the first half of 2010 reflecting lower interest rates. Interest on total borrowings remained relatively flat for the first six months of 2011 compared with the same period last year.

Net interest income for the first six months of 2011 was 5.7% higher at $5.4 million compared with $5.1 million for the same period in 2010, mainly as a result of lower interest paid on deposits and higher income from loans. Net interest income after provision for loan losses was $5.1 million for the first half of 2011 compared with $4.8 for the same period in 2010. A provision for loan losses of $300 thousand was recognized in the first six months of 2011 and 2010. Net interest margin was 4.01% for the first six months of 2011, up slightly from 4.00% for the first half of 2010.

For the first six months of 2011, noninterest income was $2.7 million, down 10.8% from the same period in 2010. As previously noted, the decrease was primarily attributed to a $314 thousand lower net gain on the sale of securities for the first six months of 2011 compared with the same period in 2010. We also recognized a $150 thousand provision for market value losses in foreclosed assets and a decrease in service charges on deposit accounts of $85 thousand, or 10.8%, when compared with the same period of 2010. These decreases in revenue were partially offset by income from insurance services which increased $52 thousand, or 8.5%, when compared with the six-month period in 2010. Revenue from mortgage banking services increased $84 thousand compared with the same period in 2010.

Noninterest expense increased $510 thousand for the first six months of 2011 compared with the same period last year. The change was mainly due to a $378 thousand increase in salary and employee benefits related to staffing Valdosta's banking center and its mortgage origination office. Occupancy and data processing expense increased $40 thousand and $23 thousand, respectively. Other operating expenses also increased by $63 thousand, a reflection of higher foreclosed asset expenses offset by decreased insurance assessments to the FDIC.

Comparison of Financial Condition Statements

At June 30, 2011, total assets were $301.4 million, up from $296.4 million at December 31, 2010. Comparing second quarter 2011 with second quarter 2010, the increase in total assets was primarily due to solid loan growth funded by growth in deposits. Total loans increased $18.9 million, or 12.0%, to $176.7 million when compared with $157.8 million at December 31, 2010. Loan growth was driven primarily by our expansion into the Valdosta market where the Corporation opened a new full-service banking center in June 2010. The Corporation continues to be conservative in its lending practices in order to maintain a quality loan portfolio. Loans, a major use of funds, represented 58.6% of total assets.

Investment securities and short-term investments which include Federal funds sold and interest-bearing deposits in other banks represented 32.8% of total assets. Investment securities decreased $10.5 million and short-term investments decreased $4.5 million since December 31, 2010. This resulted in an overall decrease in investments of $15.0 million.

Deposits increased to $243.0 million at the end of the second quarter of 2011, up $3.5 million from the end of 2010. Deposit growth was primarily due to a $7.2 million increase in noninterest-bearing business accounts, also driven by the Valdosta market, and a $5.5 million increase in public NOW accounts which were partially offset by a $6.7 million decline in time deposits, a product that typically has a higher cost of funds. At June 30, 2011, total deposits represented 80.6% of total assets.

The following table shows the major contractual obligations for the Corporation.

Long-term debt consists of the following:

	June 30, 2011	December 31, 2010	June 30, 2010
Advance from Federal Home Loan Bank with a 1.57% fixed rate of interest maturing July 25, 2011. (transferred to short-term borrowings)	$0	$0	$2,000,000
Advance from Federal Home Loan Bank with a 2.23% fixed rate of interest maturing July 30, 2012	2,000,000	2,000,000	2,000,000
Advance from Federal Home Loan Bank with a 2.79% fixed rate of interest maturing July 29, 2013	2,000,000	2,000,000	2,000,000
Advance from Federal Home Loan Bank with a 3.85% fixed rate of interest maturing April 30, 2014	10,000,000	10,000,000	10,000,000
Advance from Federal Home Loan Bank with a 3.39% fixed rate of interest maturing August 20, 2018. (convertible to a variable rate at option of Federal Home Loan Bank on August 22, 2011)	5,000,000	5,000,000	5,000,000
Advance from Federal Home Loan Bank with a 2.78% fixed rate of interest maturing September 10, 2018. (convertible to a variable rate at quarterly options of Federal Home Loan Bank). (transferred from short-term borrowings after the first convertible date)	5,000,000	5,000,000	0
Total long-term debt	$24,000,000	$24,000,000	$21,000,000

The allowance for loan losses represents a reserve for potential losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated monthly based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that management believes require attention.

Other factors used in determining the adequacy of the reserve are management's judgment about factors affecting loan quality and their assumptions about the local and national economy. The allowance for loan losses was 1.65% of total loans outstanding at June 30, 2011, compared with 1.75% of loans outstanding at December 31, 2010, and 1.83% at June 30, 2010. Net charge-offs in the 2011 second quarter were $110 thousand compared with net charge-offs of $398 thousand in the fourth quarter last year and $123 thousand net recoveries in the second quarter of 2010. Management considers the allowance for loan losses as of June 30, 2011, adequate to cover potential losses in the loan portfolio. For more information about loans, see Part I, Item 1, "Note 4 – Loans and Allowance for Loan Losses."

