UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ **Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2008

Commission File No. 000-49766

McINTOSH BANCSHARES, INC.

(Name of Issuer as Specified in Its Charter)

Georgia **(State or Other Jurisdiction of Incorporation or Organization)**	**58-1922861** **(I.R.S. Employer Identification No.)**
210 South Oak Street **Jackson, Georgia** **(Address of Principal Executive Offices)**	**30233** **(Zip Code)**

(770) 775-8300
Issuer's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $2.50 PAR VALUE **(Title of Class)**	**NONE** **(Name of each exchange on which registered)**

Indicate by check mark whether 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 Section 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 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 past 90 days. 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. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Smaller reporting company ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act of 1934). Yes ☐ No ☒

State the aggregate market value of the voting stock held by nonaffiliates computed by reference to the price at which the stock was last sold, or the average bid and asked prices of such stock, as of June 30, 2008: $31,872,256 (based on the stock price of $16.00 as of that date).

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,252,581 shares of $2.50 par value common stock as of March 25, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information required by Part III of this Annual Report are incorporated by reference from the Registrant’s definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report.

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Forward Looking Statement Disclosure

Statements in this Annual Report regarding future events or performance are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA") and are made pursuant to the safe harbors of the PSLRA. Actual results of McIntosh Bancshares, Inc. (the "Company") could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words "could," "may," "will," "should," "plan," "believes," "anticipates," "estimates," "predicts," "expects," "projections," "potential," "continue," or words of similar import, constitute "forward-looking statements," as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Annual Report as well as the following specific items:

- General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;
- Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company's most valued customers, defection of key employees or groups of employees, or other losses;
- Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company's investment securities;
- Changing business or regulatory conditions or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;
- Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenues, increase our costs or lead to disruptions in our business.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (the "SEC").

Item 1. Business

General

McIntosh Bancshares, Inc. (the "Company"), a registered bank holding company, was incorporated under the laws of Georgia in 1990 and acquired 100% of the outstanding shares of McIntosh State Bank (the "Bank") on April 25, 1991. The Bank was incorporated under the laws of Georgia on February 14, 1964. In March 1998 the Company capitalized a wholly owned subsidiary, McIntosh Financial Services, Inc. ("MFS"), which was incorporated under the laws of Georgia on January 8, 1998.

Services

The Bank is a community oriented, full-service commercial bank, serving the Georgia counties of Butts, Jasper, and South Henry through offices in Jackson, Monticello, Locust Grove, McDonough and Lake Oconee. The Bank has six automated teller machines (ATMs). The Bank emphasizes autonomy for each office with decisions made locally. The Bank offers checking, savings, individual retirement, and time deposit accounts, safe deposit boxes, issues ATM and debit cards, conducts wire transfers, and offers internet banking and cash management services. The Bank offers lending services for purposes such as commercial, industrial, real estate, municipal, and leasehold financing as well as offers personal secured and unsecured credit. The Bank provides secondary market financing for conforming residential real estate loans through conventional, Veterans Administration, Federal Housing Administration, or Rural Development Authority programs. Neither the Company nor the Bank generates a material amount of revenue from foreign countries, nor does either have material long-lived assets, customer relationships, mortgages or servicing rights, deferred policy acquisition costs, or deferred tax assets in foreign countries. Thus, the Company has no significant risks attributable to foreign operations.

MFS offers mutual fund investments, fixed and variable annuities, life, health, and long term care insurance, estate planning, and investment management services. MFS has separate offices in the Bank's Jackson, Monticello and McDonough offices.

Loans

The Bank grants both secured and unsecured loans to individuals and businesses. As of December 31, 2008, the Bank's loan portfolio totaled $324,331,007.

Although the Bank has a diversified loan portfolio, a substantial portion is secured by improved and unimproved real estate which is dependent on the real estate market. As of December 31, 2008, the Bank had a concentration of loans to finance the acquisition, development, and construction (AD&C) of multifamily, commercial, and residential real estate. This AD&C concentration, including associated unfunded commitments, totals $82,810,867 and represents 24% of gross loans and unfunded loan commitments. The Bank has established a maximum of 37% of gross loans plus unfunded commitments on the AD&C portion of the portfolio.

Lending Policy

Standards for extensions of credit are contained in the Bank's loan policy. Loans are predominately from borrowers within the Bank's delineated areas of Butts, Jasper, Henry, Greene and Putnam counties. Loans are granted to individuals or businesses on either an unsecured or secured basis. Limits covering the maximum amount of indirect and direct debt to any one borrower, the maximum amount a loan officer may lend, the maximum amount of funds that may be advanced on certain collateral, and the maximum lending authority of the Bank's loan committee and individual loan officers are contained in the loan policy. The loan policy is reviewed and approved annually by the Bank's board of directors.

