SOUTHWEST GEORGIA FINANCIAL CORP
Form 10-Q
August 14, 2012

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, 2012

[ ] 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.)**

<u>201 FIRST STREET, S.E., MOULTRIE, GEORGIA 31768</u>

Address Of Principal Executive Offices

<u>(229) 985-1120</u> _

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 [X] 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, 2012
Common Stock, $1 Par Value	2,547,837

SOUTHWEST GEORGIA FINANCIAL CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2012

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2012 and December 31, 2011

	(Unaudited) June 30, 2012	(Audited) December 31, 2011
ASSETS		
Cash and due from banks	$6,642,779	$6,552,358
Interest-bearing deposits in other banks	19,365,647	14,498,048
Cash and cash equivalents	26,008,426	21,050,406
Certificates of deposit in other banks	980,000	980,000
Investment securities available for sale, at fair value	14,243,160	28,640,832
Investment securities held to maturity (fair value approximates $59,773,823 and $54,158,523)	57,778,216	52,338,728
Federal Home Loan Bank stock, at cost	1,593,500	1,786,500
Total investment securities	73,614,876	82,766,060
Loans	194,369,314	181,332,383
Less: Unearned income	(29,659)	(30,069)
Allowance for loan losses	(2,910,218)	(3,100,000)
Loans, net	191,429,437	178,202,314
Premises and equipment, net	10,628,657	9,942,429
Foreclosed assets, net	2,009,595	2,357,695
Intangible assets	434,888	546,519
Bank owned life insurance	4,677,779	4,593,385
Other assets	5,696,862	5,211,208
Total assets	$315,480,520	$305,650,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
NOW accounts	$30,134,829	$29,841,315
Money Market	55,980,661	45,638,259
Savings	26,002,779	24,366,536
Certificates of deposit $100,000 and over	35,152,493	32,629,146
Other time accounts	57,763,464	59,950,041
Total interest-bearing deposits	205,034,226	192,425,297
Noninterest-bearing deposits	54,226,011	56,485,602
Total deposits	259,260,237	248,910,899
Short-term borrowed funds	2,000,000	2,000,000
Long-term debt	22,000,000	22,000,000
Other liabilities	3,352,913	4,188,232

Total liabilities	286,613,150	277,099,131
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	19,804,434	19,132,249
Accumulated other comprehensive income (loss)	(818,637)	(462,937)
Treasury stock, at cost 1,745,998 shares for 2012 and 2011	(26,113,795)	(26,113,795)
Total stockholders' equity	28,867,370	28,550,885
Total liabilities and stockholders' equity	$315,480,520	$305,650,016

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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) 2012	(Unaudited) 2011	(Unaudited) 2012	(Unaudited) 2011
Interest income:				
Interest and fees on loans	$2,780,804	$2,688,219	$5,482,244	$5,103,104
Interest on taxable securities available for sale	177,626	390,303	378,634	799,299
Interest on taxable securities held to maturity	142,273	177,294	294,059	344,799
Interest on tax exempt securities	247,426	159,206	486,008	315,561
Dividends	10,927	3,537	16,377	6,985
Interest on deposits in other banks	11,624	6,641	29,581	19,752
Interest on certificates of deposit in other banks	3,695	0	7,391	0
Total interest income	3,374,375	3,425,200	6,694,294	6,589,500
Interest expense:				
Interest on deposits	277,192	355,179	568,530	745,915
Interest on federal funds purchased	2	1,786	2	1,787
Interest on other short-term borrowings	11,089	9,387	22,178	17,129
Interest on long-term debt	189,308	200,465	378,616	398,728
Total interest expense	477,591	566,817	969,326	1,163,559
Net interest income	2,896,784	2,858,383	5,724,968	5,425,941
Provision for loan losses	105,000	150,000	210,000	300,000
Net interest income after provision for loan losses	2,791,784	2,708,383	5,514,968	5,125,941
Noninterest income:				
Service charges on deposit accounts	299,894	320,145	599,319	673,338
Income from trust services	50,786	55,137	101,563	110,634
Income from retail brokerage services	106,283	105,193	201,167	174,859
Income from insurance services	328,234	309,541	703,434	662,183
Income from mortgage banking services	450,313	470,061	1,017,504	772,777
Provision for foreclosed property losses	(75,000)	(75,000)	(150,000)	(150,000)
Net loss on sale or disposition of assets	(40,900)	(71,098)	(96,481)	(53,204)
Net gain on sale of securities	337,804	188,533	337,804	220,559
Net loss on the impairment of equity securities	0	(12,265)	0	(12,265)
Other income	163,460	148,833	375,906	337,116
Total noninterest income	1,620,874	1,439,080	3,090,216	2,735,997
Noninterest expense:				
Salaries and employee benefits	2,679,571	1,911,054	4,701,171	3,816,716
Occupancy expense	246,427	225,999	480,405	455,117
Equipment expense	221,899	181,123	444,532	361,719
Data processing expense	285,072	260,261	563,506	517,722
Amortization of intangible assets	55,816	55,816	111,632	107,725
Other operating expenses	614,559	724,780	1,274,123	1,345,420
Total noninterest expenses	4,103,344	3,359,033	7,575,369	6,604,419
Income before income taxes	309,314	788,430	1,029,815	1,257,519

