

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

The Savannah Bancorp, Inc.

(Exact name of registrant as specified in its charter)

| | | |
|------------------------|-----------------|-------------------|
| Georgia | 0-18560 | 58-1861820 |
| State of Incorporation | SEC File Number | Tax I.D. Number |

25 Bull Street, Savannah, GA 31401
(Address of principal executive offices) (Zip Code)

912-629-6486
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common, \$1.00 Par Value **NASDAQ Global Market**
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity at June 30, 2011 held by non-affiliates, based on the price of the last trade of \$7.41 per share times 5,712,622 non-affiliated shares, was \$42,330,529.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

As of February 28, 2012, the registrant had outstanding 7,199,237 shares of common stock.

Portions of the 2011 Annual Report to Shareholders of Registrant are incorporated in Parts II and IV of this report. Portions of the Registrant's 2012 Annual Proxy Statement ("Proxy Statement") are incorporated in Part III of this report.

SAVB 2011 Form 10-K

THE SAVANNAH BANCORP, INC.
2011 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>PART I</u> | |
| Item 1. Business | 5 |
| Item 1A. Risk Factors | 27 |
| Item 1B. Unresolved Staff Comments | 40 |
| Item 2. Properties | 40 |
| Item 3. Legal Proceedings | 42 |
| Item 4. Mine Safety Disclosures | 42 |
| <u>PART II</u> | |
| Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities | 42 |
| Item 6. Selected Financial Data | 42 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 42 |
| Item 7A. Quantitative and Qualitative Disclosures about Market Risk | 42 |
| Item 8. Financial Statements and Supplementary Data | 43 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 43 |
| Item 9A. Controls and Procedures | 43 |
| Item 9B. Other Information | 43 |
| <u>PART III</u> | |
| Item 10. Directors, Executive Officers and Corporate Governance | 43 |
| Item 11. Executive Compensation | 44 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters | 44 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 44 |
| Item 14. Principal Accountant Fees and Services | 44 |
| <u>PART IV</u> | |
| Item 15. Exhibits and Financial Statement Schedules | 44 |
| Signature Page | 47 |

PART I

The Savannah Bancorp, Inc. (the “Company”) may, from time to time, make written or oral forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995), including statements contained in the Company’s filings with the United States Securities and Exchange Commission (“SEC” or “Commission”) (including this Annual Report on Form 10-K and the exhibits thereto), in its reports to shareholders and in other communications by the Company. These forward-looking statements may include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and which may change based on various factors, many of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan” and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our actual results to differ materially from what is contemplated in those forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which the Company conducts operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio and allowance for loan losses;
- The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- Inflation, interest rate, market and monetary fluctuations;
- Increases in regulatory capital requirements for banking organizations generally, which may adversely affect the Company’s ability to expand its business or could cause it to shrink its business;
- The risks of changes in interest rates and the yield curve on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest rate sensitive assets and liabilities;
- Risks related to loans secured by real estate, including further adverse developments in the real estate markets that would decrease the value and marketability of collateral;
- Adverse conditions in the stock market and other capital markets and the impact of those conditions on our capital markets and capital management activities, including our investment and wealth management advisory businesses;
- The effects of harsh weather conditions, including hurricanes;
- Changes in United States foreign or military policy;
- The failure to attract or retain key personnel;
- The timely development of competitive new products and services by the Company and the acceptance of those products and services by new existing customers;
- The willingness of customers to accept third-party products marketed by us;
- The willingness of customers to substitute competitors’ products and services for the Company’s products and services and vice versa;
- The impact of changes in financial services’ laws and regulations (including laws concerning taxes, banking, securities and insurance);
- Technological changes;
- Changes in consumer spending and saving habits;
- The effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
- The growth and profitability of our noninterest or fee income being less than expected;
- Unanticipated regulatory or judicial proceedings;
- The impact of changes in accounting policies by the SEC or the Financial Accounting Standards Board;
- The limited trading activity of our common stock;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic concentrations;
- Adverse changes in the financial performance and/or condition of our borrowers, which could impact the repayment of those borrowers’ outstanding loans; and
- The success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on our behalf except as may be required by our disclosure obligations in filings we make with the SEC under federal securities laws.

Item 1. Business

(a) General Development of Business

The Company was incorporated as a Georgia business corporation on October 5, 1989, for the purpose of becoming a bank holding company. The Company became a bank holding company within the meaning of the Federal Bank Holding Company Act and the Georgia Bank Holding Company Act upon the acquisition of 100 percent of the common stock of The Savannah Bank, National Association ("Savannah") on August 22, 1990.

In February 1998, the Company entered into a plan of merger to exchange shares of its stock for shares of Bryan Bancorp of Georgia, Inc. ("Bryan"), the bank holding company for Bryan Bank & Trust ("Bryan Bank"). The transaction was valued at approximately \$24 million. The merger, which was accounted for as a pooling of interests, was a tax-free reorganization for federal income tax purposes. The merger was consummated on December 15, 1998. Bryan was merged into the Company and Bryan Bank became a wholly-owned subsidiary of the Company on the merger date.

On February 6, 2006, the Company invested \$10 million cash, a portion of the net proceeds from an August 2005 private placement stock offering, in 100 percent of the common stock of Harbourside Community Bank ("Harbourside"), a newly-formed federal stock savings bank, located on Hilton Head Island, South Carolina. The plans for forming Harbourside began in October 2003 when Savannah opened a mortgage loan production office on Hilton Head Island. Effective September 30, 2009, the Company merged the charter of Harbourside into Savannah. The two Harbourside branches are now Savannah branches.

The Company acquired all of the net assets of Minis & Co., Inc. ("Minis") as of August 31, 2007. The net assets of Minis were incorporated into a new, wholly-owned subsidiary of the Company which will continue to operate under the name of Minis & Co., Inc. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of Minis' operations have been included in the consolidated financial statements beginning September 1, 2007. Minis is a registered investment advisor based in Savannah, Georgia, offering a full line of investment management services.

On September 30, 2008, the Company formed a new subsidiary, SAVB Holdings, LLC ("SAVB Holdings"), to hold previously identified problem loans (including problem and nonperforming loans) and foreclosed real estate ("OREO") primarily from its Harbourside subsidiary. The Company funded this subsidiary with an initial \$12.5 million loan from a related private party and purchased loans and OREO at their current value.

Savannah, Bryan Bank, Minis and SAVB Holdings are the four operating subsidiaries of the Company. The two bank subsidiaries, collectively, are referred to as the "Subsidiary Banks" or "Banks". Savannah received its charter from the Office of the Comptroller of the Currency ("OCC") and opened for business on August 22, 1990. Bryan Bank received its charter from the Georgia Department of Banking and Finance ("GDBF") in December 1989. The deposits at the Subsidiary Banks are insured by the Federal Deposit Insurance Corporation ("FDIC").

As of December 31, 2011, Savannah had nine full service offices and one stand-alone automated teller machine ("ATM"), total assets of \$729 million, total loans of \$569 million, total deposits of \$633 million, total shareholders' equity of \$66.0 million and net income of \$1.3 million in 2011. As of December 31, 2011, Bryan Bank had two full service offices, total assets of \$240 million, total loans of \$184 million, total deposits of \$216 million, total shareholders' equity of \$20.6 million and a net loss of \$878,000 for the year then ended. Minis had approximately \$422 million in assets under management at December 31, 2011.

In September 2005, the Company formed SAVB Properties, LLC for the primary purpose of owning a 50 percent interest in two real estate partnerships. Johnson Square Associates, a Georgia general partnership, owns a seven-story, 35,000 square foot building at 25 Bull Street on Johnson Square in downtown Savannah. The Company currently leases approximately 51 percent of this space for its corporate headquarters and the main office of Savannah. Whitaker Street Associates, a Georgia Limited Partnership, owned the 80' x 200' parking lot directly across Whitaker Street from 25 Bull Street. On December 28, 2010, the Company sold its 50 percent interest in Whitaker Street Associates for approximately \$694,000 and a gain of approximately \$255,000.

(b) Information about Industry Segments

Accounting standards require the disclosure of financial and descriptive information about an enterprise's operating segments in annual and interim financial reports issued to shareholders. An operating segment is defined as a component of an enterprise which engages in business activities that generate revenues and incur expenses, whose operating results are reviewed by the chief operating decision makers in the determination of resource allocation and performance, and for which discrete financial information is available. The Company has no segments or any subsidiaries that meet the criteria for segment reporting.

(c) Narrative Description of Business

General

The Company is authorized to engage in any corporate activity permitted by law, subject to applicable federal regulatory restrictions on the activities of bank holding companies. The Company was formed for the primary purpose of becoming a holding company to own 100 percent of the stock of the Subsidiary Banks. The holding company structure provides the Company with greater flexibility than a bank would otherwise have to expand and diversify its business activities through newly formed subsidiaries or through acquisitions.

Banking Services

The Company has approximately 187 full time equivalent employees as of December 31, 2011. The Subsidiary Banks offer a full range of deposit services, including checking accounts, savings accounts and various time deposits ranging from daily money market accounts to long-term certificates of deposit. The transaction accounts and time deposits are tailored to the principal market areas at rates competitive with those offered in the area. In addition, retirement accounts such as Individual Retirement Accounts and Simplified Employee Pension accounts are offered. The FDIC insures all deposit accounts up to the maximum amount of \$250,000. In addition, through the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") unlimited insurance coverage on noninterest-bearing transaction accounts was extended to all financial institutions through December 31, 2012. The Subsidiary Banks solicit these accounts from individuals, businesses, foundations, organizations, and governmental authorities.

The Subsidiary Banks offer a full range of short-term and medium-term commercial, real estate, residential mortgage and personal loans. The Subsidiary Banks' primary lending focus is business, real estate and consumer lending. Commercial loans include both secured loans and a limited volume of unsecured loans. Consumer loans include secured loans for financing automobiles, home improvements, real estate and other personal investments. Unsecured consumer loans are limited and generally made to the most creditworthy borrowers. The Subsidiary Banks originate fixed and variable rate mortgage loans and offer real estate construction and acquisition loans.

The Subsidiary Banks' lending policies provide each lending officer with written guidance for lending activities as approved by the Board of Directors ("Board") of the Banks. Real estate loan-to-value guidelines generally conform to regulatory loan-to-value limits. Additionally, the existence of reliable sources of repayment/cash flow are usually required before making any loan, regardless of the collateral. Appraisals are obtained as required. Lending officers or contract inspectors make on-site inspections on construction loans. Lending authority is delegated to each lending officer by the Credit Committee of each Subsidiary Banks' Board. Loans in excess of the individual officer limits must be approved by a senior officer with sufficient approval authority delegated by these committees. Loans to borrowers whose aggregate combined companywide exposure exceeds \$1,500,000 at Savannah and \$1,000,000 at Bryan Bank require the approval of the Subsidiary Bank's Credit Committee.

Management and the directors are aware that environmental liabilities may negatively impact the financial condition of borrowers, the value of real property and the contingent environmental clean-up liabilities the Subsidiary Banks could incur by having a lien on environmentally deficient property. The Subsidiary Banks generally decline to make loans secured by property with environmental deficiencies. Environmental surveys are required when there is reason for concern about potential environmental liabilities.

The Subsidiary Banks operate residential mortgage loan origination departments. The Banks take mortgage loan applications, obtain rate commitments and complete various origination documentation and follow-up for an origination fee from third-party mortgage bankers. In addition to generating fee income, the departments also generate banking relationships from its customers and real estate-related contacts. These loans are funded by other mortgage investors and have not been warehoused on the Subsidiary Banks' books.

Credit Risk Management and Allowance for Loan Losses

The Subsidiary Banks have a comprehensive program designed to control and continually monitor the credit risks inherent in the loan portfolios. This program includes a structured loan approval process in which the Board delegates authority for various types and amounts of loans to loan officers on a basis commensurate with seniority and lending experience. There are four risk grades of "criticized" assets: Special Mention, Substandard, Doubtful and Loss. Assets designated as substandard, doubtful or loss are considered "classified". The classification of assets is subject to regulatory review and reclassification. The Subsidiary Banks include aggregate totals of criticized assets, and general and specific valuation reserves in quarterly reports to the Board, which approves the overall allowance for loan losses evaluation.

The Subsidiary Banks use a risk rating system which is consistent with the regulatory risk rating system. This system applies to all assets of an insured institution and requires each institution to periodically evaluate the risk rating assigned to its assets. The Subsidiary Banks' loan risk rating systems utilize both the account officer and an independent loan review function to monitor the risk rating of loans. Each loan officer is charged with the responsibility of monitoring changes in loan quality within his or her loan portfolio and reporting changes directly to credit administration and senior management. The internal credit administration function monitors loans on a continuing basis for both documentation and credit related exceptions. Additionally, the Subsidiary Banks have contracted with an external loan review service which performs a review of the Subsidiary Banks' loans at least semi-annually to determine that the appropriate risk grade has been assigned to each borrowing relationship and to evaluate other credit quality, documentation and compliance factors. Delinquencies are monitored on all loans as a basis for potential credit quality deterioration. Commercial and mortgage loans that are delinquent 90 days or longer generally are placed on nonaccrual status unless the credit is well-secured and in process of collection. Revolving credit loans and other personal loans are typically charged-off when payments are 120 days past due. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest in full becomes doubtful. Real estate acquired through foreclosure is classified as substandard unless there is sufficient evidence to indicate such classification is not warranted.

The allowance for loan losses is evaluated as described in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") section of the 2011 Annual Report to Shareholders ("2011 Annual Report") on pages F-43 through F-46.

Other Banking Services

Savannah was granted trust powers by the OCC in 1996. The Trust Department of Savannah contracts with Marshall & Ilsley Trust Company, a part of BMO Financial Group, for trust data processing, securities safekeeping and certain other operational functions. This system provides clients and their advisors access to trust account information via the Internet. Employee benefit administration and certain money management functions are outsourced to third parties. Using these resources, the Trust Department offers a full array of trust services, including investment management, personal trusts, custodial accounts, estate administration and retirement plan asset management.

Originally founded in 1932, Minis is a registered investment advisory firm based in Savannah, Georgia. Minis provides fee-only investment services to individuals, families, employee benefit plans, non-profit organizations and other entities.

The Subsidiary Banks offer cash management services, remote deposit capture, Internet banking, electronic bill payment, non-cash deposit courier service, safe deposit boxes, travelers checks, direct deposit of payroll, U.S. Savings bonds, official bank checks and automatic drafts for various accounts. The Subsidiary Banks have thirteen automated teller machines and are members of the *STAR* network of automated teller machines. The Subsidiary Banks issue ATM and debit cards. They also offer Discover, VISA and MasterCard credit cards as an agent for a correspondent bank.

Location and Service Area

The Subsidiary Banks' primary service areas include the city of Savannah and surrounding Chatham County, the city of Richmond Hill (which is 20 miles southwest of downtown Savannah) and surrounding Bryan County, and Hilton Head Island, Bluffton and southern Beaufort County in South Carolina. Their secondary service areas include Effingham and Liberty Counties, Georgia and Jasper County, South Carolina. The Subsidiary Banks' target customers are individuals and small to medium-sized businesses, including wholesale, retail and professional service businesses in the community. The Subsidiary Banks also target individuals who meet certain net worth and income requirements as potential customers for private banking services.

Savannah's main office, known as the Johnson Square Office, opened in August 1990 and is located in the primary financial district in downtown Savannah, where most of the commercial banks in the primary service area have their main Savannah offices. In recent years, regional banks with headquarters outside of the state of Georgia have acquired several of the banks in the primary service area. Savannah emphasizes that it is based in Savannah and that its directors and officers are committed to the economic development of the Savannah area.

Bryan Bank's main office opened in December 1989 and is located in the primary commercial area of the city of Richmond Hill. Several other community bank branch offices and one grocery store branch office are located in Richmond Hill.

In October 1992, Savannah opened its second office at 400 Mall Boulevard. The Mall Boulevard Office is located in the primary commercial and retail district in Savannah which includes a high concentration of professional and service-related businesses.

In November 1995, Savannah opened its third office, the West Chatham Office, at 100 Chatham Parkway. West Chatham is a full service office located six miles west of the main office in a commercial and industrial growth area of Chatham County.

In October 1997, the fourth office at 4741 Highway 80 East on Whitmarsh Island, six miles east of the main office, opened for business. Deposits, mortgage loans and consumer loans are the primary opportunities for this location which serves a large concentration of higher net worth individuals.

In October 1998, Savannah opened its fifth location in the Medical Arts Shopping Center. This office is strategically located near two major hospitals and numerous medical, dental and professional practices. This location is approximately four miles southeast of the main office.

In October 2003, Savannah opened a mortgage loan production office on Hilton Head Island, South Carolina which operated as Harbourside Mortgage Company, a division of Savannah, through February 28, 2006. On March 1, 2006, the separately chartered Harbourside opened for business in its new main office building at 852 William Hilton Parkway, the primary traffic artery on Hilton Head Island. This is now a branch of Savannah.

In September 2006, Savannah opened an office in The Village on Skidaway Island adjacent to the Landings community in Savannah. This office location services the higher income individuals and higher net worth retiree island communities nearby.

In December 2007, the former Harbourside opened its second office in Bluffton, South Carolina on Bluffton Parkway. This is a rapidly growing area with a concentration of residential homes and small businesses. This is now a branch of Savannah.

In August 2008, Bryan Bank opened its second office in Richmond Hill at 3700 Highway 17, about one-half mile from I-95. The branch occupies 3,000 square feet of this 11,500 square foot facility. The Company's regional banking operations center, which provides support functions including imaged item processing, statement rendering, information technology, deposit operations, loan operations and branch operations support functions, occupies the remainder of the facility.

On June 25, 2010, Savannah entered into an agreement with the FDIC to purchase substantially all deposits and certain liabilities and assets of First National Bank, Savannah ("First National"). Through this transaction, Savannah assumed the lease of one of First National's branches located at 802 First Street, Tybee Island, Georgia. Deposits, mortgage loans and consumer loans are the primary opportunities for this location which serves a large concentration of higher net worth individuals and is a popular tourist destination.

In September 2010, Savannah's loan production office located at 400 Main Street in St. Simons Island, Georgia was closed.

The Subsidiary Banks' business plans rely principally upon local advertising and promotional activity and upon personal contacts by their directors and officers to attract business and to acquaint potential customers with their personalized services. The Subsidiary Banks emphasize a high degree of personalized customer service. Advertising and marketing emphasize the advantages of dealing with an independent, locally-owned, relationship-oriented bank to meet the particular needs of individuals, professionals and small to medium-size businesses in the community.

Liquidity and Interest Rate Sensitivity Management

Quantitative disclosures regarding the Company's liquidity management are included on pages F-50 to F-52 in the 2011 Annual Report.

Interest Rate Risk

Quantitative discussion of the Company's interest rate risk is included on pages F-50 and F-51 in the 2011 Annual Report.

Credit and Monetary Policies and Related Matters

The Company and its subsidiaries are affected by the fiscal and monetary policies of the federal government and its agencies, including the Board of Governors of the Federal Reserve System (the "Fed"). An important function of these policies is to curb inflation and control recessions through control of the supply of money and credit. The operations of the Company and its subsidiaries are affected by the policies of government regulatory authorities, including the Fed which regulates money and credit conditions through open market operations in United States Government and Federal agency securities, adjustments in the discount rate on member bank borrowings, and requirements against deposits and regulation of interest rates payable by member banks on time and savings deposits. These policies have a significant influence on the growth and distribution of loans, investments and deposits, and interest rates charged on loans, or paid for time and savings deposits, as well as yields on investments. These policies have had a significant effect on the operating results of commercial banks, including the Subsidiary Banks, in the past and are expected to continue to do so in the future. Future policies of the Fed and other authorities and their effect on future earnings of the Company and its subsidiaries cannot be predicted.

The Fed has a policy that a financial holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to support each such subsidiary bank. Under the source of strength doctrine, the Fed may require a financial holding company to contribute capital to a troubled subsidiary bank, and may charge the financial holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Accordingly, in the event that one of the Subsidiary Banks becomes troubled, the Company may be required to contribute capital to the troubled Subsidiary Bank. Such a capital injection may be required at times when the Company does not have the resources to provide it in which case, the Company may be charged with engaging in unsafe and unsound practices for failure to commit resources to the troubled Subsidiary Bank. In addition, any capital loans by a holding company to any subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In addition, the Crime Control Act of 1990 provides that in the event of a financial holding company's bankruptcy, any commitment by such holding company to a Federal bank or thrift regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") provides that depository institutions insured by the FDIC may be liable for any losses incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a "default" is likely to occur in the absence of regulatory assistance. Accordingly, in the event that any insured bank or subsidiary of the Company causes a loss to the FDIC, other bank subsidiaries of the Company could be liable to the FDIC for the amount of such loss.

Under federal law, the OCC may order the pro rata assessment of shareholders of a national bank whose capital stock has become impaired, by losses or otherwise, to relieve a deficiency in such national bank's capital stock. This statute also provides for the enforcement of any such pro rata assessment of shareholders of such national bank to cover such impairment of capital stock by sale, to the extent necessary, of the capital stock of any assessed shareholder failing to pay the assessment. Similarly, the laws of certain states provide for such assessment and sale with respect to the subsidiary banks chartered by such states.

Federal and State Laws and Regulation of Banks and Bank Holding Companies

Supervision and Regulation

Bank holding companies and commercial banks are extensively regulated under both federal and state law. These laws and regulations delineate the nature and extent of the activities in which commercial banks may engage. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Supervision, regulation and examination of banks by the bank regulatory agencies are intended primarily for protection of depositors rather than holders of bank or bank holding company securities. Changes in applicable laws or regulations may have a material effect on the business of the Company and its Subsidiary Banks.

The Company, as a bank holding company, is required to register as such with the Fed and the GDBF. It is required to file with both of these agencies quarterly and annual reports and other information regarding its business operations and those of its subsidiaries. It is also subject to supervision and examination by these two agencies and will be required to obtain their approval before acquiring, directly or indirectly, ownership or control of any voting shares of a bank or bank subsidiary of a bank holding company if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting stock of such bank or banking subsidiary of a bank holding company. A bank holding company may acquire direct or indirect ownership or control of voting shares of any company that is engaged directly or indirectly in banking or managing or controlling banks or performing services for its authorized subsidiaries. A bank holding company may also engage in or acquire an interest in a company that engages in activities that the Fed has determined by regulation or order to be so closely related to banking as to be a proper incident thereto. Similar requirements are imposed by the GDBF. The Fed has the authority to order a bank holding company or its subsidiaries to terminate certain activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness or stability of it or any of its bank subsidiaries.

Savannah is a nationally-chartered commercial bank subject to extensive supervision and regulation by the OCC. Bryan Bank is a Georgia-chartered, Fed non-member, commercial bank subject to extensive supervision by the GBDF and the FDIC. The deposits of Savannah and Bryan are insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the applicable limits allowed by law. Accordingly, the Subsidiary Banks are subject to certain FDIC regulations and to examination by the FDIC as their primary insurer.

The bank regulatory agencies are responsible for overseeing the affairs of the Subsidiary Banks and periodically examining the Subsidiary Banks to determine their compliance with laws and regulations. The Subsidiary Banks must make quarterly reports of financial condition and results of operations to the regulators. This quarterly financial information is made available to the public approximately 45 days after each quarter-end. The bank regulatory agencies use this data for quarterly offsite monitoring of the financial condition of the Subsidiary Banks. In addition, the Company must file quarterly reports with the Federal Reserve Bank ("FRB") of Atlanta ("FRB Atlanta"). This financial information is reviewed by the FRB Atlanta for accuracy, consistency and reasonableness and is also made available to holding company database providers within 75 days of the end of each quarter. Bank analysts, regulators and consultants regularly use this information in analyzing historical and expected performance of banks and bank holding companies.

The bank regulatory agencies have authority to issue formal orders against banks and bank holding companies which are about to engage, are engaging or have engaged in unsafe or unsound practices in the conduct of their business. The regulators can order affirmative action to correct any harm resulting from a violation or practice, including, but not limited to, making restitution and providing reimbursement or guarantees against loss in certain cases. The bank regulatory agencies also administer several federal statutes, such as the Community Reinvestment Act of 1977 ("CRA") and the Depository Institution Management Interlocks Act, which apply to the Subsidiary Banks.

Capital Requirements

The federal banking regulators have adopted guidelines imposing minimum capital to risk-weighted assets ratios applicable to bank holding companies and state banks as well as minimum leverage ratio guidelines for bank holding companies, national banks, and state member bank. The Fed and the FDIC have the authority to impose, on a case-by-case basis, higher capital requirements on bank holding companies and state banks if they determine that the circumstances of a particular institution require it.

The guidelines also provide that institutions experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Higher capital may be required in individual cases, depending upon a bank holding company's or a bank's risk profile. All bank holding companies and banks are expected to hold capital commensurate with the level and nature of their risks, including the volume and severity of their problem loans. Lastly, the Fed's guidelines indicate that holding companies will be prohibited from participating in new financial affiliations if, at the time of certification, any insured depository affiliate had received a less than "satisfactory" CRA rating at its most recent examination.

FDICIA and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established a system of prompt corrective action to resolve the problems of undercapitalized insured banks. Under this system, the federal banking regulators are required to rate insured banks on the basis of five capital categories (Well Capitalized, Adequately Capitalized, Undercapitalized, Significantly Undercapitalized and Critically Undercapitalized) as described in regulations established by the federal bank regulatory agencies.

If a bank fails to remain well-capitalized, it will be subject to a variety of enforcement remedies that increase as the capital condition worsens. For instance, the FDICIA generally prohibits a bank from making any capital distribution, including payment of a dividend, or paying any management fee to its holding company if the bank would thereafter be undercapitalized as a result. The federal banking regulators are also required to take mandatory supervisory actions and are authorized to take other discretionary actions, with respect to insured banks in the three undercapitalized categories, the severity of which will depend upon the capital category in which the insured bank is assigned. Undercapitalized banks are subject to restrictions on borrowing from the FRB, may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A bank's holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5% of the bank's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Significantly undercapitalized banks may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Generally, subject to a narrow exception, the FDICIA requires the banking regulator to appoint a receiver or conservator for an insured bank that is critically undercapitalized.

The table in Note 16 to the Consolidated Financial Statements in the 2011 Annual Report shows the capital ratios for the Company and Subsidiary Banks and the regulatory minimum capital ratios at December 31, 2011. As of December 31, 2011, the capital ratios of the Company and each Subsidiary Bank exceed the ratios required to be considered "well-capitalized" by the FDIC at December 31, 2011.

Regulatory Proceedings against the Subsidiary Banks

On October 5, 2011, Savannah entered into a formal written agreement (the "Agreement") with the OCC, pursuant to which Savannah agreed to take steps to improve Savannah's asset quality, credit risk exposure, strategic planning initiatives, capital planning, and liquidity and risk management. Since the completion of the examination, the Board and management of Savannah have aggressively worked to address the findings of the exam and have developed formal action plans to comply with the requirements of the Agreement and concerns that gave rise to the Agreement. As of December 31, 2011, Savannah was in compliance with the terms of the Agreement. Entry into the Agreement does not change Savannah's "well-capitalized" status. As of December 31, 2011, Savannah had Tier 1 capital of 8.63 percent of total assets and total risk-based capital of 13.01 percent, both of which are in excess of the required regulatory ratios to be considered "well capitalized" and also exceed the ratios that Savannah agreed with the OCC to maintain (a Tier 1 capital ratio of 8.00 percent and total risk-based capital ratio of 12.00 percent).

On March 1, 2012, Bryan Bank entered into a Consent Order (the "Order") with the FDIC and the GBDF pursuant to which Bryan Bank agreed to take steps to improve its asset quality, credit risk exposure, strategic planning initiatives, capital planning and liquidity and risk management. Entry into the Order automatically changes Bryan Bank's capital status to "adequately capitalized" for regulatory purposes even though Bryan Bank's capital ratios exceed the required regulatory ratios to be considered "well capitalized." The Order requires Bryan Bank to maintain a Tier 1 capital ratio of 8.00 percent and total risk-based capital ratio of 10.00 percent. As of December 31, 2011, Bryan Bank had a Tier 1 capital ratio of 8.01 percent and a total risk-based capital ratio of 12.09 percent both of which exceed the minimum capital ratios required by the Order.

Transactions with Affiliates

The Subsidiary Banks are subject to applicable provisions of the Federal Reserve Act ("Act") which restrict the ability of any bank to extend credit to its parent holding company. Additionally, a national banking association cannot extend credit to any affiliate (including its parent and non-bank subsidiaries of its parent); issue a guarantee, acceptance or letter of credit (including an endorsement or standby letter of credit) on behalf of its affiliates; invest in the stock or securities of affiliates or, under certain circumstances, take such stock or securities as collateral for loans to any borrower.

Source of Strength

Fed policy, as codified by the Dodd-Frank Act, requires a bank holding company to act as a source of financial strength and to take measures to preserve and protect bank subsidiaries in situations where additional investments in a troubled bank may not otherwise be warranted. As a result, a bank holding company may be required to contribute additional capital to its subsidiaries in the form of capital notes or other instruments which qualify as capital under regulatory rules. Any loans from the holding company to its subsidiary banks likely will be unsecured and subordinated to the bank's depositors and perhaps to other creditors of the bank.

Monetary Policy

The earnings of the Subsidiary Banks and, consequently, of the Company, are affected significantly by the policies of the Fed, which regulates the money supply in order to mitigate recessionary and inflationary pressures. Among the techniques used to implement these objectives are open market operations in U.S. Government securities, changes in the rate paid by banks on bank borrowings, and changes in reserve requirements against bank deposits. These techniques are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid for deposits. The monetary policies of the Fed have had a significant effect on the operating results of banks, including the Subsidiary Banks, in the past and are expected to continue to do so in the future.

Recent Regulatory Developments

The Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Act. As more fully discussed below, the Dodd-Frank Act has had and will likely continue to have a broad impact on the financial services industry, imposing significant regulatory and compliance changes, increased capital, leverage and liquidity requirements, changes to deposit insurance assessments, lending limits and mortgage lending practices, increased consumer financial protection, limits on interchange fees and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act establishes a new framework of authority to conduct systemic risk oversight within the financial system that will be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council (“Oversight Council”), the Fed, the OCC and the FDIC.

Many of the provisions became effective upon enactment of the Dodd-Frank Act, while others are subject to further study, rulemaking, and the discretion of regulatory bodies and will be implemented over time. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on the Company’s or the Subsidiary Banks’ operations or our ability to pursue future business opportunities is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of the Company or the Subsidiary Banks’ business activities, require changes to certain business practices, impose upon the Company or the Subsidiary Banks more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. These changes may also require the Company to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. The Company cannot predict with any certainty the likelihood, timing, and scope of any such change and the impact any such change may have. Such changes could materially adversely affect the Company’s business, financial condition or results of operations.

The following items provide a brief description of the relevant provisions of the Dodd-Frank Act and their potential impact on our operations and activities, both currently and prospectively.

Creation of New Governmental Agencies. The Dodd-Frank Act creates various new governmental agencies such as the Oversight Council and the Bureau of Consumer Financial Protection (“CFPB”), an independent agency housed within the Fed. The CFPB has a broad mandate to issue regulations, examine compliance and take enforcement action under the federal financial consumer laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

Limitation on Federal Preemption. The Dodd-Frank Act significantly reduces the ability of national banks to rely upon federal preemption of state consumer financial laws. Although the OCC will have the ability to make preemption determinations where certain conditions are met, the broad rollback of federal preemption has the potential to create a patchwork of federal and state compliance obligations. This could, in turn, result in significant new regulatory requirements applicable to us, with attendant potential significant changes in our operations and increases in our compliance costs. It could also result in uncertainty concerning compliance, with attendant regulatory and litigation risks.

Corporate Governance. The Dodd-Frank Act addresses investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for compensation committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers.

Deposit Insurance. The Dodd-Frank Act makes permanent the \$250,000 deposit insurance limit for insured deposits and provides unlimited insurance on noninterest-bearing transaction accounts through December 31, 2012. Amendments to the Federal Deposit Insurance Act (“FDIA”) also revise the assessment base against which an insured depository institution’s deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base will no longer be the institution’s deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift the burden of deposit insurance premiums toward those depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. Several of these provisions could increase our FDIC deposit insurance premiums.

Capital Standards. Regulatory capital standards are expected to change as a result of the Dodd-Frank Act, and in particular as a result of the Collins Amendment. The Collins Amendment requires that the appropriate federal banking agencies establish minimum leverage and risk-based capital requirements on a consolidated basis for insured depository institutions and their holding companies. As a result, the Company and Subsidiary Banks will be subject to the same capital requirements, and must include the same components in regulatory capital. One impact of the Collins Amendment is to prohibit bank and bank holding companies from including in their Tier 1 regulatory capital certain hybrid debt and equity securities issued on or after May 19, 2010.

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote (known as say-on-frequency), and the golden parachutes available to executives in connection with change-in-control transactions (known as say-on-golden parachutes). Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially. The say-on-pay and say-on-frequency rules are not applicable to smaller reporting companies until annual meetings occurring on or after January 21, 2013, but the Company elected nonetheless to provide shareholders the opportunity to vote on these issues in 2011. The say-on-pay, say-on-frequency and the say-on-golden parachute votes are explicitly nonbinding and cannot override a decision of the Board.

Mortgage Loan Origination and Risk Retention. The Dodd-Frank Act contains additional regulatory requirements that may affect our mortgage origination and servicing operations, result in increased compliance costs and may impact revenue. For example, in addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks, in an effort to strongly encourage lenders to verify a borrower's ability to repay. Most significantly, the new standards limit the total points and fees that we and/or a broker may charge on conforming and jumbo loans to 3 percent of the total loan amount. Also, the Dodd-Frank Act, in conjunction with the Fed's final rule on loan originator compensation issued August 16, 2010 and effective April 1, 2011, prohibits certain compensation payments to loan originators and the practice of steering consumers to loans not in their interest when it will result in greater compensation for a loan originator. These standards have resulted in a myriad of new controls over processing systems and pricing and compensation policies and practices in order to ensure compliance and to decrease repurchase requests and foreclosure defenses. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability to repay standards. The risk retention requirement generally will be 5 percent, but could be increased or decreased by regulation.

Imposition of Restrictions on Certain Activities. The Dodd-Frank Act requires new regulations for the over-the-counter derivatives market, including requirements for clearing, exchange trading, capital, margin and reporting. Additionally, the Dodd-Frank Act requires that certain swaps and derivatives activities be "pushed out" of insured depository institutions and conducted in separately capitalized non-bank affiliates and generally prohibits banking entities from engaging in "proprietary trading" or investing in or sponsoring private equity and hedge funds, subject to limited exemptions.

Repeal of Regulation Q. On April 14, 2011, the Fed released a proposed rulemaking to implement the repeal of Regulation Q, which prohibited payment of interest on demand deposits, as mandated by the Dodd-Frank Act. The repeal of Regulation Q was effective July 21, 2011. Although Regulation Q prohibits the payment of interest on all demand deposits, in practice, the prohibition was limited to forbidding the payment of interest on business checking accounts. In response to Regulation Q's limitations, banks developed Negotiable Order of Withdrawal ("NOW") and sweep accounts to extend interest to businesses and individuals, among others. Upon the repeal of Regulation Q, banks may offer interest-bearing demand deposits, including checking accounts, to businesses as well as individuals.

Basel III

As a result of the Dodd-Frank Act's Collins Amendment, the Company and the Subsidiary Banks will formally be subject to the same regulatory capital requirements. The current risk-based capital guidelines that apply to the Company are based upon the 1988 capital accord of the international Basel Committee on Banking Supervision ("Basel"), a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord ("Basel II") for large or "core" international banks (generally defined for U.S. purposes as having total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Basel II emphasizes internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of Basel, announced agreement to a strengthened set of capital requirements for internationally active banking organizations in the U.S. and around the world known as "Basel III." Basel III was endorsed at the meeting of the G-20 nations in November 2010 and the final text of the Basel III rules was subsequently agreed to by Basel on December 16, 2010. The Basel III reforms are subject to individual adoption by member nations. Member countries are expected to issue laws or regulations to implement Basel III by January 2013. It is expected that the U.S. federal banking agencies will implement Basel III as indicated by a joint press release issued by the U.S. federal banking agencies on September 12, 2010 expressing support for the Basel III standards. Certain aspects of the new standards are slated to become effective upon implementation while others will be phased in over several years. These standards, which are aimed at capital reform, seek to further strengthen financial institutions' capital positions by mandating a higher minimum level of common equity to be held, along with a capital conservation buffer to withstand future periods of stress. Basel III addresses the quality of capital and introduces new capital requirements but does not purport to overrule the Basel II standards, which focus on the appropriate allocation of capital to bank assets based on credit risk.