Loans secured by 1-4 family residential real estate are governed by the following underwriting standards:

(a) Owner occupied first mortgage – 89% or less loan-to-value (LTV), 30 year amortization, and debt-to-income not to exceed 40%;

(b) Investor first mortgage – 85% or less LTV, 30 year amortization, and debt service requirement minimum of 1.25:1;

(c) Construction first mortgage – 75% LTV on speculative construction and 80% LTV on presold construction, amortized 15 years if unpaid after 24 months of origination, and debt service requirement minimum of 1.25:1, and;

(d) Home equity second mortgage – 85% or less LTV after considering the unpaid balance of the first mortgage, revolving line of credit with 10 year balloon of principal and interest monthly; and debt-to-income not to exceed 40%.

Loan Review and Non-Performing Assets

The Bank contracts with a third party for its loan review. The scope of loan review represented a cumulative total of 62% of the portfolio outstanding as of December 31, 2008, and included all commercial credits in excess of $250,000, all classified (Substandard and Doubtful) or Watch rated loans, and a sample of the consumer loan portfolio. Also included in the scope of loan review are loan administration matters such as potential violations of law, policy and documentation exceptions, and credit collection efforts. Loan review is conducted quarterly. The results are presented to the Company's Board of Directors and Audit Committee.

All loans are graded according to an initial risk assessment conducted by the originating loan officer. Thereafter, loan grades may change based on results of the external loan review process or an examination, at the direction of an office President, or if the loan becomes delinquent. The Bank's practice is to charge-off unsecured loans when they become 120 days past due or are rated Loss. The Bank places loans on nonaccrual status once they become 90 days past due. Exceptions may apply if the loan is consumer installment debt or if the loan is secured by a 1-4 family residence and in the process of collection. Nonaccrual loans and loans rated Substandard or Doubtful in excess of $200,000 and secured by real property are reviewed for impairment. Loans deemed collateral dependent are charged down to their net realizable value based on a current valuation of the collateral.

Investment Policy

The Bank's investment policy establishes objectives for the investment portfolio and the guidelines for bank investments. Bank investments provide liquidity to accommodate deposit or loan fluctuations, secure public deposits, and supplement bank earnings consistent with liquidity, interest sensitivity, and credit quality considerations. Provisions of the investment policy address investment authority and oversight, permissible investments, accounting treatment, selection and monitoring of broker/dealers, and unsuitable investment practices. Portfolio composition and performance as well as individual transactions are regularly reviewed by the Bank's Asset/Liability Committee (ALCO) and the board of directors. The investment policy is reviewed and approved by the Board of Directors annually.

Asset/Liability Management

The Bank's interest rate risk and liquidity policy establishes an ALCO which is responsible for measuring, monitoring, and managing exposure to adverse interest rate movements. ALCO is composed of the Bank's CEO, President, CFO, office Presidents, VP of Accounting, Chief Credit Officer and two outside directors. The Bank manages exposure to interest rate movements by modeling static gap, earnings at risk, and economic value of equity (EVE).

Bank management attempts to achieve consistent growth in net interest income (NII) while limiting volatility arising from changes in interest rates. Measuring the maturity and repricing characteristics of assets and liabilities or gap is one method Bank management utilizes to manage exposure to interest rates. The projected repricing and prepayment attributes of earning assets and interest bearing liabilities are based on the current interest rate environment and are subject to change as interest rates fluctuate. The Bank has established guidelines for this measure where cumulative gap must be within positive and negative 15% over select time periods. The following table outlines the Bank's cumulative gap for the years ending December 31, 2008 and 2007, respectively.

	Time Horizons				
Cumulative GAP	**6 months**	**1 year**	**2 years**	**5 years**	**10 years**
2007	-0.09%	-1.74%	0.71%	4.51%	6.21%
2008	-3.11%	-10.40%	-9.30%	-2.67%	0.05%

Simulation, or earnings at risk, modeling is also utilized by the Bank to manage interest rate risk. The upcoming 12 month time period is simulated to determine a baseline NII forecast and the sensitivity of this forecast to changes in interest rates. The baseline earnings at risk measure incorporates management's estimate of interest rates over the upcoming 12 months and applies those assumptions to earning assets and interest bearing liabilities. Projected rates and volumes for new and renewed loans and deposits are assumed based on experience and forecasts, but are significantly dependent on market conditions. Management measures the change to baseline NII via rate shocks of 100, 200, and 300 basis points (bps). The Bank has established a maximum of a 20% change in baseline NII as a result of the respective rate shocks. The following table outlines the effect of changes in projected NII over the next 12 months as of December 21, 2008 and 2007, respectively.