Provision for income taxes	4,478	197,361	153,803	291,739
Net income	$304,836	$591,069	$876,012	$965,780
Earnings per share of common stock:				
Net income, basic	$0.12	$0.23	$0.34	$0.38
Net income, diluted	$0.12	$0.23	$0.34	$0.38
Dividends paid per share	$0.04	$—	$0.08	$0.10
Weighted average shares outstanding	2,547,837	2,547,837	2,547,837	2,547,837
Diluted average shares outstanding	2,547,837	2,547,839	2,547,837	2,547,894

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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) 2012	(Unaudited) 2011	(Unaudited) 2012	(Unaudited) 2011
Net income	$304,836	$591,069	$876,012	$965,780
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities available for sale, net of tax expense of $(163,145) and $222,650 for the quarter and of $(183,240) and $229,834 for the year	(316,692)	432,202	(355,701)	446,148
Total comprehensive income (loss)	$(11,856)	$1,023,271	$520,311	$1,411,928

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, (Unaudited) 2012	(Unaudited) 2011
Cash flows from operating activities:		
Net income	$876,012	$965,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	210,000	300,000
Provision for foreclosed asset losses	150,000	150,000
Depreciation	420,733	381,469
Net amortization of investment securities	184,980	182,501
Income on cash surrender value of bank owned life insurance	(84,394)	(67,301)
Amortization of intangibles	111,632	107,725
Loss on sale/writedown of foreclosed assets	96,481	58,204
Net loss on the impairment of equity securities	0	12,265
Net gain on sale of securities	(337,804)	(220,559)
Net gain on disposal of other assets	0	(5,000)
Change in:		
Funds held related to mortgage banking activities	(359,940)	483,865
Other assets	(302,414)	435,262
Other liabilities	(475,379)	(157,844)
Net cash provided by operating activities	489,907	2,626,367
Cash flows from investing activities:		
Proceeds from calls, paydowns and maturities of securities HTM	4,127,661	8,269,128
Proceeds from calls, paydowns and maturities of securities AFS	5,519,236	7,019,734
Proceeds from sale of securities available for sale	8,833,839	11,914,598
Purchase of securities held to maturity	(9,713,070)	(7,772,847)
Purchase of securities available for sale	(2,600)	(8,249,195)
Net change in loans	(13,743,122)	(19,175,086)
Purchase bank owned life insurance	0	(1,400,002)
Expenditures for improvements to other real estate owned	0	(42,401)
Purchase of premises and equipment	(1,106,961)	(741,246)
Proceeds from sales of other assets	407,619	332,291
Net cash provided for investing activities	(5,677,398)	(9,845,026)
Cash flows from financing activities:		
Net change in deposits	10,349,338	3,487,087
Cash dividends paid	(203,827)	(254,784)
Net cash provided for financing activities	10,145,511	3,232,303
Increase(decrease) in cash and cash equivalents	4,958,020	(3,986,356)
Cash and cash equivalents - beginning of period	21,050,406	16,070,635

Cash and cash equivalents - end of period	$26,008,426	12,084,279
NONCASH ITEMS:		
Increase in foreclosed properties and decrease in loans	$306,000	$97,000
Unrealized gain (loss) on securities available for sale	$(538,942)	$675,981

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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 2011 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 in Milledgeville, Georgia. Our first full-service banking center in Valdosta, Georgia opened in June 2010 and a mortgage origination office was opened in January 2011 in Valdosta, Georgia. Our second banking center in Valdosta opened in March 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 $0 at June 30, 2012.

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.

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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.

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, 2012, the valuation allowance for foreclosed asset losses was $725,000.

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 will recognize a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with an examination being presumed to occur. The amount recognized is the largest amount of a tax benefit that is greater than fifty percent likely of being realized on examination. No benefit is recorded for tax positions that do not meet the more than likely than not test.

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 and subsequent years.

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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 were $29,262 and $71,801 for the three and six-month periods ended June 30, 2012.