While the timing and scope of any implementation of Basel III by the U.S. remains uncertain, the following items provide a brief description of the relevant provisions of Basel III and their potential impact on our capital levels if applied to the Company.

New Minimum Capital Requirements. Subject to implementation by the U.S. federal banking agencies, Basel III would be expected to have the following effects on the minimum capital levels of banking institutions to which it applies when fully phased in by January 1, 2019:

- *Minimum Common Equity.* The minimum requirement for common equity, the highest form of loss absorbing capital, will be raised from the current 2.0 percent level, before the application of regulatory adjustments, to 4.5 percent after the application of stricter adjustments. This requirement will be phased in by January 1, 2015. As noted below, total common equity required will rise to 7.0 percent by January 1, 2019 (4.5 percent attributable to the minimum required common equity plus 2.5 percent attributable to the "capital conservation buffer" as discussed below).
- *Minimum Tier 1 Capital.* The minimum Tier 1 capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, will increase from 4.0 percent to 6.0 percent also by January 1, 2015. Total Tier 1 capital will rise to 8.5 percent by January 1, 2019 (6.0 percent attributable to the minimum required Tier 1 capital ratio plus 2.5 percent attributable to the capital conservation buffer).
- *Minimum Total Capital.* The minimum total capital (Tier 1 and Tier 2 capital) requirement will increase to 8.0 percent by January 1, 2013 (10.5 percent by January 1, 2019, including the capital conservation buffer).

Capital Conservation Buffer. An initial capital conservation buffer of 0.625 percent above the regulatory minimum common equity requirement will begin in January 2016 and will gradually be increased to 2.5 percent by January 1, 2019. The buffer will be added to common equity, after the application of deductions. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. It is expected that, while banks would be allowed to draw on the buffer during such periods of stress, the closer their regulatory capital ratios approach the minimum requirement, the greater the constraints that would be applied to earnings distributions.

Countercyclical Buffer. Basel III expects regulators to require, as appropriate to national circumstances, a “countercyclical buffer” within a range of 0 percent to 2.5 percent of common equity or other fully loss absorbing capital. The purpose of the countercyclical buffer is to achieve the broader goal of protecting the banking sector from periods of excess aggregate credit growth. For any given country, it is expected that this buffer would only be applied when there is excess credit growth that is resulting in a perceived system-wide build up of risk. The countercyclical buffer, when in effect, would be introduced as an extension of the conservation buffer range.

Regulatory Deductions from Common Equity. The regulatory adjustments (i.e., deductions and prudential filters), including minority interests in financial institutions and deferred tax assets from timing differences, would be deducted in increasing percentages beginning January 1, 2014, and would be fully deducted from common equity by January 1, 2018. Certain instruments that no longer qualify as Tier 1 capital, such as trust preferred securities, also would be subject to phase-out over a 10-year period beginning January 1, 2013.

Non-Risk Based Leverage Ratios. These capital requirements are supplemented by a non-risk-based leverage ratio that will serve as a backstop to the risk-based measures described above. In July 2010, the Governors and Heads of Supervision agreed to test a minimum Tier 1 leverage ratio of 3.0 percent during the parallel run period. Based on the results of the parallel run period, any final adjustments would be carried out in the first half of 2017 with a view to adopting the 3.0 percent leverage ratio on January 1, 2018, based on appropriate review and calibration.

Additional Capital Requirement Regulation. In addition to Basel III, the Dodd-Frank Act requires or permits the Federal banking agencies to adopt regulations affecting banking institutions’ capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. On November 22, 2011, the FRB issued a final rule requiring top-tier U.S. bank holding companies with total consolidated assets of \$50 billion or more to submit annual capital plans for review. In addition, the FRB also expects these banks to demonstrate that they can achieve the capital ratios required by the Basel III framework as applied to the U.S.

The timing and scope of any implementation of Basel III by the U.S. remains uncertain and, the standards could be further amended by Basel. Accordingly, the regulations ultimately applicable to us may be substantially different from the Basel III final framework as published in December 2010 and redefined in 2011. While it is likely that implementation of the Basel III standards in the U.S. will result in generally higher regulatory capital standards, it is difficult at this time to predict how any new standards will ultimately be applied to us and how we will be affected by such standards.

Incentive Compensation

On June 25, 2010, the federal banking agencies jointly issued final guidance regarding sound incentive compensation policies (the “Incentive Compensation Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (i) provide employees incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization’s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization’s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies. In addition, the Dodd-Frank Act contains prohibitions on incentive-based compensation arrangements, or any feature of such arrangements, that encourage inappropriate risk taking by financial institutions,

are deemed to be excessive, or that may lead to material losses. Also, under the Dodd-Frank Act, a covered financial institution must disclose to its appropriate federal regulator the structure of its incentive-based compensation arrangements in a manner sufficient for such regulator to determine whether the structure provides excessive compensation, fees, or benefits or could lead to material financial loss to the institution. In February 2011, the federal banking agencies issued proposed interagency rules designed to implement the Dodd-Frank Act's compensation restrictions in a manner consistent with existing compensation standards contained in the FDIA and with the principles outlined in the Incentive Compensation Guidance.

The scope and content of the U.S. banking regulators' guidance on and rules governing executive compensation are continuing to develop and are likely to continue evolving in the near future. It cannot be determined at this time whether compliance with such guidance and rules will adversely affect the ability of the Company and its subsidiaries to hire, retain and motivate their key employees.

Other Statutes and Regulations

The Company and the Subsidiary Banks are subject to a myriad of other statutes and regulations affecting their activities. Some of the more important include:

OFAC. The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC sends bank regulatory agencies lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Company or the Subsidiary Banks find a name on any transaction, account or wire transfer that is on an OFAC list, the Company or the Subsidiary Banks must freeze such account, file a suspicious activity report and notify the appropriate authorities.

Sections 23A and 23B of the Federal Reserve Act. Pursuant to Section 23A, the Subsidiary Banks are limited in their ability to engage in "covered transactions" with the Company or other nonbank affiliates of the Company. Further, pursuant to Section 23B, such transactions must be on an arms-length basis and on terms at least as favorable to the Subsidiary Banks as those prevailing at the time for transactions with unaffiliated companies. "Covered transactions" include loans or extensions of credit to, and investments in or certain other transactions with, affiliates.

Outstanding loans from the Banks to the Company or other nonbank affiliates of the Company may not exceed 10 percent of the Banks' capital stock and surplus, and the total of such transactions between the Banks and all of their non subsidiary affiliates may not exceed 20 percent of the Banks' capital stock and surplus. These loans must be fully or over-collateralized. The Subsidiary Banks are also prohibited from purchasing low quality assets from the Company or other nonbank affiliates of the Company. Except for limitations on low quality asset purchases and transactions that are deemed to be unsafe or unsound, the Fed's Regulation W, as made applicable to state nonmember banks by section 18(j) of the FDIA generally excludes affiliated depository institutions from treatment as "affiliates."

The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Sections 23A and 23B of the Act, including an expansion of the definition of "covered transactions" and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The ability of the FRB to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including with respect to the requirement for the OCC, FDIC and FRB to coordinate with one another.

Loans to Insiders. The Subsidiary Banks also are subject to restrictions on extensions of credit to executive officers, directors, principal shareholders and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, (ii) must not involve more than the normal risk of repayment or present other unfavorable terms and (iii) may require approval by the Banks' boards of directors. Loans to executive officers are subject to certain additional restrictions.

Consumer Regulation. Activities of the Subsidiary Banks are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include provisions that:

- limit the interest and other charges collected or contracted for by the Banks, including new rules regarding the terms of credit cards and debit card overdrafts;
- govern the Banks' disclosures of credit terms to consumer borrowers;
- require the Banks to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the communities it serves;
- prohibit the Banks from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit; and
- govern the manner in which the Banks may collect consumer debts.

New rules on credit card interest rates, fees, and other terms took effect on February 22, 2010, as directed by the Credit Card Accountability, Responsibility and Disclosure Act. Among the new requirements are (i) 45-days advance notice to a cardholder before the interest rate on a card may be increased, subject to certain exceptions; (ii) a ban on interest rate increases in the first year; (iii) an opt-in for over-the-limit charges; (iv) caps on high fee cards; (v) greater limits on the issuance of cards to persons below the age of 21; (vi) new rules on monthly statements and payment due dates and the crediting of payments; and (vii) the application of new rates only to new charges and of payments to higher rate charges.

The FDIC expects financial institutions' boards of directors and management to ensure that the institution mitigates the risks associated with offering automated overdraft payment programs and complies with all consumer protection laws and regulations, including providing clear and meaningful disclosures and other communications about overdraft payment programs, fees, and other features and options, and demonstrating compliance with new opt-in requirements for ATM withdrawals and one-time point-of-sale debit card transactions. In addition, the FDIC expects financial institutions to:

- Promptly honor customers' requests to decline coverage of overdrafts (i.e., opt-out) resulting from non-electronic transactions;
- Give consumers the opportunity to affirmatively choose the overdraft payment product that overall best meets their needs;
- Monitor accounts and take meaningful and effective action to limit use of overdrafts by customers as a form of short-term, high-cost credit, including, for example, giving customers who overdraw their accounts on more than six occasions where a fee is charged in a rolling twelve-month period a reasonable opportunity to choose a less costly alternative and decide whether to continue with fee-based overdraft coverage;
- Institute appropriate daily limits on overdraft fees; and consider eliminating overdraft fees for transactions that overdraw an account by a de minimis amount; and
- Not process transactions in a manner designed to maximize the cost to consumers.

Institutions using a third-party vendor for their overdraft payment programs must exercise careful oversight, as discussed in the FDIC's 2008 Guidance for Managing Third-Party Risk. The FDIC will take supervisory action where overdraft payment programs pose unacceptable safety and soundness or compliance management system risks or result in violations of laws or regulations, including unfair or deceptive acts or practices and fair lending laws.

As a result of the turmoil in the residential real estate and mortgage lending markets, there are several concepts currently under discussion at both the federal and state government levels that could, if adopted, alter the terms of existing mortgage loans, impose restrictions on future mortgage loan originations, diminish lenders' rights against delinquent borrowers or otherwise change the ways in which lenders make and administer residential mortgage loans. If made final, any or all of these proposals could have a negative effect on the financial performance of the Subsidiary Banks' mortgage lending operations, by, among other things, reducing the volume of mortgage loans that the Subsidiary Banks can originate and impairing their ability to proceed against certain delinquent borrowers with timely and effective collection efforts.

The deposit operations of the Banks are also subject to laws and regulations that:

- require the Banks to adequately disclose the interest rates and other terms of consumer deposit accounts;
- impose a duty on the Banks to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records;

- require escheatment of unclaimed funds to the appropriate state agencies after the passage of certain statutory time frames; and
- govern automatic deposits to and withdrawals from deposit accounts with the Banks and the rights and liabilities of customers who use automated teller machines and other electronic banking services. As described above, beginning in July 2010, new rules took effect that limited the Banks' ability to charge fees for the payment of overdrafts for everyday debit and ATM card transactions.

As noted above, the Banks will likely face an increase in their consumer compliance regulatory burden as a result of the combination of the newly-established CFPB and the significant roll back of federal preemption of state laws in this area.

Commercial Real Estate Lending. Lending operations that involve concentrations of commercial real estate loans are subject to enhanced scrutiny by federal banking regulators. Regulators have issued guidance with respect to the risks posed by commercial real estate lending concentrations. Commercial real estate loans generally include land development, construction loans and loans secured by multifamily property and nonfarm, nonresidential real property where the primary source of repayment is derived from rental income associated with the property. The guidance prescribes the following guidelines for examiners to help identify institutions that are potentially exposed to concentration risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land represent 100 percent or more of the institution's total capital, or
- total commercial real estate loans represent 300 percent or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months.

Appraisals. The Fed issued an interim final rule, mandated by the Dodd-Frank Act, which is intended to ensure that real estate appraisers can use their independent judgment in assigning home values, and that they receive customary and reasonable payments for their services. The rule also includes several provisions that protect the integrity of the appraisal process when a consumer's home is securing the loan.

The interim final rule prohibits coercion and similar actions designed to cause appraisers to base the appraised value of properties on factors other than their independent judgment; bans appraisers and appraisal management companies hired by lenders from having financial or other interests in the properties or the credit transactions; and prohibits creditors from extending credit based on appraisals if they know beforehand about violations involving appraiser coercion or conflicts of interest.

The rule also requires creditors or settlement service providers to file reports with the appropriate state licensing authorities if they have information about appraiser misconduct. It also mandates the payment of reasonable and customary compensation to appraisers who are not employees of the creditors or of the appraisal management companies hired by the creditors.

Affiliation Authority. The Gramm-Leach-Bliley Act of 1999 ("GLB") amended section 4 of the Act to provide a framework for engaging in new financial activities. Those bank holding companies ("BHCs") that qualify to engage in the new financial activities are designated as Financial Holding Companies ("FHCs"). Provisions of GLB permit BHCs that qualify as FHCs to engage in activities, and acquire companies engaged in activities, that are financial in nature or incidental to such financial activities. FHCs are also permitted to engage in activities that are "complementary" to financial activities if the Fed determines that the activity does not pose a substantial risk to the safety or soundness of the institution or the financial system in general.

The Fed may act by either regulation or order in determining what activities are financial in nature, or incidental or complementary to activities that are financial in nature. In doing so, the Fed must notify the U.S. Treasury Department ("Treasury") of requests to engage in new financial activities and may not determine that an activity is financial or incidental to a financial activity if Treasury objects. Furthermore, Treasury may propose that the Fed find a particular activity financial in nature or incidental to a financial activity. GLB establishes a similar procedure with regard to the Treasury's (acting through the OCC) determination of financial activities and activities that are incidental to financial activities for subsidiaries of national banks. Congress intended for the Fed and Treasury to establish a consultative process that would negate the need for either agency to veto a proposal of the other agency.

Federal Home Loan Bank Reform. GLB reformed the Federal Home Loan Bank (“FHLB”) System, including expanding the collateral that a community bank can pledge against FHLB advances, thus giving smaller banks access to a substantial new liquidity source.

Privacy. GLB imposed a number of new restrictions on the ability of financial institutions to share nonpublic personal information with nonaffiliated third parties. Specifically, the GLB:

-
- require the Banks to adequately disclose the interest rates and other terms of consumer deposit accounts;
 - impose a duty on the Banks to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records
 - require escheatment of unclaimed funds to the appropriate state agencies after the passage of certain statutory time frames; and
 - govern automatic deposits to and withdrawals from deposit accounts with the Banks and the rights and liabilities of customers who use automated teller machines and other electronic banking services. As described above, beginning in July 2010, new rules took effect that limited the Banks’ ability to charge fees for the payment of overdrafts for everyday debit and ATM card transactions.

GLB also imposes an affirmative obligation on banks to respect their customers’ privacy interests. Language protects a community bank’s ability to share information with third parties selling financial products (for example, insurance or securities) to bank customers. Community banks can thus continue such sales practices without being subject to the opt-out provisions contained elsewhere in the legislation.

Branch Banking. Pursuant to the Financial Institutions Code of Georgia, banks located in Georgia are authorized to branch statewide. Accordingly, a bank located anywhere in Georgia has the ability, subject to regulatory approval, to establish branch facilities near any of the Company’s facilities and within its market area. If other banks were to establish branch facilities near the Company’s facilities, it is uncertain whether these branch facilities would have a material adverse effect on its business.

The Dodd-Frank Act substantially amended the legal framework that had previously governed interstate branching activities. Formerly, under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, a bank’s ability to branch into a particular state was largely dependent upon whether the state “opted-in” to de novo interstate branching. Many states did not “opt-in,” which resulted in branching restrictions in those states. The Dodd-Frank Act removed the “opt-in” concept and permits banks to engage in de novo branching outside of their home states, provided that the laws of the target state permit banks chartered in that state to branch within that state. Accordingly, de novo interstate branching by the Subsidiary Banks and competitor institutions is subject to these new standards. This legislation has relevance for the banking industry due to increased competitive forces from institutions which may consolidate through mergers and those which may move into new markets through enhanced opportunities to branch across state lines. Georgia and South Carolina do not have reciprocal provisions for de novo branches or charters. Holding companies domiciled in Georgia may not branch or charter banks in South Carolina and vice versa. Alternatives for expansion between these states include acquiring an existing financial institution, chartering a federal savings bank or moving the charter of a national bank within 35 miles of its headquarters into the new state.

Anti-Tying Regulations. A bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit or provision of any product or service to its customers. In general, a bank may not extend credit, lease or sell property or furnish any service or fix or vary the consideration for such on the condition that (i) the customer should obtain or provide some additional credit, property or service from or to such bank (other than a loan, discount, deposit or trust service related to and usually provided in connection with a loan, discount, deposit or trust service), its bank holding company or any other subsidiary of its bank holding company or (ii) the customer may not obtain some other credit, property or service from a competitor, except to the extent reasonable conditions are imposed in a credit transaction to assure the soundness of the credit extended. A bank may, however, offer combined-balance products and may otherwise offer more favorable terms if a customer obtains two or more traditional bank products.

Standards for Safety and Soundness. The FDIA requires the federal bank regulatory agencies to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (i) internal controls; (ii) information systems and internal audit systems; (iii) loan documentation; (iv) credit underwriting; (v) interest rate risk exposure; and (vi) asset quality. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal bank regulatory agencies have adopted regulations and Interagency Guidelines Prescribing Standards for Safety and Soundness (“Guidelines”) to implement these required standards. The Guidelines set forth the safety and soundness standards that the federal bank regulatory agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if the FDIC determines that the Subsidiary Banks fail to meet any standards prescribed by the Guidelines, it may require the Banks to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans. Moreover, the Fed has cease and desist powers over the Company and its non-banking subsidiaries should their actions constitute a serious threat to the safety, soundness or stability of the Subsidiary Banks.

Dividends. Although the Company is not presently subject to any direct regulatory restrictions on dividends (other than those of Georgia corporate law), the Company has agreed with the FRB Atlanta to obtain approval prior to paying or declaring any dividends to shareholders. The Company’s long-term ability to pay cash dividends will also depend on the amount of dividends paid by the Subsidiary Banks to the Company. OCC regulations restrict the amount of dividends which Savannah may pay without obtaining prior approval. Based on such regulatory restrictions, without prior approval Savannah is restricted from paying dividends in a calendar year which exceeds the current year’s net income combined with the retained net profits of the preceding two years. Based upon this restriction, Savannah would not be able to pay any dividends to the Company in 2012. Savannah has also agreed with the OCC through its Agreement to obtain approval prior to paying or declaring any dividends to the Company. Bryan Bank may pay dividends equal to no more than 50 percent of prior year net income without prior approval from the GDBF. Based upon this restriction, Bryan Bank would not be able to pay any dividends to the Company in 2012. Bryan Bank has also agreed with the GDBF and the FDIC to obtain approval prior to paying or declaring any dividends to the Company. The dividend payout plans of the Subsidiary Banks consider the objective of maintaining their “well-capitalized” status.

The principal source of our liquidity at the holding company level is dividends from our subsidiaries. We must pay essentially all of our operating expenses from funds we receive from our subsidiaries. Therefore, shareholders may receive dividends from us only to the extent that funds are available after payment of our operating expenses.

FHLB Advances. The Subsidiary Banks are members of the FHLB System, which consists of 12 regional FHLBs subject to supervision and regulation by the Federal Housing Finance Agency. The FHLBs maintain central credit facilities primarily for member institutions. The Subsidiary Banks, as members of the FHLB of Atlanta, are required to hold shares of capital stock in the FHLB of Atlanta in an amount equal to: (i) 15 basis points of the Bank’s total assets (adjusted annually) and (ii) 4.5 percent of its advances (borrowings) from the FHLB of Atlanta. The Subsidiary Banks are in compliance with this requirement at December 31, 2011.

Each FHLB serves as a reserve or central bank for its member institutions within its assigned regions. It is funded primarily from proceeds derived from the sale of obligations of the FHLB System. The FHLB makes advances (i.e., loans) to members in accordance with policies and procedures established by its Board. The Subsidiary Banks are authorized to borrow funds from the FHLB of Atlanta to meet demands for withdrawals of deposits, to meet seasonal requirements and for the expansion of its loan portfolio. Advances may be made on a secured or unsecured basis depending upon a number of factors, including the purpose for which the funds are being borrowed and the amount of previously existing advances. Interest rates charged for advances vary depending upon maturity, the cost of funds to the FHLB of Atlanta and the purpose of the borrowing.

Community Reinvestment Act

CRA requires the federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low- and moderate-income borrowers in their local communities. The CRA does not establish specific lending requirements or programs for banks nor does it limit a bank's discretion to develop the types of products and services that it believes are best suited to its particular community. On a periodic basis, the OCC, in the case of Savannah Bank, and the FDIC, in the case of Bryan Bank, is charged with preparing a written evaluation of our record of meeting the credit needs of the entire community and assigning a rating—outstanding, satisfactory, needs to improve or substantial noncompliance. The federal bank regulatory agencies will take that rating into account in its evaluation of any application made by the Subsidiary Banks for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger or the acquisition of shares of capital stock of another financial institution. A bank's CRA rating may be used as the basis to deny or condition an application. In addition, as discussed above, BHC's may not become FHC's unless each of its subsidiary banks has a CRA rating of at least "Satisfactory."

Further, CRA regulations provide for certain disclosure obligations. In accordance with the CRA, each institution must post a CRA notice advising the public of the right to comment to the institution and its regulator on the institution's CRA performance and to review the CRA public file. Each lending institution must maintain for public inspection a public file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities, and any written comments from the public on its performance in meeting community credit needs. Large institutions also are required to collect certain data, including the amount and location of originated and purchased small business, small farm, community development, and home mortgage loans, and to report this data to their regulatory agencies.

Savannah and Bryan Bank received a "satisfactory" rating on the most recent performance evaluations of their CRA efforts by their respective bank regulatory agencies.

Consumer Protection Regulations

Retail activities of banks are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by banks are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z issued by the Fed, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C issued by the Fed, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B issued by the Fed, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V issued by the Fed, governing the use and provision of information to consumer reporting agencies;
- the guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to:

- the Truth in Savings Act and Regulation DD issued by the Fed, which requires disclosure of deposit terms to consumers;
- Regulation CC issued by the Fed, which relates to the availability of deposit funds to consumers;
- the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- the Electronic Funds Transfer Act and Regulation E issued by the Fed, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of ATMs and other electronic banking services.

In addition, there are a number of significant consumer protection standards that apply to functional areas of operation (rather than applying only to loan or deposit products). For example, in June 2010, the Fed issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. The Fed and FDIC also recently enacted consumer protection regulations related to automated overdraft payment programs offered by financial institutions. The FDIC has also issued rules aimed at protecting consumers in connection with retail foreign exchange transactions. In addition, the Fed has been actively revising Regulation E, which governs electronic transactions, including a recent proposal governing remittance transfer transactions. Among the finalized changes made to Regulation E is the November 2009 amendment, which prohibits financial institutions from charging consumers fees for paying overdrafts on ATM and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Regulation E amendments also require financial institutions to provide consumers with a notice that explains the financial institution's overdraft services, including the fees associated with the service and the consumer's choices. The amendments to Regulation E became effective on August 1, 2010.

In November 2010, the FDIC supplemented the Regulation E amendments by requiring FDIC-supervised institutions to implement additional changes relating to automated overdraft payment programs by July 1, 2011. The most significant of these changes require financial institutions to monitor overdraft payment programs for "excessive or chronic" customer use and undertake "meaningful and effective" follow-up action with customers that overdraw their accounts more than six times during a rolling 12-month period. The additional guidance also imposes daily limits on overdraft charges, requires institutions to review and modify check-clearing procedures, prominently distinguish account balances from available overdraft coverage amounts and requires increased board and management oversight regarding overdraft payment programs.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations. In addition, oversight responsibilities of these and other consumer protection laws and regulations transferred from the Bank's primary regulator to the CFPB. The CFPB is in the process of republishing the transferred regulations in a new section of the Code of Federal Regulations but has not yet made substantive changes to these rules. It is anticipated that the CFPB will be making substantive changes to a number of consumer protection regulations and associated disclosures in the near term. We cannot predict the effect that being regulated by a new, additional regulatory authority focused on consumer financial protection, or any new implementing regulations or revisions to existing regulations that may result from the establishment of this new authority, will have on the Company's or the Subsidiary Banks' businesses. In addition, the Subsidiary Banks may also be subject to certain state laws and regulations designed to protect consumers. Additional regulations resulting from the Dodd-Frank Act or changes in state laws and regulations applicable to the Subsidiary Banks could increase our cost of doing business or harm our competitive position.

Anti-Money Laundering

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("Patriot Act") significantly expands the responsibilities of financial institutions in preventing the use of the U.S. financial system to fund terrorist activities. Title III of the Patriot Act provides for a significant overhaul of the U.S. anti-money laundering regime. Among other provisions, it requires financial institutions operating in the U.S. to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and OFAC Regulations. This federal legislation and the resultant bank regulations require a financial institution to expeditiously search its records to determine whether it maintains or has maintained accounts, or engaged in transactions with individuals or entities listed in a database maintained by the Financial Crimes Enforcement Network ("FinCEN"). The records search must cover current accounts, accounts opened in the prior twelve months, and transactions conducted in the prior six months. Its purpose is to identify funds or transactions with individuals associated with terrorist activities. Substantial penalties and/or criminal prosecution may result from non-compliance. Management has established policies and procedures to ensure compliance with the Patriot Act.

Recent Banking Legislation

Bills are presently pending before the U.S. Congress and certain state legislatures, and additional bills may be introduced in the future before Congress and the state legislatures, which, if enacted, may alter the structure, regulation and competitive relationships of the nation's financial institutions. It cannot be predicted whether or in what form any of these proposals will be adopted or the extent to which the business of the Company or the Subsidiary Banks may be affected thereby.

Competition

The banking business is very competitive. Banks generally compete with other financial institutions using the mix of banking products and services offered, the pricing of services, the convenience and availability of services, the degree of expertise of personnel and the personal manner in which services are offered. The Subsidiary Banks compete with other commercial and savings banks in their primary service areas. The Subsidiary Banks also compete with credit unions, consumer finance companies, insurance companies, money market mutual funds, brokerage firms and other financial institutions, some of which are not subject to the degree of regulation and restrictions imposed upon the Subsidiary Banks. Many of these competitors have substantially greater resources and lending limits than the Subsidiary Banks and offer certain services that the Subsidiary Banks do not provide currently.

Many of these competitors have more branch offices in the Subsidiary Banks' primary service area. However, the Company's plan is to expand into the markets which will best serve its targeted customers. Management believes that competitive pricing, local ownership, local decisions, local control and personalized, relationship-oriented service provide the Subsidiary Banks with a method to compete effectively for prospective customers.

The Subsidiary Banks experience the most competition from new local community or regional bank entrants into the market area. Numerous banking offices of community banks, regional banks and de novo banks have opened in the Savannah market over the past decade. While there has been no de novo activity over the past few years, several new regional or community banks have entered the Savannah and coastal South Carolina markets through the acquisition of failed banks from the FDIC. Other banks have indicated interest in these markets. These new entrants have increased and will likely continue to increase the competition for existing and new business.

Deposit growth is a continuing challenge facing the banking industry and the Subsidiary Banks. It is likely that deposit growth in competitive markets will require higher deposit interest rates. Higher costs of funds without corresponding higher rates on earning assets will have a long-term negative impact on net interest income. Higher growth in lower cost core deposits, higher revenue growth from fee based services and lower overhead growth rates are the key items required to accomplish the Company's earnings growth objectives.

SELECTED STATISTICAL INFORMATION FOR THE COMPANY

Investments

Table 1 - Weighted Average Yields by Maturity

The following table sets forth the amortized cost, fair value and tax-equivalent yields by investment type and contractual maturity at December 31, 2011:

| (\$ in thousands) | Amortized Cost | Fair Value | Taxable- Equivalent Yield (a) (%) |
|---|-------------------|------------------|--|
| Securities available for sale: | | | |
| U.S. government-sponsored enterprises ("GSE") and mortgage-backed: | | | |
| Within one year | \$ - | \$ - | - |
| One year to five years | 1,433 | 1,446 | 1.96 |
| Mortgage-backed securities - GSE | 66,464 | 68,012 | 2.62 |
| Total | 67,897 | 69,458 | 2.60 |
| Other interest-earning investments: | | | |
| Within one year | 579 | 590 | 4.91 |
| One year to five years | 778 | 790 | 3.07 |
| Five years to ten years | 3,621 | 3,871 | 3.36 |
| Due after ten years | 5,351 | 5,406 | 5.97 |
| Restricted equity securities | 3,538 | 3,538 | 2.08 |
| Total | 13,867 | 14,195 | 4.09 |
| Total securities available for sale | \$ 81,764 | \$ 83,653 | 2.85 |

(a) The yield is calculated on the amortized cost of the securities.

Loans

Following is certain information regarding the loan portfolio as of December 31, 2011 on a consolidated basis.

Table 2 - Loan Repricing Opportunities

The following table sets forth certain loan maturity and repricing information as of December 31, 2011. Loan renewals generally reprice relative to the prime rate in effect at the time of the renewal. Management expects that certain real estate mortgage loans which have maturities of one to three years with longer amortization periods will renew at maturity.

| (\$ in thousands) | One Year or Less | After One Year through Five Years | Over Five Years | Total |
|--|---------------------|--|--------------------|------------------|
| Loan Category | | | | |
| Real estate-construction and development | \$ 21,589 | \$ 1,086 | \$ - | \$ 22,675 |
| Commercial | 40,814 | 24,241 | 3,249 | 68,304 |
| Total | \$ 62,403 | \$ 25,327 | \$ 3,249 | \$ 90,979 |
| Loans with fixed rates | \$ 22,131 | \$ 25,327 | \$ 3,249 | \$ 50,707 |
| Loans with floating and adjustable rates | 40,272 | - | - | 40,272 |
| Total | \$ 62,403 | \$ 25,327 | \$ 3,249 | \$ 90,979 |

Nonaccrual, Past Due and Restructured Loans

At December 31, 2011 and 2010, nonperforming loans were \$34,881,000 and \$35,900,000, respectively. At December 31, 2011, the Subsidiary Banks had nonaccruing loans of \$34,668,000 and \$213,000 in loans past due 90 days or more. Interest income of \$818,000 was recognized on impaired loans in 2011.

Except for consumer loans, the Company's policy is to place loans on nonaccrual status when, in management's judgment, the collection of principal and interest in full becomes doubtful. Interest receivable accrued in prior years and subsequently determined to have doubtful collectibility is charged to the allowance for loan losses. Interest on loans that are placed on nonaccrual is recognized after principal is collected in full. In some cases where borrowers are experiencing financial difficulties, loans may be restructured to provide terms significantly different from the original contractual terms.

Loan Concentrations

Most of the Company's business activity is with customers located within Chatham and Bryan County, Georgia and southern Beaufort County, South Carolina. The Company has no loans that are considered to be highly leveraged transactions or foreign credits.

Allowance for Loan Losses

See pages F-43 through F-46 of the 2011 Annual Report for details about the activity and breakdown of the allowance for loan losses and additional information regarding accounting estimates in the allowance.

Deposits

Deposit Average Balances and Rates Paid

Tables 7 and 8 on pages F-55 and F-56 of the 2011 Annual Report summarize the average balances of the Company's deposits and the average rates paid on such deposits during 2011, 2010 and 2009.

Table 3 - Long-term Obligations

The following table includes a breakdown of payment obligations due under long-term contracts:

| (\$ in thousands) | Total | Payments Due by Period | | | |
|------------------------------|------------------|------------------------|-----------------|-----------------|----------------------|
| | | Less than 1 Year | 1 - 3 Years | 4 - 5 Years | More than 5 Years |
| Contractual Obligations | | | | | |
| FHLB advances | \$ 16,653 | \$ 3,500 | \$ 3,000 | \$ - | \$ 10,153 |
| Subordinated debt | 10,310 | - | - | - | 10,310 |
| Operating leases - buildings | 5,563 | 881 | 1,519 | 1,466 | 1,697 |
| Long-term contracts | 4,936 | 1,224 | 2,521 | 1,191 | - |
| Total | \$ 37,462 | \$ 5,605 | \$ 7,040 | \$ 2,657 | \$ 22,160 |

Item 1A. Risk Factors

Like other financial companies, the Company is subject to a number of risks, many of which are outside of our direct control. Efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) credit risk, which is the risk that loan customers or other counterparties will be unable to perform their contractual obligations, (2) market risk, which is the risk that changes in market rates and prices will adversely affect our financial condition or results of operation, (3) liquidity risk, which is the risk that the Company and/or Banks will have insufficient cash or access to cash to meet its operating needs, (4) operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events and (5) common stock marketability risk, which is risk specifically related to the marketability of the Company's common stock.

In addition to the other information included or incorporated by reference into this report, readers should carefully consider that the following important factors, among others, could materially impact our business, future results of operations, and future cash flows.

Credit Risk

Our business has been adversely affected by unfavorable market conditions in the local economies in which we operate.

Our success significantly depends upon the growth in population, income levels, deposits and real estate development in our primary markets in coastal Georgia and South Carolina. If these communities do not grow or if prevailing economic conditions locally or nationally remain unfavorable, our business may be adversely impacted. The events in the national economy have filtered down to the Company's local markets. We are less able than larger institutions to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas.

Adverse market or economic conditions in coastal Georgia and South Carolina may disproportionately increase the risk that our borrowers will be unable to make their loan payments. In addition, the market value of the real estate securing loans could be adversely affected by unfavorable changes in market and economic conditions. The Bluffton/Hilton Head Island ("Bluffton/HHI") market experienced a pronounced slowdown beginning in 2007 which seriously and adversely affected our residential real estate loans that were originated in that market. The Company has also experienced a slowdown in its other real estate markets. As of December 31, 2011, approximately 89 percent of our loans held for investment were secured by real estate. Of the commercial real estate loans in our portfolio, approximately 31 percent represent properties owned and occupied by businesses to which we have extended loans. The current sustained period of increased payment delinquencies, foreclosures and losses caused by adverse market and economic conditions in coastal Georgia and South Carolina has adversely affected the value of our assets, our revenues, results of operations and overall financial condition and is likely to continue to at least in the short term.

Our business is concentrated in the areas of Chatham and Bryan County, Georgia and southern Beaufort County, South Carolina, which have been negatively impacted by current economic conditions and may be susceptible to natural disasters, which could adversely affect our operations and financial condition.

Currently, our lending and other business is concentrated in Chatham and Bryan Counties in Georgia and southern Beaufort County in South Carolina. The current downturn in market conditions in these respective areas has adversely affected the performance of our loans and the results of our operations and financial condition. In particular, Hilton Head Island in southern Beaufort County is a vacation and resort area with high concentrations of second home and investment properties. Further changes in interest rates, local or general economic conditions, real estate values or the income tax deductibility of mortgage interest would subject our markets to greater volatility which would further adversely impact our performance. Additionally, our market area is susceptible to the risk of hurricane disasters and many areas are located in flood zones. While most such losses are insurable, hurricanes and flooding could disrupt our operations or the operations of our borrowers, depositors or other customers. Any such disruption could adversely affect our financial condition and results of operation.

If our allowance for loan losses is not sufficient to cover actual charge-offs, our earnings could decrease.

Our loan customers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be insufficient to assure repayment. We may continue to experience significant charge-offs which could have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectibility of our loans, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our loans. We maintain an allowance for loan losses in an attempt to cover probable losses inherent in the loan portfolio. In determining the size of the allowance, we rely on an analysis of our loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and nonaccruals, national and local economic conditions and other pertinent information. As noted above, our primary markets have experienced a significant slowdown which has necessitated additional provisions for loan losses.

If our assumptions are wrong, or if we engage in loan sales, our current allowance may not be sufficient to cover future charge-offs, and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Material additional provisions to our allowance would materially decrease our net income and adversely affect our "well-capitalized" status.

In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs, based on judgments different than those of our management. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a negative effect on our operating results and "well-capitalized" status.

Economic uncertainty, turmoil in the real estate markets and the tightening of credit have adversely affected the financial services industry and may continue to adversely affect our business, financial condition and results of operations.

Continued economic uncertainty, high unemployment rates and turmoil in the housing and real estate markets, including falling real estate prices and increasing foreclosures have negatively affected the credit performance of loans secured by real estate and resulted in significant write-downs of asset values by banks and other financial institutions. Over the last few years, these write-downs have caused many banks and financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with other financial institutions and, in some cases, to fail. As a result, many lenders and institutional investors reduced or ceased providing credit to borrowers, including other financial institutions, which, in turn, led to the global credit crisis.