	Rate Shock					
Change in NII	**-300 bps**	**-200 bps**	**-100 bps**	**+100 bps**	**+200 bps**	**+ 300 bps**
2007	-17.82%	-11.54%	-5.32%	5.44%	11.65%	17.89%
2008	-12.76%	-8.17%	-3.42%	-1.66%	-4.00%	-4.22%

Bank management also utilizes EVE to monitor and manage the longer term impact of interest rate movements on the Bank's capital. EVE attempts to measure the change in cash flows of earning assets and liabilities as rates change. Management measures the change to baseline EVE via rate shocks of 100, 200, and 300 bps. The Bank has established a maximum of a 20% change in baseline EVE as a result of the respective rate shocks. The following table outlines the effect of changes in projected EVE as of the years ending December 31, 2008 and 2007, respectively.

	Rate Shock					
Change in EVE	**-300 bps**	**-200 bps**	**-100 bps**	**+100 bps**	**+200 bps**	**+ 300 bps**
2007	5.13%	4.01%	2.62%	-3.62%	-8.01%	-15.54%
2008	-18.05%	-4.96%	0.56%	-1.18%	-3.29%	-5.83%

Liquidity is measured utilizing a calculation accepted by the Bank's regulatory authorities. A liquidity ratio of 10% or greater and a loan to funding ratio of less than 85% have been approved by the board of directors as suitable measures of liquidity. As of December 31, 2008, the Bank's liquidity and loan to funding ratios were 11.4% and 79.8%, respectively. Secondary sources of liquidity include the following: a $6.5 million line of credit with a correspondent bank; the Federal Home Loan Bank of Atlanta totaling $28.3 million, and the Federal Reserve Bank of Atlanta totaling $15 million. As of December 31, 2008, $16 million was outstanding under these lines.

Supervision and Regulation

The Company is a registered bank holding company subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (the "Act"). The Company is required to file financial information with the Federal Reserve periodically and is subject to periodic examination by the Federal Reserve.

The Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) it may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank that it does not already control; (ii) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of a bank; and (iii) it may merge or consolidate with any other bank holding company. In addition, a bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of the voting shares of any company engaged in non-banking activities. This prohibition does not apply to activities found by the Federal Reserve, by order or regulation, to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined by regulation or order to be closely related to banking are: (i) making or servicing loans and certain types of leases; (ii) performing certain data processing services; (iii) acting as fiduciary or investment or financial advisor; (iv) providing discount brokerage services; (v) underwriting bank eligible securities; (vi) underwriting debt and equity securities; (vii) underwriting debt and equity securities on a limited basis through separately capitalized subsidiaries; and (viii) making investments in corporations or projects designed primarily to promote community welfare.

The Gramm-Leach-Bliley Act (GLBA) of 1999 permits eligible banks and bank holding companies to engage in activities and to affiliate with nonbank organizations engaged in activities that are financial in nature or incidental or complimentary to such financial activities. The Federal Reserve has the discretion to determine what activities are complementary to financial activities. The GLBA effectively repeals certain provisions of the Glass-Steagall Act of 1933 which separated banking, insurance, and securities underwriting activities.

Under GLBA, bank holding companies whose banking subsidiaries are well capitalized and well managed may also apply to become a financial holding company. Financial holding companies have the authority to engage in activities that are financial in nature that are not permitted for other bank holding companies. Some of the activities that the Act provides are financial in nature are: (a) lending, exchanging, transferring, investing for others, or safeguarding money or securities; (b) insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto; (c) providing financial, investment, or economic advisory services, including advising an investment company; (d) issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and (e) underwriting, dealing in, or making a market in securities. The Company has no immediate plans to register as a financial holding company.

The GBLA also imposed new requirements on financial institutions with respect to consumer privacy. The statute generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. Financial institutions, however, will be required to comply with state law if it is more protective consumer privacy than GBLA. The statute also directed federal regulators, including the Federal Reserve and FDIC, to prescribe standards for the security of consumer information. The Company and the Bank are subject to such standards, as well as standards for notifying consumers in the event of a security breach.

The Company must also register with the Georgia Department of Banking and Finance (DBF) and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management, and inter-company relationships of the Company, the Bank, and MFS and related matters. The DBF may also require such other information as is necessary to keep itself informed as to whether the provisions of Georgia law and the regulations and orders issued thereunder by the DBF have been complied with, and the DBF may examine the Company.

The Company is an affiliate of the Bank under the Act, which imposes restrictions on (i) loans by the Bank to the Company; (ii) investments in the stock or securities of the Company by the Bank; (iii) the Bank taking the stock or securities of an affiliate as collateral for loans by the Bank to a borrower, and (iv) the purchase of assets from the Company by the Bank. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extensions of credit, lease or sale of property or furnishing of services.

The Bank is regularly examined by the FDIC. The Bank, as a state chartered bank under the laws of Georgia, is subject to the supervision of, and is regularly examined by, the DBF. Both the FDIC and DBF must grant prior approval of any merger, consolidation or other corporate reorganization involving the Bank. A bank can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with the default of a commonly controlled institution.