Recent Market and Regulatory Developments

The financial services industry is continuing to face unprecedented challenges in the face of the current national and global economic environment. The global and U.S. economies are experiencing significantly reduced business activity. Dramatic declines in the housing market during the past several 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.

In May 2009, the FDIC imposed a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment was five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009. The Corporation recorded a pre-tax charge of approximately $122 thousand in the second quarter of 2009 in connection with the special assessment.

In September 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 January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized in November 2009. As a result, the Corporation is carrying a prepaid asset of $579 thousand as of June 30, 2012. 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) was enacted. 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).

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-12, “Comprehensive Income”, Topic 220, which defers the effective date for the amendments to the presentation of items reclassified out of accumulated other comprehensive income from ASU No. 2011-05. ASU 2011-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

In September, 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other.” This ASU is intended to simplify how an entity tests goodwill for impairment. The new guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer is required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the reporting unit’s fair value is less than its carrying amount. The ASU will be effective for annual and interim goodwill impairment tests performed for fiscal 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.

In June 2011, the FASB issued 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.

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 Accounting Standards Update ("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 the proposed guidance 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.

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.

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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, 2012.

	Level 1	Level 2	Level 3	Total
Investment securities available for sale:				
State and municipal securities	$0	$1,331,596	$0	$1,331,596
Residential mortgage-backed securities	0	12,781,164	0	12,781,164
Equity securities	130,400	0	0	130,400
Total	$130,400	$14,112,760	$0	$14,243,160

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, 2012.

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	Level 1	Level 2	Level 3	Total
Foreclosed assets	$0	$2,009,595	$0	$2,009,595
Impaired loans	0	2,194,230	0	2,194,230
Total assets at fair value	$0	$4,203,825	$0	$4,203,825

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, 2012, and December 31, 2011, are as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount (Dollars in thousands)	Estimated Fair Value	Carrying Amount (Dollars in thousands)	Estimated Fair Value
Assets:				
Cash and cash equivalents	$26,008	$26,008	$21,050	$21,050
Investment securities available for sale	14,243	14,243	28,641	28,641
Investment securities held to maturity	57,778	59,774	52,339	54,159
Federal Home Loan Bank stock	1,594	1,594	1,787	1,787
Loans	$191,429	$189,722	$178,202	$177,178
Liabilities:				
Deposits	$259,260	$259,734	$248,911	$249,211
FHLB advances	$24,000	$24,831	$24,000	$25,130

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, 2012, and December 31, 2011, were as follows:

Securities Available For Sale:

June 30, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
State and municipal securities	$1,249,000	$82,596	$0	$1,331,596
Residential mortgage-backed securities	11,961,856	819,308	0	12,781,164
Total debt securities AFS	13,210,856	901,904	0	14,112,760
Equity securities	174,549	0	44,149	130,400
Total securities AFS	$13,385,405	$901,904	$44,149	$14,243,160

December 31, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
State and municipal securities	$2,724,000	$117,597	$0	$2,841,597
Residential mortgage-backed securities	24,345,585	1,343,250	0	25,688,835
Total debt securities AFS	27,069,585	1,460,847	0	28,530,432
Equity securities	174,549	0	64,149	110,400
Total securities AFS	$27,244,134	$1,460,847	$64,149	$28,640,832

Securities Held to Maturity:

June 30, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Government Agency securities	$1,999,761	$1,759	$0	$2,001,520
State and municipal securities	36,708,074	1,260,452	24,440	37,944,086
Residential mortgage-backed securities	19,070,381	757,836	0	19,828,217
Total securities HTM	$57,778,216	$2,020,047	$24,440	$59,773,823

December 31, 2011	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
State and municipal securities	$29,918,408	$1,137,322	$5,674	$31,050,056
Residential mortgage-backed securities	22,420,320	688,147	0	23,108,467
Total securities HTM	$52,338,728	$1,825,469	$5,674	$54,158,523

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, 2012	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:				
State and municipal securities	$0	$0	$ 0	$ 0
Residential mortgage-backed securities	0	0	0	0
Total debt securities AFS	0	0	0	0
Temporarily impaired equity securities	44,149	130,400	0	0
Other-than-temporarily impaired equity securities	0	0	0	0
Total securities available for sale	$44,149	$130,400	$ 0	$ 0
Securities Held to Maturity				
Temporarily impaired debt securities:				
U.S. Government Agency securities	$0	$0	$ 0	$ 0
State and municipal securities	24,440	4,925,956	0	0
Residential mortgage-backed securities	0	0	0	0
Total securities held to maturity	$24,440	$4,925,956	$ 0	$ 0

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December 31, 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:				
State and municipal securities	$0	$0	$ 0	$ 0
Residential mortgage-backed securities	0	0	0	0
Total debt securities AFS	0	0	0	0
Temporarily impaired equity securities	64,149	110,400	0	0
Other-than-temporarily impaired equity securities	0	0	0	0
Total securities available for sale	$64,149	$110,400	$ 0	$ 0
Securities Held to Maturity				
Temporarily impaired debt securities:				
State and municipal securities	$5,674	$1,142,423	$ 0	$ 0
Residential mortgage-backed securities	0	0	0	0
Total securities held to maturity	$5,674	$1,142,423	$ 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.