This market turmoil and credit crisis have resulted in an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. As previously noted, our market areas have been adversely impacted by the economic crisis. The degree and timing of economic recovery (or further recovery) remain uncertain. The resulting economic pressure on consumers and businesses and lack of confidence in the financial markets have adversely affected our business, financial condition and results of operations and may continue to result in credit losses and write-downs in the future.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition and could result in further losses in the future.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. We may engage in loan sales or take other measures to reduce nonperforming assets. Any such resolution measures regarding nonperforming assets may require significant time commitments from management and may be detrimental to the performance of their other responsibilities. Further, if we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Market Risk

Changes in interest rates could negatively impact our financial condition and results of operations.

Our earnings are significantly dependent on our net interest income. We expect to realize income primarily from the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” would work against us, and our earnings may be negatively affected.

For example, in the event of a decrease in interest rates, our net interest income will be negatively affected because our interest-bearing assets currently reprice faster than our interest-bearing liabilities. Although our asset-liability management strategy is designed to control our risk from changes in market interest rates, we may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. A significant portion of our variable rate loans have interest rate floors such that the loans will not reprice immediately when interest rates begin to rise.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

A decline in the market value of our assets may limit our ability to borrow additional funds or result in our lenders requiring additional collateral from us under our loan agreements. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are less favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses. While rising interest rates are favorable to us, declining rates, like those experienced during 2007 and 2008, generally have a negative impact on earnings. There can be no assurance or guarantee that declining rates will not continue to negatively impact earnings or that we will be able to take measures to hedge, on favorable terms or at all, against unfavorable events, which could adversely affect our results of operations and financial condition.

Monetary policies may adversely affect our business and earnings.

Our results of operations may be affected by actions undertaken by the Fed (including, raising and lowering short-term interest rates) to influence the availability and cost of money and credit. Changes in interest rates can affect the number of loans the Subsidiary Banks originate, as well as the value of the loans and other interest-bearing assets and liabilities and the Subsidiary Banks’ ability to realize gains on the sale of those assets and liabilities. Prevailing interest rates also affect the extent to which borrowers prepay loans owned by us. When interest rates decrease, borrowers are more likely to prepay their loans, and vice versa. We may be required to invest funds generated by prepayments at less favorable interest rates. Increases in interest rates could hurt the ability of borrowers who have loans with floating interest rates to meet their increased payment obligations. If those borrowers were not able to make their payments, then we could suffer losses, and our level of nonperforming assets could increase.

The loss of significant revenues in Minis could result in lower operating earnings as well as significant non-cash charges to earnings related to the impairment of goodwill and accelerated amortization of the client list intangible asset.

Asset management fee revenues are directly impacted by the total investments under management. The assets under management are impacted by stock values, bond values, interest rates and the gain or loss of accounts due primarily to investment performance.

As prescribed by accounting standards we undertake an annual review of the goodwill and intangible asset balance reflected in our financial statements. We conduct an annual review for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Goodwill and the client list intangible asset were evaluated for impairment as of August 31, 2011 and based on that evaluation it was determined that there was no impairment. As of December 31, 2011, we had \$3.3 million in goodwill and intangible asset related to Minis. Future goodwill impairment tests may result in future non-cash charges, which could adversely affect our earnings for any such future period.

Liquidity Risk

Our use of brokered deposits, uninsured local deposits and other borrowings may impair our liquidity and constitute an unstable and/or higher cost funding source.

We use wholesale, institutional and brokered deposits, uninsured local deposits and other borrowings, including repurchase agreements, federal funds purchased, and FHLB borrowings, to fund a portion of our operations. Currently neither Savannah nor Bryan Bank can accept or renew brokered deposits without prior regulatory approval due to agreements with regulators. Savannah is currently allowed to maintain up to \$35 million in a brokered money market account and \$35 million in a brokered deposit reciprocal program that allows our local customers' deposits to be insured.

Federal law requires a bank to be well-capitalized if it accepts or renews brokered deposits. Thus, the Company and Savannah must maintain a "well-capitalized" status to continue to be able to maintain the brokered deposits described above. Failure to maintain "well-capitalized" status could also limit our access to certain wholesale deposits and federal funds purchased (but not necessarily repurchase agreements or FHLB or FRB borrowings), which could impair our liquidity. We will be considered "well-capitalized" if we (i) have a total risk-based capital ratio of 10.0 percent or greater; (ii) have a Tier 1 risk-based capital ratio of 6.0 percent or greater; and (iii) have a leverage ratio of 5.0 percent or greater.

At December 31, 2011 both Savannah and Bryan Bank were considered well-capitalized. However, Bryan Bank's Order, which Bryan Bank entered into with the FDIC and the GDBF in March 2012, after the reporting period, has a capital article that requires Bryan Bank to maintain a Tier 1 capital ratio of 8.00 percent and total risk-based capital ratio of 10.00 percent. The capital article automatically changes Bryan Bank's capital status to "adequately capitalized" even though its ratios currently exceeds the regulatory ratios required to be considered "well capitalized." Although Bryan Bank is already restricted from accepting or renewing brokered deposits, this Order could limit its ability to borrow on its federal funds purchased lines, FHLB borrowing line and from the FRB discount window.

Deposit balances in excess of the FDIC's \$250,000 insurance limit per depositor are uninsured deposits. Customers with uninsured deposits are more sensitive to financial or reputation risk than insured depositors. Consequently, uninsured deposits generally do not provide the same stability to our deposit base as insured deposits. Our liquidity may be negatively affected by a decline in uninsured deposits due to a loss of investor confidence and a flight to insured deposits at other financial institutions.

Through the Dodd-Frank Act, unlimited insurance coverage on noninterest-bearing transaction accounts was extended until December 31, 2012.

Diminished access to alternative sources of liquidity could adversely affect our net income, net interest margin and our overall liquidity.

We currently have and historically have had access to a number of alternative sources of liquidity, but given the recent and dramatic downturn in the credit and liquidity markets, there is no assurance that we will be able to continue to obtain such liquidity on terms that are favorable to us, or at all. For example, the cost of out-of-market deposits could exceed the cost of deposits of similar maturity in our local market area, making them unattractive sources of funding; financial institutions may be unwilling to extend credit to banks because of concerns about the banking industry and the economy generally; and, given recent downturns in the economy, there may not be a viable market for raising equity capital. Sources of funding available to us, and upon which we rely as regular components of our liquidity and funding management strategy, include borrowings from the FHLB and the FRB Atlanta, internet certificates of deposit and certain brokered deposits. If our access to these sources of liquidity is diminished or only available on unfavorable terms, then our income, net interest margin and our overall liquidity likely would be adversely affected.

Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which we are perceived in such markets, may adversely affect our financial results.

In general, the amount, type and cost of our funding, including from other financial institutions, the capital markets and deposits, directly impact our costs in operating our business and growing our assets and therefore, can positively or negatively affect our financial results. A number of factors could make funding more difficult, more expensive or unavailable on any terms, including, but not limited to, financial results and losses, changes within our organization, specific events that adversely impact our reputation, disruptions in the capital markets, specific events that adversely impact the financial services industry, counterparty availability, changes affecting our assets, the corporate and regulatory structure, interest rate fluctuations, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. Also, we compete for funding with other banks and similar companies, many of which are substantially larger, and have more capital and other resources than we do. If these competitors consolidate with other financial institutions, these advantages may increase. Competition from these institutions may increase the cost of funds.

A promissory note contains financial covenants and a guarantee of the Company.

The Company has a related party promissory note ("Note") in the amount of \$8.6 million as of December 31, 2011. The Note is secured by the unconditional guarantee of the Company and SAVB Holdings' blanket assignment or pledge of all of its assets and the proceeds thereof to the Note's holder. The Note contains the following financial covenants: (i) during the term of the Note, the dividends paid out by the Company, on a quarterly basis, shall not exceed 50 percent of the Company's after tax net income for the preceding quarter; (ii) Savannah and Bryan Bank shall each maintain a "well-capitalized" status as determined by the OCC and the GDBF, respectively; (iii) on the last day of each calendar quarter during the term of the Note, SAVB Holdings shall maintain a loan-to-value ratio of at least 1.00:1.00; and (iv) on the last day of each calendar quarter during the term of the Note, the amount of nonperforming assets of the Company shall not exceed 4.75 percent of the total assets of the Company. The Company's non-compliance with any of the aforementioned covenants would result in an increase in the interest rate payable pursuant to the Note by 200 basis points in the event of noncompliance with the covenants described in (i), (ii) or (iii) above. The Company's non-compliance with the covenant described in (iv) above would result in an increase in the interest rate payable pursuant to the Note by 50 basis points. Additionally, the covenants state that if the amount of nonperforming assets of the Company exceeds 5.25 percent of the total assets, then interest rate payable on the Note would increase an additional 200 basis points. At December 31, 2011, the Company's ratio of nonperforming assets to total assets was 5.60 percent which exceeded both of the limits stated in the Note's covenants related to the ratio of nonperforming assets to total assets. The interest rate payable on the Note was increased 50 basis points to 8.00 percent for exceeding the limit of 4.75 percent of nonperforming assets to total assets of the Company during the third quarter of 2011. The interest rate payable should have increased an additional 200 basis points to 10.00 percent during the fourth quarter of 2011 for exceeding the limit of 5.25 percent of nonperforming assets to total assets of the Company; however, the Company obtained a waiver from the related party lenders on this covenant and the interest rate payable remained at 8.00 percent as of December 31, 2011. As of December 31, 2011, the Company met all the other covenants contained in the Note.

Operational Risk

Future departures of our key personnel may impair our operations.

We are, and for the foreseeable future will be, dependent on the services of John C. Helmken II, President and Chief Executive Officer of the Company and Chief Executive Officer of Savannah; R. Stephen Stramm, Executive Vice President – Lending of the Company and of Savannah; Michael W. Harden, Jr., Chief Financial Officer of the Company and Savannah; Jerry O'Dell Keith, a Senior Vice President of the Company and President and CEO of Bryan Bank, and Holden T. Hayes, a Senior Vice President of the Company and President of Savannah. Should the services of any of Messrs. Helmken, Stramm, Harden, Keith or Hayes become unavailable, there can be no assurance that a suitable successor could be found who will be willing to be employed upon terms and conditions acceptable to us. A failure to replace any of these individuals promptly, should his services become unavailable, could have a material adverse effect on our results of operations and financial performance. These risks are heightened by the fact that none of these officers has entered into employment agreements with the Company or the Subsidiary Banks.

We may be required to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Currently, both Savannah and Bryan Bank have agreed with their primary regulators to maintain capital levels that are higher than the statutory regulations for a well capitalized bank. Savannah has agreed with the OCC to maintain a Tier 1 capital ratio of 8.00 percent and total risk-based capital ratio of 12.00 percent, which it currently exceeds. Bryan Bank has agreed with the FDIC and GDBF to maintain a Tier 1 capital ratio of 8.00 percent and a total risk-based capital ratio of 10.00 percent, which it currently exceeds. We do, however, continue to evaluate the need to raise additional capital to support future growth, to support potential loan and nonperforming asset sales, or to enhance our capital in view of possible further deterioration of economic conditions.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot give any assurances of our ability to raise additional capital on terms acceptable to us, or at all. If we cannot raise additional capital when needed, our overall financial condition could be materially impaired.

Our industry operates in a highly regulated environment. New laws or regulations or changes in existing laws or regulations affecting the banking industry could have a material adverse effect on our results of operations.

The Company and the Banks are subject to extensive government regulation and supervision under various state and federal laws, rules and regulations, primarily the rules and regulations of the OCC, FDIC, GDBF, SEC and the FRB. These laws and regulations are designed primarily to protect depositors, borrowers, and the deposit insurance funds of the FDIC. These regulators maintain significant authority to impose requirements on our overall operations, such as limiting certain activities. The financial services industry is subject to frequent legislative and regulatory changes and proposed changes, the effects of which cannot be predicted.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. On December 30, 2009, we prepaid \$5.1 million of FDIC insurance premiums. As of December 31, 2011, \$2.2 million of the prepaid deposit insurance premiums remained. Any future increases by the FDIC in assessments or future required prepayments could have a material adverse effect on our results of operation.

We are subject to regulation, examination and scrutiny by a number of regulatory authorities and, depending upon the findings and determinations of our regulatory authorities, we may be required to make adjustments to our business, operations or financial position and could become subject to additional formal or informal regulatory orders.

The Company, each of the Subsidiary Banks, and each of their affiliated entities, are subject to examination by federal and state banking regulators. Federal and state regulators have the ability to impose substantial sanctions, restrictions and requirements on the Company and the Subsidiary Banks and their affiliates if they determine, upon conclusion of their examination or otherwise, violations of laws with which the Company or the Subsidiary Banks must comply, or weaknesses or failures with respect to general standards of safety and soundness, including, for example, in respect of any financial concerns that the regulators may identify and desire for us to address. Such enforcement may be formal or informal and can include directors' resolutions, memoranda of understanding, cease and desist orders, civil money penalties and termination of deposit insurance and bank closures. Enforcement actions may be taken regardless of the capital levels of the institutions and regardless of prior examination findings. In particular, institutions that are not sufficiently capitalized in accordance with regulatory standards may also face capital directives or prompt corrective actions. Enforcement actions may require certain corrective steps (including staff additions or changes), impose limits on activities (such as lending, deposit taking, acquisitions or branching), prescribe lending parameters (such as loan types, volumes and terms) and require additional capital to be raised, any of which could adversely affect our financial condition and results of operations. Any such imposition of regulatory sanctions, including monetary penalties, may have a material impact on our financial condition and results of operations and may cause damage to our reputation and loss of our financial services holding company status. In addition, compliance with any such action could distract management's attention from our operations, cause us to incur significant expenses, restrict us from engaging in potentially profitable activities, and limit our ability to raise capital.

Savannah is subject to the Agreement with the OCC and, as of March 1, 2012, Bryan Bank is subject to the Order with the FDIC and the GDBF. Savannah's Agreement and Bryan Bank's Order require the Subsidiary Banks to take steps to improve asset quality, credit risk exposure, strategic planning initiatives, capital planning, and liquidity and risk management and subject the Subsidiary Banks to heightened capital requirements. Currently, both Savannah and Bryan Bank meet or exceed the requirements of the Agreement and the Order, as applicable to the Subsidiary Banks. The Subsidiary Banks could become subject to additional formal or informal regulatory orders, which may impose further requirements on the Subsidiary Banks affecting the business and results of operations of the Subsidiary Banks.

We face substantial competition in our industry sector from banking and financial institutions that have larger and greater financial and marketing capabilities, which may hinder our ability to compete successfully.

The banking and financial services industry is highly competitive. This competitiveness may negatively impact our ability to retain qualified management and loan officers, raise sufficient deposits at an acceptable price, and attract customers. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial providers.

We compete with many different banking and financial institutions, including banks and savings and loan associations, credit unions, brokerage and investment banking firms, and mortgage companies and brokers. These entities may be branches or subsidiaries of much larger organizations affiliated with statewide, regional or national banking companies and, as a result, may have greater resources and lower costs of funds. These entities may also be start-up organizations. Any of these entities may attempt to duplicate our business plan and strategy. There can be no assurance that we will be able to compete effectively in the future.

Failure to implement our business strategies may adversely affect our financial performance.

Our management has developed a business plan that details the strategies we intend to implement in our efforts to continue profitable operations. If we cannot implement our business strategies, we may be hampered in our ability to develop business and serve our customers, which could, in turn, have an adverse effect on our financial performance. Even if our business strategies are successfully implemented, they may not have the favorable impact on operations that we anticipate.

An extended disruption of vital infrastructure could negatively impact our business, results of operations, and financial condition.

Our operations depend upon, among other things, our infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking or viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services industry as a whole and on our ability to conduct business. Our disaster recovery and business resumption contingency plans may not work as intended or may not prevent significant interruptions of our operations.

Changes in accounting policies and practices, as may be adopted by the regulatory agencies, the Financial Accounting Standards Board, or other authoritative bodies, could materially impact our financial statements.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the regulatory agencies, the Financial Accounting Standards Board, and other authoritative bodies change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Non-compliance with the Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the Treasury's FinCEN. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. We have developed policies and procedures designed to assist in compliance with these laws and regulations.

The FRB may require the Company to commit capital resources to support the Subsidiary Banks.

The FRB, which examines the Company and its non-bank subsidiaries, has a policy stating that a bank holding company is expected to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the source of strength doctrine, the FRB may require a bank holding company to make capital injections into a troubled subsidiary bank, and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Capital injections may be required at times when the holding company may not have the resources to provide it, and, therefore, may be required to borrow the funds. Loans from a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank.

In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, the bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and may adversely impact the holding company's results of operations and cash flows.

The failure of other financial institutions, both nationally and in our market area, could adversely affect us.

Our ability to engage in routine transactions, including, for example, funding transactions, could be adversely affected by the actions and potential failures of other financial institutions nationally and in our market area. From January 2009 until February 2012, 70 of the 408 bank closings nationally, or approximately 17 percent, have occurred in the State of Georgia. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with a variety of counterparties in the financial services industry. As a result, defaults by, or even rumors or concerns about, one or more financial institutions with which we do business or the financial services industry generally have led and could in the future lead to market-wide liquidity problems, which could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be sold at prices that are sufficient for us to recover the full amount of our exposure. Any such losses could materially and adversely affect our financial condition and results of operations.

As a financial services company, adverse changes in general business or economic conditions could have a material adverse effect on our financial condition and results of operations.

Sustained weakness in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse impacts on our business:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in the fair value of nonperforming assets or other assets secured by consumer or commercial real estate;
- an increase or decrease in the usage of unfunded commitments; or
- an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us.

Any such increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on loans.

The impact of emergency measures designed to stabilize the U.S. banking system is unknown.

Since mid-2008, a host of legislation and regulatory actions have been implemented in response to the financial crisis and the recession. Some of the programs are beginning to expire and the impact of the wind-down of these programs on the financial sector, including the Company and our subsidiaries, and on the economic recovery is unknown. These include:

- The Troubled Asset Relief Program, established pursuant to the Emergency Economic Stabilization Act, expired on October 3, 2010.
- Since 2008, the Fed has purchased several trillion dollars of mortgage-related assets in order to support the mortgage lending industry during the financial crisis. At some point in the future, the Fed will begin to reduce its balance sheet as the financial crisis appears to abate, with the result that the supply of mortgage related assets on the market may increase substantially.
- As part of its response to the financial crisis, the Fed has maintained interest rates at historically low levels. The Fed has indicated that rates will remain low for several years.

In addition, a stall in the economic recovery could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

The small to medium-sized businesses we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us and could materially harm our operating results.

The Subsidiary Banks make loans to professional firms and privately owned businesses that are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay our loan. A continued economic downturn and other events that negatively impact our target markets could cause us to incur substantial loan losses that could materially harm our operating results.

The Dodd-Frank Act could increase our regulatory compliance burden and associated costs or otherwise adversely affect our business.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry.

To date, there are a number of provisions of the Dodd-Frank Act that have not taken effect and many important provisions require implementing rules to become effective. The overall effect of the Dodd-Frank Act on the Company and on the financial services industry as a whole will be clarified as those provisions take effect and the implementing regulations are issued. The Dodd-Frank Act addresses a number of issues including capital requirements, compliance and risk management, debit card overdraft fees, healthcare, incentive compensation, expanded disclosures and corporate governance. The Dodd-Frank Act establishes the CFPB which will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. Moreover, states will be permitted to adopt stricter consumer protection laws and can enforce consumer protection rules issued by the CFPB.

While we cannot predict the full impact on the Company and its subsidiaries, the Dodd-Frank Act will likely increase our regulatory compliance burden and may have a material adverse effect on us, including increasing the costs associated with our regulatory examinations and compliance measures. The changes resulting from the Dodd-Frank Act, as well as the resulting regulations promulgated by federal agencies, may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes to comply with new laws and regulations.

Future legislation could impact our business, financial condition and results of operations.

Congress is considering additional proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies. Such legislation may significantly change existing banking statutes and regulations, as well as our current operating environment. If enacted, such legislation could increase or decrease the cost of doing business, impose new operational requirements, increase our consumer compliance obligations, limit or expand our permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it or any regulations would have on our business, financial condition, or results of operations.

The short- and long-term impact of a new capital framework is uncertain.

The capital requirements applicable to the Company and the Subsidiary Banks are subject to change as a result of the Dodd-Frank Act, the international regulatory capital initiative known as Basel III and any other future government actions. In December 2010, Basel finalized new regulatory capital standards, known as Basel III. The standards, which mandate a higher minimum level of common equity to be held by financial institutions along with a capital conservation buffer to withstand future periods of stress, are subject to individual adoption by member nations, including the U.S. It is anticipated that U.S. regulators will adopt new regulatory capital requirements similar to those proposed by Basel to be phased-in for U.S. financial institutions beginning in 2013. Furthermore, it is widely anticipated that the capital requirements for most bank and bank holding companies, as well as for most insured depository institutions, will increase, although the nature and amounts of the increase have not yet been specified. Complying with any higher capital requirements mandated by the Dodd-Frank Act and new capital standards brought about by Basel III implementation may have an adverse affect on our business, results of operations and financial condition.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

Common Stock Marketability Risk

Our authorized preferred stock exposes holders of our common stock to certain risks.

Our Articles of Incorporation authorize the issuance of up to 10,000,000 shares of preferred stock, par value \$1.00 per share. The authorized but unissued preferred stock constitutes what is commonly referred to as "blank check" preferred stock. This type of preferred stock may be issued by us, at the direction of our Board, from time to time on any number of occasions, without shareholder approval, as one or more separate series of shares comprised of any number of the authorized but unissued shares of preferred stock, designated by resolution of the Board stating (i) the dividend rate or the amount of dividends to be paid thereon, whether dividends shall be cumulative and, if so, from which date(s), the payment date(s) for dividends, and the participating or other special rights, if any, with respect to dividends; (ii) the voting powers, full or limited, if any, of shares of such series; (iii) whether the shares of such series shall be redeemable and, if so, the price(s) at which, and the terms and conditions on which, such shares may be redeemed; (iv) the amount(s) payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company; (v) whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price or prices at which such shares may be redeemed or purchased through the application of such funds; (vi) whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes of stock of the Company, and, if so, the conversion price(s), or the rate(s) of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion and exchange; (vii) the price or other consideration for which the shares of such series shall be issued; (viii) whether the shares of such series which are redeemed or converted shall have the status of authorized but unissued shares of serial preferred stock and whether such shares may be reissued as shares of the same or any other series of serial preferred stock; and (ix) whether the shares of such series shall be entitled to other rights, preferences and privileges. Such preferred stock may provide our Board the ability to hinder or discourage any attempt to gain control of us by a merger, tender offer at a control premium price, proxy contest or otherwise. Consequently, the preferred stock could entrench our management. The market price of our common stock could be depressed to some extent by the existence of the preferred stock. In addition, if the preferred stock is convertible into the Company's common stock, such conversion may dilute the percentage ownership of existing shareholders of the Company's common stock. Moreover, any preferred stock that is issued will rank ahead of our common stock, in terms of dividends, priority and liquidation preferences and may have greater voting rights than the Company's common stock. No shares of preferred stock have been issued as of December 31, 2011.

Our directors and executive officers own a significant portion of our common stock.

As of December 31, 2011, our directors and executive officers, collectively, beneficially owned approximately 16 percent of our outstanding common stock. As a result of their ownership, the directors and executive officers, as a group, have the ability to significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors and the approval of mergers and other significant corporate transactions, even if their interests conflict with those of other shareholders, which could adversely affect the market price of our common stock.

The OCC, FDIC, GDBF, FRB or other entities may impose dividend payment and other restrictions on the Subsidiary Banks and the Company which would impact our ability to pay dividends to shareholders.

The OCC, FDIC and the GDBF are the primary regulatory agencies that examine the Subsidiary Banks. The FRB is the regulatory agency that examines the Company. Under certain circumstances, including any determination that the activities of a holding company, a bank or their subsidiaries constitute unsafe and unsound banking practices, the regulators have the authority, by statute, to restrict the holding company's ability to pay dividends to its shareholders as well as the subsidiary bank's ability to transfer assets, make shareholder distributions, and redeem preferred securities or pay dividends to the parent company. Although the Company is not presently subject to any direct regulatory restrictions on dividends (other than those of Georgia corporate law), the Company has agreed with the FRB Atlanta to obtain approval prior to paying or declaring any dividends to shareholders. Further, as more fully discussed in the section titled Narrative Description of Business; Federal and State Laws and Regulation of Banks and Bank Holding Companies; Other Statutes and Regulations of Item 1 above, Savannah and Bryan Bank have agreed with their primary banking regulators to obtain approval prior to paying or declaring any dividends to the Company. In addition, as noted previously, one of our loan agreements contains a covenant that restricts quarterly dividends to 50 percent of quarterly net income.

Certain provisions in our Articles of Incorporation and Bylaws may deter potential acquirers and may depress our stock price.

Our Articles of Incorporation and Bylaws divide our Board into three classes, as nearly equal as possible, with staggered three-year terms. Business combinations, such as sales or mergers involving us, require the approval of a majority of shareholders as well as the recommendation for such business combination by at least two-thirds of the continuing directors, or in the alternative, unanimously recommended by the continuing directors, provided that the continuing directors constitute at least three members of the Board at the time of such approval. Shareholders may remove directors with or without cause upon the affirmative vote of the holders of at least 75 percent of the outstanding voting shares of the Company and the affirmative vote of the holders of at least 75 percent of the outstanding voting shares of the Company other than those of which an interested shareholder is the beneficial owner. These provisions could make it more difficult for a third party to acquire control of the Company. In addition, the above provisions may be altered only pursuant to specified shareholder action. With several specific exceptions, our Articles of Incorporation and Bylaws are silent with respect to the amendment of our Articles of Incorporation, and thus, the Georgia Business Corporations Code ("GBCC") dictates the requirements for making such an amendment. The GBCC generally provides that, other than in the case of certain routine amendments (such as changing the corporate name) and other amendments, which the GBCC specifically allows without shareholder action, the corporation's board of directors must recommend any amendment of the Articles of Incorporation to the shareholders (unless the board elects to make no such recommendation because of a conflict of interest or other special circumstances and the board communicates the reasons for its election to the shareholders) and the affirmative vote of a majority of the votes entitled to be cast on the amendment by each voting group entitled to vote on the amendment (unless the GBCC, the articles of incorporation, or the board of directors require a greater percentage of votes) is required to amend our Articles of Incorporation.

Our Articles of Incorporation provide that the provisions regarding the approval required for certain business combinations may only be changed by the affirmative vote of at least 75 percent of the outstanding voting shares of the Company and the affirmative vote of the holders of at least 75 percent of the outstanding shares of the Company other than those of which an interested shareholder is the beneficial owner.

Our Articles of Incorporation also provide that the provisions regarding the applicability of Article 11, Parts 2 and 3 of the GBCC (regarding mergers and share exchanges) to the Company may only be repealed by both the affirmative vote of at least two-thirds of the continuing directors and a majority of the votes entitled to be cast by voting shares of the Company, in addition to any other vote required by our Articles of Incorporation.

Our Bylaws generally provide that the Bylaws may be altered or amended by our shareholders at any annual meeting or special meeting of the shareholders or by our Board at any regular or special meeting of the Company's Board.

The existence of the above provisions could result in our being less attractive to a potential acquirer, or result in our shareholders receiving less for their shares of common voting stock than otherwise might be available if there were a takeover attempt.

We have certain obligations and the general ability to issue additional shares of our common stock in the future, which future issuances may depress the price of our common stock.

We have various obligations to issue additional shares of common stock in the future. These obligations include non-qualified and incentive stock options as detailed in Note 15 on page F-29 to the Consolidated Financial Statements in the 2011 Annual Report.

The options permit the holders to purchase shares of our common stock at specified prices. These purchase prices may be less than the then current market price of our common stock. Any shares of our common stock issued pursuant to these options would dilute the percentage ownership of existing shareholders. The terms on which we could obtain additional capital during the life of these options may be adversely affected because of such potential dilution. In addition, we may issue additional shares in the future. There are no preemptive rights in connection with our common stock. The percentage ownership of existing shareholders may be diluted if we issue additional shares in the future.

For issuances of shares and grants of options, our Board will determine the timing and size of the issuances and grants and the consideration or services required thereof. Our Board intends to use its reasonable business judgment to fulfill its fiduciary obligations to our then existing shareholders in connection with any such issuance or grant. Nonetheless, future issuances of additional shares could cause immediate and substantial dilution to the net tangible book value of shares of our common stock issued and outstanding immediately before such transaction. Any future decrease in the net tangible book value of such issued and outstanding shares could materially and adversely affect the market value of the shares.

Sales of large quantities of our common stock could reduce the market price of our common stock.

Any sales of large quantities of shares of our common stock, or the perception that any such sales are likely to occur, could reduce the market price of our common stock. If holders sell large quantities of shares of our common stock, the market price of our common stock may decrease and the public market for our common stock may otherwise be adversely affected because of the additional shares available in the market.

Our common stock has experienced only limited trading.

Our common stock is quoted and traded on the NASDAQ Global Market in the United States under the symbol "SAVB". The trading volume in our common stock has been relatively low when compared with larger companies quoted on the NASDAQ Global Market or listed on the other stock exchanges. We cannot say with any certainty that a more active and liquid trading market for our common stock will develop. Because of this, it may be more difficult for you to sell a substantial number of shares for the same price at which you could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We, therefore, can give no assurance that sales of substantial amounts of our common stock in the market, or the potential for large amounts of sales in the market, would not cause the market price of our common stock to decline or impair our future ability to raise capital through sales of our common stock. As of December 31, 2011, there were 7,199,136 shares of common stock outstanding. The price of our common stock will be determined in the marketplace and may be influenced by many factors, including the following:

- The depth and liquidity of the markets for our common stock;
- Investor perception of us and the industry in which we participate;
- General economic and market conditions;
- Responses to quarter-to-quarter variations in operating results;
- Earnings relative to securities analysts' estimates;
- Changes in financial estimates by securities analysts;
- Conditions, trends or announcements in the banking industry;
- Announcements of significant acquisitions, strategic alliances, joint ventures or capital commitments by us or our competitors;
- Additions or departures of key personnel;
- Accounting pronouncements or changes in accounting rules that affect our financial statements; and
- Other factors and events beyond our control.

The market price of our common stock could experience significant fluctuations unrelated to our operating performance. As a result, an investor (due to personal circumstances) may be required to sell their shares of our common stock at a time when our stock price is depressed due to random fluctuations, possibly based on factors beyond our control.

Our stock price has been and may continue to be volatile and the value of your investment may decline.

The trading price of our common stock has been and may continue to be volatile and subject to wide fluctuations in price. The stock market in general, and the market for commercial banks and other financial services companies in particular, has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Furthermore, the value of your investment may decline, and you may be unable to sell your shares of our common stock at or above the offering price.

A holder with as little as a 5 percent interest in the Company could, under certain circumstances, be subject to certain restrictions, including regulation as a “bank holding company.”

Any entity (including a group of investors acting in concert) owning 25 percent or more of our outstanding common stock, or 5 percent or more if such holder otherwise exercises a “controlling influence” over us, may be subject to regulation as a “bank holding company” in accordance with the BHCA. In addition, (i) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the FRB under the BHCA to acquire or retain 5 percent or more of our outstanding common stock and (ii) any person other than a bank holding company may be required to obtain regulatory approval under the Change in Bank Control Act of 1978, as amended, to acquire or retain 10 percent or more of our outstanding common stock. Becoming a bank holding company imposes certain statutory and regulatory restrictions and burdens, and might require the holder to divest all or a portion of the holder’s investment in our common stock. In addition, because a bank holding company is required to provide managerial and financial strength for its bank subsidiary, such a holder may be required to divest investments that may be deemed incompatible with bank holding company status, such as a material investment in a company engaged in activities unrelated to banking. Further, subject to an FDIC policy statement published in August 2009 (and clarified in January and April 2010), under certain circumstances, holders of 5 percent or more of our securities could be subject to certain restrictions, such as an inability to sell or trade their securities for a period of three years, among others, in order for us to participate in an FDIC-assisted transaction of a failed bank. An entity (or group of investors) that owns or controls 10 percent or more of our common securities but less than 25 percent and that seeks to avoid designation as a bank holding company will be required to enter into passivity commitments with the FRB that prevent the entity from exercising control. The FRB also may require passivity commitments from an entity that owns or controls 5 percent or more of any class of our voting securities.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

See Note 6 and Note 17 of Notes to Consolidated Financial Statements on pages F-24 and F-31, respectively, of the Registrant’s 2011 Annual Report, which is specifically incorporated herein by reference.

Savannah’s main office is located at 25 Bull Street, Savannah, Georgia, on the ground floor of a seven story office building located on Johnson Square in downtown Savannah. The building also serves as the headquarters for the Company. Savannah has leased space at this location since 1990. The Company signed a new lease as of February 1, 2010 increasing the total square footage rented in the building to approximately 21,000 square feet, which is 51 percent of the building. Minis and the Trust Department of Savannah moved into the building from other leased space in 2010. The Company is responsible for its pro rata share of operating cost increases in utilities, janitorial services, property taxes and insurance. In September 2005, SAVB Properties LLC, a subsidiary of the Company, acquired a 50 percent interest in Johnson Square Associates, LLP, which owns the 25 Bull Street property.

In 1989, Bryan Bank constructed its 8,500 square foot, two-story main office in Richmond Hill, Georgia, on land owned by Bryan Bank. The building has a walk-up ATM, a drive-up ATM and 4 drive-through lanes.

Savannah leases approximately 6,500 square feet on the first floor of a two-story building located at 400 Mall Boulevard, Savannah, Georgia. This space is used for a branch location and the mortgage and construction lending departments. The building is near the intersection of Mall Boulevard and Hodgson Memorial Drive, a location that is convenient to a significant concentration of commercial, service, and retail entities. The lease rate increases with the Consumer Price Index. The initial lease term was for five years and ended March 31, 1997. Savannah committed to exercise the fourth five-year lease option effective March 31, 2012 for the space used for the branch location, however, it did not renew the lease for approximately 2,300 square feet where the mortgage and construction lending departments were located. Savannah is also responsible for its pro rata share of increases in the cost of ad valorem taxes, insurance and maintenance of common areas. Savannah renovated the space, constructed a vault, and added a five lane drive-through teller facility adjacent to the building.

During 1995, Savannah entered into a three-year ground lease with seven five-year renewal options on land located at 100 Chatham Parkway. Savannah also has a right of first refusal to buy the property at appraised value should the owner ever decide to sell the property. The location is at the intersection of Chatham Parkway and U.S. Highway 80, a major commercial and industrial intersection in west Chatham County. Savannah made land improvements and constructed a 2,200 square-foot banking facility including four drive-through lanes and an ATM drive-through lane. The West Chatham Office opened for business on November 20, 1995.

In 1997, Savannah constructed a 2,300 square foot office on an out lot owned in the Island Towne Centre Shopping Plaza on Whitmarsh Island, six miles east of downtown Savannah. This office includes a four lane drive-through facility.

In November 1997, Savannah entered into a ten-year lease beginning June 1, 1998 with four five-year renewal options in the Medical Arts Shopping Center at 4809 Waters Avenue. The Company exercised its first five-year renewal in 2008. The property consists of 3,055 square feet of banking office space and a separate drive-through facility behind the shopping center.

On February 24, 2006, Harbourside entered into a lease agreement, effective March 1, 2006, for approximately 17,400 square feet of office space at 852 William Hilton Parkway on Hilton Head Island. During 2009, the Company purchased the building from the landlord. The branch is now a branch of Savannah. Savannah consolidated its operations to the first floor and has fully leased out the second floor.

On August 1, 2006, Savannah entered into a lease agreement for approximately 1,200 square feet of banking office space in The Village, a shopping center on Skidaway Island. The initial term of the lease is for five years and includes two five-year renewal options. Savannah committed to exercise the first five-year lease option in August 2011. The rent adjusts annually by an amount that approximates the increase in the Consumer Price Index. Savannah is also responsible for its pro rata share of increases in the cost of ad valorem taxes, insurance and maintenance of common areas.

On January 31, 2007, Harbourside entered into a lease agreement, effective October 1, 2007, for approximately 4,500 square feet of office space on Bluffton Parkway in Bluffton, South Carolina. The lease is on a new building for a 10-year initial lease term with three five-year renewal options. After three years, the rent adjusted three percent. The branch is now a branch of Savannah. Savannah, as the tenant, is responsible for all taxes, insurance and maintenance.

In 2008, Bryan Bank acquired a lot for a future branch site in a commercial development on Highway 144 in Richmond Hill.

In August 2008, Bryan Bank opened its second office in Richmond Hill at 3700 Highway 17, about one-half mile from I-95. The new branch is 3,000 square feet. The Company also relocated its regional banking operations center from previously leased space in Savannah to the new facility. The imaged item processing, statement rendering, information technology, loan operations, deposit operations and branch operations support functions are located at this center. The operations center occupies the remainder of the 11,500 square foot facility.

In September 2008, Savannah purchased a commercial lot in Pooler, Georgia as a potential branch location. Savannah leases a separate location in Pooler for a drive-up ATM.