Activities of MFS are governed by the State of Georgia Insurance Department (Department) and the Financial Industry Regulatory Authority (FINRA). The Department and FINRA may examine the activities of MFS at any time. The Department and FINRA require MFS and its representatives to fulfill licensing and continuing education requirements. Customer complaints or compliance lapses deemed serious enough may be cause for licenses to be revoked and the business to cease operation. As of December 31, 2008, MFS is not aware of any matters pending before the Department or FINRA.

Payment of Dividends

The Company is a legal entity separate and distinct from the Bank. Most of the revenues of the Company result from dividends paid to it by the Bank. There are statutory and regulatory requirements applicable to the payment of dividends by the Bank to the Company, its shareholder. Under DBF regulations, the Bank may not declare and pay dividends out of retained earnings without first obtaining the written permission of the DBF unless such bank meets the following requirements: (i) total classified assets as of the most recent examination of the bank does not exceed 80% of equity capital (as defined by the regulation); (ii) the aggregate amount of dividends declared or anticipated to be declared in the calendar year does not exceed 50% of the net profits after taxes but before dividends for the previous calendar year; and (iii) the ratio of equity capital to adjusted assets is not less than 6%.

The payment of dividends by the Company and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The Federal Reserve maintains that a bank holding company must serve as source of financial strength to its subsidiary banks. As a result, the Company may be required to provide financial support to the Bank at a time when, absent such Federal Reserve requirement, the Company may not deem it advisable to provide such assistance. Similarly, the FDIC maintains that insured banks should generally only pay dividends out of current operating earnings and dividends should only be declared and paid after consideration of the bank's capital adequacy in relation to its assets, deposits, and such other items. For 2009, dividends paid to the Company from the Bank are not permissible as the Bank made no profit in 2008. During the year ending December 31, 2008, the Company declared and paid cash dividends totaling $252,988.

Capital Adequacy

The Federal Reserve and the FDIC have implemented substantially identical rules for assessing bank and bank holding company capital adequacy. These regulations establish minimum capital standards in relation to assets and off-balance sheet exposures for credit risk. Bank and bank holding companies are required to have (i) a minimum ratio of Total Capital (as defined) to risk-weighted assets of 8%; (ii) a minimum ratio of Tier One Capital (as defined) to risk-weighted assets of 4%; and (iii) a minimum ratio of stockholder's equity to risk-weighted assets of 4%. The Federal Reserve and the FDIC also require a minimum leverage capital ratio of Tier One Capital to total assets of 3% for the most highly rated banks and bank holding companies. Tier One Capital generally consists of common equity, minority interests in equity accounts of consolidated subsidiaries, and noncumulative perpetual preferred stock and generally excludes unrealized gains or losses on investment securities, certain intangible assets, and certain deferred tax assets. The Federal Reserve or the FDIC will require a bank or bank holding company to maintain a leverage ratio greater than 3% if either is experiencing or anticipating significant growth, is operating with less than well-diversified risks, or is experiencing financial, operational, or managerial weaknesses.

In addition, the FDIC Improvement Act of 1991 provides for prompt corrective action (PCA) if a bank's leverage capital ratio reaches 2%. PCA may call for the bank to be placed in receivership or sold to another depository institution. The FDIC has adopted regulations implementing PCA which place financial institutions in the following four categories based on capitalization ratios: (i) a well capitalized institution has a total risked-based capital ratio of at least 10%, a Tier One risked-based ratio of at least 6%, and leverage capital ratio of at least 5%; (ii) an adequately capitalized institution has a total risked-based capital ratio of at least 8%, a Tier One risked-based ratio of at least 4%, and leverage capital ratio of at least 4%; (iii) an undercapitalized institution has a total risked-based capital ratio under 8%, a Tier One risked-based ratio under 4%, and leverage capital ratio under 4%; and (iv) a critically undercapitalized institution has a leverage capital ratio under 2%. Institutions deemed adequately capitalized are not permitted to accept brokered deposits (unless waived by the FDIC) and have limitations on the interest rates paid on deposit accounts. Institutions in any of the three undercapitalized categories would be prohibited from declaring and paying dividends or making capital distributions. The FDIC regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

Due to its current condition and results of operation, the Directors of the Company and Bank entered into informal agreements with the Federal Reserve, FDIC, and DBF in the third quarter of 2008. These regulatory agreements are designed to help the Company and Bank return to profitability and capital adequacy by improving asset quality. Specifically, the agreements provide for reducing troubled assets; limiting credit to troubled borrowers; maintaining an adequate allowance for loans losses; revising policies to more comprehensively address commercial real estate lending; maintaining a Tier One leverage capital ratio of 8% or more, a Tier One risked-based capital ratio of 6% or more, and a Total risked-based capital ratio of 10% or more; prohibiting the Bank from paying dividends to the Company without prior approval; prohibiting the Company from paying dividends to shareholders without prior approval; prohibiting the Company from incurring debt without prior approval; and prohibiting the Company from repurchasing stock without prior approval. Failure to adequately address the provisions contained in these agreements may result in the issuance of a cease and desist order pursuant to Section 8 of the FDI Act. The Bank is presently unable to achieve the Tier One leverage and Total risked-based capital provisions of the agreements but is negotiating for added capital. See Item 9B for further information.