In March 2011, the Corporation sold the remaining shares of Freddie Mac preferred stock. Common stock of a FDIC problem bank held in the Corporation's investment portfolio was deemed impaired and a loss of $12,265 was recognized in the second quarter of 2011.

At June 30, 2012, the debt securities with unrealized losses have depreciated 0.9% 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 and the percentage of loans in each category to total loans at June 30, 2012 and December 31, 2011, was as follows:

	June 30, 2012		December 31, 2011	
Commercial, financial and agricultural loans	$37,815,280	19.5 %	$36,677,906	20.2 %
Real estate:				
Construction loans	19,336,261	9.9 %	13,224,081	7.3 %
Commercial mortgage loans	65,967,004	33.9 %	60,599,120	33.4 %
Residential loans	59,246,425	30.5 %	59,177,824	32.6 %
Agricultural loans	7,376,881	3.8 %	6,283,665	3.5 %
Consumer & other loans	4,627,463	2.4 %	5,369,787	3.0 %
Loans Outstanding	194,369,314	100.0%	181,332,383	100.0%
Unearned interest and discount	(29,659)		(30,069)	
Allowance for loan losses	(2,910,218)		(3,100,000)	
Net loans	$191,429,437		$178,202,314	

The Corporation's only significant concentration of credit at June 30, 2012, occurred in real estate loans which totaled approximately $152 million. However, this amount was not concentrated in any specific segment within the market or geographic area. Average loans outstanding were $190,171,407 for the three months and $185,498,946 for the six months ended June 30, 2012.

Beginning in 2009, certain 1-4 family mortgage loans were pledged to Federal Home Loan Bank to secure outstanding advances. At June 30, 2012, $28,782,103 loans were pledged in this capacity.

The following table shows maturities as well as interest sensitivity of the commercial, financial, agricultural, and construction loan portfolio at June 30, 2012.

Commercial,

Financial,

	Agricultural and Construction
Distribution of loans which are due:	
In one year or less	$16,342,107
After one year but within five years	34,418,113
After five years	6,391,321
Total	$57,151,541

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, 2012.

	Loans With Predetermined Rates	Loans With Floating Rates	Total
Commercial, financial, agricultural and construction	$ 33,545,427	$ 7,264,007	$ 40,809,434

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The following table presents information concerning outstanding balances of nonaccrual, past-due, renegotiated and potential problem loans as well as foreclosed assets for the indicated period.

	Nonaccrual Loans	Past-Due Loans	Renegotiated Loans	Potential Problem Loans	Total	Foreclosed Assets
June 30, 2012	$3,201,802	$ 0	$ 0	$1,834,012	$5,035,814	$2,009,595
December 31, 2011	$1,153,242	$ 0	$ 0	$933,962	$2,087,204	$2,357,695

Appraisal Policy

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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 $3,201,802 and $1,153,242 at June 30, 2012 and December 31, 2011, respectively. There were no past due loans over ninety days and still accruing at June 30, 2012 or December 31, 2011. The accrual of interest is discontinued when the loan is placed on nonaccrual. Interest income that would have been recorded on these nonaccrual loans in accordance with their original terms totaled $35,559 and $19,796 as of June 30, 2012, and December 31, 2011, respectively.

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, 2012

	30-89 Days Past Due	Greater than 90 Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
Commercial, financial and agricultural loans	$108,714	$0	$108,714	$262,634	$37,443,932	$37,815,280
Real estate:						
Construction loans	119,794	0	119,794	2,287,766	16,928,701	19,336,261
Commercial mortgage loans	2,495,498	0	2,495,498	233,142	63,238,364	65,967,004
Residential loans	1,110,597	0	1,110,597	412,271	57,723,557	59,246,425
Agricultural loans	0	0	0	0	7,376,881	7,376,881
Consumer & other loans	23,088	0	23,088	5,989	4,598,386	4,627,463
Total loans	$3,857,691	$0	$3,857,691	$3,201,802	$187,309,821	$194,369,314

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Impaired Loans

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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, 2012, and December 31, 2011, impaired loans amounted to $2,194,930 and $567,802, respectively. A reserve amount of $447,284 and $39,938 were recorded in the allowance for loan losses for these impaired loans as of June 30, 2012, and December 31, 2011, respectively.