On June 25, 2010, Savannah assumed a lease for an approximately 2,000 square foot branch located at 802 First Street, Tybee Island, Georgia through an agreement with the FDIC. This lease ran through September 2011 and has two 5 year renewal terms. Savannah is currently renting from month to month and has not exercised the first five year renewal term. The rent adjusts annually by an amount that approximates the increase in the Consumer Price Index.

Item 3. Legal Proceedings

The Company is not a party to, nor is any of its property the subject of, any material pending legal proceedings incidental to the business of the Company or the Subsidiary Banks.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Incorporated herein by reference to sections entitled "Table 4 - Market for Registrant's Common Equity and Related Shareholder Matters" on page F-40 of the Financial Statement Section of the 2011 Annual Report.

Item 6. Selected Financial Data

Incorporated herein by reference to sections entitled "Table 1– Selected Financial Condition Highlights – Five-Year Comparison," "Table 2 – Selected Operating Highlights – Five-Year Comparison," "Table 3 – Selected Quarterly Data," "Table 5 – Allowance for Loan Losses and Nonperforming Assets," "Table 7 – Average Balance Sheet and Rate/Volume Analysis-2011 and 2010" and "Table 8 – Average Balance Sheet and Rate/Volume Analysis-2010 and 2009" in the Registrant's MD&A on pages F-38 through F-56 of the Financial Statement Section of the 2011 Annual Report. Additional selected financial data is included on pages 25 and 26 of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The MD&A on pages F-38 through F-56 of the Financial Statement Section of the 2011 Annual Report are incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Incorporated herein by reference to the sections entitled "Liquidity and Interest Rate Sensitivity Management" and "Table 6 – Cash Flow/Maturity Gap and Repricing Data" in the Registrant's MD&A on pages F-50 to F-52 and F-54 of the Financial Statement Section of the 2011 Annual Report.

Item 8. Financial Statements and Supplementary Data

(a)

1. Financial Statements – See listing in Item 15
2. Financial Statement Schedules – See Item 15

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures - We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K as required by Rule 13a-15 of the Securities Exchange Act of 1934, as amended. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based on this evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

Management's Report on Internal Control over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected in a timely manner. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Changes in Internal Control over Financial Reporting - No change in our internal control over financial reporting occurred during the fourth fiscal quarter covered by this Annual Report on Form 10-K that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated herein by reference to the sections entitled "Election of Directors," "Information about the Board of Directors and Certain Committees" and "Executive Compensation and Benefits" in the Proxy Statement. All transactions required pursuant to the insider trading regulations were filed on either Form 4 or Form 5 of the SEC. The required Code of Ethics disclosures are also incorporated by reference to the section entitled "Code of Business Conduct and Ethics" in the Proxy Statement.

Item 11. Executive Compensation

Incorporated herein by reference to the sections entitled "Information about the Board of Directors and Certain Committees" under the caption "Compensation Committee" and "Executive Compensation and Benefits" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Incorporated herein by reference to the sections entitled "Election of Directors" and "Ownership of Equity Securities" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference, the information contained in Note 5, Note 11 and Note 17 to the Consolidated Financial Statements and under the caption "Certain Transactions" and "Information about the Board of Directors and Certain Committees" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference to the information under the caption entitled "Principal Accountant Fees and Services" in the Proxy Statement.

PART IV**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this report:

1. Financial statements

Incorporated herein by reference to the financial statements, together with the applicable report of independent accountants, are included on pages F-2 through F-37 of the Financial Statement Section of the 2011 Annual Report. The index for the financial statements is as follows:

Financial Statement

Page

| | |
|---|-------------|
| (i) Report of Independent Registered Public Accounting Firm | F-2 |
| (ii) Consolidated Balance Sheets December 31, 2011 and 2010 | F-3 |
| (iii) Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009 | F-4 |
| (iv) Consolidated Statements of Other Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009 | F-5 |
| (v) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2011, 2010 and 2009 | F-6 |
| (vi) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009 | F-7 |
| (vii) Notes to Consolidated Financial Statements | F-8 to F-37 |
| 2. Required financial statement schedules | |

Other schedules and exhibits are not required information or are inapplicable and, therefore, have been omitted.

3. The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

SAVB 2011 Form 10-K

Index to Exhibits

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 33-33405) as filed with the SEC on February 8, 1990) |
| 3.2 | By-laws as amended and restated July 20, 2004 (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (No. 133-128724) as filed with the SEC on September 30, 2005) |
| 10.1 | Form of Organizers' Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (No. 33-33405) as filed with the SEC on February 8, 1990) |
| 10.2 | The Savannah Bancorp, Inc. Incentive Stock Option Plan approved by shareholders on April 18, 1995 * |
| 10.3 | Amendment to The Savannah Bancorp, Inc. Incentive Stock Option Plan approved by shareholders on April 16, 1996 * |
| 10.4 | Change in Control Agreement for R. Stephen Stramm (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-K for the year ended December 31, 1997, as filed with the SEC on March 30, 1998) * |
| 10.5 | The Savannah Bancorp, Inc. 2005 Omnibus Stock Ownership and Long Term Incentive Plan approved by shareholders on April 21, 2005 (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement on Form 14A, as filed with the SEC on March 25, 2005) * |
| 10.6 | Change in Control Agreement for Jerry O'Dell Keith (incorporated by reference to Exhibit 10.10 of the Company's Report on Form 10-Q for the quarter ended June 30, 2011, as filed with the SEC on August 15, 2011)* |
| 10.7 | Change in Control Agreement for John C. Helmken II (incorporated by reference to Exhibit 10.11 of the Company's Report on Form 10-Q for the quarter ended June 30, 2011, as filed with the SEC on August 15, 2011) * |
| 10.8 | The Savannah Bank, N.A. Formal Agreement |
| 10.9 | Bryan Bank & Trust Consent Order |
| 11 | Computation of Earnings per Share (incorporated by reference to Note 1 to the consolidated financial statements in the 2011 Annual Report) |
| 13 | 2011 Annual Report to Shareholders |
| 21 | Subsidiaries of Registrant |
| 23.1 | Consent of Mauldin & Jenkins, LLC, Independent Registered Public Accounting Firm |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following materials from the Company's 2011 Annual Report for the year ended December 31, 2011, formatted in Extensible Business Reporting Language (XBRL): (a) Consolidated Balance Sheets; (b) Consolidated Statements of Operations; (c) Consolidated Statements of Other Comprehensive Income (Loss); (d) Consolidated Statements of Changes in Shareholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements ** |

* Indicates management contracts and compensatory plans and arrangements.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Signature Page

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on March 28 - 29, 2012 by the undersigned, thereunto duly authorized.

THE SAVANNAH BANCORP, INC.

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)

Directors:

/s/ J. Wiley Ellis
J. Wiley Ellis
Chairman of the Board

/s/ Berryman W. Edwards
Berryman W. Edwards

/s/ J. Toby Roberts, Sr.
J. Toby Roberts, Sr.

Robert H. Demere, Jr.
Vice Chairman

/s/ L. Carlton Gill
L. Carlton Gill

/s/ James W. Royal, Sr.
James W. Royal, Sr.

/s/ Francis A. Brown
Francis A. Brown

/s/ John C. Helmken II
John C. Helmken II

/s/ Russell W. Carpenter
Russell W. Carpenter

Aaron M. Levy

/s/ Clifford H. Dales
Clifford H. Dales

/s/ J. Curtis Lewis III
J. Curtis Lewis III

/s/ M. Lane Morrison
M. Lane Morrison

/s/ Jerry O'Dell Keith
Jerry O'Dell Keith

AGREEMENT BY AND BETWEEN
The Savannah Bank National Association
Savannah, Georgia
and
The Comptroller of the Currency

The Savannah Bank National Association, Savannah, Georgia ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe and unsound banking practices including practices related to the Bank's asset quality, credit risk, strategic planning, capital planning, and liquidity risk management.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors ("Board"), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

- (1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. § 1818(b)(1).
 - (2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).
-

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Jacksonville Field Office
8375 Dix Ellis Trail, Suite 403
Jacksonville, Florida 32256

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least four (4) directors, of which no more than one (1) shall be an employee or controlling shareholder of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within forty-five (45) days of the date of this Agreement and quarterly thereafter while this Agreement is in effect, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of the quarter end.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to this Article.

ARTICLE III

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days from the effective date of the Agreement, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program that is effective in eliminating the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention" (that have not been previously collected or charged off). This program shall require the Bank to include in its workout strategy for each criticized asset, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans or securities are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller within ten (10) days. Any subsequent modifications or additions to the program shall be forwarded to the Assistant Deputy Comptroller with ten (10) days of the modification or addition.

(4) While this Agreement remains in effect, the Board, or a designated committee, shall review on a quarterly basis the status of each criticized asset or criticized portion thereof that equals or exceeds seven hundred and fifty thousand dollars (\$750,000.00). Status updates for each criticized asset (or portion thereof) that equals or exceeds seven hundred and fifty thousand dollars (\$750,000.00) shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis. The status updates shall follow a format similar to Appendix A, attached hereto.

(5) While this Agreement remains in effect, on a quarterly basis, the Board, or a designated committee, shall conduct a written review of the criticized asset program developed pursuant to this Article to determine:

- (a) management's adherence to the program adopted pursuant to this Article;
- (b) the status and effectiveness of the written program; and
- (c) the need to revise the program or take alternative action.

(6) A copy of each written review of the criticized asset program shall be forwarded to the Assistant Deputy Comptroller within ten (10) days of the quarter end.

(7) While this Agreement remains in effect, the Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed seven hundred and fifty thousand dollars (\$750,000.00) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

(9) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to this Article.

ARTICLE IV

CREDIT RISK

- (1) Within sixty (60) days of the effective date of this Agreement, the Board shall develop, implement, and while this Agreement is in effect ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:
 - (a) Development of specific goals for the reduction of classified and criticized assets and a timeframe for meeting those goals; and
 - (b) Development of specific goals for reduction of concentrations of credit in excess of guidance levels for commercial real estate as established in OCC Bulletin 2006-46.
- (2) Upon adoption, the Board shall submit a copy of the program to the Assistant Deputy Comptroller.
- (3) At least quarterly, the Board shall prepare a written assessment of the bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.
- (4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE V

STRATEGIC PLAN

- (1) Within ninety (90) days from the effective date of this Agreement, the Board shall adopt, implement, and while this Agreement is in effect ensure Bank adherence to a written strategic plan for the Bank, which shall cover at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:
-

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an indemnification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;

- (h) an action plan to improve Bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames, which shall include:
 - (i) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
 - (ii) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
 - (iii) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and
 - (iv) a description of the operating assumptions that form the basis for major projected income and expense components.
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the strategic plan.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE VI

CAPITAL PLANNING

(1) Within ninety (90) days from the effective date of this Agreement, the Board shall develop, implement, and thereafter ensure adherence to a three year capital program. The program shall include:

- (a) specific plans for the maintenance of capital commensurate with the Bank's risk profile;
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and

- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written determination of no supervisory objection by the Assistant Deputy Comptroller. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the dividend policy.

(2) Upon completion, the Bank's capital plan shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital plan. The Board shall review and update the Bank's capital plan as necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to this Article.

ARTICLE VII

BROKERED DEPOSITS

(1) The Bank may accept, renew, or rollover Brokered Deposits (as defined by 12 C.F.R. § 337.6(a)(2)) for deposit at the Bank only after obtaining a prior written determination of no supervisory objection from the Assistant Deputy Comptroller. This written determination is not required for Deutsche Bank Money Market Accounts as long as they do not exceed thirty-five million (\$35 million).

(2) The limitation of paragraph (1) shall include the acquisition of Brokered Deposits through any transfer, purchase, or sale of assets, including Federal funds transactions.

(3) If the Bank seeks to acquire Brokered Deposits, the Board shall apply to the Assistant Deputy Comptroller for written permission. Such application shall contain, at a minimum, the following:

- (a) the dollar volume, maturities, and cost of the Brokered Deposits to be acquired;
- (b) the proposed use of the Brokered Deposits, i.e., short-term liquidity or restructuring of liabilities to reduce cost;
- (c) alternative funding sources available to the Bank; and
- (d) the reasons why the Bank believes that the acceptance of the Brokered Deposits does not constitute an unsafe and unsound practice in its particular circumstances.

(4) The Assistant Deputy Comptroller may require the submission of such additional information as necessary to make an informed decision. Upon consideration of the Bank's application, the Assistant Deputy Comptroller will determine whether the proposed acquisition of Brokered Deposits may be accomplished in a safe and sound manner and may condition the Bank's acquisition as the Assistant Deputy Comptroller shall deem appropriate.

(5) Nothing in this article shall relieve the Bank of any obligation under 12 U.S.C. § 1831f, if applicable, to seek necessary approvals from the Federal Deposit Insurance Corporation before accepting Brokered Deposits and to comply with all the requirements of 12 U.S.C. § 1831f.

(6) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to requirements of this Article.

ARTICLE VIII

CONCLUSION

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (g) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (h) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (i) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (j) require corrective action be taken in a timely manner of any non-compliance with such actions.

(4) This Agreement is intended to be, and shall be construed to be, a supervisory "written agreement entered into with the agency" as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set her hand on behalf of the Comptroller.

/s/ Debra A. Garland
Debra A. Garland
Assistant Deputy Comptroller
Jacksonville Field Office

October 5, 2011
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/ Francis A. Brown
Francis A. Brown

October 5, 2011
Date

/s/ Russell W. Carpenter
Russell W. Carpenter

October 5, 2011
Date

/s/ Steven G. Chick
Steven G. Chick

October 5, 2011
Date

/s/ Clifford H. Dales
Clifford H. Dales

October 5, 2011
Date

/s/ Robert H. Demere, Jr.
Robert H. Demere, Jr.

October 5, 2011
Date

/s/ Berryman W. Edwards
Berryman W. Edwards

October 5, 2011
Date

/s/ J. Wiley Ellis
J. Wiley Ellis

October 5, 2011
Date

/s/ Joseph B. Fraser, III
Joseph B. Fraser, III

October 5, 2011
Date

/s/ Holden T. Hayes
Holden T. Hayes

October 5, 2011
Date

/s/ John C. Helmken, II
John C. Helmken, II

October 5, 2011
Date

/s/ William E. Johnston
William E. Johnston

October 5, 2011
Date

/s/ Aaron M. Levy
Aaron M. Levy

October 5, 2011
Date

/s/ J. Curtis Lewis, III
J. Curtis Lewis, III

October 5, 2011
Date

/s/ M. Lane Morrison
M. Lane Morrison

October 5, 2011
Date

/s/ Jane Vaden Thacher
Jane Vaden Thacher

October 5, 2011
Date

/s/ Holly S. Young
Holly S. Young

October 5, 2011
Date

APPENDIX A
The Savannah Bank National Association
Savannah, Georgia

CRITICIZED ASSET REPORT AS OF: _____

BORROWER(S): _____

ASSET BALANCE(S) AND OCC RATING (SM, SUBSTANDARD, DOUBTFUL OR LOSS):

\$ _____ CRITICISM _____

AMOUNT CHARGED OFF TO DATE _____

FUTURE POTENTIAL CHARGE-OFF _____

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each criticized asset that exceeds seven hundred and fifty thousand dollars (\$750,000.00) and retain the original in the credit file for review by the examiners. Submit your reports (**quarterly**) until notified otherwise, in writing, by the Assistant Deputy Comptroller.

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

And

STATE OF GEORGIA
DEPARTMENT OF BANKING AND FINANCE
ATLANTA, GEORGIA

In the Matter
of

CONSENT ORDER

BRYAN BANK & TRUST
RICHMOND HILL, GEORGIA

FDIC-11-50Ib

(INSURED STATE NONMEMBER BANK)

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Bryan Bank & Trust, Richmond Hill, Georgia, ("Bank"), under section 3(q) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER" ("CONSENT AGREEMENT"), dated February 16, 2012, that is accepted by the FDIC and the Georgia Department of Banking and Finance (the "Department"). With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in capital, asset quality, management, earnings, liquidity, and sensitivity to market risk, to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

BOARD OF DIRECTORS

1. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board meeting minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least three members, to oversee the Bank's compliance with this ORDER. At least two of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The Directors' Committee shall formulate and review monthly reports detailing the Bank's actions with respect to compliance with this ORDER. The Directors' Committee shall present a report to the Board at each regularly scheduled Board meeting, and such report shall detail the Bank's adherence to this ORDER. Such report shall be recorded in the appropriate Board meeting minutes and shall be retained in the Bank's records. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

(c) Within 30 days from the effective date of this ORDER, the Board shall designate a directors' committee to review and approve loans, with such committee being structured so that

a majority of its members are directors who are not actively involved in the Bank's lending activities.

MANAGEMENT

2. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and retain qualified management with the qualifications and experience commensurate with assigned duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this ORDER. At a minimum, management shall include the following:

(i) A chief executive officer with proven ability in managing a bank of comparable size and in effectively implementing lending, investment and operating policies in accordance with safe and sound banking practices;

(ii) A senior lending officer with a significant amount of appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio; and

(iii) A chief operating officer with a significant amount of appropriate experience in managing the operations of a bank of similar size and complexity in accordance with sound banking practices.

(b) The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
 - (ii) Operate the Bank in a safe and sound manner;
 - (iii) Comply with applicable laws and regulations; and
-

(iv) Restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director for the FDIC's Atlanta Regional Office (the "Regional Director") and the Department (the Regional Director and the Department are sometimes collectively referred to as the "Supervisory Authorities"), in writing of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, 12 C.F.R. §§ 303.100-303.104, and any State requirement for prior notification and approval. If the Regional Director issues a notice of disapproval with respect to the proposed individual, then such individual may not be added to the Board or employed by the Bank.

(d) Within 60 days from the effective date of this ORDER, the Bank shall develop and approve a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank. The Management Plan shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
 - (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
-

(iii) Written evaluations of all senior executive officers to determine whether such individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including, but not limited to, adherence to the Bank's established policies and practices, restoration of the Bank to a safe and sound condition, and maintenance of the Bank: in a safe and sound condition thereafter;

(iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions consistent with the needs identified in the Management Plan; and

(v) An organizational chart

(e) Such Management Plan and its implementation shall be satisfactory to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

CAPITAL

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall have Tier 1 Capital in such amount as to equal or exceed eight percent (8%) of its Total Assets and shall have Total Risk-Based Capital in such an amount as to equal or exceed ten percent (10%) of the Bank's total risk-weighted assets.

(b) During the life of this ORDER, the Bank: shall maintain a Leverage Capital Ratio of at least eight percent (8%) and a Total Risk-Based Capital Ratio of at least ten percent (10%) as those capital ratios are defined in 12 C.F.R. § 325.

(c) The level of Tier I Capital to be maintained during the life of this ORDER pursuant to this paragraph shall be in addition to a fully funded allowance for loan and lease

losses ("ALLL"), the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(d) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities a written capital plan. Such capital plan shall detail the steps that the Bank shall take to achieve and maintain the capital requirements set forth in this ORDER. In developing the capital plan, the Bank shall take into consideration:

- (i) The volume of the Bank's adversely classified assets;
- (ii) The nature and level of the Bank's asset concentrations;
- (iii) The adequacy of the Bank's ALLL;
- (iv) The anticipated level of retained earnings;
- (v) Anticipated and contingent liquidity needs; and
- (vi) The source and timing of additional funds to fill future capital needs.

(e) In addition, the capital plan must include a contingency plan in the event that the Bank has failed to:

- (i) Maintain the minimum capital ratios required by this paragraph;
- (ii) Submit an acceptable capital plan as required by this paragraph; or
- (iii) Implement or adhere to a capital plan to which the Supervisory

Authorities have taken no written objection pursuant to this paragraph.

(f) The contingency plan shall include a plan to sell or merge the Bank. The Bank shall implement the contingency plan upon written notice from the Supervisory Authorities.

(g) Any increase in Tier 1 Capital necessary to meet the requirements of this ORDER may be accomplished by the following:

- (i) Sale of common stock;
- (ii) Sale of noncumulative perpetual preferred stock;
- (iii) Direct contribution of cash by the Board, shareholders, and/or parent holding company;
- (iv) Any combination of the above means; or
- (v) Any other means acceptable to the Supervisory Authorities.

(h) No increase in Tier I Capital that is necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Bank's ALLL.

(i) If all or part of any necessary increase in Tier 1 Capital required by this ORDER is accomplished by the sale of new securities, the Board shall take all necessary steps to implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with applicable federal securities laws. Prior to the

implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Division of Risk Management Supervision, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room MB-S073, Washington, D.C. 20429, and the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Road, Suite 200, Atlanta, Georgia 30341-5565, for review. Any changes required to be made in the plan or materials by the FDIC shall be made prior to the dissemination of the plan and materials. If the increase in Tier I Capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Supervisory Authorities for prior approval.

(j) In complying with the provisions of the Capital paragraph of this ORDER, the Bank shall provide written notice of any planned or existing development, or other changes that are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities, to any subscriber and/or purchaser of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

CHARGE-OFF LOSS AND DOUBTFUL

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and

50 percent of those assets or portions of assets classified "Doubtful" in the Report of Examination dated June 20, 2011, (the "Report"), that have not been previously collected or charged-off. If an asset is classified "Doubtful", the Bank may, in the alternative, charge-off the amount that is considered uncollectible in accordance with the Bank's written analysis of loan or lease impairment. Such analysis shall be accomplished in accordance with generally accepted accounting principles, the Federal Financial Institutions Examination Council's ("FFIEC") *Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 032 and 041)*, <http://www.ffiec.gov/>, Interagency Statements of Policy on the ALLL, and other applicable regulatory guidance that addresses the adequacy of the Bank's ALLL. Elimination of any of these assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph.

(b) Additionally, while this ORDER remains in effect, the Bank shall, within 30 days from the receipt of any official Report of Examination of the Bank from, or visitation of the Bank by, the FDIC or the Department, eliminate from its books, by collection, charge-off, or other proper entry, the remaining balance of any asset classified "Loss" and 50 percent of those assets classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities. If an asset is classified "Doubtful", the Bank may, in the alternative, charge-off the amount that is considered uncollectible in accordance with the Bank's written analysis of loan or lease impairment.

CLASSIFIED ASSET REDUCTION

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit a written plan to the Supervisory Authorities to reduce the remaining assets classified "Doubtful"

and "Substandard" in the Report or any future regulatory examination report. The plan shall address each asset so classified with a balance of \$750,000 or greater and provide the following:

- (i) The name under which the asset is carried on the books of the Bank;
- (ii) Type of asset;
- (iii) Actions to be taken in order to reduce the classified asset; and
- (iv) Timeframes for accomplishing the proposed actions.

(b) The plan shall also include, at a minimum:

- (i) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (ii) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(c) In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall require the submission of monthly progress reports to the Board and mandate a review by the Board.

(d) The Bank shall present the plan to the Supervisory Authorities for review. Within 30 days from the Supervisory Authorities' response, the plan, including any requested modifications or amendments, shall be adopted by the Board and the approval shall be recorded in the Board minutes. The Bank shall then immediately implement the plan.

(e) For purposes of the plan, the reduction of adversely classified assets in the Report shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier I Capital plus the Bank's ALLL and may be accomplished by:

(i) Charge-off,

(ii) Collection;

(iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the Department; and/or

(iii) Increase in the Bank's Tier 1 Capital

NO ADDITIONAL CREDIT

6. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" or "Doubtful" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) Additionally, during the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Substandard."

(c) The preceding limitations on additional credit shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the

Bank. Prior to the extension of any additional credit pursuant to this paragraph, either in the form of an extension or further advance of funds, such additional credit shall be approved by a majority of the Board or a designated committee thereof, who shall certify in writing that:

- (i) The failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, including an explanatory statement of why it would be detrimental to the Bank's best interests;
- (ii) The Bank's position would be improved thereby, including an explanatory statement of how the Bank's position would be improved; and
- (iii) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(d) The signed certification shall be made a part of the meeting minutes of the Board or its designated committee and a copy of the signed certification shall be retained in the borrower's credit file.

(e) Any additional extensions of credit to classified borrowers made under this provision shall be reported to the Supervisory Authorities at 90-day intervals with the other reporting requirements set forth in this ORDER. At a minimum, the 90-day reports shall include the name of the classified borrower, the amount of additional credit extended, and the total outstanding balance of credit extended to the classified borrower.

CONCENTRATIONS OF CREDIT

7. (a) Within 90 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis and develop a plan with respect to the concentrations of credit listed

on the Concentrations page(s) of the Report. The analysis and plan should incorporate applicable guidance set forth in *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, FIL-104-2006 (Dec. 12, 2006). Concentrations should be identified by product type, geographic distribution, underlying collateral, or other asset groups which are considered economically related, and in the aggregate represent a large portion of the Bank's Tier 1 Capital and reserve for ALLL. A copy of this analysis and plan shall be provided to the Supervisory Authorities. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(b) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit for review a written plan for systematically reducing and monitoring the Bank's Commercial Real Estate ("CRE") Loan concentrations of credit identified in the Report to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location ("Concentration Reduction Plan").

(c) The Concentration Reduction Plan shall comply with applicable guidance referenced in *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, FIL-104-2006 (Dec. 12, 2006), and *Managing Commercial Real Estate Concentrations in a Challenging Environment*, FIL-22-2008 (Mar. 17, 2008). The Concentration Reduction Plan shall include, but not be limited to:

(i) Dollar levels and percent of total capital to which the Bank shall reduce each concentration;

(ii) Timeframes for achieving the reduction in dollar levels in response to the paragraph above;

(iii) Provisions for controlling and monitoring of CRE, including plans to address the rationale for CRE levels as they relate to growth and capital targets, segmentation, and testing of the CRE portfolio to detect and limit concentrations with similar risk characteristics; and

(iii) Provisions for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

(d) The Concentration Reduction Plan shall be submitted to the Supervisory Authorities for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Supervisory Authorities, and after incorporation and adoption of all comments, the Board shall approve the Concentration Reduction Plan, which approval shall be recorded in the Board meeting minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Reduction Plan.

BUDGET

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall implement a written plan and a comprehensive budget for all categories of income and expense for the calendar year ending 2012. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices, and take into account the Bank's other written policies in order to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, control overhead, and improve and sustain earnings of the Bank. The plan shall include a description of the operating assumptions that form the basis

for, and adequately support, major projected income and expense components. Thereafter, the Bank shall formulate such a plan and budget by November 30 of each subsequent year and submit the plan and budget to the Supervisory Authorities for review and comment by December 15 of each subsequent year. The plan and budget required by this ORDER shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(b) On a monthly basis, the Board shall evaluate the Bank's actual performance in relation to the plan and budget required by this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken. The actual performance compared to the budget shall be submitted to the Supervisory Authorities with the quarterly progress reports required by this ORDER.

LENDING

9. Within 90 days from the effective date of this ORDER, the Board shall review, revise, adopt, and implement its written lending and collection policy to provide effective guidance and control over the Bank's lending and credit administration functions, which implementation shall include the resolution of those exceptions enumerated in the Report. The written policy shall include specific guidelines for concentrations of credit, placing loans on nonaccrual status, appraisals and evaluations, and provisions which establish a written policy governing the Bank's Other Real Estate portfolio. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policy and its implementation shall

be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

LIQUIDITY AND FUNDS MANAGEMENT

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan to improve liquidity, contingency funding, interest rate risk, and asset liability management.

(b) The plan shall incorporate the guidance contained in *Liquidity Risk Management* FIL-84-2008 (Aug. 26, 2008). The plan shall provide restrictions on the use of broke red and internet deposits consistent with safe and sound banking practices.

(c) A copy of the plan shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations. The Bank shall adopt, implement, and follow the plan, and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(d) Beginning with the effective date of this ORDER, the Bank's management shall review its liquidity position to ensure that the Bank has sufficient liquid assets or sources of liquidity to meet current and anticipated liquidity needs. This review shall include an analysis of the Bank's sources and uses of funds (cash flow analysis). The results of this review shall be presented to the Board for review each month, with the review noted in the Board meeting minutes.

BROKERED DEPOSITS

11. Throughout the effective life of this ORDER, the Bank shall not accept, renew, or rollover any brokered deposit, as defined in 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b) which governs the solicitation and acceptance of brokered deposits by insured depository institutions. The Bank shall comply with the restrictions on the effective yields on deposits as described in 12 C.F.R. §337.6.

ASSET GROWTH

12. While this ORDER is in effect, the Bank shall notify the Supervisory Authorities at least 60 days prior to undertaking asset growth that exceeds 10 percent or more per annum or initiating material changes in asset or liability composition. In no event shall asset growth result in noncompliance with the capital maintenance provisions of this ORDER unless the Bank receives prior written approval from the Supervisory Authorities.

RESTRICTIONS OF CERTAIN PAYMENTS

13. (a) While this ORDER is in effect, the Bank shall not declare or pay dividends, bonuses, or make any other form of payment outside the ordinary course of business resulting in a reduction of capital, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received at least 30 days prior to the proposed dividend or bonus payment declaration date (or at least 5 days with respect to any request filed within the first 30 days from the date of this ORDER) and shall contain, but not be limited to, an analysis of the impact such dividend or bonus payment would have on the Bank's capital, income, and/or liquidity positions.

(b) During the term of this ORDER, the Bank shall not make any distributions of interest, principal or other sums on subordinated debentures, if any, without the prior written approval of the Supervisory Authorities.

ALLOWANCE FOR LOAN AND LEASE LOSSES

14. (a) Immediately upon the issuance of this ORDER, the Board shall maintain the Allowance for Loan and Lease Losses ("ALLL") at levels determined pursuant to the Report and Paragraph (b) of this paragraph below.

(b) Within 30 days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and establish a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss". The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review shall be completed in time to properly report the ALLL in the quarterly Consolidated Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. The review should include a review of compliance with ASC 450 (Topic 450, "Contingencies") and ASC 310-10-35 (Section 35, "Subsequent Measurement General," of Subtopic 310-10). The policy shall adhere to the guidance set forth in the *Interagency Policy Statement on the Allowance/or Loan and Lease Losses*, FIL-I05-2006 (Dec. 13, 2006). A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the next Consolidated Report of Condition and Income, by a charge to current operating earnings. The

Board meeting minutes for the meeting at which such review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at the initial review and at subsequent examinations and/or visitations.

TECHNICAL EXCEPTIONS

15. Within 90 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report. The Bank shall initiate and implement a program to ensure its credit files contain complete, adequate and current documentation.

VIOLATIONS OF LAW, REGULATION, AND CONTRAVENTION OF POLICY

16. Within 60 days from the effective date of this ORDER, the Bank will eliminate and/or correct all violations of laws, regulations, and/or contraventions of statements of policy in the Report and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, regulations, and/or statements of policy.

SHAREHOLDER DISCLOSURE

17. Within 45 days from the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company. The description shall fully describe this ORDER in all material respects.

OTHER REAL ESTATE

18. Within 90 days from the effective date of this ORDER, the Board shall develop a written policy for managing the Other Real Estate of the Bank. Such policy shall be consistent with all

applicable laws, regulations, and other regulatory guidelines regarding appraisals, including, but not limited to, the FDIC's appraisal regulations as described in 12 C.F.R. § 323, and *Guidance on Other Real Estate*, FIL-62-2008 (July 1, 2008). The Bank shall submit the policy to the Supervisory Authorities for review. The Bank shall approve the policy, which approval shall be recorded in the Board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

PROGRESS REPORTS

19. Within 30 days from the end of the first quarter following the effective date of this ORDER, and within 30 days from the end of each quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports shall include a copy of the Bank's Consolidated Reports of Condition and of Income. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Supervisory Authorities have released the Bank in writing from making further reports. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the appropriate Board meeting minutes.

OTHER ACTIONS

20. This ORDER shall not bar, stop, or otherwise prevent the FDIC, the Department, or any other federal or state agency or department from taking any action against the Bank, the Bank's current or former institution-affiliated parties, and/or any of their respective directors, officers, employees, and agents, including, but not limited to, the imposition of civil money penalties. This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the Supervisory Authorities.

Issued Pursuant to Delegated Authority.

Dated this 1st day of March, 2012

By: /s/ Thomas J. Dujenski
Thomas J. Dujenski
Division of Risk Management Supervision
Atlanta Region
Federal Deposit Insurance Corporation

The Georgia Department of Banking and Finance having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of said ORDER by the FDIC shall be binding as between the Bank and the Georgia Commissioner of Banking and Finance to the same degree and to the same legal effect that such ORDER would be binding if the Department had issued a separate ORDER that included and incorporated all of the provisions of the foregoing ORDER, pursuant to Official Code of Georgia Annotated § 7-1-91(1985).

Dated this 16th day of February, 2012
By: /s/ Robert M. Braswell
Robert M. Braswell
Commissioner
Department of Banking and Finance
State of Georgia

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of

BRYAN BANK & TRUST
RICHMOND HILL, GEORGIA

(INSURED STATE NONMEMBER BANK)

STIPULATION TO THE
ISSUANCE OF A
CONSENT ORDER

FDIC-11-501b

Subject to the acceptance of this STIPULATION TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") by the Federal Deposit Insurance Corporation ("FDIC"), it is hereby stipulated and agreed by and between a representative of the Legal Division of the FDIC, a representative of the Georgia Department of Banking and Finance ("Department") and Bryan Bank & Trust, Richmond Hill, Georgia ("Bank"), through its Board of Directors, as follows:

1. The Bank has been advised of its right to receive a written Notice of Charges and of Hearing ("Notice") detailing the unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in capital, asset quality, management, earnings, liquidity, and sensitivity to market risk alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and the FDIC's Rules of Practice and Procedure ("Rules"), 12 C.F.R. Part 308, and has waived those rights.

2. The Bank, solely for the purpose of this proceeding and without admitting or denying any of the alleged charges of unsafe or unsound banking practices or any violations of law or regulation, hereby consents and agrees to the issuance of a Consent Order ("ORDER") by the FDIC and the Department in the form attached hereto. The Bank further stipulates and agrees that such ORDER shall become effective immediately upon issuance by the FDIC and the Department and be fully enforceable by the FDIC pursuant to the provisions of section 8(i)(1) of the Act, 12 U.S.C. § 1818(i)(1), and the Rules, and by the Department pursuant to section 7-1-91 of the Official Code of Georgia Annotated, GA Code Arm. § 7-1-91(1985), subject only to the conditions set forth in paragraph 3 of this STIPULATION.

3. In the event the FDIC accepts this STIPULATION and issues the ORDER, it is agreed that no action to enforce said ORDER in the United States District Court will be taken by the FDIC unless the Bank or any "institution-affiliated party", as such term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), has violated or is about to violate any provision of the ORDER.

4. The Bank hereby waives:

- (a) the receipt of a written Notice;
- (b) all defenses to the charges to be set forth in the Notice;
- (c) a hearing for the purpose of taking evidence regarding the allegations to be set forth in the Notice;
- (d) the filing of Proposed Findings of Fact and Conclusions of Law;
- (e) a Recommended Decision of an Administrative Law Judge; and
- (f) exceptions and briefs with respect to such Recommended Decision.

Dated: The 16th day of February, 2012.

FEDERAL DEPOSIT INSURANCE CORPORATION
LEGAL DIVISION

BY:

/s/ Andrew B. Williams II

Andrew B. Williams II

Senior Regional Attorney

STATE OF GEORGIA
DEPARTMENT OF BANKING AND FINANCE

BY:

/s/ Robert M. Braswell

Robert M. Braswell

Commissioner

BRYAN BANK & TRUST
RICHMOND HILL, GEORGIA

BY:

/s/ E. James Burnsed

E. James Burnsed

/s/ J. Carl Cox, Jr.

J. Carl Cox, Jr.

/s/ Ferrell "Al" Dixon, Jr.

Ferrell "Al" Dixon, Jr.

/s/ J. Wiley Ellis

J. Wiley Ellis

/s/ L. Carlton Gill

L. Carlton Gill

/s/ John C. Helmken, II

John C. Helmken, II

/s/ Michelle M. Henderson

Michelle M. Henderson

/s/ Jerry O'Dell Keith

Jerry O'Dell Keith

/s/ Ben MacMillian

Ben MacMillian

/s/ J. Toby Roberts, Sr.

J. Toby Roberts, Sr.

/s/ James W. Royal, Sr.

James W. Royal, Sr.