As of December 31, 2008 the capital ratios for the Company and the Bank are as follows:

	Company	Bank
Leverage Capital	6.44%	6.69%
Tier 1 Risk-Based	8.22%	8.32%
Total Risk-Based	9.49%	9.56%

Community Reinvestment Act

The Company and the Bank are subject to the provisions of the Community Reinvestment Act of 1977, as amended (the “CRA”) and the federal banking agencies regulations issued thereunder. Under the CRA, all banks and thrifts have a continuing and affirmative obligation, consistent with its safe and sound operation to help meet the credit needs for their entire communities, including low- and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA.

The CRA requires a depository institution’s primary federal regulator, in connection with its examination of the institution, to assess the institution’s record of assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods. The regulatory agency’s assessment of the institution’s record is made available to the public. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the records of each subsidiary depository institution of the applicant bank holding company, and such records may be the basis for denying the application.

The evaluation system used to judge an institution’s CRA performance consists of three tests: (1) a lending test; (2) an investment test; and (3) a service test. Each of these tests will be applied by the institution’s primary federal regulator taking into account such factors as: (i) demographic data about the community; (ii) the institution’s capacity and constraints; (iii) the institution’s product offerings and business strategy; and (iv) data on the prior performance of the institution and similarly-situated lenders.

In addition, a financial institution will have the option of having its CRA performance evaluated based on a strategic plan of up to five years in length that it had developed in cooperation with local community groups. In order to be rated under a strategic plan, the institution will be required to obtain the prior approval of its federal regulator.

The interagency CRA regulations provide that an institution evaluated under a given test will receive one of five ratings for the test: (1) outstanding; (2) high satisfactory; (3) low satisfactory; (4) needs to improve; and (5) substantial noncompliance. An institution will receive a certain number of points for its rating on each test, and the points are combined to produce an overall composite rating. Evidence of discriminatory or other illegal credit practices would adversely affect an institution’s overall rating. McIntosh State Bank received a satisfactory rating as a result of its most recent CRA examination.

Anti-Terrorism Legislation

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (the “USA PATRIOT Act”) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, the USA PATRIOT Act authorizes the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") was enacted to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of disclosures pursuant to the securities laws. Sarbanes-Oxley includes important new requirements for public companies in the areas of financial disclosure, corporate governance, and the independence, composition and responsibilities of audit committees. Among other things, Sarbanes-Oxley mandates chief executive and chief financial officer certifications of periodic financial reports, additional financial disclosures concerning off-balance sheet items, and speedier transaction reporting requirements for executive officers, directors and 10% shareholders. In addition, penalties for non-compliance with the Exchange Act were heightened. SEC rules promulgated pursuant to Sarbanes-Oxley impose obligations and restrictions on auditors and audit committees intended to enhance their independence from management, and include extensive additional disclosure, corporate governance and other related rules. Sarbanes-Oxley represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a Board of Directors and Management and between a Board of Directors and its committees.

We have not experienced any significant difficulties in complying with Sarbanes-Oxley. However, we have incurred, and expect to continue to incur, significant costs in connection with compliance with Section 404 of Sarbanes-Oxley, which requires Management to undertake an assessment of the adequacy and effectiveness of our internal controls over financial reporting and requires our auditors to attest to, Management's assessment and the operating effectiveness of these controls.

Commercial Real Estate Lending and Concentrations

On December 2, 2006, the federal bank regulatory agencies released Guidance on Concentrations in Commercial Real Estate ("CRE") Lending, Sound Risk Management Practices (the "Guidance"). The Guidance, which was issued in response to the agencies' concern that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market, reinforces existing regulations and guidelines for real estate lending and loan portfolio management.