The following table presents impaired loans, segregated by class of loans as of June 30, 2012:

June 30, 2012	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Year-to-date Average Recorded Investment	Interest Income Received During Impairment
Commercial, financial and agricultural loans	$300,352	$0	$21,136	$21,136	$279,216	$74,678	$3,776
Real estate:							
Construction loans	157,570	0	74,099	74,099	83,471	29,888	2,059
Commercial mortgage loans	823,931	184,895	562,582	747,477	76,454	107,295	11,327
Residential loans	907,088	782,838	116,107	898,945	8,143	395,123	22,702
Agricultural loans	0	0	0	0	0	0	0

Consumer & other loans	5,989	5,989	0	5,989	0	16	0
Total loans	$2,194,930	$973,722	$773,924	$1,747,646	$447,284	$607,000	$39,864

<u>Credit Risk Monitoring and Loan Grading</u>

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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.

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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 5a – Watch – Loans graded 5a 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 category may exhibit outward signs of stress, such as slowness in financial disclosures or recent payments. However, such signs are not of long duration or of sufficient severity that default appears imminent. Loans in this category are not so deficient as to cause alarm, but do require close monitoring for further deterioration and possible downgrade.

Grade 5b – Other Assets Especially Mentioned (OAEM) – Loans graded 5b may otherwise be classified more severely except that the loan is well secured by properly margined collateral, it is generally performing in accordance with the original contract or modification thereof and such performance has seasoned for a period of 90 days, or the ultimate collection of all principal and interest is reasonably expected. Loans in this grade are unsupported by sufficient evidence of the borrower's sound net worth or repayment capacity or may be subject to third party action that would cause concern for future prompt repayment.

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, 2012, all Grade 8 loans have been charged-off.

The following table presents internal loan grading by class of loans as of June 30, 2012:

	Commercial, Financial, and Agricultural	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Agricultural Real Estate	Consumer and Other --	Total
Rating:							
Grade 1- Exceptional	$412,668	$0	$0	$30,029	$0	$374,931	$817,628
Grade 2- Above Avg.	0	1,115,061	4,560	122,207	970,239	8,069	2,220,136
Grade 3- Acceptable	26,776,177	6,106,276	31,116,667	37,727,863	4,611,571	3,109,901	109,448,455
Grade 4- Fair	9,664,386	9,375,344	31,643,547	15,539,043	769,694	995,028	67,987,042
Grade 5a- Watch	374,349	15,840	1,265,420	1,518,523	497,321	15,422	3,686,875
Grade 5b- OAEM	18,794	6,066	97	621,029	465,340	66,778	1,178,104
Grade 6- Substandard	568,906	2,717,674	1,936,713	3,632,045	62,716	57,334	8,975,388
Grade 7- Doubtful	0	0	0	55,686	0	0	55,686
Total loans	$37,815,280	$19,336,261	$65,967,004	$59,246,425	$7,376,881	$4,627,463	$194,369,314

<u>Allowance for Loan Losses Methodology</u>

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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 5b, 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. All nonaccrual loans regardless of size, all watch list loans greater than $50,000 that are also past-due, and all watch list loans greater than $500,000 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 5b, 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) macro-economic 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.

The following table details activity in the ALL and loans evaluated for impairment by class of loans for the three month period ended June 30, 2012. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The annualized net charge-offs to average loans outstanding ratio was 0.93% for the three months and 0.43% for the six months ended June 30, 2012.

Three months ended June 30, 2012:

	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, 2012	$ 296,262	$ 1,216,021	$ 1,128,616	$ 409,275	$ 0	$ 193,827	$ 3,244,001
Charge-offs	0	248,637	0	195,490	0	0	444,127
Recoveries	799	0	716	3,206	0	623	5,344
Net charge-offs	(799)	248,637	(716)	192,284	0	(623)	438,783
Provisions charged to operations	118,906	37,228	(80,426)	52,767	0	(23,475)	105,000
Balance at end of period, June 30, 2012	$ 415,967	$ 1,004,612	$ 1,048,906	$ 269,758	$ 0	$ 170,975	$ 2,910,218

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Six months ended June 30, 2012:

	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, December 31, 2011	$ 392,222	$ 1,122,650	$ 1,046,827	$ 365,455	$0	$ 172,846	$ 3,100,000
Charge-offs	4,202	248,637	6,348	208,045	0	9,557	476,789
Recoveries	54,218	0	10,716	6,466	0	5,607	77,007
Net charge-offs	(50,016)	248,637	(4,368)	201,579	0	3,950	399,782
Provisions charged to operations	(26,271)	130,599	(2,289)	105,882	0	2,079	210,000
Balance at end of period, June 30, 2012	$ 415,967	$ 1,004,612	$ 1,048,906	$ 269,758	$0	$ 170,975	$ 2,910,218