/s/ Jimmy F. Sommers

Jimmy F. Sommers

Robert T. Thompson

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
FINANCIAL STATEMENT SECTION
INDEX

| | <u>Page Number</u> |
|--|------------------------|
| Index to Financial Statement Section | F-1 |
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets December 31, 2011 and 2010 | F-3 |
| Consolidated Statements of Operations for the Years December 31, 2011, 2010 and 2009 | F-4 |
| Consolidated Statements of Other Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009 | F-5 |
| Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2011, 2010 and 2009 | F-6 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009 | F-7 |
| Notes to Consolidated Financial Statements | F-8 |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | F-38 |
| Selected Five-Year Financial Data – 2007-2011 | |
| Selected Financial Condition Highlights | F-38 |
| Selected Operating Highlights | F-39 |
| Selected Quarterly Data | F-40 |
| Market for Registrant's Common Equity and Related Shareholder Matters | F-40 |
| Introduction | F-41 |
| Recent Regulatory Developments | F-42 |
| Critical Accounting Estimates | F-43 |
| Results of Operations | |
| 2011 Compared with 2010 | F-47 |
| 2010 Compared with 2009 | F-48 |
| Financial Condition and Capital Resources | F-49 |
| Liquidity and Interest Rate Sensitivity Management | F-50 |
| Off-Balance Sheet Arrangements | F-52 |
| Forward Looking Statements | F-53 |
| Cash Flow/Maturity Gap and Repricing Data | F-54 |
| Average Balance Sheet and Rate/Volume Analysis – 2011 and 2010 | F-55 |
| Average Balance Sheet and Rate/Volume Analysis – 2010 and 2009 | F-56 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of The Savannah Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of The Savannah Bancorp, Inc. and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of operations, other comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah Bancorp, Inc. and its subsidiaries as of December 31, 2011 and 2010 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
March 20, 2012

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(\$ in thousands, except share data)

| | December 31, | |
|---|---------------------|---------------------|
| | 2011 | 2010 |
| Assets | | |
| Cash and due from banks | \$ 13,225 | \$ 17,990 |
| Federal funds sold | 535 | 110 |
| Interest-bearing deposits in banks | 81,717 | 40,836 |
| Cash and cash equivalents | 95,477 | 58,936 |
| Securities available for sale, at fair value (amortized cost of \$81,764 and \$136,980) | 83,653 | 138,099 |
| Loans, net of allowance for loan losses of \$21,917 and \$20,350 | 737,761 | 806,212 |
| Premises and equipment, net | 14,286 | 15,056 |
| Other real estate owned | 20,332 | 13,199 |
| Bank-owned life insurance | 6,510 | 6,309 |
| Goodwill and other intangible assets, net | 3,562 | 3,786 |
| Other assets | 23,654 | 25,333 |
| Total assets | \$ 985,235 | \$ 1,066,930 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$ 106,939 | \$ 95,725 |
| Interest-bearing demand | 147,716 | 140,531 |
| Savings | 20,062 | 20,117 |
| Money market | 255,285 | 265,840 |
| Time deposits | 316,927 | 401,532 |
| Total deposits | 846,929 | 923,745 |
| Short-term borrowings | 14,384 | 15,075 |
| Other borrowings | 8,581 | 10,536 |
| Federal Home Loan Bank advances | 16,653 | 17,658 |
| Subordinated debt to nonconsolidated subsidiaries | 10,310 | 10,310 |
| Other liabilities | 4,248 | 3,803 |
| Total liabilities | 901,105 | 981,127 |
| Commitments and contingencies (Notes 17 and 20) | | |
| Shareholders' equity | | |
| Preferred stock, par value \$1 per share: | | |
| authorized 10,000,000 shares, none issued | - | - |
| Common stock, par value \$1 per share: shares authorized | | |
| 20,000,000, issued 7,201,346 | 7,201 | 7,201 |
| Additional paid-in capital | 48,656 | 48,634 |
| Retained earnings | 27,103 | 29,275 |
| Treasury stock, at cost, 2,210 and 2,483 shares | (1) | (1) |
| Accumulated other comprehensive income, net | 1,171 | 694 |
| Total shareholders' equity | 84,130 | 85,803 |
| Total liabilities and shareholders' equity | \$ 985,235 | \$ 1,066,930 |

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(\$ in thousands, except per share data)

| | For the Years Ended December 31, | | |
|---|---|-------------------|-----------------|
| | 2011 | 2010 | 2009 |
| Interest and dividend income | | | |
| Loans, including fees | \$ 41,935 | \$ 45,001 | \$ 47,081 |
| Investment securities: | | | |
| Taxable | 2,663 | 2,401 | 3,220 |
| Tax-exempt | 257 | 313 | 154 |
| Dividends | 78 | 47 | 45 |
| Deposits with banks | 127 | 147 | 45 |
| Federal funds sold | 3 | 20 | 18 |
| Total interest and dividend income | 45,063 | 47,929 | 50,563 |
| Interest expense | | | |
| Deposits | 8,016 | 12,460 | 16,454 |
| Short-term and other borrowings | 821 | 1,138 | 1,045 |
| Federal Home Loan Bank advances | 348 | 458 | 397 |
| Subordinated debt | 303 | 306 | 362 |
| Total interest expense | 9,488 | 14,362 | 18,258 |
| Net interest income | 35,575 | 33,567 | 32,305 |
| Provision for loan losses | 20,035 | 21,020 | 13,065 |
| Net interest income after provision for loan losses | 15,540 | 12,547 | 19,240 |
| Noninterest income | | | |
| Trust and asset management fees | 2,646 | 2,599 | 2,351 |
| Service charges on deposit accounts | 1,458 | 1,788 | 1,809 |
| Mortgage related income, net | 183 | 398 | 432 |
| Gain on sale of securities | 763 | 608 | 2,119 |
| Gain (loss) on hedges | (1) | 2 | 873 |
| Other operating income | 1,597 | 1,916 | 1,238 |
| Total noninterest income | 6,646 | 7,311 | 8,822 |
| Noninterest expense | | | |
| Salaries and employee benefits | 11,282 | 11,948 | 12,146 |
| Occupancy and equipment | 3,683 | 3,945 | 3,716 |
| Information technology | 1,708 | 2,101 | 1,810 |
| Loan collection and OREO expense | 1,500 | 815 | 848 |
| FDIC deposit insurance | 1,303 | 1,688 | 1,886 |
| Amortization of intangibles | 224 | 171 | 144 |
| Loss on sales and write-downs of foreclosed assets | 2,679 | 2,472 | 2,566 |
| Other operating expense | 3,874 | 3,837 | 3,862 |
| Total noninterest expense | 26,253 | 26,977 | 26,978 |
| Income (loss) before income taxes | (4,067) | (7,119) | 1,084 |
| Income tax expense (benefit) | (1,895) | (3,130) | 155 |
| Net income (loss) | \$ (2,172) | \$ (3,989) | \$ 929 |
| Net income (loss) per share: | | | |
| Basic | \$ (0.30) | \$ (0.60) | \$ 0.16 |
| Diluted | \$ (0.30) | \$ (0.60) | \$ 0.16 |
| Dividends per share | \$ 0.00 | \$ 0.02 | \$ 0.185 |
| Average basic shares (000s) | 7,199 | 6,625 | 5,933 |
| Average diluted shares (000s) | 7,199 | 6,625 | 5,936 |

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Other Comprehensive Income (Loss)
(\$ in thousands)

| | For the Years Ended December 31, | | |
|--|---|------------|----------|
| | 2011 | 2010 | 2009 |
| Net income (loss) | \$ (2,172) | \$ (3,989) | \$ 929 |
| Other comprehensive income (loss): | | | |
| Change in unrealized holding gains on securities available for sale arising during period, net of tax of \$582, \$153 and \$480 | 950 | 250 | 783 |
| Reclassification adjustment for net gains on securities available for sale included in net income (loss), net of taxes of \$290, \$231 and \$805 | (473) | (377) | (1,314) |
| Change in fair value and gains on termination of derivative instruments, net of tax of \$0, \$172 and \$777 | - | (287) | (1,295) |
| Other comprehensive loss | \$ (1,695) | \$ (4,403) | \$ (897) |

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
(\$ in thousands, except share data)

| | For the Years Ended December 31, | | |
|--|---|------------------|------------------|
| | 2011 | 2010 | 2009 |
| Common shares issued | | | |
| Shares, beginning of year | 7,201,346 | 5,933,789 | 5,933,789 |
| Common stock issued | - | 1,267,557 | - |
| Shares, end of year | 7,201,346 | 7,201,346 | 5,933,789 |
| Treasury shares owned | | | |
| Shares, beginning of year | 2,483 | 1,443 | 318 |
| Treasury stock issued | (273) | (943) | - |
| Unredeemed common stock | - | 36 | - |
| Unvested restricted stock | - | 1,947 | 1,125 |
| Shares, end of year | 2,210 | 2,483 | 1,443 |
| Common stock | | | |
| Balance, beginning of year | \$ 7,201 | \$ 5,934 | \$ 5,934 |
| Common stock issued | - | 1,267 | - |
| Balance, end of year | 7,201 | 7,201 | 5,934 |
| Additional paid-in capital | | | |
| Balance, beginning of year | 48,634 | 38,605 | 38,516 |
| Common stock issued, net of issuance costs | 2 | 9,980 | - |
| Stock-based compensation expense, net | 20 | 49 | 89 |
| Balance, end of year | 48,656 | 48,634 | 38,605 |
| Retained earnings | | | |
| Balance, beginning of year | 29,275 | 33,383 | 33,552 |
| Net income (loss) | (2,172) | (3,989) | 929 |
| Dividends paid | - | (119) | (1,098) |
| Balance, end of year | 27,103 | 29,275 | 33,383 |
| Treasury stock | | | |
| Balance, beginning of year | (1) | (4) | (4) |
| Treasury stock issued | - | 3 | - |
| Balance, end of year | (1) | (1) | (4) |
| Accumulated other comprehensive income, net | | | |
| Balance, beginning of year | 694 | 1,108 | 2,934 |
| Change in unrealized gains/losses on securities available for sale, net of reclassification adjustment | 477 | (127) | (531) |
| Change in fair value and gains on termination of derivative instruments, net of tax | - | (287) | (1,295) |
| Balance, end of year | 1,171 | 694 | 1,108 |
| Total shareholders' equity | \$ 84,130 | \$ 85,803 | \$ 79,026 |

The accompanying notes are an integral part of these consolidated financial statements.

THE SAVANNAH BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | For the Years Ended December 31, | | |
|--|---|------------------|------------------|
| (\$ in thousands) | 2011 | 2010 | 2009 |
| Operating activities | | | |
| Net income (loss) | \$ (2,172) | \$ (3,989) | \$ 929 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | | |
| Provision for loan losses | 20,035 | 21,020 | 13,065 |
| Proceeds from sale of loans originated for sale | - | - | 291 |
| Net amortization of securities | 1,010 | 1,922 | 432 |
| Depreciation and amortization | 1,349 | 1,454 | 1,513 |
| Accretion of gain on termination of derivatives | - | (453) | (1,962) |
| Proceeds from termination of derivatives | - | - | 1,299 |
| Non cash stock-based compensation expense | 20 | 79 | 144 |
| Increase in deferred income taxes, net | (2,427) | (1,759) | (1,748) |
| Gain on sale of securities, net | (763) | (608) | (2,119) |
| Loss on sales and write-downs of foreclosed assets | 2,679 | 2,472 | 2,566 |
| Equity in net (income) loss of nonconsolidated subsidiary | (35) | 50 | (43) |
| Gain on sale of partnership interest | - | (255) | - |
| Increase in CSV of bank-owned life insurance policies | (201) | (183) | (218) |
| Decrease (increase) in prepaid FDIC deposit insurance assessment | 1,292 | 1,545 | (5,037) |
| Decrease (increase) in income taxes receivable/payable | 2,014 | (3,758) | 1,068 |
| Change in other assets and other liabilities, net | 987 | (1,965) | (673) |
| Net cash provided by operating activities | 23,788 | 15,572 | 9,507 |
| Investing activities | | | |
| Activity in available for sale securities | | | |
| Purchases | (3,654) | (100,897) | (88,741) |
| Sales | 38,434 | 52,483 | 62,076 |
| Maturities, calls and paydowns | 20,189 | 22,547 | 21,203 |
| Loan originations and principal collections, net | 33,573 | 22,644 | (35,442) |
| Proceeds from sale of foreclosed assets | 5,031 | 9,120 | 5,048 |
| Disposition of premises and equipment | - | - | 305 |
| Proceeds from life insurance and sale of partnership interest | - | 1,002 | - |
| Additions to premises and equipment | (355) | (765) | (6,141) |
| Net cash received from FDIC-assisted transaction | - | 190,253 | - |
| Net cash provided by (used in) investing activities | 93,218 | 196,387 | (41,692) |
| Financing activities | | | |
| Net increase (decrease) in noninterest-bearing deposits | 11,214 | 4,837 | (166) |
| Net (decrease) increase in interest-bearing deposits | (88,030) | (166,516) | 52,720 |
| Net decrease in short-term borrowings | (691) | (8,478) | (10,083) |
| Net (decrease) increase in other borrowings | (1,955) | (5,452) | 3,837 |
| Net decrease in FHLB advances | (1,005) | (29,006) | (505) |
| Payment on note payable | - | (74) | (86) |
| Dividends paid | - | (119) | (1,098) |
| Issuance of common stock, treasury stock and exercise of options | 2 | 11,250 | - |
| Net cash (used in) provided by financing activities | (80,465) | (193,558) | 44,619 |
| Increase in cash and cash equivalents | 36,541 | 18,401 | 12,434 |
| Cash and cash equivalents, beginning of year | 58,936 | 40,535 | 28,101 |
| Cash and cash equivalents, end of year | \$ 95,477 | \$ 58,936 | \$ 40,535 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid (received) during the year for: | | | |
| Interest on deposits and other borrowings | \$ 9,909 | \$ 14,881 | \$ 18,826 |
| Income taxes | (1,911) | - | 550 |
| Non cash investing activity: | | | |
| Transfer to other real estate owned from loans | (17,067) | (16,462) | (7,843) |

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of The Savannah Bancorp, Inc. ("the Company") and its wholly-owned subsidiaries, The Savannah Bank, N.A. ("Savannah"), Bryan Bank & Trust ("Bryan"), Minis & Co., Inc. ("Minis") and SAVB Holdings, LLC ("SAVB Holdings"). Minis is a registered investment advisory firm and SAVB Holdings was formed for the purpose of holding problem loans and other real estate owned ("OREO"). The two bank subsidiaries, together, are referred to as the "Subsidiary Banks." All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year presentation.

Nature of Operations - The Company is a bank holding company headquartered in Savannah, Georgia that operates two banks and a registered investment advisory firm. The Company has eleven banking offices and thirteen ATMs in Savannah, Garden City, Skidaway Island, Whitemarsh Island, Tybee Island, Pooler, and Richmond Hill, Georgia and Hilton Head Island and Bluffton, South Carolina. The Company also has mortgage lending offices in Savannah and Richmond Hill and an investment management office in Savannah. Through the subsidiaries, the Company offers a full range of lending, deposit, residential mortgage origination, fiduciary, trust and investment advisory products. The primary service areas of the Company are Chatham County and Bryan County, Georgia and southern Beaufort County in South Carolina. In 2005, the Company formed a nonconsolidated subsidiary, SAVB Properties, LLC, which purchased a 50 percent interest in two real estate partnerships that own the Company's headquarters building and the adjacent parking lot. This investment is accounted for using the equity method of accounting. The Company's sold its interest in the parking lot in 2010.

Use of Estimates - In preparing consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of other real estate owned, fair value of financial instruments, other-than-temporary impairment analysis and the evaluation of the realization of deferred tax assets.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and interest-bearing deposits in banks, all of which mature within ninety days.

Securities Available for Sale - Management has classified the entire investment securities portfolio as available for sale. Securities available for sale are carried at estimated fair value with unrealized gains and losses, net of deferred income taxes, recorded as a separate component of shareholders' equity. Purchase premiums and discounts are recognized in interest income using the interest method over the life of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company evaluates its investment securities to determine if the decline in fair value of a security below its amortized cost is deemed to be other-than-temporary. Other-than-temporary impairment losses are recognized on securities when: (i) the holder has an intention to sell the security; (ii) it is more likely than not that the security will be required to be sold prior to recovery; or (iii) the holder does not expect to recover the entire amortized cost basis of the security. Other-than-temporary impairment losses are recorded as a charge to earnings to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income (loss).

Loans and Loan Fees - The Subsidiary Banks underwrite mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio consists of real estate secured loans throughout the coastal Georgia and South Carolina areas. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or origination costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield on a straight-line basis, which approximates the interest method.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Revolving credit loans and other personal loans are typically charged-off when payments are 120 days past due. Past due status is based on the contractual terms of the loan. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest in full becomes doubtful. All interest accrued in the current year but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 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. Management charges down the loan or establishes a valuation allowance when management determines the value is less than the carrying amount.

The Company designates loan modifications as troubled debt restructurings ("TDRs") when, for economic and legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which, among other things, may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

Allowance for Loan Losses - The allowance for loan losses is established through a provision for loan losses charged to earnings resulting from measurements of inherent credit risk in the loan portfolio and estimates of probable losses or impairments of individual loans. The adequacy of the allowance is based on management's continuing evaluation of the loan portfolio considering current economic conditions, underlying collateral value securing loans and other relevant qualitative and quantitative factors that deserve recognition in estimating loan losses. Actual

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

future losses may be different from estimates due to unforeseen events. Loans that are determined to be uncollectible are charged-off against the allowance and subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for loan losses is evaluated on a regular basis by management and reported to and approved by the Audit Committee of the Board of Directors ("Board") quarterly. The evaluation is based upon management's periodic review of the collectability of specific loans, adverse situations that may affect specific borrowers' ability to repay, the estimated value of any underlying collateral, the composition and size of the loan portfolio, emerging credit trends, regulatory guidance and prevailing economic conditions. In addition, on a regular basis, management and the Board review loan ratios. These ratios include the allowance for loan losses as a percentage of total loans, net charge-offs as a percentage of average loans, nonperforming loans as a percentage of total loans and the allowance coverage on nonperforming loans. Also, management reviews past due ratios by officer, Subsidiary Bank and the Company as a whole. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company has a number of documented loan policies and procedures that set forth the approval and monitoring process of the lending function. Adherence to these policies and procedures is monitored by management and the Board. Several committees and an underwriting staff oversee the lending operations of the Company. These include the Board Credit Committee and Special Assets Committee. Credit administration personnel monitor and, if necessary, adjust the grades assigned to loans through periodic examination. In addition, the Company contracts with an independent third party for loan review which reports to the Audit Committee of the Board.

In compliance with loan policy, the lending staff is given lending limits based on their knowledge and experience. Loan quality or "risk-rating" grades are assigned to each loan based upon certain factors. This information is used to assist management in monitoring the credit quality of the portfolio. Loan requests of amounts greater than an officer's lending limits are reviewed by senior credit officers, in-house loan committees or the Board.

Credit quality, adherence to policies and loss mitigation are focal points of credit administration. Credit administration reviews and approves third-party appraisals obtained by the Company on real estate collateral and monitors loan maturities to ensure updated appraisals are obtained.

Our allowance for loan losses consists of two components, a general reserve and a specific reserve. For the general component, risk-rating grades are assigned by lending or credit administration, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Loan grades range from 1 to 8, with 1 being loans with the least credit risk. Allowance factors established by management are applied to the total balance of loans in each grade to determine the amount needed in the allowance for loan losses. The allowance factors are established based on historical loss ratios experienced by the Company for these loan types, as well as the credit quality criteria underlying each grade, adjusted for trends and expectations about losses inherent in our existing portfolios. In making these adjustments to the allowance factors, management takes into consideration factors which it believes are causing, or are likely in the future to cause, losses within our loan portfolio but which may not be fully reflected in our historical loss ratios. Allowance factors established by management are then multiplied by loan balances for each grade or homogeneous portfolio of loans to determine the amount needed in the allowance for loan losses. The specific component relates to loans that are deemed to be impaired. Impairment is measured on a loan-by-loan basis for loans above a minimum dollar amount. For such loans that are classified as impaired, an allowance is established or the loan is charged-down when the discounted cash flows (or value of related collateral or observable market price) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are evaluated collectively for impairment.

Premises and Equipment - Buildings, furniture, banking equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of these assets are computed using the straight-line method over the estimated useful lives or estimated lease terms including expected lease renewals, ranging from three to fifty years, of the respective assets for financial reporting purposes and accelerated methods for income tax purposes. Additions and major improvements are capitalized, while routine maintenance and repairs and gain or loss on dispositions are recognized currently.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Other Real Estate Owned - Assets acquired through loan foreclosure are held for sale and are initially recorded at fair value less estimated disposal costs 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 estimated disposal costs. Valuation allowances are established or the asset is written-down when subsequent valuations are less than current carrying amounts. Expenses from operations, changes in the valuation allowance, write-downs and net expenses from holding these assets are included in noninterest expense.

Bank-Owned Life Insurance - Bank-owned life insurance policies are recorded at the net realizable value of the underlying insurance contracts. The change in contract value during the year represents the contract earnings during the period less the mortality costs and administrative costs of the underlying life insurance contracts. The increase in cash surrender value from bank-owned life insurance contracts is included as a component of other operating income and the mortality costs and administrative fees are recorded as noninterest expense.

Intangible Assets - Intangible assets include goodwill and other identifiable assets, such as client lists and deposits. Client list and deposit premium intangibles are amortized on a straight-line basis over estimated useful lives of ten and five years, respectively, and evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Goodwill is not amortized but tested annually for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Examples of such events or circumstances include an adverse change in operations, legal factors, business climate, unanticipated competition, change in regulatory environment, or loss of key personnel. The core deposit premium intangible was evaluated for impairment as of June 30, 2011. The goodwill and client list intangible assets were evaluated for impairment as of August 31, 2011. Based on those evaluations it was determined that there was no impairment.

Income Taxes - The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Earnings (Loss) Per Share - Basic earnings (loss) per share represent net income (loss) divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Earnings (loss) per common share have been computed based on the following:

| (amounts in thousands) | For the Years Ended December 31, | | |
|---|----------------------------------|-------|-------|
| | 2011 | 2010 | 2009 |
| Average number of common shares outstanding - basic | 7,199 | 6,625 | 5,933 |
| Effect of dilutive options | - | - | 3 |
| Average number of common shares outstanding - diluted | 7,199 | 6,625 | 5,936 |

Stock option shares in the amount of 149,968, 174,328 and 194,814 for the years ended 2011, 2010 and 2009, respectively, were excluded from the diluted earnings per share calculation due to their anti-dilutive effect.

Derivative Instruments and Hedging Activities - Accounting principles provide the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Accounting principles require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivatives.

As required by accounting principles, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Accounting for Stock-Based Compensation - Accounting principles require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

The 1995 Incentive Stock Option Plan ("1995 Plan") authorized the Company to issue both incentive and non-qualified stock options to certain key officers for the purchase of shares at the fair market value of the stock at the date of grant. In 2000, the shareholders authorized additional option shares under the 1995 Plan. All authorized shares have been awarded from the 1995 Plan.

In 2005, shareholders approved the 2005 Omnibus Stock Ownership and Long-Term Incentive Plan ("2005 Omnibus Plan") and authorized 250,000 option or restricted shares to be available for issuance. The total number of

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

remaining options or awards available for issuance at December 31, 2011 under the 2005 Omnibus Plan was 144,151 shares of common stock. Options granted under both plans have a term of ten years and generally become fully vested over periods ranging from three to ten years. Performance based options granted to directors vest over three quarters from the date of grant.

The following table summarizes compensation costs related to the Company's stock-based compensation plans for the years ended December 31:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|---|--------------|--------------|--------------|
| Salaries and employee benefits | \$ 20 | \$ 52 | \$ 94 |
| Directors' stock-based compensation | - | 27 | 50 |
| Pre-tax stock-based compensation expense | 20 | 79 | 144 |
| Income tax benefit | 8 | (30) | (55) |
| Total stock-based compensation expense, net of tax | \$ 12 | \$ 49 | \$ 89 |

During 2011, 2010 and 2009 no income tax benefits were realized on stock option exercises.

The Company recognizes stock-based compensation expense using the graded vesting attribution method. The remaining unrecognized compensation cost related to unvested incentive stock option and restricted share awards at December 31, 2011 is approximately \$108,000. The weighted-average period of time over which this cost will be recognized is approximately 4.8 years. This amount does not include the cost of any additional options that may be granted in future periods nor any reduction in cost for potential forfeitures.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions.

| | 2011 | 2010 | 2009 |
|--|-----------|-----------|-----------|
| Weighted average fair value of options granted | \$ 2.44 | \$ 3.41 | \$ 1.87 |
| Expected volatility | 49% | 45% | 39.1% |
| Dividend yield | 0.00% | 1.47% | 2.67% |
| Risk-free interest rate | 0.80% | 2.43% | 1.82% |
| Expected life | 6.0 years | 6.0 years | 6.0 years |

Risks and Uncertainties - In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or on different indexes, than our interest-earning assets. Credit risk is the risk of default on the loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of other real estate owned, investment securities available for sale and mortgage servicing rights.

The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject the Company to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators' judgments on information available to them at the time of their examination.

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2011-02, "Receivables (Topic 310)—A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," ("ASU 2011-02") amends Topic 310 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") to clarify when creditors

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

should classify loan modifications as TDRs. As amended, the guidance states that a TDR occurs when a creditor, for economic or legal reasons related to a debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. For public entities, the amendments promulgated by ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company adopted the provisions of ASU 2011-02 on July 1, 2011 and has presented the related disclosures in Note 5.

ASU No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*" ("ASU 2011-04") amends the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments will be effective for the Company beginning January 1, 2012. The Company is evaluating the impact that the adoption of ASU 2011-04 will have on its financial position, results of operations and cash flows.

ASU No. 2011-05, "*Presentation of Comprehensive Income*" ("ASU 2011-05") eliminates the current option to report other comprehensive income and its components in the statement of changes in shareholders' equity and is intended to enhance comparability between entities that report under GAAP and those that report under International Financial Reporting Standards and to provide a more consistent method of presenting non-owner transactions that impact an entity's equity. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 requirements are effective for the Company as of January 1, 2012 and interim and annual periods thereafter. Early adoption is permitted, but full retrospective application is required under both sets of accounting standards. The Company early adopted the provision to separately report other comprehensive income as of December 31, 2011.

ASU No. 2011-08, "*Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment*" ("ASU 2011-08"), amends Topic 350 to permit entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-than-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU No. 2011-12, "*Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*" ("ASU 2011-12") defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to reconsider whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

by ASU 2011-12. ASU 2011-12 is effective for annual and interim periods beginning after December 15, 2011 and is not expected to have a significant impact on the Company's financial statements.

Note 2 - Acquisitions

On June 25, 2010, Savannah entered into an agreement with the Federal Deposit Insurance Corporation ("FDIC") to purchase substantially all deposits and certain liabilities and assets of First National Bank, Savannah ("First National"). Savannah acquired approximately \$42 million in assets and assumed \$216 million in liabilities, including \$201 million in customer deposits. The assets primarily include cash and due from accounts and investment securities. Savannah acquired the local, non-brokered deposits of approximately \$105 million at a premium of 0.11 percent, or approximately \$116,000. In connection with the closing, Savannah received a cash payment from the FDIC totaling \$174 million, based on the differential between liabilities assumed and assets acquired, taking into account the deposit premium.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition.

| (\$ in thousands) | June 25, 2010 |
|--|---------------------|
| Assets acquired | |
| Cash and due from banks | \$ 7,330 |
| Interest-bearing deposits in banks | 8,851 |
| Securities available for sale | 25,937 |
| Loans | 131 |
| Premises and equipment | 11 |
| Deposit premium intangible | 387 |
| Other assets | 128 |
| Total assets acquired | 42,775 |
| Liabilities assumed | |
| Deposits | 200,843 |
| Federal Home Loan Bank advances | 15,271 |
| Due to the FDIC | 266 |
| Accrued interest and other liabilities | 432 |
| Total liabilities assumed | 216,812 |
| Net liabilities assumed | \$ (174,037) |

The only loans assumed by Savannah were deposit-secured loans which are not subject to FDIC loss-share. In its assumption of the deposit liabilities, the Company believes that the customer relationships associated with the local deposits have intangible value. In addition, the Company determined that the recorded amount of the deposits approximates fair value primarily due to the fact that the Company can re-price all customer deposits to current market rates.

Note 3 - Restrictions on Cash and Demand Balances Due from Banks and Interest-Bearing Bank Balances

The Subsidiary Banks are required by the Federal Reserve Bank ("FRB") to maintain minimum cash reserves based upon reserve requirements calculated on their deposit balances. Cash reserves of \$571,000 and \$581,000 are required as of December 31, 2011 and 2010, respectively. At times, the Company pledges interest-bearing cash balances at the Federal Home Loan Bank of Atlanta ("FHLB") in addition to investment securities to secure public fund deposits and securities sold under repurchase agreements. The Company did not have any cash pledged at the FHLB at December 31, 2011 or 2010, respectively.

Notes to Consolidated Financial Statements

Note 4 - Securities Available for Sale

The aggregate amortized cost and fair value of securities available for sale as of December 31, 2011 and 2010 are as follows:

| (\$ in thousands) | 2011 | | | |
|---|------------------|------------------|-------------------|------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Investment securities: | | | | |
| U.S. government-sponsored enterprises ("GSE") | \$ 1,433 | \$ 13 | \$ - | \$ 1,446 |
| Mortgage-backed securities – GSE | 66,464 | 1,583 | (35) | 68,012 |
| State and municipal securities | 10,329 | 339 | (11) | 10,657 |
| Restricted equity securities | 3,538 | - | - | 3,538 |
| Total investment securities | \$ 81,764 | \$ 1,935 | \$ (46) | \$ 83,653 |

| (\$ in thousands) | 2010 | | | |
|---------------------------------------|-------------------|------------------|-------------------|-------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Investment securities: | | | | |
| U.S. government-sponsored enterprises | \$ 1,821 | \$ 4 | \$ - | \$ 1,825 |
| Mortgage-backed securities – GSE | 120,998 | 1,628 | (435) | 122,191 |
| State and municipal securities | 10,285 | 76 | (154) | 10,207 |
| Restricted equity securities | 3,876 | - | - | 3,876 |
| Total investment securities | \$ 136,980 | \$ 1,708 | \$ (589) | \$ 138,099 |

The distribution of securities by contractual maturity at December 31, 2011 is shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (\$ in thousands) | Amortized Cost | Fair Value |
|--|--------------------------------|------------------|
| | Securities available for sale: | |
| Due in one year or less | \$ 579 | \$ 590 |
| Due after one year through five years | 2,211 | 2,235 |
| Due after five years through ten years | 3,621 | 3,871 |
| Due after ten years | 5,351 | 5,407 |
| Mortgage-backed securities - GSE | 66,464 | 68,012 |
| Restricted equity securities | 3,538 | 3,538 |
| Total investment securities | \$ 81,764 | \$ 83,653 |

At December 31, 2011 and 2010, investment securities with a carrying value of \$51,318,000 and \$61,728,000, respectively, are pledged as collateral to secure public funds, securities sold under repurchase agreements and FHLB borrowings.

Gains and losses on sales of securities available for sale consist of the following for the years ended December 31:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|---------------------------|---------------|---------------|-----------------|
| Gross gains | \$ 766 | \$ 684 | \$ 2,170 |
| Gross losses | (3) | (76) | (51) |
| Net realized gains | \$ 763 | \$ 608 | \$ 2,119 |

Notes to Consolidated Financial Statements

Note 4 - Securities Available for Sale (continued)

The restricted equity securities consist of the following at December 31:

| (\$ in thousands) | 2011 | 2010 |
|-------------------|-----------------|-----------------|
| FHLB stock | \$ 2,716 | \$ 3,054 |
| FRB stock | 822 | 822 |
| Total | \$ 3,538 | \$ 3,876 |

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. Available for sale securities that have been in a continuous unrealized loss position are as follows at December 31, 2011 and 2010:

| (\$ in thousands) | 2011 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|-----------------|-------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities - GSE | \$ 5,585 | \$ (35) | \$ - | \$ - | \$ 5,585 | \$ (35) |
| State and municipal securities | 800 | (11) | - | - | 800 | (11) |
| Total temporarily impaired securities | \$ 6,385 | \$ (46) | \$ - | \$ - | \$ 6,385 | \$ (46) |

| (\$ in thousands) | 2010 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities - GSE | \$ 37,606 | \$ (435) | \$ - | \$ - | \$ 37,606 | \$ (435) |
| State and municipal securities | 3,853 | (154) | - | - | 3,853 | (154) |
| Total temporarily impaired securities | \$ 41,459 | \$ (589) | \$ - | \$ - | \$ 41,459 | \$ (589) |

The unrealized losses at December 31, 2011 on the Company's investment in GSE mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a premium relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. The Company also has two municipal securities with unrealized losses for less than twelve months. Management has reviewed these two bonds and believes that the decrease in value is due to interest rate fluctuations and not credit quality. One of the municipal bonds is rated AAA and the other bond is not rated. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2011.

Notes to Consolidated Financial Statements

Note 5 - Loans

The composition of the loan portfolio at December 31, 2011 and 2010 is presented below:

| (\$ in thousands) | 2011 | Percent of Total | 2010 | Percent of Total |
|------------------------------------|------------|---------------------|------------|---------------------|
| Commercial real estate | | | | |
| Construction and development | \$ 22,675 | 3.0% | \$ 20,819 | 2.5% |
| Owner-occupied | 110,900 | 14.6 | 120,797 | 14.6 |
| Non owner-occupied | 221,128 | 29.1 | 231,641 | 28.0 |
| Residential real estate - mortgage | 324,365 | 42.7 | 363,390 | 44.0 |
| Commercial | 68,304 | 9.0 | 74,889 | 9.1 |
| Installment and other consumer | 12,306 | 1.6 | 15,026 | 1.8 |
| Gross loans | 759,678 | 100.0% | 826,562 | 100.0% |
| Allowance for loan losses | (21,917) | | (20,350) | |
| Net loans | \$ 737,761 | | \$ 806,212 | |

For purposes of the disclosures required pursuant to accounting standards, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are four loan portfolio segments that include commercial real estate, residential real estate-mortgage, commercial and installment and other consumer. Commercial real estate has three classes including construction and development, owner-occupied and non owner-occupied. The construction and development class includes residential and commercial construction and development loans. Land and lot development loans are included in the non owner-occupied commercial real estate class or residential real estate segment depending on the property type.