Highlights of the Guidance include the following:

- The agencies have observed that CRE concentrations have been rising over the past several years with small to mid-size institutions showing the most significant increase in CRE concentrations over the last decade. However, some institutions' risk management practices are not evolving with their increasing CRE concentrations, and therefore, the Guidance reminds institutions that strong risk management practices and appropriate levels of capital are important elements of a sound CRE lending program.
- The Guidance applies to national banks and state chartered banks and is also broadly applicable to bank holding companies. For purposes of the Guidance, CRE loans include loans for land development and construction, other land loans and loans secured by multifamily and nonfarm residential properties. The definition also extends to loans to real estate investment trusts and unsecured loans to developers if their performance is closely linked to the performance of the general CRE market.
- The agencies recognize that banks serve a vital role in their communities by supplying credit for business and real estate development. Therefore, the Guidance is not intended to limit banks' CRE lending. Instead, the Guidance encourages institutions to identify and monitor credit concentrations, establish internal concentration limits, and report all concentrations to management and the board of directors on a periodic basis.
- The agencies recognized that different types of CRE lending present different levels of risk, and therefore, institutions are encouraged to segment their CRE portfolios to acknowledge these distinctions. However, the CRE portfolio should not be divided into multiple sections simply to avoid the appearance of risk concentration.
- Institutions should address the following key elements in establishing a risk management framework for identifying, monitoring, and controlling CRE risk: (1) board of directors and management oversight; (2) portfolio management; (3) management information systems; (4) market analysis; (5) credit underwriting standards; (6) portfolio stress testing and sensitivity analysis; and (7) credit review function.
- As part of the ongoing supervisory monitoring processes, the agencies will use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. An institution that has experienced rapid growth in CRE lending, has notable exposure to a specific type of CRE, or is approaching or exceeds specified supervisory criteria may be identified for further supervisory analysis.

Allowance for Loan and Lease Losses

On December 13, 2006, the federal bank regulatory agencies released *Interagency Policy Statement on the Allowance for Loan and Lease Losses* ("ALLL"), which revises and replaces the banking agencies' 1993 policy statement on the ALLL. The revised statement was issued to ensure consistency with generally accepted accounting principles (GAAP) and more recent supervisory guidance. The revised statement extends the applicability of the policy to credit unions. Additionally, the agencies issued 16 FAQs to assist institutions in complying with both GAAP and ALLL supervisory guidance.

Highlights of the revised statement include the following:

- The revised statement emphasizes that the ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports and that an assessment of the appropriateness of the ALLL is critical to an institution's safety and soundness.
- Each institution has a responsibility to develop, maintain, and document a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL. An institution must maintain an ALLL that is sufficient to cover estimated credit losses on individual impaired loans as well as estimated credit losses inherent in the remainder of the portfolio.
- The revised statement updates the previous guidance on the following issues regarding ALLL: (1) responsibilities of the board of directors, management, and bank examiners; (2) factors to be considered in the estimation of ALLL; and (3) objectives and elements of an effective loan review system.

The Company and its board of directors believe that the Company's ALLL methodology is comprehensive, systematic, and that it is consistently applied across the Company. The Company believes its management information systems, independent credit administration process, policies and procedures are sufficient to comply with the guidance.

U.S. Treasury's Troubled Asset Relief Program - Capital Purchase Program

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted that provides the U.S. Secretary of the Treasury (Treasury) with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the legislation is the Troubled Asset Relief Program Capital Purchase Program (CPP), which provides direct equity investment in perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. The CPP provides for a minimum investment of one percent of total risk-weighted assets and a maximum investment equal to the lesser of three percent of total risk-weighted assets or $25 billion. Participation in the program is not automatic and is subject to approval by the Treasury.

The minimum and maximum preferred stock investment under CPP for the Company is $3.58 million and $10.7 million, respectively. The Company applied for the maximum CPP investment on November 14, 2008; however, the Company has withdrawn its application following consultations with our primary federal regulator and is currently evaluating alternative sources of capital. We presently anticipate that our agreement to which Redemptus Group, LLC would purchase $8 million of debentures, subject to certain closing conditions, will be extended in order to permit us to explore additional sources of capital. In addition to the follow-on private placement of our common stock contemplated under our agreement with Redemptus, these sources include, but are not limited to, potential issuances of other equity securities or debt and sales of assets to improve our capital ratios.

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced a new program – the Temporary Liquidity Guarantee Program (TLGP). The TLGP has two components – The Debt Guarantee Program and the Transaction Account Guarantee Program. The Debt Guarantee Program guarantees newly issued senior unsecured debt of a participating organization, up to certain limits established for each institution, issued between October 14, 2008 and June 30, 2009. The FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. The guarantee will remain in effect until June 30, 2012. In return for the FDIC's guarantee, participating institutions will pay the FDIC a fee based on the amount and maturity of the debt. The Company and Bank have opted to participate in the Debt Guarantee Program; however, have not issued any debt under the program.

The Transaction Account Guarantee Program provides full federal deposit insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount, until December 31, 2009. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of $250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of this component of the TLGP. The Bank has opted to participate in the Transaction Account Guarantee Program.