Ending balance -

Individually evaluated for impairment	$279,216	$83,471	$76,454	$8,143	$0	$0	$447,284
Collectively evaluated for impairment	136,751	921,141	972,452	261,615	0	170,975	2,462,934
Balance at end of period	$415,967	$1,004,612	$1,048,906	$269,758	$0	$170,975	$2,910,218
Loans :							
Ending balance - Individually evaluated for impairment	$303,622	$2,407,560	$3,038,575	$3,639,473	$0	$5,989	$9,395,219
Collectively evaluated for impairment	37,511,658	16,928,701	62,928,429	55,606,952	7,376,881	4,621,474	184,974,095
Balance at end of period	$37,815,280	$19,336,261	$65,967,004	$59,246,425	$7,376,881	$4,627,463	$194,369,314

The following table details activity in the ALL and loans evaluated for impairment by class of loans for the year ended December 31, 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:							
Beginning balance, December 31, 2010	$133,636	$1,395,722	$685,994	$301,902	$0	$237,360	$2,754,614
Charge-offs	235,776	0	445,583	112,869	0	12,817	807,045
Recoveries	62,993	0	74,330	20,912	0	10,529	168,764
Net charge-offs	172,783	0	371,253	91,957	0	2,288	638,281
Provisions charged to operations	431,369	(273,072)	732,086	155,510	0	(62,226)	983,667
Balance at end of period, December 31, 2011	$392,222	$1,122,650	$1,046,827	$365,455	$0	$172,846	$3,100,000
Ending balance - Individually evaluated for impairment	$31,250	$0	$0	$8,688	$0	$0	$39,938
Collectively evaluated for impairment	360,972	1,122,650	1,046,827	356,767	0	172,846	3,060,062
Balance at end of period	$392,222	$1,122,650	$1,046,827	$365,455	$0	$172,846	$3,100,000
Loans :							
Ending balance - Individually evaluated for impairment	$212,367	$2,597,598	$5,906,030	$1,319,683	$622,387	$0	$10,658,065
Collectively evaluated for impairment	36,465,539	10,626,483	54,693,090	57,858,141	5,661,278	5,369,787	170,674,318
Balance at end of period	$36,677,906	$13,224,081	$60,599,120	$59,177,824	$6,283,665	$5,369,787	$181,332,383

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, 2012	December 31, 2011
Allowance for loss on impaired loans	$447,284	$39,938
Recorded balance of impaired loans	$2,194,930	$567,802

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 $306,000 and $97,000 for the periods ended June 30, 2012, and 2011, respectively.

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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 six full-service banking facilities and six 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 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 opened our second banking center in March 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 2012. To address interest rate fluctuations, we manage our balance sheet in an effort to diminish the impact should interest rates suddenly change.

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 2012, noninterest income was 32.5% 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 positive results in 2012. 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 increased $1.9 million to $5.3 million at the end of June 2012 compared with the same period last year. The increase in nonperforming assets is due to one large loan placed on nonaccrual during the second quarter. The collateral securing the loan has been placed under contract for sale and closing is scheduled for August 2012. The loan balance has been charged against the loan reserve by the amount of the net proceeds we expect from the sale. Foreclosed assets decreased $909 thousand compared with the second quarter last year.

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, 2012, 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, 2012, 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, 2012, 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, 2012, total capital increased $316 thousand to $28.9 million and increased $935 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 9.15% as of June 30, 2012. 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, 2012, was $305 thousand, down $286 thousand, or 48.4%, from net income of $591 thousand for the second quarter of 2011. This decrease in net income was primarily due to a large pension contribution. Excluding the $850 thousand quarter-to-date pension contribution, net income would have been $866 thousand for the second quarter 2012. Partially offsetting this expense was a $150 thousand quarterly increase in gains on the sale of securities.

On a per share basis, net income for the second quarter was $.12 per diluted share compared with $.23 per diluted share for the same quarter in 2011. The weighted average common diluted shares outstanding for the quarter were 2.548 million, the same as second quarter last year.

For the six months ended June 30, 2012, net income after taxes was $876 thousand, down from $966 thousand for the first half of 2011. On a per share basis, net income for the first six months of 2012 was $.34 per diluted share compared with $.38 per diluted share for the same period in 2011.