Changes in the allowance for loan losses are summarized as follows:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|----------------------------|-----------|-----------|-----------|
| Balance, beginning of year | \$ 20,350 | \$ 17,678 | \$ 13,300 |
| Provision for loan losses | 20,035 | 21,020 | 13,065 |
| Charge-offs | (18,974) | (18,765) | (8,893) |
| Recoveries | 506 | 417 | 206 |
| Balance, end of year | \$ 21,917 | \$ 20,350 | \$ 17,678 |

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

The following tables detail the change in the allowance for loan losses on the basis of the Company's impairment methodology by loan segment:

| 2011 | | | | | | |
|---|---------------------------|----------------------------|------------|-----------|-------------|------------|
| (\$ in thousands) | Commercial Real Estate | Residential Real Estate | Commercial | Consumer | Unallocated | Total |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 4,722 | \$ 13,582 | \$ 1,528 | \$ 518 | \$ - | \$ 20,350 |
| Charge-offs | (3,777) | (14,026) | (843) | (328) | - | (18,974) |
| Recoveries | 27 | 407 | 30 | 42 | - | 506 |
| Provision | 5,190 | 14,232 | 556 | (39) | 96 | 20,035 |
| Ending balance | \$ 6,162 | \$ 14,195 | \$ 1,271 | \$ 193 | \$ 96 | \$ 21,917 |
| Ending balance: individually evaluated for impairment | \$ 1,108 | \$ 5,813 | \$ 145 | \$ - | \$ - | \$ 7,066 |
| Ending balance: collectively evaluated for impairment | \$ 5,054 | \$ 8,382 | \$ 1,126 | \$ 193 | \$ 96 | \$ 14,851 |
| Loans | | | | | | |
| Ending balance | \$ 354,703 | \$ 324,365 | \$ 68,304 | \$ 12,306 | \$ - | \$ 759,678 |
| Ending balance: individually evaluated for impairment | \$ 10,936 | \$ 24,941 | \$ 522 | \$ - | \$ - | \$ 36,399 |
| Ending balance: collectively evaluated for impairment | \$ 343,767 | \$ 299,424 | \$ 67,782 | \$ 12,306 | \$ - | \$ 723,279 |
| 2010 | | | | | | |
| (\$ in thousands) | Commercial Real Estate | Residential Real Estate | Commercial | Consumer | Unallocated | Total |
| Allowance for loan losses | | | | | | |
| Beginning balance | \$ 5,740 | \$ 10,690 | \$ 977 | \$ 227 | \$ 44 | \$ 17,678 |
| Charge-offs | (5,840) | (11,729) | (1,080) | (116) | - | (18,765) |
| Recoveries | 20 | 352 | 17 | 28 | - | 417 |
| Provision | 4,802 | 14,269 | 1,614 | 379 | (44) | 21,020 |
| Ending balance | \$ 4,722 | \$ 13,582 | \$ 1,528 | \$ 518 | \$ - | \$ 20,350 |
| Ending balance: individually evaluated for impairment | \$ 285 | \$ 4,055 | \$ 540 | \$ 257 | \$ - | \$ 5,137 |
| Ending balance: collectively evaluated for impairment | \$ 4,437 | \$ 9,527 | \$ 988 | \$ 261 | \$ - | \$ 15,213 |
| Loans | | | | | | |
| Ending balance | \$ 373,257 | \$ 363,390 | \$ 74,889 | \$ 15,026 | \$ - | \$ 826,562 |
| Ending balance: individually evaluated for impairment | \$ 3,865 | \$ 25,669 | \$ 596 | \$ 257 | \$ - | \$ 30,387 |
| Ending balance: collectively evaluated for impairment | \$ 369,392 | \$ 337,721 | \$ 74,293 | \$ 14,769 | \$ - | \$ 796,175 |

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual term of the loan. Impaired loans include loans modified in TDRs where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

The following is a summary of information pertaining to impaired loans as of and for the year ended December 31, 2011:

| (\$ in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|------------------------|-----------------------------|----------------------|
| Impaired loans without a valuation allowance | | | |
| Commercial real estate | | | |
| Construction and development | \$ - | \$ - | \$ - |
| Owner-occupied | 710 | 758 | - |
| Non owner-occupied | 5,998 | 6,507 | - |
| Residential real estate - mortgage | 12,940 | 19,556 | - |
| Commercial | 294 | 351 | - |
| Installment and other consumer | - | - | - |
| Total impaired loans without a valuation allowance | 19,492 | 27,172 | - |
| Impaired loans with a valuation allowance | | | |
| Commercial real estate | | | |
| Construction and development | 2,325 | 3,325 | 751 |
| Owner-occupied | 2,946 | 3,034 | 425 |
| Non owner-occupied | 3,239 | 3,742 | 481 |
| Residential real estate - mortgage | 22,889 | 24,958 | 6,776 |
| Commercial | 721 | 778 | 215 |
| Installment and other consumer | 99 | 103 | 13 |
| Total impaired loans with a valuation allowance | 32,219 | 35,940 | 8,661 |
| Total impaired loans | \$ 51,711 | \$ 63,112 | \$ 8,661 |
| Average investment in impaired loans | \$ 55,324 | | |
| Interest income recognized on impaired loans | \$ 818 | | |

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

The following is a summary of information pertaining to impaired loans as of and for the year ended December 31, 2010:

| (\$ in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|------------------------|--------------------------------|----------------------|
| Impaired loans without a valuation allowance | | | |
| Commercial real estate | | | |
| Construction and development | \$ 152 | \$ 177 | \$ - |
| Owner-occupied | 1,075 | 1,374 | - |
| Non owner-occupied | 301 | 3,979 | - |
| Residential real estate - mortgage | 12,906 | 18,476 | - |
| Commercial | - | - | - |
| Installment and other consumer | - | - | - |
| Total impaired loans without a valuation allowance | 14,434 | 24,006 | - |
| Impaired loans with a valuation allowance | | | |
| Commercial real estate | | | |
| Construction and development | 2,218 | 3,218 | 265 |
| Owner-occupied | 1,647 | 1,667 | 186 |
| Non owner-occupied | 2,926 | 3,353 | 372 |
| Residential real estate - mortgage | 30,634 | 33,471 | 6,316 |
| Commercial | 1,196 | 1,425 | 619 |
| Installment and other consumer | 814 | 818 | 349 |
| Total impaired loans with a valuation allowance | 39,435 | 43,952 | 8,107 |
| Total impaired loans | \$ 53,869 | \$ 67,958 | \$ 8,107 |
| Average investment in impaired loans for the year | \$ 53,962 | | |
| Income recognized on impaired loans for the year | \$ 821 | | |

For 2009, the Company had an average investment of \$45,892,000 in impaired loans and recognized interest income of \$957,000 on impaired loans. Impaired loans with a valuation allowance include pools of impaired loans.

The following table presents the aging of the recorded investment in past due and nonaccrual loans as of December 31, 2011 by class of loans:

| (\$ in thousands) | 30-59 days past due | 60-89 days past due | Accruing greater than 90 days past due | Nonaccrual | Total past due and nonaccrual |
|------------------------------------|------------------------|------------------------|--|------------------|-------------------------------------|
| Commercial real estate | | | | | |
| Construction and development | \$ - | \$ - | \$ - | \$ 2,325 | \$ 2,325 |
| Owner-occupied | 77 | 931 | - | 1,232 | 2,240 |
| Non owner-occupied | 1,217 | 260 | - | 7,054 | 8,531 |
| Residential real estate - mortgage | 10,322 | 2,107 | 213 | 23,376 | 36,018 |
| Commercial | 23 | 162 | - | 652 | 837 |
| Installment and other consumer | 20 | 13 | - | 29 | 62 |
| Total | \$ 11,659 | \$ 3,473 | \$ 213 | \$ 34,668 | \$ 50,013 |

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

The following table presents the aging of the recorded investment in past due and nonaccrual loans as of December 31, 2010 by class of loans:

| (\$ in thousands) | 30-59 days past due | 60-89 days past due | Accruing greater than 90 days past due | Nonaccrual | Total past due and nonaccrual |
|------------------------------------|------------------------|------------------------|--|------------------|-------------------------------------|
| Commercial real estate | | | | | |
| Construction and development | \$ - | \$ - | \$ - | \$ 2,370 | \$ 2,370 |
| Owner-occupied | 1,471 | - | 251 | 1,194 | 2,916 |
| Non owner-occupied | 309 | 12 | 803 | 1,595 | 2,719 |
| Residential real estate - mortgage | 4,114 | 4,894 | 1,855 | 26,446 | 37,309 |
| Commercial | 120 | 85 | 151 | 760 | 1,116 |
| Installment and other consumer | 147 | 12 | 4 | 471 | 634 |
| Total | \$ 6,161 | \$ 5,003 | \$ 3,064 | \$ 32,836 | \$ 47,064 |

Internal risk-rating grades are assigned to each loan by lending or credit administration, based on an analysis of the financial and collateral strength and other credit attributes underlying each loan. Management analyzes the resulting ratings, as well as other external statistics and factors, such as delinquency, to track the migration performance of the portfolio balances. Loan grades range between 1 and 8, with 1 being loans with the least credit risk. Loans that migrate toward the "Pass" grade (those with a risk rating between 1 and 4) or within the "Pass" grade generally have a lower risk of loss and therefore a lower risk factor. The "Special Mention" grade (those with a risk rating of 5) is utilized on a temporary basis for "Pass" grade loans where a significant risk-modifying action is anticipated in the near term. Substantially all of the "Special Mention" loans are performing. Loans that migrate toward the "Substandard" or higher grade (those with a risk rating between 6 and 8) generally have a higher risk of loss and therefore a higher risk factor applied to those related loan balances.

The following table presents the Company's loan portfolio by risk-rating grades at December 31, 2011:

| (\$ in thousands) | Pass (1-4) | Special Mention (5) | Sub- standard (6) | Doubtful (7) | Loss (8) | Total |
|------------------------------------|-------------------|---------------------------|-------------------------|-----------------|-------------|-------------------|
| Commercial real estate | | | | | | |
| Construction and development | \$ 19,749 | \$ 147 | \$ 2,779 | \$ - | \$ - | \$ 22,675 |
| Owner-occupied | 101,004 | 3,444 | 6,452 | - | - | 110,900 |
| Non owner-occupied | 201,960 | 4,833 | 14,335 | - | - | 221,128 |
| Residential real estate - mortgage | 260,301 | 19,190 | 44,874 | - | - | 324,365 |
| Commercial | 64,406 | 622 | 3,276 | - | - | 68,304 |
| Installment and other consumer | 11,760 | 67 | 479 | - | - | 12,306 |
| Total | \$ 659,180 | \$ 28,303 | \$ 72,195 | \$ - | \$ - | \$ 759,678 |

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

The following table presents the Company's loan portfolio by risk-rating grades at December 31, 2010:

| (\$ in thousands) | Pass (1-4) | Special | Sub-standard (6) | Doubtful (7) | Loss (8) | Total |
|---|-------------------|------------------|---------------------|-----------------|-------------|-------------------|
| | | Mention (5) | | | | |
| Commercial real estate | | | | | | |
| Construction and development | \$ 17,792 | \$ 577 | \$ 2,450 | \$ - | \$ - | \$ 20,819 |
| Owner-occupied | 114,603 | 1,851 | 4,343 | - | - | 120,797 |
| Non owner-occupied | 216,744 | 9,017 | 5,880 | - | - | 231,641 |
| Residential real estate - mortgage | | | | | | |
| Commercial | 290,894 | 19,936 | 51,317 | 1,243 | - | 363,390 |
| Installment and other consumer | 71,361 | 666 | 2,562 | 300 | - | 74,889 |
| Total | 14,011 | 78 | 762 | 175 | - | 15,026 |
| Total | \$ 725,405 | \$ 32,125 | \$ 67,314 | \$ 1,718 | \$ - | \$ 826,562 |

As a result of adopting the accounting standards related to TDRs, the Company reassessed all restructurings that occurred on or after January 1, 2011 for identification as TDRs. The Company identified no additional loans for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology. The accounting standards require prospective application of the impairment measurement guidance for those loans newly identified as impaired. At December 31, 2011, there was no recorded loan investment for which the allowance for loan losses was previously measured under a general allowance for loan losses methodology that was previously not considered impaired.

TDRs of \$16.1 million and \$26.1 million were performing to their agreed terms at December 31, 2011 and 2010, respectively. There was \$2.0 million and \$4.2 million in specific reserves established for these loans at December 31, 2011 and 2010, respectively. The total amount of TDRs that subsequently defaulted at December 31, 2011 and 2010 was \$11.2 million and \$6.6 million, respectively. There was \$4.2 million and \$719,000 in specific reserves established for these loans at December 31, 2011 and 2010, respectively. The Company has committed to lend additional amounts totaling up to \$79,000 as of December 31, 2011 to customers with outstanding loans that are classified as TDRs.

During the year ended December 31, 2011, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. The following table presents additional information on TDRs including the number of loan contracts restructured and the pre- and post-modification recorded investment for the year ended December 31, 2011:

| (\$ in thousands) | Number of Contracts | Pre-Modification | Post-Modification |
|---|------------------------|---------------------------------------|---------------------------------------|
| | | Outstanding Recorded Investment | Outstanding Recorded Investment |
| Troubled Debt Restructurings | | | |
| Commercial real estate | | | |
| Construction and development | 0 | \$ - | \$ - |
| Owner-occupied | 3 | 1,492 | 1,492 |
| Non owner-occupied | 2 | 245 | 245 |
| Residential real estate - mortgage | | | |
| Commercial | 13 | 3,863 | 3,646 |
| Installment and other consumer | 3 | 435 | 435 |
| Total | 0 | - | - |
| Total | 21 | \$ 6,035 | \$ 5,818 |

Notes to Consolidated Financial Statements

Note 5 - Loans (continued)

There were specific reserves established for loans that were restructured during the twelve months ended December 31, 2011 of approximately \$74,000.

One TDR with a recorded investment of \$66,000 subsequently defaulted during the twelve months ended December 31, 2011 that had been restructured over the past twelve months.

The Company has granted loans to certain directors and executive officers of the Company and to their related interests. The aggregate amount of loans was \$42,318,000 and \$42,590,000 at December 31, 2011 and 2010, respectively. During 2011, new loans of \$24,680,000 were made and repayments of \$24,952,000 were received. Unfunded commitments of credit available to related parties aggregated \$9,364,000 and \$7,917,000 at December 31, 2011 and 2010, respectively. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collection.

As of December 31, 2011 and 2010, the Subsidiary Banks have pledged loans under blanket liens of approximately \$304 million and \$360 million, respectively, to the FHLB and the FRB for secured borrowing lines.

Note 6 - Premises and Equipment

Premises and equipment at December 31, 2011 and 2010 are summarized as follows:

| (\$ in thousands) | Depreciable Lives | 2011 | 2010 |
|--|-------------------|-----------|-----------|
| Land | - | \$ 2,635 | \$ 2,635 |
| Buildings and improvements | 5 - 50 | 11,449 | 11,419 |
| Furniture and banking equipment | 3 - 15 | 7,701 | 8,039 |
| Leasehold improvements | 5 - 32 | 1,917 | 1,972 |
| Total cost | | 23,702 | 24,065 |
| Less accumulated depreciation and amortization | | 9,416 | 9,009 |
| Premises and equipment, net | | \$ 14,286 | \$ 15,056 |

Depreciation expense was \$1,125,000, \$1,283,000, and \$1,369,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 7 - Other Real Estate Owned

Other real estate owned at December 31, 2011 and 2010 is summarized as follows:

| (\$ in thousands) | 2011 | 2010 |
|----------------------------|-----------|-----------|
| Balance, beginning of year | \$ 13,199 | \$ 8,329 |
| Additions | 17,067 | 16,462 |
| Disposals | (8,151) | (10,167) |
| Additional write-downs | (1,783) | (1,425) |
| Balance, end of year | \$ 20,332 | \$ 13,199 |

Notes to Consolidated Financial Statements

Note 8 - Goodwill and Other Intangible Assets

Following is a summary of information related to acquired intangible assets:

| (\$ in thousands) | As of December 31, 2011 | | As of December 31, 2010 | |
|-----------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Client list | \$ 1,400 | \$ 624 | \$ 1,400 | \$ 480 |
| Core deposit premium | 387 | 107 | 387 | 27 |
| Total carrying value | \$ 1,787 | \$ 731 | \$ 1,787 | \$ 507 |

The aggregate amortization expense for intangible assets was approximately \$224,000, \$171,000 and \$144,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

The estimated amortization expense for each of the next five years is as follows: 2012 - \$224,000, 2013 - \$224,000, 2014 - \$224,000, 2015 - \$184,000 and 2016 - \$144,000.

Changes in the carrying amounts of goodwill at December 31, 2011 and 2010 are as follows:

| (\$ in thousands) | 2011 | 2010 |
|----------------------------|----------|----------|
| Balance, beginning of year | \$ 2,506 | \$ 1,434 |
| Goodwill acquired | - | 1,072 |
| Balance, end of year | \$ 2,506 | \$ 2,506 |

All of the goodwill is related to the 2007 acquisition of Minis. The goodwill acquired in 2010 was a final contingent earn-out payment.

Note 9 - Deposits

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2011 and 2010 is \$193,134,000 and \$235,406,000, respectively. At December 31, 2011, brokered time deposits mature as follows: 2012 - \$24,274,000; 2013 - \$10,968,000; and 2014 - \$16,266,000. Additionally, \$32,022,000 of non-maturity institutional money market accounts are considered brokered deposits because the deposits are from customers of brokerage firms up to a maximum of \$250,000 per depositor.

The scheduled maturities of time deposits at December 31, 2011 are as follows:

| (\$ in thousands) | Total |
|---------------------|------------|
| 2012 | \$ 220,622 |
| 2013 | 40,141 |
| 2014 | 32,377 |
| 2015 | 16,356 |
| 2016 and thereafter | 7,431 |
| Total | \$ 316,927 |

Notes to Consolidated Financial Statements

Note 10 - Short-Term Borrowings

Short-term borrowings at December 31, 2011 and 2010 consist of federal funds purchased, securities sold under agreements to repurchase, and FRB short-term advances:

| (\$ in thousands) | Federal Funds Purchased | Securities Sold Under Repurchase Agreements | FRB Short-Term Advances |
|--|----------------------------|---|-------------------------------|
| 2011 | | | |
| Balance at December 31 | \$ 492 | \$ 13,892 | \$ - |
| Maximum indebtedness at any month end | 8,421 | 15,557 | - |
| Daily average indebtedness outstanding | 843 | 13,940 | - |
| Average rate paid for the year | 0.33% | 0.41% | 0.00% |
| Average rate paid on period-end borrowings | 0.20% | 0.25% | 0.00% |
| 2010 | | | |
| Balance at December 31 | \$ 295 | \$ 14,780 | \$ - |
| Maximum indebtedness at any month end | 1,320 | 17,225 | 6,000 |
| Daily average indebtedness outstanding | 805 | 14,847 | 1,009 |
| Average rate paid for the year | 0.26% | 0.50% | 0.55% |
| Average rate paid on period-end borrowings | 0.20% | 0.50% | 0.00% |

The maximum amount of short-term borrowings outstanding at the end of any month was \$20,647,000 and \$20,414,000 during 2011 and 2010, respectively. At December 31, 2011, federal funds borrowing arrangements aggregating \$46,500,000 were available to the Subsidiary Banks from correspondent banking institutions. There are no commitment fees and no requirements for compensating balances. These unused lines principally serve as temporary liquidity back-up lines and are subject to availability of funds and other specific limitations of the correspondent banks.

Savannah is a member and shareholder of the FRB of Atlanta. The Subsidiary Banks have been approved to access the FRB discount window to borrow on a secured basis at 50-100 basis points over the Federal Funds Target Rate. The amount of credit available is subject to the amounts and types of collateral available when borrowings are requested. The Subsidiary Banks were approved by the FRB under the borrower-in-custody of collateral ("BIC") arrangement. This temporary liquidity arrangement allows collateral to be maintained at the Subsidiary Banks rather than being delivered to the FRB or a third party custodian. At December 31, 2011, the Company had secured borrowing capacity of \$93.6 million with the FRB and no balance outstanding.

Note 11 - Other Borrowings

Other borrowings consist of a note payable due to related parties (directors) with a balance of \$8,581,000 as of December 31, 2011. The proceeds were used to fund SAVB Holdings. The loan is secured by a guarantee of the Company and a blanket assignment of all the assets of SAVB Holdings. Principal payments are due monthly based on repayments, sales, charge-offs or other activity in the assets held by SAVB Holdings. The agreement contains the following financial covenants: (i) the Company's dividend payout ratio will not exceed 50 percent of after tax net income on a quarterly basis, (ii) the Subsidiary Banks shall each maintain a "well-capitalized" status as determined by their primary regulator, (iii) on the last day of each calendar quarter, SAVB Holdings shall maintain a loan-to-value ratio of at least 1.00:1.00 and (iv) on the last day of each calendar quarter, the amount of nonperforming assets of the Company shall not exceed 4.75 percent of the total assets of the Company. Additionally, the note states that if the amount of nonperforming assets of the Company exceeds 5.25 percent of total assets, then the interest rate payable on the note would increase an additional 200 basis points. At December 31, 2011, the Company's ratio of nonperforming assets to total assets was 5.60 percent which exceeded both of the limits stated in the note's covenants. The interest rate payable on the note increased 50 basis points to 8.00 percent for exceeding the limit of 4.75 percent of nonperforming assets to total assets. The interest rate payable should have increased an additional 200 basis points to 10.00 percent for exceeding the nonperforming assets limit of 5.25 percent; however, the

Notes to Consolidated Financial Statements

Note 11 - Other Borrowings (continued)

Company obtained a waiver from the lenders on this covenant and the interest rate payable remained at 8.00 percent as of December 31, 2011. The remaining indebtedness is due and payable by September 30, 2012.

Note 12 - Federal Home Loan Advances

Short-term Advances - The Company had short-term advances from the FHLB of \$3,500,000 at December 31, 2011 and \$4,000,000 at December 31, 2010. The weighted-average interest rates on the short-term advances were 2.16 and 1.08 percent at December 31, 2011 and 2010, respectively. The short-term advance at December 31, 2011 is a term fixed rate advance that matures on April 30, 2012 and pays interest monthly.

Convertible Advances - The Company had convertible fixed rate advances of \$10,000,000 at December 31, 2011 and 2010. The weighted-average interest rate on convertible advances was 2.26 percent at December 31, 2011 and 2010. The advances mature in 2018 and are now convertible each quarter at the option of the FHLB to an advance with an interest rate equal to the current three-month LIBOR.

Long-term Advances - Long-term advances from the FHLB totaled \$3,153,000 and \$3,658,000 at December 31, 2011 and 2010, respectively. The weighted-average interest rates on the long-term advances were 0.71 and 2.09 percent at December 31, 2011 and 2010, respectively. Aggregate maturities for the long-term advances at December 31, 2011 are \$3,000,000 in 2013 and \$153,000 in 2016 and thereafter. Interest is generally payable monthly and scheduled principal reductions are made quarterly, semi-annually or at maturity. The long-term advances include prepayment penalties for each advance.

FHLB Advance Borrowing Capacity - The Subsidiary Banks are shareholders of the FHLB and have access to secured borrowings from the FHLB under Blanket Floating Lien Agreements. Under these agreements, the Subsidiary Banks have pledged certain 1-4 family first mortgage loans, commercial real estate loans, home equity lines of credit and second mortgage residential loans. The Subsidiary Banks' individual borrowing limits range from 20 to 25 percent of assets. In aggregate, at December 31, 2011, the Subsidiary Banks had secured borrowing capacity of approximately \$123 million of which \$16.7 million was advanced and \$16.0 million was used as collateral for FHLB Letters of Credit. These credit arrangements serve as a core funding source as well as liquidity backup for the Subsidiary Banks. Additional advances are subject to review and approval by the FHLB.

Note 13 - Subordinated Debt to Nonconsolidated Subsidiaries

During the third quarters 2003 and 2004, the Company formed SAVB Capital Trust I and SAVB Capital Trust II (the "Trusts"), nonconsolidated subsidiaries whose sole purpose was to issue \$6,000,000 and \$4,000,000, respectively, in Trust Preferred Securities through investment pools sponsored by two national brokerage firms. The Trust Preferred Securities have maturities of 30 years and are both redeemable at the Company's option on any quarterly interest payment date. At December 31, 2011, the interest rates on the securities were 3.25 and 2.75 percent, respectively, with quarterly resets at the three-month LIBOR plus 2.85 and 2.20 percent, respectively. The Company's liabilities to the nonconsolidated Trusts are recorded as liabilities of \$6.186 million and \$4.124 million and investments (included in other assets) of \$186,000 and \$124,000, respectively, in the consolidated balance sheet. Subject to certain limitations, the securities qualify as Tier 1 capital for regulatory capital purposes under FRB regulations.

Notes to Consolidated Financial Statements

Note 14 - Income Taxes

Income tax expense (benefit) is composed of the following for each of the years ended December 31:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|------------------------------|------------|------------|----------|
| Current federal | \$ (618) | \$ (1,092) | \$ 1,861 |
| Current state | - | (279) | 42 |
| Total current | (618) | (1,371) | 1,903 |
| Deferred federal | (957) | (1,528) | (1,417) |
| Deferred state | (320) | (231) | (331) |
| Total deferred | (1,277) | (1,759) | (1,748) |
| Income tax expense (benefit) | \$ (1,895) | \$ (3,130) | \$ 155 |

A reconciliation between income tax expense (benefit) and the amounts computed by applying the U.S. federal tax rate of 34 percent to income (loss) before income taxes is as follows:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|---------------------------------------|------------|------------|--------|
| Tax provision at 34% | \$ (1,383) | \$ (2,421) | \$ 369 |
| State tax, net of federal tax benefit | (188) | (300) | 46 |
| Benefit of tax-exempt income, net | (177) | (197) | (141) |
| Other | (147) | (212) | (119) |
| Income tax expense (benefit) | \$ (1,895) | \$ (3,130) | \$ 155 |

Deferred income tax assets and liabilities are comprised of the following at December 31:

| (\$ in thousands) | 2011 | 2010 |
|--------------------------------------|-----------|----------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 8,209 | \$ 7,676 |
| Write-down of foreclosed assets | 1,223 | 306 |
| Tax-deductible goodwill | 1,203 | 1,317 |
| Tax credit carry forwards | 887 | - |
| Deferred compensation expense | 531 | 469 |
| Stock-based compensation expense | 149 | 140 |
| Unamortized loan fees | 76 | 49 |
| Other | 241 | 129 |
| Total deferred tax assets | 12,519 | 10,086 |
| Deferred tax liabilities: | | |
| Unrealized gains on securities | 718 | 425 |
| Depreciation | 639 | 624 |
| Deferred costs on loans and deposits | 68 | 72 |
| Other | 20 | 25 |
| Total deferred tax liabilities | 1,445 | 1,146 |
| Net deferred tax assets | \$ 11,074 | \$ 8,940 |

The net deferred tax assets are included in the consolidated balance sheets in other assets. A portion of the deferred tax asset balance relates to federal and state tax credits which will be available to reduce the Company's income tax liability in future years. The federal and state tax credits at December 31, 2011 total \$376,000 and \$511,000, respectively, and have various expirations beginning in 2014 through the year 2031. The Company files a consolidated Federal tax return and a consolidated Georgia return for the Georgia-based parent and subsidiaries.

Notes to Consolidated Financial Statements

Note 15 - Stock Option and Employee Benefit Plans

As discussed in Note 1, the Company has two stock option plans. All authorized shares have been awarded from the 1995 Plan. There are 144,151 authorized option shares remaining under the 2005 Omnibus Plan at December 31, 2011. The options granted in the chart below generally vest 20 percent each year over five years and are exercisable over ten years except for 55,115 option shares granted to directors which vest within one year. Some of the executive officer option shares also include minimum performance triggers as a condition of vesting.

Changes in stock options outstanding for the years ended December 31, 2011, 2010 and 2009 are as follows.

| | 2011 | | 2010 | | 2009 | |
|----------------------------------|----------|---------------------------------|----------|---------------------------------|----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 174,328 | \$ 17.24 | 194,814 | \$ 17.09 | 192,022 | \$ 18.28 |
| Granted | 13,350 | 5.26 | 7,915 | 11.25 | 19,291 | 8.74 |
| Exercised | - | - | - | - | - | - |
| Forfeited | (37,710) | 16.89 | (28,401) | 14.55 | (16,499) | 21.12 |
| Outstanding at end of year | 149,968 | \$ 17.14 | 174,328 | \$ 17.24 | 194,814 | \$ 17.09 |
| Exercisable at end of year | 133,618 | \$ 17.16 | 163,355 | \$ 16.87 | 175,625 | \$ 16.75 |

At December 31, 2011, there is no aggregate intrinsic value for the outstanding or exercisable stock options.

Options outstanding at December 31, 2011 are as follows:

| Outstanding Common Options | Outstanding | | | Exercisable | |
|----------------------------|------------------------------|-----------------------|------------------------|-------------|------------------------|
| | Remaining Contractual Number | Weighted Average Life | Weighted Average Price | Number | Weighted Average Price |
| Range of exercise prices | | | | | |
| \$5.25 - \$12.00 | 39,223 | 8.42 | \$ 9.48 | 25,873 | \$ 9.51 |
| \$12.01 - \$15.00 | 15,466 | 0.54 | 13.02 | 15,466 | 13.02 |
| \$15.01 - \$20.00 | 51,012 | 2.73 | 16.69 | 51,012 | 16.69 |
| \$20.01 - \$25.00 | 27,457 | 3.15 | 22.34 | 27,457 | 22.34 |
| \$25.00 - \$28.56 | 16,810 | 4.80 | 26.71 | 13,810 | 27.59 |
| Total outstanding | 149,968 | 4.30 | \$ 17.14 | 133,618 | \$ 17.16 |

Restricted Stock - In 2007 and 2006, the Board granted 20,185 shares of restricted stock under the 2005 Omnibus Plan which awards certain officers common shares of the Company. The cost of these shares is being amortized against earnings using the vesting schedule over the three and ten year vesting periods. Restricted stock shares in the amount of 7,391 did not vest due to forfeiture. Unrecognized compensation cost for restricted stock awards was \$81,000 at December 31, 2011.

The Company sponsors a 401(k) employee savings and profit sharing plan in which substantially all full-time employees are eligible to participate. The plan allows eligible employees to save a portion of their salary on a pre-tax basis. Contributions by the Company to the plan are discretionary. Contributions and administrative expenses related to the plan aggregated \$10,000, \$10,000 and \$290,000 for the years ended December 31, 2011, 2010 and 2009, respectively. The Company did not make a contribution to the plan in 2011 or 2010 and the only costs were for administrative expenses.

Notes to Consolidated Financial Statements

Note 16 - Capital Ratios and Dividend Restrictions

The Subsidiary Banks' primary regulators have adopted capital requirements that specify the minimum capital level for which no prompt corrective action is required. In addition, the FDIC has adopted FDIC insurance assessment rates based on certain "well-capitalized" risk-based and equity capital ratios. Failure to meet minimum capital requirements can result in the initiation of certain actions by the regulators that, if undertaken, could have a material effect on the Company's and the Subsidiary Banks' financial statements. As of December 31, 2011, the Company and the Subsidiary Banks were categorized as well-capitalized under the regulatory framework for prompt corrective action in the most recent notification from the FDIC. Bryan has agreed with its primary regulator to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and was in conformity with the requirement at December 31, 2011. Savannah has agreed with its primary regulator to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and a Total Risk-based Capital Ratio of not less than 12.00 percent and is currently in conformity with the agreement.

On March 1, 2012, Bryan entered into a Consent Order ("Order") with the FDIC and the Georgia Department of Banking and Finance ("GDBF") requiring Bryan to implement a number of actions to address identified deficiencies. The Order also includes a capital article that requires Bryan to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and a Total Risk-based Capital Ratio of not less than 10.00 percent. As a result of this capital article, Bryan is automatically classified as an "adequately capitalized" for regulatory purposes and is prohibited from certain practices by the regulatory authorities and subject to certain restrictions.

Banking regulation restrict the amount of cash dividends that the Subsidiary Banks may pay without obtaining regulatory approval, subject to maintaining adequate capital ratios. Based upon these regulatory restrictions and the agreements made with the Subsidiary Banks' primary regulators, there are no cash dividends available to the Company from the Subsidiary Banks at December 31, 2011. As of December 31, 2011, the Company has agreed with its primary regulator to obtain approval prior to paying or declaring any dividends.

Management believes that the Company and the Subsidiary Banks meet all capital adequacy requirements to which they are subject as of December 31, 2011. The following tables show the capital amounts and ratios for the Company and the Subsidiary Banks at December 31, 2011 and 2010:

| (\$ in thousands) | Company | | Savannah | | Bryan | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Qualifying Capital | | | | | | |
| Tier 1 capital | \$ 81,697 | \$ 87,623 | \$ 62,451 | \$ 64,193 | \$ 19,416 | \$ 21,294 |
| Total capital | 90,845 | 97,589 | 69,191 | 71,450 | 21,691 | 23,826 |
| Leverage Ratios | | | | | | |
| Tier 1 capital to average assets | 8.37% | 8.12% | 8.63% | 7.97% | 8.01% | 8.20% |
| Risk-based Ratios | | | | | | |
| Tier 1 capital to risk-weighted assets | 11.36% | 11.13% | 11.74% | 11.18% | 10.82% | 10.67% |
| Total capital to risk-weighted assets | 12.63% | 12.40% | 13.01% | 12.44% | 12.09% | 11.93% |

| Required Regulatory Capital Ratios: | Minimum | Well-Capitalized |
|--|---------|------------------|
| Tier 1 capital to average assets | 4.00% | 5.00% |
| Tier 1 capital to risk-weighted assets | 4.00% | 6.00% |
| Total capital to risk-weighted assets | 8.00% | 10.00% |

Notes to Consolidated Financial Statements

Note 17 - Leases and Commitments

Future minimum payments under non-cancelable land and office space operating leases with remaining terms in excess of one year are presented as follows: 2012 - \$881,000; 2013 - \$795,000; 2014 - \$724,000; 2015 - \$736,000; 2016 and thereafter is \$2,427,000. The land and office space leases contain customary escalation clauses. Two of the branch office leases are with a related party (director). The Company or the Subsidiary Banks are responsible for taxes, insurance and maintenance during the lease term under certain leases. Future minimum payments due under the Company's long-term data processing contract are as follows: 2012 - \$1,224,000; 2013 - \$1,248,000; 2014 - \$1,273,000; and 2015 - \$1,191,000. The contract contains customary escalation and buyout clauses.

The net rental expense for all office space operating leases amounted to \$1,161,000 in 2011, \$1,272,000 in 2010 and \$636,000 in 2009. The leases on the office space have five to twenty-year renewal options and typically require increased rental payments under consumer price index escalation clauses.

Note 18 - Other Operating Expense

The components of other operating expense for the years ended December 31, 2011, 2010 and 2009 are as follows:

| (\$ in thousands) | 2011 | 2010 | 2009 |
|---------------------------------------|-----------------|-----------------|-----------------|
| Professional and directors fees | \$ 904 | \$ 873 | \$ 1,114 |
| Regulatory assessments and audit fees | 612 | 545 | 592 |
| Postage and courier | 303 | 297 | 310 |
| Taxes and licenses | 274 | 273 | 244 |
| Loan origination costs | 247 | 231 | 259 |
| Advertising and sales promotion | 237 | 377 | 233 |
| Insurance | 210 | 147 | 95 |
| Stationery and supplies | 181 | 198 | 253 |
| Telephone | 160 | 172 | 175 |
| Correspondent bank charges | 123 | 39 | 50 |
| Dues and subscriptions | 98 | 111 | 115 |
| Other expense | 525 | 574 | 422 |
| Total other operating expense | \$ 3,874 | \$ 3,837 | \$ 3,862 |

Note 19 - On-Balance Sheet Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts principally related to certain variable rate loan assets.

Notes to Consolidated Financial Statements

Note 19 - On-Balance Sheet Derivative Instruments and Hedging Activities (continued)

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments at December 31:

| (\$ in thousands) | 2011 | | 2010 | |
|---|---------------|---------------|---------------|---------------|
| | Asset | Liability | Asset | Liability |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate products | \$ - | \$ - | \$ - | \$ - |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate products | 301 | 301 | 136 | 135 |
| Total | \$ 301 | \$ 301 | \$ 136 | \$ 135 |

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has historically used interest rate swaps, collars, and floors as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed payments over the life of the agreements without exchange of the underlying notional amount. Interest rate collars designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the purchased floor and the payment of variable-rate amounts if interest rates rise above the cap rate on the sold floor. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up-front premium. As of December 31, 2011 and 2010 the Company had no outstanding derivatives that were designated as cash flow hedging relationships. No hedge ineffectiveness was recognized during the years ended December 31, 2011, 2010 and 2009.

Amounts reported in accumulated other comprehensive income related to derivatives were reclassified to interest income as interest payments are received on the Company's variable rate assets. During the year ended December 31, 2010, the Company accelerated the reclassification of amounts in other comprehensive income to earnings as a result of a portion of the hedged forecasted transactions related to the Company's interest rate swaps, collars and interest rate floor becoming probable not to occur. The accelerated amount for the year ended December 31, 2010 was a gain of \$14,000. There was no amount accelerated for the year ended December 31, 2011.

Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the Company's derivative financial instruments on the income statement for the years ended December 31:

| (\$ in thousands) | 2011 | 2010 | 2009 | | 2011 | 2010 | 2009 |
|---------------------------------|--|-------------|-------------|--|--|---------------|-----------------|
| Cash Flow Hedging Relationships | Gain Recognized in OCI on Derivative (Effective Portion) | | | Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion) | Gain Reclassified from Accumulated OCI into Income (Effective Portion) | | |
| Interest Rate Products | \$ - | \$ - | \$ - | Interest income | \$ - | \$ 450 | \$ 1,205 |
| | | | | Noninterest income | - | 14 | 794 |
| Total | \$ - | \$ - | \$ - | | \$ - | \$ 464 | \$ 1,999 |

Note 19 - On-Balance Sheet Derivative Instruments and Hedging Activities (continued)

Non-designated Hedges

As of December 31, 2011 none of the Company's outstanding derivatives are designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by executing offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2011, the Company had two interest rate swaps with an aggregate notional amount of \$4,810,000 related to this program. The net effect of recording the derivatives at fair value through earnings was immaterial to the Company's financial condition and results of operations as of the twelve months ended December 31, 2011, 2010 and 2009.

Credit-risk-related Contingent Features

The Company has an agreement with one of its derivative counterparties that contains a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of December 31, 2011 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$301,000. As of December 31, 2011, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$373,000 against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2011, it would have been required to settle its obligations under the agreements at the termination value.

Note 20 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments. The Company's exposure to credit losses is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2011 and 2010 unfunded commitments to extend credit and unfunded lines of credit were \$71,741,000 and \$81,183,000, respectively, of which some were subject to interest rate lock commitments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Company upon extension of credit, if deemed necessary, is based on management's credit evaluation of the customer. Collateral may include cash, securities, accounts receivable, inventory, equipment, and real estate.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The letters of credit are primarily issued to support public and private borrowing arrangements. At December 31, 2011 and 2010, commitments under letters of credit aggregated approximately \$3,386,000 and \$2,667,000, respectively.