Insurance of Deposit Accounts

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund (DIF) up to prescribed limits for each depositor. Pursuant to the EESA, the maximum deposit insurance amount has been increased from $100,000 to $250,000. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Pursuant to the Federal Deposit Insurance Reform Act of 2005, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.50% of estimated insured deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. In an effort to restore DIF levels and to ensure the DIF will adequately cover projected losses from future bank failures, the FDIC, in October 2008, proposed a rule to alter the way in which it differentiates for risk in the risk-based assessment system and to revise deposit insurance assessment rates, including base assessment rates. Proposed risk adjusted assessment rates for 2009 range between 7 and 77.5 cents per $100 in domestic deposits depending on the risk characteristics of the bank. The Bank expects to pay between 27 and 58 cents per $100 in domestic deposits under this new assessment program; however, premiums for the rest of 2009 have not yet been set.

On February 27, 2009, the FDIC approved an interim rule to institute a one-time special assessment of 20 cents per $100 of domestic deposits to restore the DIF reserves depleted by recent bank failures. The interim rule additionally reserves the right of the FDIC to charge an additional up-to-10 basis point special premium at a later point if the DIF reserves continue to fall. The special assessment of 20 cents per $100 of domestic deposits could add up to an additional $776,000 in expense to the Bank for 2009.

Additionally, by participating in the TLGP, banks temporarily become subject to “systemic risk special assessments” of 10 basis points for transaction account balances in excess of $250,000 and assessments up to 100 basis points of the amount of TLGP debt issued. Management believes the systemic risk special assessment will add less than $15,000 in additional expense to the Bank during 2009. Further, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (“FICO”), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates, which are determined quarterly, averaged 0.0113% of insured deposits in fiscal 2008. These assessments will continue until the FICO bonds mature in 2017.

The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank’s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank’s charter by the DIF.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives which could affect the Company, the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the U.S. Congress, the Georgia legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Company or the Bank would be affected thereby.

Employees

At December 31, 2008 the Company had 125 full time equivalent employees. The Company is not a party to any collective bargaining agreement.

Item 2. Properties

The assets of the Company consists almost entirely of its ownership interest in the Bank and MFS. Both the holding company and MFS operate out of premises owned by the Bank. The Bank owns or leases the following properties:

(1) Main Office
210 South Oak Street
Jackson, Georgia 30233

Built in 1964, 11,000 square feet of heated space and five drive-thru lanes.

(2) McLaurin Building
134 South Oak Street
Jackson, Georgia 30233

Built in 1940 and remodeled in 2007, 6,100 square feet of heated space.

(3) Monticello Office
208 East Greene Street
Monticello, Georgia 31064

Built in 1966, 5,100 square feet of heated space, and four remote drive-thru lanes.

(4) Locust Grove Office
3796 Highway 42 South
Locust Grove, Georgia 30248

Built in 2000, 3,700 square feet of heated space, and three drive-thru lanes.

(5) McDonough Office
1100 and 1125 Keys Ferry Court
McDonough, Georgia 30253

Built in 1995, 7,600 square feet of heated space (leased).

(6) Operations Center
264 Alabama Boulevard
Jackson, Georgia 30233

Built in 1998, 17,100 square feet of heated space.

(7) Lake Oconee
1028 Founders Row
Greensboro, Georgia 30642

Built in 2005, 1,320 square feet of heated space (leased).

(8) Remote ATMs:
632 East Third Street, Jackson, Georgia 30233
222 Clubhouse Drive, Monticello, Georgia 31064

The Bank owns the furniture, fixtures and equipment located at the above locations.

Item 3. Legal Proceedings

The Bank is from time to time involved in various legal actions arising from normal business activities. Management believes that the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial condition. Neither the Bank nor the Company is a party to any proceeding to which any director, officer or affiliate of the issuer, any owner of more than five percent (5%) of its voting securities is a party adverse to the Bank or the Company.

Item 4. Submission of Matters to a Vote of Security Holders

A special shareholder meeting of McIntosh Bancshares, Inc. was held January 28, 2009. The following matters were submitted to a vote of security holders:

(1) To approve an amendment of the Articles of Incorporation of McIntosh Bancshares, Inc.; and

(2) To approve the authority of the management of McIntosh Bancshares, Inc. to adjourn, postpone or continue the special meeting.

Proposal (1) was approved by affirmative vote of 66% of the Company's commons shareholders; therefore, no vote was necessary under proposal (2). A tabulation of votes concerning Proposal (1) is as follows:

Shares voted in favor		1,855,776
Shares voted against/withheld		15,586
Total shares represented	1,871,362	
Total shares outstanding	2,810,976	

The amendment was included as an attachment to the Company's Form 8K filed with Securities and Exchange Commission on January 30, 2009.

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

There is no established public trading market for the Company's common stock. It is not traded on an exchange or in the over-the-counter market. There is no assurance that an active market will develop for the Company's common stock in the future. Therefore, management of the Company is furnished with only limited information concerning trades of the Company's common stock. The following table sets forth for each quarter during the most two recent fiscal years the number of shares traded and the high and low per share sales prices to the extent known to management, and has been adjusted for the 2 for 1 stock split effective June 1, 2007.