Nonperforming assets were $3.5 million, or 1.15% of total assets, in the second quarter of 2011, flat from $3.5 million, or 1.19% of total assets, at the end of 2010, and down from $4.2 million, or 1.40% of total assets in the same period last year. Nonperforming assets decreased over the prior year period primarily due to the sale of foreclosed properties. There were $2.9 million of foreclosed properties in nonperforming assets at the end of the second quarter of 2011 compared with $3.7 million at the end of last year's second quarter.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance-sheet risk to meet the financing needs of our customers and reduce risk exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit in the form of loans or through letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the

financial statements. Since many of the commitments to extend credit and standby letters of credit are expected to expire without being drawn upon, the contractual or notional amounts do not represent future cash requirements.

Financial instruments whose contract amounts represent credit risk (dollars in thousands):	June 30, 2011		June 30, 2010	
Commitments to extend credit	$	11,707	$	11,811
Standby letters of credit and financial guarantees	$	45	$	10

The Corporation does not have any special purpose entities or off-balance sheet financing arrangements.

Capital Resources and Dividends

At June 30, 2011, the Corporation’s and the Bank’s risk-based capital ratios were considered adequate based on guidelines established by regulatory authorities. Our total risk based capital ratio now stands at 16.66%, which is over 66 percent in excess of the regulatory standard for a “well-capitalized” bank. Southwest Georgia Financial Corporation’s and Southwest Georgia Bank’s risk based capital ratios are shown in the following table.

SOUTHWEST GEORGIA FINANCIAL CORPORATION
Risk Based Capital Ratios

	Southwest Georgia Financial Corporation	Regulatory Guidelines	
Risk Based Capital Ratios	June 30, 2011	For Well Capitalized	Minimum Guidelines
Tier 1 capital	15.41%	6.00%	4.00%
Total risk based capital	16.66%	10.00%	8.00%
Tier 1 leverage ratio	8.92%	5.00%	3.00%

	Southwest Georgia Bank	Regulatory Guidelines	
Risk Based Capital Ratios	June 30, 2011	For Well Capitalized	Minimum Guidelines
Tier 1 capital	14.76%	6.00%	4.00%
Total risk based capital	16.02%	10.00%	8.00%
Tier 1 leverage ratio	8.54%	5.00%	3.00%

In February 2011, the Corporation paid a cash dividend of $0.10 per common share, the same amount that was paid in February 2010. Previously, the Corporation had suspended its regular quarterly cash dividend to retain sufficient equity required to support efforts to capture greater market share and expand outside of its historic footprint. The Board of Directors will continue to assess conditions for future dividend payments.

Interest Rate Sensitivity

The Corporation's most important element of asset/liability management is the monitoring of its sensitivity and exposure to interest rate movements which is the Corporation's primary market risk. We have no foreign currency exchange rate risk, commodity price risk, or any other material market risk. The Corporation has no trading investment portfolio, nor do we have any interest rate swaps or other derivative instruments.

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Our primary source of earnings, net interest income, can fluctuate with significant interest rate movements. To lessen the impact of these movements, we seek to maximize net interest income while remaining within prudent ranges of risk by practicing sound interest rate sensitivity management. We attempt to accomplish this objective by structuring the balance sheet so that the differences in repricing opportunities between assets and liabilities are minimized. Interest rate sensitivity refers to the responsiveness of earning assets and interest-bearing liabilities to changes in market interest rates. The Corporation’s interest rate risk management is carried out by the Asset/Liability Management Committee which operates under policies and guidelines established by the Bank. The principal objective of asset/liability management is to manage the levels of interest-sensitive assets and liabilities to minimize net interest income fluctuations in times of fluctuating market interest rates. To effectively measure and manage interest rate risk, the Corporation uses computer simulations that determine the impact on net interest income of numerous interest rate scenarios, balance sheet trends and strategies. These simulations cover the following financial instruments: short-term financial instruments, investment securities, loans, deposits, and borrowings. These simulations incorporate assumptions about balance sheet dynamics, such as loan and deposit growth and pricing, changes in funding mix, and asset and liability repricing and maturity characteristics. Simulations are run under various interest rate scenarios to determine the impact on net income and capital. From these computer simulations, interest rate risk is quantified and appropriate strategies are developed and implemented. The Corporation also maintains an investment portfolio which receives monthly cash flows from mortgage-backed securities principal payments, and staggered maturities and provides flexibility over time in managing exposure to changes in interest rates. Any imbalances in the repricing opportunities at any point in time constitute a financial institution’s interest rate sensitivity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the effectiveness of its disclosure controls and procedures (as defined in federal securities rules) as of the end of the period covered by this report. Based on, and as of the date of, that evaluation, the Corporation’s Chief Executive Officer and Chief Financial Officer have concluded that the Corporation’s disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission’s rules and forms and that the Corporation’s disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by the Corporation 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.

Management's Annual Report on Internal Control over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2010, was included in Item 8 of the form 10K , dated December 31, 2010, under the heading "Management's Report on Internal Control Over Financial Reporting".

The annual report form 10K, dated December 31, 2010, does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permits the Corporation to provide only management's report in the annual report.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation's internal control over financial reporting during this quarter that materially affected or could reasonably likely to materially affect the Corporation's internal controls over financial reporting.

PART II. - OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit 31.1	Section 302 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 31.2	Section 302 Certification of Periodic Financial Report by Chief Financial Officer.
Exhibit 32.1	Section 906 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 32.2	Section 906 Certification of Periodic Financial Report by Chief Financial Officer.

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.

SOUTHWEST GEORGIA FINANCIAL CORPORATION

BY: /s/George R. Kirkland

GEORGE R. KIRKLAND
SENIOR VICE-PRESIDENT AND TREASURER
(FINANCIAL AND ACCOUNTING OFFICER)

Date: August 15, 2011