Note 21 - Fair Value of Financial Instruments

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the accounting standards for fair value measurements and disclosure, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured 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:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that are supported by little or no market activity for the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

Recurring Fair Value Changes

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

Investment securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Derivative instruments: Our derivative instruments consist of loan level swaps. As such, significant fair value inputs can generally be verified and do not typically involve significant judgments by management.

Notes to Consolidated Financial Statements

Note 21 - Fair Value of Financial Instruments (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below as of December 31:

| (\$ in thousands) | Carrying Value | Fair Value Measurements at December 31, 2011 Using | | |
|--------------------------------|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment securities | \$ 83,653 | \$ - | \$ 80,115 | \$ 3,538 |
| Derivative asset positions | 301 | - | 301 | - |
| Derivative liability positions | 301 | - | 301 | - |

| (\$ in thousands) | Carrying Value | Fair Value Measurements at December 31, 2010 Using | | |
|--------------------------------|----------------|--|------------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Investment securities | \$ 138,099 | \$ - | \$ 134,223 | \$ 3,876 |
| Derivative asset positions | 136 | - | 136 | - |
| Derivative liability positions | 135 | - | 135 | - |

The level 3 securities include FHLB and FRB stock. The change in 2011 was solely due to a partial redemption of FHLB stock.

Nonrecurring Fair Value Changes

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These instruments are not measured at fair value on an ongoing basis, but subject to fair value in certain circumstances, such as when there is evidence of impairment that may require write-downs. The write-downs for the Company's more significant assets or liabilities measured on a nonrecurring basis are based on the lower of amortized or estimated fair value.

Impaired loans and OREO: Impaired loans and OREO are evaluated and valued at the time the loan or OREO is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral for impaired loans may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. Its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans and OREO are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Impaired loans measured on a nonrecurring basis do not include pools of impaired loans.

Assets and liabilities with an impairment charge during the current year and measured at fair value on a nonrecurring basis are summarized below as of December 31:

| (\$ in thousands) | Carrying Values at December 31, 2011 | | | | | Total gain (loss) |
|-------------------|--------------------------------------|---------|---------|-----------|--|-------------------|
| | Total | Level 1 | Level 2 | Level 3 | | |
| Impaired loans | \$ 11,541 | \$ - | \$ - | \$ 11,541 | | \$ (6,091) |
| OREO | 7,323 | - | - | 7,323 | | (1,880) |

| (\$ in thousands) | Carrying Values at December 31, 2010 | | | | | Total gain (loss) |
|-------------------|--------------------------------------|---------|---------|----------|--|-------------------|
| | Total | Level 1 | Level 2 | Level 3 | | |
| Impaired loans | \$ 7,236 | \$ - | \$ - | \$ 7,236 | | \$ (5,073) |
| OREO | 5,423 | - | - | 5,423 | | (1,424) |

Notes to Consolidated Financial Statements

Note 21 - Fair Value of Financial Instruments (continued)

Fair Value Disclosures

Accounting standards require the disclosure of the estimated fair value of financial instruments including those financial instruments for which the Company did not elect the fair value option. The fair value represents management's best estimates based on a range of methodologies and assumptions.

Cash and federal funds sold, interest-bearing deposits in banks, accrued interest receivable, all non-maturity deposits, short-term borrowings, other borrowings, subordinated debt and accrued interest payable have carrying amounts which approximate fair value primarily because of the short repricing opportunities of these instruments.

Following is a description of the methods and assumptions used by the Company to estimate the fair value of its financial instruments:

Investment securities: Fair value is based upon quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Restricted equity securities are carried at cost because no market value is available.

Loans: The fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, such as commercial, mortgage, and consumer loans. The fair value of the loan portfolio is calculated by discounting contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loan. The estimated fair value of the Subsidiary Banks' off-balance sheet commitments is nominal since the committed rates approximate current rates offered for commitments with similar rate and maturity characteristics and since the estimated credit risk associated with such commitments is not significant.

Derivative instruments: The fair value of derivative instruments, consisting of interest rate contracts, is equal to the estimated amount that the Company would receive or pay to terminate the derivative instruments at the reporting date, taking into account current interest rates and the credit-worthiness of the counterparties.

Deposit liabilities: The fair value of time deposits is estimated using the discounted value of contractual cash flows based on current rates offered for deposits of similar remaining maturities.

FHLB advances: The fair value is estimated using the discounted value of contractual cash flows based on current rates offered for debt of similar remaining maturities and/or termination values provided by the FHLB.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows as of December 31:

| (\$ in thousands) | 2011 | | 2010 | |
|---|----------------|----------------------|----------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and federal funds sold | \$ 13,760 | \$ 13,760 | \$ 18,100 | \$ 18,100 |
| Interest-bearing deposits | 81,717 | 81,717 | 40,836 | 40,836 |
| Securities available for sale | 83,653 | 83,653 | 138,099 | 138,099 |
| Loans, net of allowance for loan losses | 737,761 | 727,714 | 806,212 | 800,785 |
| Accrued interest receivable | 3,103 | 3,103 | 3,789 | 3,789 |
| Derivative asset positions | 301 | 301 | 136 | 136 |
| Financial liabilities: | | | | |
| Deposits | 846,929 | 851,700 | 923,745 | 929,271 |
| Short-term borrowings | 14,384 | 14,384 | 15,075 | 15,075 |
| Other borrowings | 8,581 | 8,581 | 10,536 | 10,536 |
| FHLB advances | 16,653 | 17,393 | 17,658 | 18,214 |
| Subordinated debt to nonconsolidated subsidiaries | 10,310 | 10,310 | 10,310 | 10,310 |
| Accrued interest payable | 687 | 687 | 1,108 | 1,108 |
| Derivative liability positions | 301 | 301 | 135 | 135 |

Notes to Consolidated Financial Statements

Note 22 - The Savannah Bancorp, Inc. (Parent Company Only) Financial Information (\$ in thousands)

The following are condensed balance sheets of the Parent Company at December 31, 2011 and 2010:

| | 2011 | 2010 |
|---|------------------|------------------|
| Assets | | |
| Cash on deposit | \$ 15 | \$ 60 |
| Interest-bearing deposits | 917 | 1,542 |
| Investment in subsidiaries | 90,822 | 92,031 |
| Premises and equipment | 509 | 554 |
| Investment in nonconsolidated subsidiary | 940 | 905 |
| Other assets | 3,017 | 2,625 |
| Total assets | \$ 96,220 | \$ 97,717 |
| Liabilities | | |
| Subordinated debt | \$ 10,310 | \$ 10,310 |
| Other liabilities | 1,780 | 1,604 |
| Total liabilities | 12,090 | 11,914 |
| Shareholders' equity | | |
| Common stock | 7,201 | 7,201 |
| Additional paid-in capital | 48,656 | 48,634 |
| Retained earnings | 27,103 | 29,275 |
| Treasury stock | (1) | (1) |
| Accumulated other comprehensive income, net | 1,171 | 694 |
| Total shareholders' equity | 84,130 | 85,803 |
| Total liabilities and equity | \$ 96,220 | \$ 97,717 |

The operating results of the Parent Company are shown below for the three years ended December 31:

| | 2011 | 2010 | 2009 |
|--|------------------|------------------|---------------|
| Dividends from subsidiaries | \$ 1,750 | \$ 950 | \$ 4,200 |
| Interest income | 9 | 31 | 4 |
| Interest expense | 303 | 306 | 362 |
| Net interest and dividend income | 1,456 | 675 | 3,842 |
| Other income | 83 | 289 | 29 |
| Processing / management fees | 4,804 | 4,996 | 5,267 |
| Total income | 6,343 | 5,960 | 9,138 |
| Corporate expenses | 590 | 535 | 733 |
| Processing / management costs | 4,933 | 5,111 | 5,342 |
| Other expenses | 5,523 | 5,646 | 6,075 |
| Income before income taxes and distributions in excess of earnings of subsidiaries | 820 | 314 | 3,063 |
| Income tax benefit | 340 | 175 | 395 |
| Income before distributions in excess of earnings of subsidiaries | 1,160 | 489 | 3,458 |
| Distributions in excess of earnings of subsidiaries | (3,332) | (4,478) | (2,529) |
| Net income (loss) | \$(2,172) | \$(3,989) | \$ 929 |

The cash flows of the Parent Company are shown below for the three years ended December 31:

| | 2011 | 2010 | 2009 |
|--|---------------|-----------------|----------------|
| Operating activities | | | |
| Net income (loss) | \$ (2,172) | \$ (3,989) | \$ 929 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | | |
| Distributions in excess of earnings of subsidiaries | 3,332 | 4,478 | 2,529 |
| Depreciation | 277 | 343 | 449 |
| Gain on sale of partnership interest | - | (255) | - |
| Non cash stock-based compensation expense | 20 | 79 | 144 |
| Change in other assets and liabilities, net | (252) | (601) | (477) |
| Net cash provided by operating activities | 1,205 | 55 | 3,574 |
| Investing activities | | | |
| Proceeds from sale of partnership interest | - | 694 | - |
| Purchase of equipment and software | (232) | (65) | (108) |
| Capital contribution to consolidated subsidiaries | (1,645) | (10,475) | (3,390) |
| Net cash used in investing activities | (1,877) | (9,846) | (3,498) |
| Financing activities | | | |
| Dividends paid | - | (119) | (1,098) |
| Issuance of common stock and exercise of options | 2 | 11,247 | - |
| Issuance of treasury stock | - | 3 | - |
| Net cash provided by (used in) financing activities | 2 | 11,131 | (1,098) |
| Increase (decrease) in cash and cash equivalents | (670) | 1,340 | (1,022) |
| Cash, beginning of year | 1,602 | 262 | 1,284 |
| Cash, end of year | \$ 932 | \$ 1,602 | \$ 262 |

The Parent Company financial statements include the following intercompany items: interest-bearing deposits on the balance sheets; dividend income, interest income and processing / management fees on the statements of income. The investment in the nonconsolidated subsidiary on the balance sheet represents a 50 percent interest in a limited partnership which owns the headquarters building at 25 Bull Street, Savannah, GA .

Management's Discussion and Analysis of Financial Condition and Results of Operations

For a comprehensive presentation of the Company's financial condition and results of operations, the following selected financial data and analysis should be reviewed along with the consolidated financial statements and the accompanying notes to the consolidated financial statements.

Table 1 - Selected Financial Condition Highlights – Five-Year Comparison

| (\$ in thousands, except share data) | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|--------------|--------------|--------------|--------------|------------|
| Selected Average Balances | | | | | |
| Total assets | \$ 1,012,451 | \$ 1,078,464 | \$ 1,018,470 | \$ 960,260 | \$ 869,026 |
| Interest-earning assets (a) | 918,054 | 979,436 | 935,617 | 898,295 | 830,900 |
| Loans, net of unearned fees (b) | 765,641 | 810,484 | 841,033 | 821,673 | 754,490 |
| Securities | 107,066 | 111,753 | 81,282 | 62,019 | 58,910 |
| Other interest-earning assets | 45,347 | 57,199 | 13,302 | 14,603 | 17,500 |
| Interest-bearing deposits | 774,758 | 840,077 | 777,763 | 701,045 | 628,310 |
| Borrowed funds | 51,609 | 62,140 | 71,967 | 88,553 | 70,939 |
| Total interest-bearing liabilities | 826,367 | 902,217 | 849,730 | 789,598 | 699,249 |
| Noninterest-bearing deposits | 95,468 | 86,458 | 82,406 | 83,678 | 91,367 |
| Total deposits | 870,226 | 926,535 | 860,169 | 784,723 | 719,677 |
| Shareholders' equity | 86,695 | 84,319 | 79,804 | 78,998 | 71,516 |
| Loan to deposit ratio – average | 88% | 87% | 98% | 105% | 105% |
| Selected Financial Data at Year-End | | | | | |
| Total assets | \$ 985,235 | \$ 1,066,930 | \$ 1,050,508 | \$ 1,007,284 | \$ 932,459 |
| Interest-earning assets (a) | 889,026 | 971,653 | 959,219 | 931,448 | 878,992 |
| Loans, net of unearned fees | 759,678 | 826,562 | 883,886 | 864,974 | 808,651 |
| Deposits | 846,929 | 923,745 | 884,569 | 832,015 | 764,218 |
| Interest-bearing liabilities | 789,918 | 881,599 | 883,527 | 837,558 | 759,597 |
| Shareholders' equity | 84,130 | 85,803 | 79,026 | 80,932 | 76,272 |
| Loan to deposit ratio | 90% | 89% | 100% | 104% | 106% |
| Shareholders' equity to total assets | 8.54% | 8.04% | 7.52% | 8.03% | 8.18% |
| Dividend payout ratio | NM | NM | 118.19% | 49.38% | 36.73% |
| Risk-based capital ratios: | | | | | |
| Tier 1 capital to risk-weighted assets | 11.36% | 11.13% | 10.30% | 10.28% | 10.49% |
| Total capital to risk-weighted assets | 12.63% | 12.40% | 11.56% | 11.54% | 11.74% |
| Loan Quality Data | | | | | |
| Nonperforming assets | \$ 55,213 | \$ 49,099 | \$ 42,444 | \$ 35,703 | \$ 19,535 |
| Nonperforming loans | 34,881 | 35,900 | 34,115 | 27,603 | 17,424 |
| Nonaccruing loans | 34,668 | 32,836 | 32,545 | 26,277 | 14,663 |
| Loans past due 90 days - accruing | 213 | 3,064 | 1,570 | 1,326 | 2,761 |
| Net charge-offs | 18,468 | 18,348 | 8,687 | 5,564 | 765 |
| Allowance for loan losses | 21,917 | 20,350 | 17,678 | 13,300 | 12,864 |
| Allowance for loan losses to total loans | 2.89% | 2.46% | 2.00% | 1.54% | 1.59% |
| Nonperforming loans to loans | 4.59% | 4.34% | 3.86% | 3.19% | 2.15% |
| Nonperforming assets to total assets | 5.60% | 4.60% | 4.04% | 3.54% | 2.09% |
| Net charge-offs to average loans | 2.41% | 2.26% | 1.03% | 0.68% | 0.10% |
| Per Share Data at Year-End | | | | | |
| Book value | \$ 11.69 | \$ 11.92 | \$ 13.32 | \$ 13.64 | \$ 12.88 |
| Tangible book value | \$ 11.19 | \$ 11.39 | \$ 12.90 | \$ 13.19 | \$ 12.40 |
| Common stock closing price (NASDAQ) | \$ 4.95 | \$ 7.00 | \$ 8.00 | \$ 8.85 | \$ 17.14 |
| Common shares outstanding (000s) | 7,199 | 7,200 | 5,932 | 5,934 | 5,924 |

(a) Interest-earning assets do not include the unrealized gain/loss on available for sale investment securities.

(b) Average nonaccruing loans have been excluded from total average loans.

Table 2 - Selected Operating Highlights – Five-Year Comparison

| (\$ in thousands, except share data) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|------------|------------|-----------|-----------|-----------|
| Summary of operations | | | | | |
| Interest income - taxable equivalent | \$ 45,095 | \$ 47,961 | \$ 50,595 | \$ 56,714 | \$ 63,414 |
| Interest expense | 9,488 | 14,362 | 18,258 | 24,439 | 30,282 |
| Net interest income - taxable equivalent | 35,607 | 33,599 | 32,337 | 32,275 | 33,132 |
| Taxable equivalent adjustment | (32) | (32) | (32) | (32) | (156) |
| Net interest income | 35,575 | 33,567 | 32,305 | 32,243 | 32,976 |
| Provision for loan losses | 20,035 | 21,020 | 13,065 | 6,000 | 4,675 |
| Net interest income after provision for loan losses | 15,540 | 12,547 | 19,240 | 26,243 | 28,301 |
| Noninterest income | | | | | |
| Trust and asset management fees | 2,646 | 2,599 | 2,351 | 2,832 | 1,513 |
| Service charges on deposits accounts | 1,458 | 1,788 | 1,809 | 1,881 | 1,383 |
| Mortgage related income, net | 183 | 398 | 432 | 295 | 615 |
| Gain on sale of securities | 763 | 608 | 2,119 | 163 | - |
| Gain (loss) on hedges | (1) | 2 | 873 | 1,288 | - |
| Other operating income | 1,597 | 1,916 | 1,238 | 1,216 | 1,242 |
| Total noninterest income | 6,646 | 7,311 | 8,822 | 7,675 | 4,753 |
| Noninterest expense | | | | | |
| Salaries and employee benefits | 11,282 | 11,948 | 12,146 | 13,584 | 11,846 |
| Occupancy and equipment | 3,683 | 3,945 | 3,716 | 3,884 | 3,294 |
| Information technology | 1,708 | 2,101 | 1,810 | 1,633 | 1,616 |
| Loan collection and OREO expense | 1,500 | 815 | 848 | 396 | 56 |
| FDIC deposit insurance | 1,303 | 1,688 | 1,886 | 653 | 251 |
| Amortization of intangibles | 224 | 171 | 144 | 144 | 48 |
| Loss on sales and write-downs of foreclosed assets | 2,679 | 2,472 | 2,566 | 228 | 44 |
| Other operating expense | 3,874 | 3,837 | 3,862 | 4,220 | 4,028 |
| Total noninterest expense | 26,253 | 26,977 | 26,978 | 24,742 | 21,183 |
| Income (loss) before income taxes | (4,067) | (7,119) | 1,084 | 9,176 | 11,871 |
| Income tax expense (benefit) | (1,895) | (3,130) | 155 | 3,170 | 4,235 |
| Net income (loss) | \$ (2,172) | \$ (3,989) | \$ 929 | \$ 6,006 | \$ 7,636 |
| Net income (loss) per share: | | | | | |
| Basic | \$ (0.30) | \$ (0.60) | \$ 0.16 | \$ 1.01 | \$ 1.31 |
| Diluted | \$ (0.30) | \$ (0.60) | \$ 0.16 | \$ 1.01 | \$ 1.29 |
| Cash dividends paid per share | \$ 0.00 | \$ 0.02 | \$ 0.185 | \$ 0.50 | \$ 0.48 |
| Average basic shares outstanding (000s) | 7,199 | 6,625 | 5,933 | 5,930 | 5,850 |
| Average diluted shares outstanding (000s) | 7,199 | 6,625 | 5,936 | 5,947 | 5,922 |
| Performance ratios (averages) | | | | | |
| Net interest margin | 3.88% | 3.43% | 3.46% | 3.58% | 3.99% |
| Return on average assets | (0.21)% | (0.37)% | 0.09% | 0.63% | 0.88% |
| Return on average equity | (2.51)% | (4.73)% | 1.16% | 7.60% | 10.68% |
| Efficiency ratio | 62.18% | 66.00% | 65.60% | 61.98% | 56.15% |

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 3 - Selected Quarterly Data

The following is a summary of unaudited quarterly results for 2011 and 2010:

| | 2011 | | | | 2010 | | | |
|---|-----------|---------|-----------|---------|-----------|-----------|----------|----------|
| | Fourth | Third | Second | First | Fourth | Third | Second | First |
| Net interest income | \$8,682 | \$9,014 | \$9,035 | \$8,844 | \$8,833 | \$8,029 | \$8,276 | \$8,429 |
| Provision for loan losses | 6,510 | 2,865 | 6,300 | 4,360 | 6,725 | 5,230 | 3,745 | 5,320 |
| Net interest income after provision for loan losses | 2,172 | 6,149 | 2,735 | 4,484 | 2,108 | 2,799 | 4,531 | 3,109 |
| Noninterest income | 1,497 | 1,817 | 1,707 | 1,625 | 1,767 | 1,538 | 1,726 | 2,280 |
| Noninterest expense | 6,613 | 6,418 | 7,109 | 6,113 | 6,701 | 7,310 | 6,539 | 6,427 |
| Income (loss) before income taxes | (2,944) | 1,548 | (2,667) | (4) | (2,826) | (2,973) | (282) | (1,038) |
| Income tax expense (benefit) | (910) | 320 | (1,175) | (130) | (950) | (1,410) | (220) | (550) |
| Net income (loss) | \$(2,034) | \$1,228 | \$(1,492) | \$ 126 | \$(1,876) | \$(1,563) | \$ (62) | \$(488) |
| Per share: (a) | | | | | | | | |
| Net income (loss) - basic | \$ (0.28) | \$ 0.17 | \$(0.21) | \$ 0.02 | \$ (0.26) | \$ (0.22) | \$(0.01) | \$(0.08) |
| Net income (loss) - diluted | \$ (0.28) | \$ 0.17 | \$(0.21) | \$ 0.02 | \$ (0.26) | \$ (0.22) | \$(0.01) | \$(0.08) |
| Dividends | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 0.02 |
| Average shares (000s) | | | | | | | | |
| Basic | 7,199 | 7,199 | 7,199 | 7,199 | 7,200 | 7,200 | 6,146 | 5,938 |
| Diluted | 7,199 | 7,199 | 7,199 | 7,199 | 7,200 | 7,200 | 6,146 | 5,938 |

(a) The summation of quarterly earnings per share may not agree with annual earnings per share.

Table 4 - Market for Registrant's Common Equity and Related Shareholder Matters

The Company's common stock is traded on NASDAQ under the symbol SAVB. The quarterly high, low and closing stock trading prices for 2011 and 2010 are listed below. There were approximately 605 holders of record of Company common stock (the only class of equity securities currently issued and outstanding) and, according to information provided to the Company, approximately 1,200 additional shareholders in street name through brokerage accounts at December 31, 2011.

| Closing Market Prices | 2011 | | | | 2010 | | | |
|-----------------------|---------|---------|---------|---------|---------|----------|----------|----------|
| | Fourth | Third | Second | First | Fourth | Third | Second | First |
| High | \$ 6.29 | \$ 7.58 | \$ 8.00 | \$ 8.00 | \$ 9.11 | \$ 10.05 | \$ 12.20 | \$ 11.09 |
| Low | 4.65 | 5.93 | 7.20 | 7.00 | 6.85 | 8.86 | 9.03 | 7.50 |
| Close | 4.95 | 6.00 | 7.41 | 7.35 | 7.00 | 9.30 | 9.76 | 10.61 |

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD & A") provides supplemental information which sets forth the major factors that have affected the Company's financial condition and results of operations. These discussions should be read in conjunction with the Consolidated Financial Statements and related notes. The MD & A is divided into subsections entitled:

| |
|--|
| Selected Financial Data Tables 1 - 4 (preceding pages) |
| Introduction |
| Recent Regulatory Developments |
| Critical Accounting Estimates |
| Results of Operations |
| Financial Condition and Capital Resources |
| Liquidity and Interest Rate Sensitivity Management |
| Off-Balance Sheet Arrangements |
| Forward Looking Statements |

These discussions should facilitate a better understanding of the major factors and trends that affect the Company's earnings performance and financial condition and how the Company's performance during 2011 compared with prior years. Throughout this section, The Savannah Bancorp, Inc. and its subsidiaries, collectively, are referred to as "SAVB" or the "Company." The Company's wholly-owned subsidiaries include The Savannah Bank, N.A. ("Savannah"), Bryan Bank & Trust ("Bryan"), Minis & Co., Inc. ("Minis") and SAVB Holdings, LLC ("SAVB Holdings"). Minis is a registered investment advisory firm and SAVB Holdings was formed for the purpose of holding problem loans and other real estate. The two bank subsidiaries, Savannah and Bryan, are referred to as the "Subsidiary Banks."

The averages used in this report are the averages of daily balances for each respective period. See Tables 7 and 8 for average balances and interest rates presented on an annual basis. Certain prior year balances have been reclassified to conform to the current year presentation.

The Company is headquartered in Savannah, Georgia and, as of December 31, 2011, had eleven banking offices and thirteen ATMs in Savannah, Garden City, Skidaway Island, Whitmarsh Island, Pooler, Tybee Island and Richmond Hill, Georgia and Hilton Head Island and Bluffton, South Carolina. The Company also has mortgage lending offices in Savannah and Richmond Hill and an investment management office in Savannah.

Savannah and Bryan are located in the relatively diverse and growing Savannah Metropolitan Statistical Area ("Savannah MSA"). The diversity of major employers includes manufacturing, port related transportation, construction, military, healthcare, tourism, education, warehousing and the supporting services and products for each of these major employers. The real estate market is experiencing moderate government growth and very minimal commercial and residential growth. Coastal Georgia and South Carolina continue to be desired retiree residential destinations as well as travel destinations. The Savannah MSA and Coastal South Carolina markets have both experienced significant devaluation in real estate prices.

The primary risks to the Company include trends or events that would cause or result in a significant decline in local employment, real estate values, loans or core deposits. The events in the national economy have filtered down to the Company's local markets and the slow down in real estate activity has continued to negatively impact the Company. The Company operates in competitive markets with the related challenges of competitive pricing on loans, deposits and other banking services. Competition for the best talent is also a strategic challenge faced in competitive markets such as ours.

The primary strategic objectives of the Company are growth in loans, deposits, assets under management, product lines and service quality in existing markets, and quality expansion into new markets, within acceptable risk parameters, which results in enhanced shareholder value. The Company believes that the management team and the operational and internal control infrastructure are largely in place to execute the Board of Directors' ("Board") objectives over the long term.

Recent Regulatory Developments

The Savannah Bank

On October 5, 2011, Savannah entered into a Formal Agreement ("Agreement") with its primary regulator, the Office of the Comptroller of the Currency ("OCC"). The Agreement is based on the findings of the OCC during their on-site examination of Savannah during March 2011, based on Savannah's financial condition as of December 31, 2010. The Agreement seeks to enhance Savannah's existing practices and procedures in the areas of credit risk management, credit quality, strategic planning, capital planning and liquidity risk management. Specifically, under the terms of the Agreement, Savannah is required to (i) protect its interest in assets criticized by regulators and auditors and adopt, implement and adhere to a written program that is effective in eliminating the basis of such criticized assets; (ii) develop, implement, and adhere to a written program to reduce the high level of credit risk; (iii) develop, implement and adhere to a written strategic plan for Savannah, which shall cover at least three years and should include establishing objectives for Savannah's overall risk profile, earnings performance, growth expectation, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segment; (iv) develop, implement and adhere to a three year capital program; (v) obtain prior written determination of no supervisory objection from the OCC before accepting, renewing, or rolling over brokered deposits, except for a Brokered Money Market Account limit of \$35,000,000; and (vi) submit periodic reports to the OCC regarding various aspects of the foregoing actions.

The Agreement requires the establishment of certain plans and programs within various specific time periods. If Savannah does not satisfy and adhere to each of the requirements listed above, it will not be in compliance with the Agreement. Failure to comply with the Agreement could result in additional enforcement actions. Savannah's Board of Directors has created a Compliance Committee to ensure that all of the requirements noted in the Agreement are being addressed in a timely and effective manner. Savannah was in compliance with the terms of the Agreement as of December 31, 2011.

In addition to the requirements in the Agreement, Savannah has agreed with the OCC to maintain a total risk-based capital ratio of at least 12.00 percent and a leverage ratio of at least 8.00 percent. As of December 31, 2011, Savannah's capital ratios exceed these requirements.

Bryan Bank & Trust

On March 1, 2012, Bryan entered into a Consent Order (the "Order") with the Federal Deposit Insurance Corporation (the "FDIC") and the State of Georgia Department of Banking and Finance (the "GDBF"). The FDIC and GDBF are collectively referred to as the "Supervisory Authorities". The Order is based on the findings of the FDIC during their on-site examination of Bryan for the examination period ended March 31, 2011. The Order requires that Bryan implement a number of actions including developing a written analysis and assessment of Bryan's management and staffing needs for the purpose of providing qualified management for Bryan, eliminating from its books, by charge-off or collection, all assets or portions of assets classified "loss" and 50% of those classified "doubtful," developing a written plan to reduce the remaining assets that are classified in the last regulatory exam or any future regulatory exam, implementing a written plan to improve liquidity, contingency funding, interest rate risk, and asset liability management, reviewing the adequacy of the allowance for loan losses and establishing a comprehensive written policy for determining the adequacy of Bryan's allowance for loan losses, performing a risk segmentation analysis and developing a plan for reducing and monitoring Bryan's credit concentrations, specifically including its commercial real estate loan concentrations, reviewing, revising, adopting, and implementing its written lending and collection policy to provide effective guidance and control over Bryan's lending and credit administration functions, developing a written policy for managing Bryan's other real estate and implementing a plan and comprehensive budget for all categories of income and expense for the year ending 2012. The Order further requires that Bryan (i) must have Tier 1 capital equal to or greater than 8.00 percent of its total assets, and total risk-based capital equal to or greater than 10.00 percent of total risk-weighted assets within 90 days of the effective date of the Order, (ii) cannot declare or pay dividends, pay bonuses, or pay any form of payment outside the ordinary course of business resulting in a reduction of capital without the prior written approval of the Supervisory Authorities and (iii) may not accept, renew, or rollover any brokered deposits unless it is in compliance with the requirements of the FDIC regulations governing brokered deposits.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Under the Order, Bryan's Board of Directors has also agreed to increase its participation in the affairs of Bryan, including assuming full responsibility for the approval of policies and objectives for the supervision of all of Bryan's activities. Pursuant to the Order, within 30 days Bryan will establish a Board of Directors committee to monitor and coordinate compliance with the Order.

The Order does not affect Bryan's ability to continue to conduct its banking business with customers in a normal fashion. Bank products and services, hours of operation, Internet banking and ATM usage will all be unaffected, and Bryan's deposits will remain insured by the FDIC to the maximum amount allowed by law.

The Order will remain in effect until modified or terminated by the Supervisory Authorities. If Bryan does not satisfy and adhere to each of the requirements listed above, it will not be in compliance with the Order. Failure to comply with the Order could result in additional enforcement actions.

Critical Accounting Estimates

Allowance for Loan Losses

The Company considers its policies regarding the allowance for loan losses to be its most critical accounting estimate due to the significant degree of management judgment involved. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses based on management's continuous evaluation of the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the allowance reflects management's opinion of an adequate level to absorb probable losses inherent in the loan portfolio at December 31, 2011. The amount charged to the provision and the level of the allowance is based on management's judgment and is dependent upon growth in the loan portfolio, the total amount of past due and nonperforming loans, recent charge-off levels, known loan deteriorations and concentrations of credit. Other factors affecting the allowance include market interest rates, loan sizes, portfolio maturity and composition, collateral values and general economic conditions. Finally, management's assessment of probable losses, based upon internal credit grading of the loans and periodic reviews and assessments of credit risk associated with particular loans, is considered in establishing the amount of the allowance.

No assurance can be given that the Company will not sustain loan losses which would be sizable in relationship to the amount reserved or that subsequent evaluation of the loan portfolio, in light of conditions and factors then prevailing, will not require significant changes in the allowance for loan losses by future charges or credits to earnings. The allowance for loan losses is also subject to review by various regulatory agencies through their periodic examinations of the Subsidiary Banks. Such examinations could result in required changes to the allowance for loan losses. No adjustment in the allowance or significant adjustments to the Subsidiary Banks' internally classified loans were made as a result of their most recent regulatory examinations.

The allowance for loan losses totaled \$21,917,000 or 2.89 percent of total loans at December 31, 2011. This is compared to an allowance of \$20,350,000 or 2.46 percent of total loans at December 31, 2010. For 2011, the Company reported net charge-offs of \$18,468,000 or 2.41 percent of average loans. This is compared to net charge-offs of \$18,348,000 or 2.26 percent of average loans for 2010. During 2011 and 2010, a provision for loan losses of \$20,035,000 and \$21,020,000, respectively, was added to the allowance for loan losses. Both the net charge-offs and the provision for loan losses remained elevated in 2011. The Company continues to see weakness in its local real estate markets with downward pressure on real estate values, and this weakness has led to a continued high level of real estate related charge-offs and provisions for loan losses.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's nonperforming assets consist of loans on nonaccrual status, loans which are contractually past due 90 days or more on which interest is still being accrued, and other real estate owned. Nonaccrual loans of \$34,668,000 and loans past due 90 days or more and still accruing interest of \$213,000 totaled \$34,881,000, or 4.59 percent of gross loans, at December 31, 2011. Nonaccrual loans of \$32,836,000 and loans past due 90 days or more and still accruing interest of \$3,064,000 totaled \$35,900,000, or 4.34 percent of gross loans, at December 31, 2010. Generally, loans are placed on nonaccrual status when the collection of the principal or interest in full becomes doubtful. Management typically writes down loans through a charge to the allowance when it determines they are impaired. Nonperforming assets also included \$20,332,000 and \$13,199,000 of other real estate owned at December 31, 2011 and 2010, respectively. Management is aggressively pricing and marketing the other real estate owned. The Company is actively contemplating loan sales and may take other measures to reduce its nonperforming assets.

Impaired loans, which include loans modified in troubled debt restructurings, totaled \$51,711,000 and \$53,869,000 at December 31, 2011 and 2010, respectively.

At December 31, 2011 impaired loans consisted primarily of \$19.2 million of improved residential real estate-secured loans and \$20.3 million of land, lot, and construction and development related loans. Less than one percent of the impaired loans are unsecured. The largest impaired relationship consists of four loans totaling \$6.4 million to a residential developer in the Bluffton/Hilton Head Island, South Carolina market. The loans are secured by residential land and lots and are on nonaccrual status and moving towards foreclosure. Approximately \$1,449,000 has already been charged-off on this loan relationship and an additional \$3,565,000 of the allowance was allocated as a specific reserve. The second largest impaired loan relationship consists of three loans totaling \$4.5 million secured primarily by a commercial building in Savannah, Georgia. All three of these loans are currently on nonaccrual status and have not had any charge-offs or specific reserves applied to them based upon a recent appraisal. The third largest impaired loan relationship consists of four loans totaling \$2.8 million to a residential developer in the Effingham County, Georgia market. These loans are currently on nonaccrual status and are secured by residential land, lots and completed 1-4 family properties. The Company charged-off \$1,500,000 on this relationship in 2010 and still has approximately \$750,000 of the allowance allocated as a specific reserve and \$50,000 allocated as a general reserve. The fourth largest impaired loan relationship consists of five loans totaling \$2.2 million secured by a commercial building, a personal residence, a rental home and an improved residential lot on Tybee Island, Georgia. This loan relationship is a troubled debt restructuring that is performing as agreed. No specific reserves have been applied to the relationship, but the Company does have \$267,000 allocated as a general reserve. The fifth largest impaired loan relationship consists of one loan for \$2.1 million that is secured by a rental home in Bryan County, Georgia. This loan is a troubled debt restructuring that is performing as agreed. No specific reserves have been applied to the relationship but the Company does have \$36,000 allocated as a general reserve.

The Company continues to devote significant internal and external resources to managing the past due and classified loans. The Company has performed extensive internal and external loan review procedures and analyses on the loan portfolio. The Company charges down loans as appropriate before the foreclosure process is complete and often before they are past due.

If the allowance for loan losses had changed by five percent, the effect on net income would have been approximately \$765,000. If the allowance had to be increased by this amount, it would not have changed the Subsidiary Banks' status as well-capitalized financial institutions at December 31, 2011, but it would have decreased Bryan's Tier 1 leverage ratio below the 8.00 percent level that it has agreed with the regulators to maintain.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Changes in the allowance for loan losses from 2007 through 2011 are summarized as follows:

| (\$ in thousands) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-----------|-----------|-----------|-----------|-----------|
| Balance at the beginning of the year | \$ 20,350 | \$ 17,678 | \$ 13,300 | \$ 12,864 | \$ 8,954 |
| Charge-offs – commercial | (843) | (1,080) | (459) | (387) | (150) |
| Charge-offs – consumer | (328) | (116) | (210) | (85) | (103) |
| Charge-offs – real estate | (17,803) | (17,569) | (8,224) | (5,242) | (621) |
| Charge-offs – total | (18,974) | (18,765) | (8,893) | (5,714) | (874) |
| Recoveries – commercial | 30 | 17 | 22 | 13 | 6 |
| Recoveries – consumer | 42 | 28 | 29 | 28 | 43 |
| Recoveries – real estate | 434 | 372 | 155 | 109 | 60 |
| Recoveries – total | 506 | 417 | 206 | 150 | 109 |
| Net charge-offs | (18,468) | (18,348) | (8,687) | (5,564) | (765) |
| Provision for loan losses | 20,035 | 21,020 | 13,065 | 6,000 | 4,675 |
| Balance at the end of the year | \$ 21,917 | \$ 20,350 | \$ 17,678 | \$ 13,300 | \$ 12,864 |
| Ratio of net charge-offs to average loans | 2.41% | 2.26% | 1.03% | 0.68% | 0.10% |

The allowance for loan losses is allocated by loan category based on management's assessment of risk within the various categories of loans. Loans are segregated by category and by credit risk rating within each category. The allowance for loan losses is allocated to each category by applying reserve percentages to each category. These percentages are based upon management's assessment of risk inherent within each category and the historical and anticipated loss rates within each category.