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

	2nd Qtr 2012	1st Qtr 2012	4th Qtr 2011	3rd Qtr 2011	2nd Qtr 2011
Return on average total assets	0.38%	0.71%	0.53%	0.13%	0.76%
Return on average total equity	4.16%	7.88%	5.57%	1.39%	8.59%
Average shareholders' equity to Average total assets	9.18%	8.98%	9.46%	9.41%	8.79%
	4.24%	4.10%	4.29%	4.13%	4.21%

Net interest margin
(tax equivalent)

Comparison of Statements of Income for the Quarter

Total interest income decreased $51 thousand to $3.4 million for the three months ended June 30, 2012, compared with the same period in 2011, reflecting lower interest income from investment securities of $152 thousand due to selling securities in order to fund the growth in loans. This decrease was partially offset by an increase in interest income from loans of $93 thousand. Interest on deposits in other banks increased $9 thousand when compared with the second quarter of 2011.

Total interest expense decreased $89 thousand, or 15.7%, to $478 thousand in the second quarter of 2012 compared with the same period in 2011. Interest paid on deposits decreased $78 thousand, or 22.0%, during the second quarter of 2012 due to the low interest rate environment. The average rate paid on average time deposits for the quarter has decreased 36 basis points since June 30, 2011. Interest on total borrowings decreased $12 thousand compared with the same quarter in 2011.

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 $38 thousand to $2.9 million for the second quarter of 2012. Net interest income after provision for loan losses for the second quarter of 2012 was $2.8 million compared with $2.7 million for the same period in 2011. The provision for loan losses was $105 thousand in the second quarter of 2012 compared with $150 thousand for the second quarter of 2011. The Corporation's net interest margin was 4.24% for the second quarter of 2012, up 3 basis points from the same period last year. Continual improvements in the net interest margin are mainly attributed to changes in the earning asset mix. The growth in higher-yielding loans was funded by decreases in the lower-yielding investment securities portfolio.

Noninterest income, at 32.5% of the Corporation's total revenue for the quarter, was $1.6 million for the second quarter, up $182 thousand from the same period in 2011. The improvement in noninterest income was primarily due to a $150 thousand quarterly increase in gains on the sale of securities. Also, we recognized a $30 thousand lower net loss on the sale or writedown of foreclosed assets compared with the second quarter last year. Income from insurance services increased $19 thousand compared with the same period last year. Partially offsetting these increases, service charges on deposit accounts decreased $20 thousand and income from mortgage banking services decreased $20 thousand compared with second quarter 2011.

Noninterest expense increased $744 thousand to $4.1 million for the second quarter of 2012 compared with the second quarter of 2011. The largest component of noninterest expense, salaries and employee benefits, increased $769 thousand to $2.7 million for the second quarter mainly due to an $850 thousand quarterly pension contribution. While the pension plan's earning assets have earned over 6.3% return on average investments for the past three years, the discount rate used in funding calculations continues to drop dramatically causing large increases in future plan liabilities. Only higher interest rates will reverse the trend. Equipment, data processing and occupancy expense also increased $41 thousand, $25 thousand and $20 thousand, respectively, largely due to our Valdosta expansion and enhancing information technology infrastructure. Other operating expense decreased $110 thousand primarily due to lower foreclosed property expenses and FDIC insurance assessments.

Comparison of Statements of Income for the Six-month Period

Total interest income for the first six months of 2012 increased $105 thousand to $6.7 million when compared with the same period in 2011. This increase was primarily due to a $379 thousand increase in interest and fees on loans due to an $18.7 million higher average volume of loans compared with the first six months of 2011. Interest on deposits and certificates of deposit in other banks increased $17 thousand compared with the first half of 2011. These increases were partially offset by a decrease in interest income from investment securities of $292 thousand due to a $19.4 million lower average volume of investments compared with the first six months of last year.

Total interest expense for the six-month period ended June 30, 2012, decreased $194 thousand, or 16.7%, compared with the same period in 2011. The decrease in interest expense was primarily related to lower interest paid on interest-bearing deposits of $177 thousand, or 23.8%, compared with the first half of 2011 reflecting lower interest rates. Interest on total borrowings declined $17 thousand for the first six months of 2012 compared with the same period last year.

Net interest income for the first six months of 2012 was 5.5% higher at $5.7 million compared with $5.4 million for the same period in 2011, mainly as a result of lower interest paid on deposits and higher income from loans. Net interest income after provision for loan losses was $5.5 million for the first half of 2012 compared with $5.1 million for the same period in 2011. The provision for loan losses was $210 thousand in the first half of 2012 compared with $300 thousand for the first half of 2011. Net interest margin was 4.17% for the first six months of 2012, up from 4.01% for the first half of 2011.