The Company's allocation of the allowance for loan losses is presented in the following table:

| (\$ in thousands) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-----------|-----------|-----------|-----------|-----------|
| Commercial | \$ 1,271 | \$ 1,528 | \$ 977 | \$ 760 | \$ 750 |
| Real estate-construction and development | 1,296 | 671 | 2,556 | 5,291 | 4,150 |
| Real estate-mortgage | 19,061 | 17,633 | 13,874 | 7,061 | 6,750 |
| Consumer | 193 | 518 | 227 | 188 | 200 |
| Unallocated | 96 | - | 44 | - | 1,014 |
| Total allowance for loan losses | \$ 21,917 | \$ 20,350 | \$ 17,678 | \$ 13,300 | \$ 12,864 |

The composition of the loan portfolio as a percentage of total loans is presented below:

| (\$ in thousands) | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|--------|--------|--------|--------|--------|
| Commercial | 9.0% | 9.1% | 10.1% | 9.5% | 8.8% |
| Real estate-construction and development | 3.0 | 2.5 | 7.0 | 11.5 | 16.6 |
| Real estate-mortgage | 86.4 | 86.6 | 81.2 | 77.0 | 72.3 |
| Consumer | 1.6 | 1.8 | 1.7 | 2.0 | 2.3 |
| Total loans | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Impairment of Loans

The Company measures impaired loans based on 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. A loan is considered impaired when it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of delay in payment if the ultimate

Management's Discussion and Analysis of Financial Condition and Results of Operations

collection of all amounts due is expected. The Company maintains a valuation allowance or charges down the loan balance to the extent that the measure of value of an impaired loan is less than the recorded investment.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Company may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further other than temporary deterioration in market conditions.

Table 5 – Allowance for Loan Losses and Nonperforming Assets

| (\$ in thousands) | December 31, | |
|---|------------------|------------------|
| | 2011 | 2010 |
| Allowance for loan losses | | |
| Balance at beginning of period | \$ 20,350 | \$ 17,678 |
| Provision for loan losses | 20,035 | 21,020 |
| Net charge-offs | (18,468) | (18,348) |
| Balance at end of period | \$ 21,917 | \$ 20,350 |
| As a % of loans | 2.89% | 2.46% |
| As a % of nonperforming loans | 62.83% | 56.69% |
| As a % of nonperforming assets | 39.70% | 41.45% |
| Risk element assets | | |
| Nonaccruing loans | \$ 34,668 | \$ 32,836 |
| Loans past due 90 days – accruing | 213 | 3,064 |
| Total nonperforming loans | 34,881 | 35,900 |
| Other real estate owned | 20,332 | 13,199 |
| Total nonperforming assets | \$ 55,213 | \$ 49,099 |
| Loans past due 30-89 days | \$ 15,132 | \$ 11,164 |
| Nonperforming loans as a % of loans | 4.59% | 4.34% |
| Nonperforming assets as a % of loans and other real estate owned | 7.08% | 5.85% |
| Nonperforming assets as a % of assets | 5.60% | 4.60% |

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

2011 Compared with 2010

The net loss for 2011 was \$2,172,000 compared to a net loss of \$3,989,000 in 2010. Net loss per diluted share was \$0.30 in 2011 versus net loss per diluted share of \$0.60 in 2010. The decline in the net loss for 2011 results primarily from an increase in the net interest margin and a decrease in the Company's provision for loan losses. Return on average equity was (2.51) percent, return on average assets was (0.21) percent and the efficiency ratio was 62.18 percent in 2011. Pretax earnings before the provision for loan losses and gain/loss on sale of securities and foreclosed assets were \$17,884,000 in 2011 versus \$15,765,000 in 2010, an increase of \$2,119,000, or 13 percent.

The schedule below reconciles the loss before income taxes to the pre-tax core earnings.

| (\$ in thousands) | For the Year Ended December 31, | |
|----------------------------------|------------------------------------|------------|
| | 2011 | 2010 |
| Loss before income taxes | \$ (4,067) | \$ (7,119) |
| Add: Provision for loan losses | 20,035 | 21,020 |
| Add: Loss on foreclosed assets | 2,679 | 2,472 |
| Less: Gain on sale of securities | (763) | (608) |
| Pre-tax core earnings | \$ 17,884 | \$ 15,765 |

Average interest-earning assets decreased 6.3 percent to \$918 million in 2011 from \$979 million in 2010. Net interest income was \$35.6 million in 2011 compared to \$33.6 million in 2010, an increase of 6.0 percent. Average loans were \$766 million for 2011, 5.5 percent lower when compared to \$810 million in 2010. Shareholders' equity decreased to \$84 million at December 31, 2011 from \$86 million at December 31, 2010. The Company's tier 1 capital to average assets was 8.37 percent and its total capital to risk-weighted assets ratio was 12.63 percent at December 31, 2011, both of which exceed the 5.00 percent and 10.00 percent, respectively, required by the regulatory agencies to maintain well-capitalized status.

Net interest income increased \$2,008,000, or 6.0 percent, in 2011 versus 2010. The net interest margin increased to 3.88 percent for 2011 compared to 3.43 percent in 2010. As shown in Table 7, the increase in net interest income and net interest margin was primarily due to a lower cost on interest-bearing deposits. The cost of interest-bearing deposits decreased to 1.03 percent for the year ended December 31, 2011 compared to 1.48 percent for the same period in 2010. The decrease was due to both the repricing of money market accounts and time deposits in the current low interest rate environment along with a shift in the deposit makeup from higher cost time deposits to lower cost money market, savings and NOW accounts. Average money market, savings and NOW accounts grew approximately \$30.8 million while average time deposits declined approximately \$96.2 million during 2011. Average loans declined approximately \$45 million for the year ended December 31, 2011 compared to the same period in 2010. The decrease in average loans was due to normal pay downs, significant charge-offs, and weakened demand for new loans.

The interest rate spread increased 45 basis points in 2011. As shown in Table 6, the Company's balance sheet continues to be asset-sensitive since the interest-earning assets reprice faster than interest-bearing liabilities. Rising interest rates favorably impact the net interest margin of an asset-sensitive balance sheet and falling rates adversely impact the net interest margin. However, when the prime rate stops decreasing, the interest rates on time deposits, certain non-maturity deposits and other funding sources will continue to decline due to the re-pricing lag associated with those liabilities. In addition, the Company has instituted interest rate floors on many variable rate loans such that the loans will not reprice in a rising rate environment until the floating rate exceeds the floor.

The provision for loan losses was \$20,035,000 for 2011 compared to \$21,020,000 in 2010. Net charge-offs were \$18,468,000 during 2011 compared to \$18,348,000 during 2010. Loans declined \$67 million in 2011 versus \$57 million in 2010. Both the net charge-offs and the provision for loan losses remained elevated in 2011. The Company continues to see weakness in its local real estate markets with downward pressure on real estate values, and this weakness has led to a continued high level of real estate related charge-offs and provisions for loan losses.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Noninterest income decreased \$665,000, or 9.1 percent, in 2011 versus 2010. This decrease was primarily related to a decline in service charges on deposit accounts of \$330,000, or 18 percent, and other operating income of \$319,000, or 17 percent, in 2011 compared to 2010. The decrease in service charges was primarily due to recent regulatory guidance related to overdraft charges. The decline in other operating income was due to the Company recording in 2010 a \$308,000 gain on a bank-owned life insurance policy payout in which the Company was the beneficiary and a \$255,000 gain resulting from the sale of a 50 percent interest in a parking lot.

Noninterest expense decreased \$724,000, or 2.7 percent, to \$26,253,000 during 2011 as compared to 2010. Salaries and employee benefits decreased \$666,000, or 5.6 percent, information technology declined \$393,000, or 19 percent, and FDIC deposit insurance declined \$385,000, or 23 percent in 2011 compared to 2010. The decrease in salaries and employee benefits was due to the Company averaging fewer employees during 2011 when compared to 2010. The Company renegotiated and renewed its contract with its core processor which contributed to the decline in the information technology expense. The decrease in the FDIC deposit insurance premiums was due to changes to the FDIC assessment process which became effective in the second quarter of 2011. These decreases were partially offset by an increase in loss on sales of foreclosed assets of \$207,000, or 8.4 percent, and an increase in loan collection and other real estate owned ("OREO") expense of \$685,000, or 84 percent during 2011. The Company had significantly more activity in foreclosures and OREO in 2011.

Income tax benefit was \$1,895,000 in 2011 versus income tax benefit of \$3,130,000 in 2010. The combined effective federal and state tax rates were 47 percent and 44 percent in 2011 and 2010, respectively. The change in the effective tax rate in 2011 was due in part to the impact of tax exempt income and federal and state tax credits. The Company evaluates its deferred tax assets every quarter. All significant deferred tax assets are considered to be realizable due to expected future taxable income and open tax years for which taxable losses could still be carried back. During the fourth quarter of 2011, the Company wrote-off \$367,000 of certain state tax credits that expire in 2013.

2010 Compared with 2009

The net loss for 2010 was \$3,989,000 compared to net income of \$929,000 in 2009. Net loss per diluted share was \$0.60 in 2010 versus net income per diluted share of \$0.16 in 2009. The decline in earnings resulted primarily from a higher provision for loan losses and lower gain on sale of securities and hedges, partially offset by higher net interest income. Return on average equity was (4.73) percent, return on average assets was (0.37) percent and the efficiency ratio was 66.00 percent in 2010. Pretax earnings before the provision for loan losses and gain/loss on sale of securities and foreclosed assets were \$15,765,000 in 2010 versus \$14,596,000 in 2009.

The schedule below reconciles the loss before income taxes to the pre-tax core earnings.

| (\$ in thousands) | For the Year Ended December 31, | |
|-----------------------------------|------------------------------------|-----------|
| | 2010 | 2009 |
| Income (loss) before income taxes | \$ (7,119) | \$ 1,084 |
| Add: Provision for loan losses | 21,020 | 13,065 |
| Add: Loss on foreclosed assets | 2,472 | 2,566 |
| Less: Gain on sale of securities | (608) | (2,119) |
| Pre-tax core earnings | \$ 15,765 | \$ 14,596 |

Average interest-earning assets increased 4.6 percent to \$979 million in 2010 from \$936 million in 2009. Net interest income was \$33.6 million in 2010 compared to \$32.3 million in 2009, an increase of 4.0 percent. Average loans were \$810 million for 2010, 3.7 percent lower when compared to \$841 million in 2009. Shareholders' equity increased to \$86 million at December 31, 2010 from \$79 million at December 31, 2009. In June 2010, the Company raised \$11.2 million, net of stock issuance costs, in a public common stock offering. The Company's total capital to risk-weighted assets ratio was 12.40 percent at December 31, 2010, which exceeds the 10 percent required by the regulatory agencies to maintain well-capitalized status. The net interest margin decreased to 3.43 percent in 2010 from 3.46 percent in 2009. As shown in Table 8, the decline in net interest margin was primarily due to higher levels of noninterest-earning assets. The interest rate spread increased five basis points in 2010.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The provision for loan losses was \$21,020,000 for 2010 compared to \$13,065,000 in 2009. Loans declined \$57 million in 2010 versus growth of \$19 million in 2009. The higher provision for loan losses in 2010 as compared to 2009 is primarily due to real estate-related charge-offs and continued weakness in the Company's local real estate markets. Net charge-offs were \$18,348,000 in 2010 as compared to \$8,687,000 in 2009. The significant increase in charge-offs resulted primarily from weakness in the Company's local residential real estate markets.

Noninterest income was \$7,311,000 in 2010 compared to \$8,822,000 in 2009, a decrease of \$1,511,000 or 17 percent. The decrease was primarily due to \$1,511,000 lower gain on sale of securities and \$871,000 lower gain on hedges, partially offset by \$248,000 higher trust and asset management fees and \$678,000 higher other operating income. The increase in other operating income in 2010 mainly consisted of the Company selling its 50 percent interest in a parking lot that resulted in a \$255,000 gain and the Company realizing a \$308,000 gain on life insurance proceeds.

Noninterest expense was \$26,977,000 in 2010 compared to \$26,978,000 in 2009. In 2010, noninterest expense included approximately \$600,000 of expenses related to the purchase of First National Bank, Savannah ("First National").

Income tax benefit was \$3,130,000 in 2010 versus income tax expense of \$155,000 in 2009. The combined effective federal and state tax rates were 44 percent and 14 percent in 2010 and 2009, respectively. The difference in tax rates is due primarily to the impact of tax exempt income and federal and state tax credits on lower taxable income. All significant deferred tax assets are considered to be realizable due to expected future taxable income and open tax years for which taxable losses could still be carried back.

Financial Condition and Capital Resources

Balance Sheet Activity

The changes in the Company's assets and liabilities for the current and prior period are shown in the consolidated statements of cash flows. Total assets were \$985 million and \$1.07 billion at December 31, 2011 and 2010, respectively, a decrease of \$82 million or 7.7 percent. Loans decreased \$67 million, or 8.1 percent, during 2011. The Company experienced normal pay downs and significant charge-offs on loans in 2011 while demand for new loans was weak. Cash and cash equivalents and investment securities decreased \$18 million, or 9.1 percent, during 2011. The Company had an influx of deposits from the First National transaction during June 2010 and these funds were primarily used to increase cash and cash equivalents and investment securities. The Company has allowed much of its brokered and higher priced time deposits to run-off in order to reduce this excess liquidity and improve its net interest margin. As such, deposits have declined \$77 million, or 8.3 percent, from \$924 million at December 31, 2010 to \$847 million at December 31, 2011.

Average total assets decreased approximately \$66 million, or 6.1 percent, during 2011. The Company held \$45 million less in average accruing loans in 2011 compared to 2010. The decline in loans during 2011 compared to 2010 was due to normal pay downs, charge-offs and weak demand for new loans. The Company also held on average approximately \$17 million less in cash and cash equivalents and investment securities in 2011 compared to 2010 as it allowed much of its brokered and higher priced time deposits to run-off in order to reduce excess liquidity.

The Company has classified all investment securities as available for sale. Lower short-term interest rates resulted in an overall net unrealized gain of \$1.9 million in the investment portfolio at December 31, 2011. The unrealized gain or loss amounts are included in shareholders' equity as accumulated other comprehensive income (loss), net of tax. The Company's investment portfolio decreased \$54 million during 2011 to \$84 million primarily due to the Subsidiary Banks selling approximately \$38 million in securities. The securities were sold at a net gain to reposition the investment portfolio and to provide liquidity for maturing brokered and internet time deposits that the Company elected not to renew.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Deposits decreased \$77 million, or 8.3 percent, to \$847 million at December 31, 2011. The Company decided not to renew certain higher cost brokered and internet time deposits in order to reduce excess liquidity and improve the Company's net interest margin. At December 31, 2011, the Company had \$116 million in brokered and internet deposits which included \$32 million in institutional money market accounts. This was down approximately \$46 million, or 28 percent, from December 31, 2010 when the Company had \$161 million in brokered and internet deposits. At December 31, 2011 and 2010, brokered time deposits included \$22 million and \$36 million, respectively, of reciprocal deposits from the Company's local customers that are classified as brokered because they are placed in the CDARS network for deposit insurance purposes. In addition, at December 31, 2011 and 2010, the Company had \$10 million and \$51 million, respectively, of internet time deposits remaining from the First National acquisition.

Capital Resources

The Subsidiary Banks' primary regulators have adopted capital requirements that specify the minimum capital level for which no prompt corrective action is required. In addition, the FDIC has adopted FDIC insurance assessment rates based on certain "well-capitalized" risk-based and equity capital ratios. Failure to meet minimum capital requirements can result in the initiation of certain actions by the regulators that, if undertaken, could have a material effect on the Company's and the Subsidiary Banks' financial statements. As of December 31, 2011, the Company and the Subsidiary Banks were categorized as well-capitalized under the regulatory framework for prompt corrective action in the most recent notification from the FDIC. Bryan has agreed with its primary regulator to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and is currently in conformity with the agreement. Savannah has agreed with its primary regulator to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and a Total Risk-based Capital Ratio of not less than 12.00 percent and is currently in conformity with the agreement.

On March 1, 2012, Bryan entered into an Order that includes a capital article requiring Bryan to maintain a Tier 1 Leverage Ratio of not less than 8.00 percent and a Total Risk-based Capital Ratio of not less than 10.00 percent. As a result of this capital article, Bryan is automatically classified as "adequately capitalized" for regulatory purposes.

Total tangible equity capital for the Company was \$80.6 million, or 8.18 percent of total assets at December 31, 2011. Tier 1 capital was 11.36 percent of risk-weighted assets at the same date. Tier 1 and total capital at the Company level includes \$10 million of subordinated debt issued by the Company's nonconsolidated subsidiaries. Total capital also includes the allowance for loan losses up to 1.25 percent of risk-weighted assets.

Liquidity and Interest Rate Sensitivity Management

The objectives of balance sheet management include maintaining adequate liquidity and preserving reasonable balance between the repricing of interest sensitive assets and liabilities at favorable interest rate spreads. The objective of liquidity management is to ensure the availability of adequate funds to meet the loan demands and the deposit withdrawal needs of customers. This is achieved through maintaining a combination of sufficient liquid assets, core deposit growth and unused capacity to purchase and borrow funds in the money markets.

During 2011, portfolio loans decreased \$67 million to \$760 million while deposits decreased \$77 million to \$847 million. The loan to deposit ratio was 90 percent at December 31, 2011, which is up slightly from 89 percent at December 31, 2010. Cash and cash equivalents and investment securities decreased \$18 million, or 9 percent, during 2011 to \$179 million. During 2011, the Company allowed much of its brokered and higher priced time deposits to run-off in order to reduce excess liquidity and improve the net interest margin.

In addition to local deposit growth, primary funding and liquidity sources include borrowing capacity with the Federal Home Loan Bank of Atlanta ("FHLB"), temporary federal funds purchased lines with correspondent banks and non-local institutional and internet deposits. Contingency funding and liquidity sources include the ability to sell loans, or participations in certain loans, to investors and borrowings from the Federal Reserve Bank ("FRB") discount window. As of December 31, 2011, both Subsidiary Banks are under agreements with regulators that restrict their availability of brokered deposits.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Subsidiary Banks have Blanket Floating Lien Agreements with the FHLB. Under these agreements, the Subsidiary Banks have pledged certain 1-4 family first mortgage loans, commercial real estate loans, home equity lines of credit and second mortgage residential loans. The Subsidiary Banks' individual borrowing limits range from 20 to 25 percent of assets. In the aggregate, the Subsidiary Banks had secured borrowing capacity of approximately \$123 million with the FHLB of which \$16.7 million was advanced and \$16.0 million was used as collateral for FHLB Letters of Credit at December 31, 2011. These credit arrangements serve as a core funding source as well as liquidity backup for the Subsidiary Banks. The Subsidiary Banks also have conditional federal funds borrowing lines available from correspondent banks that management believes can provide approximately \$20 million of funding needs for 30-60 days. Savannah has been approved to access the FRB discount window to borrow on a secured basis at 50 basis points over the Federal Funds Target Rate. Bryan is eligible for the Secondary Credit program at 100 basis points over the Federal Funds Target Rate. The amount of credit available is subject to the amounts and types of collateral available when borrowings are requested. The Subsidiary Banks were approved by the FRB under the borrower-in-custody of collateral arrangement. This temporary liquidity arrangement allows collateral to be maintained at the Subsidiary Banks rather than being delivered to the FRB or a third-party custodian. At December 31, 2011, the Company had secured borrowing capacity of \$94 million with the FRB and no amount outstanding.

A continuing objective of interest rate sensitivity management is to maintain appropriate levels of variable rate assets, including variable rate loans and shorter maturity investments, relative to interest rate sensitive liabilities, in order to control potential negative impacts upon earnings due to changes in interest rates. Interest rate sensitivity management requires analyses and actions that take into consideration volumes of assets and liabilities repricing and the timing and magnitude of their price changes to determine the effect upon net interest income. The Company utilizes various balance sheet and hedging strategies to reduce interest rate risk as noted below.

The Company's cash flow, maturity and repricing gap at December 31, 2011 was \$166 million at one year, or 16.8 percent of total interest-earning assets. At December 31, 2010 the gap at one year was \$95 million, or 9.8 percent of total interest-earning assets. Interest-earning assets with maturities over five years totaled approximately \$41 million, or 4.6 percent of total interest-earning assets at December 31, 2011. See Table 6 for cash flow, maturity and repricing gap. The gap position between one and five years is of less concern because management has time to respond to changing financial conditions and interest rates with actions that reduce the impact of the longer-term gap positions on net interest income. However, interest-earning assets with maturities and/or repricing dates over five years may include significant rate risk and market value of equity concerns in the event of significant interest rate increases.

The Company continues to be asset-sensitive within the 90 day and one year time frame which usually means that if rates increase then net interest income and the net interest margin increase and if rates decrease then net interest income and the net interest margin decrease. However, over the past twelve months, interest rates have basically remained flat or declined slightly, and net interest income and the net interest margin increased during 2011 compared to 2010. The Company's cost of interest-bearing deposits has declined significantly while the yield on interest-earning assets has remained relatively flat during 2011 compared to 2010.

The Company has implemented various strategies to reduce its asset-sensitive position, primarily through the increased use of fixed rate loans, interest rate floors on variable rate loans and short maturity funding sources. In the past, the Company has also implemented hedging strategies such as interest rate floors, collars and swaps. These actions have reduced the Company's exposure to falling interest rates. The amounts in other comprehensive income related to the terminated derivative transactions were reclassified into earnings over the remaining lives of the original hedged transactions, all of which expired in 2010.

Management monitors interest rate risk quarterly using rate-sensitivity forecasting models and other balance sheet analytical reports. If and when projected interest rate risk exposures are outside of policy tolerances or desired positions, specific strategies to return interest rate risk exposures to desired levels are developed by management, approved by the Asset-Liability Committee and reported to the Board.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. The Company's exposure to credit losses is represented by the contractual amounts of these instruments. At December 31, 2011, the Company had unfunded commitments to extend credit of \$72 million and outstanding letters of credit of \$3.4 million. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management does not anticipate that funding obligations arising from these financial instruments will adversely impact its ability to fund future loan growth or deposit withdrawals.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

Forward Looking Statements

This MD & A and other Company communications and statements may contain "forward-looking statements." These forward-looking statements may include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and which may change based on various factors, many of which are beyond our control. The words "forecast," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from what is contemplated in those forward-looking statements:

- * The strength of the United States economy in general and the strength of the local economies in which we conduct operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio and allowance for loan losses;
- * The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
- * Inflation, interest rate, market and monetary fluctuations;
- * Increases in regulatory capital requirements for banking organizations generally, which may adversely affect the Company's ability to expand its business or could cause it to shrink its business;
- * The risks of changes in interest rates and the yield curve on the levels, composition and costs of deposits, loan demand, and the values of loan collateral, securities, and interest rate sensitive assets and liabilities;
- * Risks related to loans secured by real estate, including further adverse developments in the real estate markets that would decrease the value and marketability of collateral;
- * Adverse conditions in the stock market and other capital markets and the impact of those conditions on our capital markets and capital management activities, including our investment and wealth management advisory businesses;
- * Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which the Company is perceived in such markets;
- * The effects of harsh weather conditions, including hurricanes;
- * Changes in U.S. foreign or military policy;
- * The failure to attract or retain key personnel;
- * The timely development of competitive new products and services by us and the acceptance of those products and services by new and existing customers;
- * The willingness of customers to accept third-party products marketed by us;
- * The willingness of customers to substitute competitors' products and services for our products and services and vice versa;
- * The impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
- * Technological changes;
- * Changes in consumer spending and saving habits;
- * The effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
- * The growth and profitability of our noninterest or fee income being less than expected;
- * Unanticipated regulatory or judicial proceedings;
- * The impact of changes in accounting policies by the SEC or the Financial Accounting Standards Board;
- * The limited trading activity of our common stock;
- * The effects of our lack of a diversified loan portfolio, including the risks of geographic concentrations;
- * Adverse changes in the financial performance and/or condition of our borrowers, which could impact the repayment of those borrowers' outstanding loans; and
- * Our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not exhaustive. Also, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf except as may be required by our disclosure obligations in filings we make with the SEC under federal securities laws.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 6 - Cash Flow/Maturity Gap and Repricing Data

The following is the cash flow/maturity and repricing data for the Company as of December 31, 2011:

| (\$ in thousands) | Immediate | 0 - 3 Months | 3 - 12 Months | 1 - 3 Years | 3 - 5 Years | Over 5 Years | Total |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Interest-earning assets | | | | | | | |
| Investment securities | \$ - | \$ 9,210 | \$ 15,247 | \$ 23,959 | \$ 16,956 | \$ 18,281 | \$ 83,653 |
| Federal funds sold | 535 | - | - | - | - | - | 535 |
| Interest-bearing deposits | 80,800 | - | 222 | 695 | - | - | 81,717 |
| Loans - fixed rates | - | 116,408 | 148,433 | 169,148 | 31,355 | 22,316 | 487,660 |
| Loans - variable rates | - | 224,990 | 9,637 | 1,822 | 238 | 664 | 237,351 |
| Total interest-earning assets | 81,335 | 350,608 | 173,539 | 195,624 | 48,549 | 41,261 | 890,916 |
| Interest-bearing liabilities | | | | | | | |
| NOW and savings ** | - | 8,390 | 16,778 | 41,944 | 50,333 | 50,333 | 167,778 |
| Money market accounts ** | - | 65,511 | 78,142 | 44,653 | 66,979 | - | 255,285 |
| Time deposits | - | 71,215 | 162,810 | 59,282 | 23,357 | 263 | 316,927 |
| Short-term borrowings | 14,384 | - | - | - | - | - | 14,384 |
| Other borrowings | - | 2,860 | 5,721 | - | - | - | 8,581 |
| FHLB advances | - | - | 3,504 | 3,011 | 11 | 10,127 | 16,653 |
| Subordinated debt | - | 10,310 | - | - | - | - | 10,310 |
| Total interest-bearing liabilities | 14,384 | 158,286 | 266,955 | 148,890 | 140,680 | 60,723 | 789,918 |
| GAP-Excess assets (liabilities) | 66,951 | 192,322 | (93,416) | 46,734 | (92,131) | (19,462) | 100,998 |
| GAP-Cumulative | \$ 66,951 | \$ 259,273 | \$ 165,857 | \$ 212,591 | \$ 120,460 | \$ 100,998 | \$ 100,998 |
| Cumulative sensitivity ratio * | 5.65 | 2.50 | 1.38 | 1.36 | 1.17 | 1.13 | 1.13 |

* Cumulative interest-earning assets / cumulative interest-bearing liabilities

** Repricing of NOW, savings and local money market accounts based on estimated percentages of market interest rate changes.

Note – At December 31, 2011 the Company had unfunded loan commitments and unfunded lines of credit totaling \$72 million. The Company believes the likelihood of these commitments either being totally funded or funded at the same time is low. However, should a significant funding requirement occur, the Company has available borrowing capacity from the FHLB of \$90 million. Additionally, further sources of funding include FRB advances and certain other non-local deposits.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 7 - Average Balance Sheet and Rate/Volume Analysis - 2011 and 2010

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the rate paid thereon during 2011 and 2010.

| Average Balance | | Average Rate | | Taxable-Equivalent Interest (b) | | Variance | (a) Variance Attributable to | |
|-------------------------------|-------------|--------------|------|---------------------------------|----------|-------------------|------------------------------|-----------|
| 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | | Rate | Volume |
| (\$ in thousands) | | (%) | | (\$ in thousands) | | (\$ in thousands) | | |
| Assets | | | | | | | | |
| \$ 44,791 | \$ 50,461 | 0.28 | 0.29 | \$ 127 | \$ 147 | \$ (20) | \$ (5) | \$ (15) |
| 100,889 | 104,367 | 2.72 | 2.35 | 2,745 | 2,456 | 289 | 386 | (97) |
| 6,177 | 7,386 | 4.42 | 4.45 | 273 | 329 | (56) | (2) | (54) |
| 556 | 6,738 | 0.54 | 0.30 | 3 | 20 | (17) | 40 | (57) |
| 765,641 | 810,484 | 5.48 | 5.55 | 41,947 | 45,009 | (3,062) | (567) | (2,495) |
| 918,054 | 979,436 | 4.91 | 4.90 | 45,095 | 47,961 | (2,866) | (148) | (2,718) |
| 94,397 | 99,028 | | | | | | | |
| \$1,012,451 | \$1,078,464 | | | | | | | |
| Liabilities and equity | | | | | | | | |
| Deposits | | | | | | | | |
| \$ 138,393 | \$ 125,994 | 0.27 | 0.36 | 374 | 450 | (76) | (113) | 37 |
| 20,738 | 18,402 | 0.14 | 0.39 | 29 | 71 | (42) | (46) | 4 |
| 230,959 | 199,331 | 1.12 | 1.49 | 2,595 | 2,974 | (379) | (738) | 359 |
| 39,396 | 54,927 | 0.43 | 0.83 | 169 | 456 | (287) | (220) | (67) |
| 158,419 | 185,505 | 1.56 | 2.20 | 2,470 | 4,081 | (1,611) | (1,187) | (424) |
| 49,036 | 86,523 | 0.76 | 1.01 | 374 | 877 | (503) | (216) | (287) |
| 137,817 | 169,395 | 1.45 | 2.10 | 2,005 | 3,551 | (1,546) | (1,101) | (445) |
| 774,758 | 840,077 | 1.03 | 1.48 | 8,016 | 12,460 | (4,444) | (3,621) | (823) |
| 24,490 | 30,609 | 3.35 | 3.72 | 821 | 1,138 | (317) | (113) | (204) |
| 16,809 | 21,221 | 2.07 | 2.16 | 348 | 458 | (110) | (19) | (91) |
| 10,310 | 10,310 | 2.94 | 2.97 | 303 | 306 | (3) | (3) | - |
| 826,367 | 902,217 | 1.15 | 1.59 | 9,488 | 14,362 | (4,874) | (3,757) | (1,117) |
| 95,468 | 86,458 | | | | | | | |
| 3,921 | 5,470 | | | | | | | |
| 86,695 | 84,319 | | | | | | | |
| \$1,012,451 | \$1,078,464 | | | | | | | |
| | | 3.76 | 3.31 | | | | | |
| | | 3.88 | 3.43 | | | | | |
| | | | | \$35,607 | \$33,599 | \$ 2,008 | \$ 3,609 | \$(1,601) |
| \$ 91,687 | \$ 77,219 | | | | | | | |
| \$ 870,226 | \$926,535 | | | | | | | |
| | | 0.92 | 1.34 | | | | | |
| 88% | 87% | | | | | | | |

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.

(b) The taxable equivalent adjustment of \$32 in 2011 and in 2010 results from tax exempt income less non-deductible TEFRA interest expense.

(c) Average nonaccruing loans have been excluded from total average loans and included in noninterest-earning assets.

(d) Average investment securities do not include the unrealized gain/loss on available for sale investment securities.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 8 - Average Balance Sheet and Rate/Volume Analysis - 2010 and 2009

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the rate paid thereon during 2010 and 2009.

| Average Balance | | Average Rate | | Taxable-Equivalent Interest (b) | | Variance | (a) Variance Attributable to | | |
|-------------------------------|--------------|--------------|------|------------------------------------|----------|-------------------|------------------------------|----------|-----------|
| 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | | Rate | Volume | |
| (\$ in thousands) | | (%) | | (\$ in thousands) | | (\$ in thousands) | | | |
| Assets | | | | | | | | | |
| \$ 50,461 | \$ 5,963 | 0.29 | 0.75 | Interest-bearing deposits | \$ 147 | \$ 45 | \$ 102 | \$ (27) | \$ 129 |
| 104,367 | 77,844 | 2.35 | 4.20 | Investments - taxable (d) | 2,456 | 3,273 | (817) | (1,440) | 623 |
| 7,386 | 3,438 | 4.45 | 4.94 | Investments - non-taxable (d) | 329 | 170 | 159 | (17) | 176 |
| 6,738 | 7,339 | 0.30 | 0.25 | Federal funds sold | 20 | 18 | 2 | 4 | (2) |
| 810,484 | 841,033 | 5.55 | 5.60 | Loans (c) | 45,009 | 47,089 | (2,080) | (421) | (1,659) |
| 979,436 | 935,617 | 4.90 | 5.41 | Total interest-earning assets | 47,961 | 50,595 | (2,634) | (1,901) | (733) |
| 99,028 | 82,853 | | | Noninterest-earning assets | | | | | |
| \$1,078,464 | \$ 1,018,470 | | | Total assets | | | | | |
| Liabilities and equity | | | | | | | | | |
| Deposits | | | | | | | | | |
| \$ 125,994 | \$ 123,715 | 0.36 | 0.46 | NOW accounts | 450 | 572 | (122) | (124) | 2 |
| 18,402 | 16,071 | 0.39 | 0.65 | Savings accounts | 71 | 104 | (33) | (42) | 9 |
| 199,331 | 131,402 | 1.49 | 1.74 | Money market accounts | 2,974 | 2,281 | 693 | (329) | 1,022 |
| 54,927 | 86,044 | 0.83 | 1.48 | MMA - institutional | 456 | 1,272 | (816) | (559) | (257) |
| 185,505 | 157,923 | 2.20 | 3.32 | CDs, \$100M or more | 4,081 | 5,239 | (1,158) | (1,769) | 611 |
| 86,523 | 117,120 | 1.01 | 2.01 | CDs, broker | 877 | 2,356 | (1,479) | (1,171) | (308) |
| 169,395 | 145,488 | 2.10 | 3.18 | Other time deposits | 3,551 | 4,630 | (1,079) | (1,571) | 492 |
| 840,077 | 777,763 | 1.48 | 2.12 | Total interest-bearing deposits | 12,460 | 16,454 | (3,994) | (5,564) | 1,570 |
| 30,609 | 37,744 | 3.72 | 2.77 | Short-term/other borrowings | 1,138 | 1,045 | 93 | 359 | (266) |
| 21,221 | 23,913 | 2.16 | 1.66 | FHLB advances | 458 | 397 | 61 | 120 | (59) |
| 10,310 | 10,310 | 2.97 | 3.51 | Subordinated debt | 306 | 362 | (56) | (56) | - |
| | | | | Total interest-bearing liabilities | 14,362 | 18,258 | (3,896) | (5,142) | 1,246 |
| 902,217 | 849,730 | 1.59 | 2.15 | Noninterest-bearing deposits | | | | | |
| 86,458 | 82,406 | | | Other liabilities | | | | | |
| 5,470 | 6,530 | | | Shareholders' equity | | | | | |
| 84,319 | 79,804 | | | Liabilities and equity | | | | | |
| \$1,078,464 | \$ 1,018,470 | | | | | | | | |
| | | 3.31 | 3.26 | Interest rate spread | | | | | |
| | | 3.43 | 3.46 | Net interest margin | | | | | |
| | | | | Net interest income | \$33,599 | \$32,337 | \$1,262 | \$ 3,241 | \$(1,979) |
| \$ 77,219 | \$ 85,887 | | | Net earning assets | | | | | |
| \$ 926,535 | \$ 860,169 | | | Average deposits | | | | | |
| | | 1.34 | 1.91 | Average cost of deposits | | | | | |
| 87% | 98% | | | Average loan to deposit ratio | | | | | |

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.

(b) The taxable equivalent adjustment of \$32 in 2010 and in 2009 results from tax exempt income less non-deductible TEFRA interest expense.

(c) Average nonaccruing loans have been excluded from total average loans and included in noninterest-earning assets.

(d) Average investment securities do not include the unrealized gain/loss on available for sale investment securities.

Subsidiaries of Registrant

| <u>Name</u> | <u>State of Incorporation</u> |
|---|----------------------------------|
| The Savannah Bank, National Association | United States (National Charter) |
| Bryan Bank & Trust | Georgia |
| Minis & Co, Inc. | Georgia |
| SAVB Holdings, LLC | Georgia |
| SAVB Properties, LLC | Georgia |
| Nonconsolidated subsidiaries: | |
| SAVB Capital Trust 1 | Delaware |
| SAVB Capital Trust 2 | Delaware |

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of The Savannah Bancorp, Inc.

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-146547 and No. 333-163210), and Form S-8 (No. 333-69175, No. 333-135968 and No. 333-175827) of The Savannah Bancorp, Inc. of our report dated March 20, 2012, relating to the consolidated financial statements as of December 31, 2011 and for each of the three years in the period ended December 31, 2011, which appear in the 2011 Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
March 29, 2012

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John C. Helmken II, certify that:

1. I have reviewed this annual report on Form 10-K of The Savannah Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2012

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. Harden, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of The Savannah Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2012

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Chief Financial Officer

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

We certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2011 (the "Report") of The Savannah Bancorp, Inc. (the "Company") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: 3/30/12

/s/ John C. Helmken II
John C. Helmken II
President and Chief Executive Officer
(Principal Executive Officer)

Date: 3/30/12

/s/ Michael W. Harden, Jr.
Michael W. Harden, Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)