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For the first six months of 2012, noninterest income was $3.1 million, up 13.0% from the same period in 2011. The increase was primarily attributed to a 245 thousand increase in income from mortgage banking services as well as a $117 thousand higher net gain on the sale of securities for the first six months of 2012 compared with the same period in 2011. Income from insurance and retail brokerage services increased $41 thousand and $26 thousand, respectively, compared with the first six months of 2011. Partially offsetting these increases, service charges on deposit accounts declined $74 thousand when compared with the same period of 2011. Also, the net loss on the sale or disposition of assets increased $43 thousand compared with the same period in 2011.

Noninterest expense increased $971 thousand for the first six months of 2012 compared with the same period last year. The change was mainly due to an $884 thousand increase in salary and employee benefits related to the large pension contribution recognized in the second quarter 2012. Equipment, data processing and occupancy expense increased $83 thousand, $46 thousand and $25 thousand, respectively. Partially offsetting these increases, other operating expenses decreased by $71 thousand, a reflection of lower foreclosed asset expenses and insurance assessments to the FDIC.

Comparison of Financial Condition Statements

At June 30, 2012, total assets were $315.5 million, a 3.2% increase from December 31, 2011. The increase in total assets was primarily due to solid loan growth funded by decrease in investment securities and growth in deposits. Total loans increased $13 million, or 7.2%, to $194.4 million compared with $181.3 million at December 31, 2011. Loan growth was driven primarily by our expansion into the Valdosta market. 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 61.6% of total assets.

Investment securities and short-term investments which include Federal funds sold and interest-bearing deposits in other banks represented 29.5% of total assets at June 30, 2012. Compared with year-end, investment securities decreased $9.2 million and short-term investments increased $4.9 million. This resulted in an overall decrease in investments of $4.3 million since the end of 2011.

Deposits increased to $259.3 million at the end of the second quarter of 2012, up $10.3 million from the end of 2011. The increase was primarily due to increases in money market accounts. At June 30, 2012, total deposits represented 82.2% of total assets.

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

Long-term debt consists of the following:

	June 30, 2012	December 31, 2011	June 30, 2011
Advance from Federal Home Loan Bank with a 2.23% fixed rate of interest maturing July 30, 2012. (transferred to short-term borrowings)	0	0	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 quarterly options of Federal Home Loan Bank – no conversion option has been made)	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 – no conversion option has been made)	5,000,000	5,000,000	5,000,000
Total long-term debt	$22,000,000	$22,000,000	$24,000,000

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 1.50% of total loans outstanding at June 30, 2012, compared with 1.71% of loans outstanding at December 31, 2011, and 1.65% at June 30, 2011. Net charge-offs in the 2012 second quarter were $439 thousand compared with net charge-offs of $110 thousand in the second quarter of 2011. Management considers the allowance for loan losses as of June 30, 2012, 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 $5.3 million, or 1.69% of total assets, in the second quarter of 2012, up from $3.6 million, or 1.18% of total assets, at the end of 2011, and up from $3.5 million, or 1.15% of total assets in the same period last year. Nonaccrual loans increased $2.8 million to $3.2 million in the second quarter of 2012 compared with the second quarter last year. There were $2.0 million of foreclosed properties in nonperforming assets at the end of the second quarter of 2012 compared with $2.9 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:	June 30, 2012	June 30, 2011
(dollars in thousands)		
Commitments to extend credit	$18,325	$11,707
Standby letters of credit and financial guarantees	$25	$45

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

Capital Resources and Dividends

At June 30, 2012, 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 16.06%, which is 60 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

Risk Based Capital Ratios	Southwest Georgia Financial Corporation June 30, 2012	Regulatory Guidelines For Well Capitalized	Regulatory Guidelines Minimum Guidelines
Tier 1 capital	14.81 %	6.00 %	4.00 %
Total risk based capital	16.06 %	10.00 %	8.00 %
Tier 1 leverage ratio	9.16 %	5.00 %	3.00 %

Risk Based Capital Ratios	Southwest Georgia Bank June 30, 2012	Regulatory Guidelines For Well Capitalized	Regulatory Guidelines Minimum Guidelines
Tier 1 capital	14.17 %	6.00 %	4.00 %
Total risk based capital	15.42 %	10.00 %	8.00 %
Tier 1 leverage ratio	8.75 %	5.00 %	3.00 %

In June 2012, the Corporation paid a quarterly cash dividend of $0.04 per common share. In March 2012, the Corporation paid a cash dividend of $0.04 per common share and announced plans to resume paying cash dividends on a quarterly basis. 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.

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, 2011, was included in Item 8 of the form 10K , dated December 31, 2011, under the heading "Management's Report on Internal Control Over Financial Reporting".

The annual report form 10K, dated December 31, 2011, 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.

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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 14, 2012