YEAR 2007	NUMBER OF SHARES TRADED	HIGH SALES PRICE (Per Share)	LOW SALES PRICE (Per Share)
First Quarter	9,638 Shares	$ 22.50	$ 22.50
Second Quarter	10,712 Shares	$ 22.50	$ 22.50
Third Quarter	7,814 Shares	$ 27.00	$ 25.00
Fourth Quarter	4,309 Shares	$ 25.00	$ 20.00

YEAR 2008	NUMBER OF SHARES TRADED	HIGH SALES PRICE (Per Share)	LOW SALES PRICE (Per Share)
First Quarter	6,405 Shares	$ 20.00	$ 19.00
Second Quarter	1,819 Shares	$ 20.00	$ 16.00
Third Quarter	1,153 Shares	$ 15.00	$ 8.00
Fourth Quarter	0 Shares	$ —	$ —

The Company paid a quarterly dividend totaling $0.09 per share in 2008 and four quarterly dividends totaling $0.36 per share in 2007, on a split adjusted basis. Any declaration and payment of dividends will be based on the Company's earnings, economic conditions, and the evaluation by the Board of Directors of other relevant factors. The Company's ability to pay dividends is dependent on cash dividends paid to it by the Bank, its wholly-owned subsidiary. The ability of the Bank to pay dividends to the Company is restricted by applicable regulatory requirements. See "Supervision and Regulation."

As of March 3, 2009 there were 3,252,581 shares of the Company's common stock issued and outstanding held of record by approximately 665 persons (not including the number of persons or entities holding stock in nominee or street name through various brokerage houses).

In 1998 the Company adopted an incentive stock option plan (1998 Plan) which authorized the Company to issue to officers and other key employees of McIntosh State Bank options to purchase in the aggregate as many as 35,000 shares of the Company's common stock. The number of shares so authorized was subject to increase in the event, among other matters, of a stock dividend. As a result of the stock dividends declared by the Company in 1999, 2000, 2001, 2005 and 2007, there are now 119,891 shares of its common stock for which such options may be granted. As of March 3, 2009, all options available under the plan have been granted. During 2007, exercised options resulted in 2,000 common shares issued.

In 2006 the Company adopted a compensation plan (2006 Plan) which authorizes the Company to issue to directors, officers and employees of the Company and its affiliates incentive stock options, nonqualified stock options, and/or restricted stock. The 2006 Plan permits up to 210,000 shares of the Company's common stock to be issued; however, no more than 50,000 shares can be available for issuance as restricted stock. As of December 31, 2008, no restricted shares have been issued. As March 3, 2009, 80,000 incentive stock options have been granted; however, no options have been exercised.

Unregistered Sales of Equity Securities

On December 29, 2008 the Company issued 441,605 common shares to its directors and select executive officers for $6.85 per share. Proceeds from the sale totaled $2,984,619, net of a $40,375 placement fee. The common stock was offered and sold only to accredited investors, as the term is defined under the Securities Act of 1933 and the Company relied on the exemption provided under Rule 506 of Securities Act with respect to the transaction.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations for Years ended December 31, 2008 and December 31, 2007.

Financial Condition

The financial condition of the Company as of December 31, 2008 shows assets declined $11.3 million or 2% compared to December 31, 2007. Liquid assets (cash, federal funds sold, interest bearing depository balances, and investment securities), fell $5.9 million or 6% from year-end. The decline in liquid assets from the year-end period results from the September 2008 sale of $9.5 million in out-of-sate municipal bonds partially offset by a $4.7 million increase in cash and due from banks. These bonds represented 77% of all tax free bonds in the portfolio. Management's reasons for selling these bonds were: (a) restructure the bond portfolio to take advantage of higher taxable bond yields; and (b) ongoing concerns over bond insurers financial difficulties as well as increased concerns about the overall credit worthiness of municipalities facing tax and revenue shortfalls resulting from weakness in the economy. Liquid assets were used, in part, to fund deposit run-off outlined below.

Loans

Gross loans declined $17.5 million or 5% during 2008. Loans transferred to other real estate during the year ending December 31, 2008 totaled $15.2 million. With the ongoing deterioration of the economy combined with persistent residential real estate market weakness, management expects loan balances may fall further in coming quarters.

On December 13, 2006 federal bank regulatory agencies issued a new Policy Statement, *Interagency Policy Statement on the Allowance for Loan and Lease Losses*, which outlines how banks should approach determining the adequacy of their allowance for loan losses ("ALL"). Provisions of this new Policy Statement must be considered along with provisions of Policy Statements on ALL adequacy issued in 1993 and 2001. In 2007, management implemented the requirements of this latest Policy Statement which in combination with the current lending and market conditions has resulted in a generally higher ALL level.

The ALL rose $1.6 million or 22% for the year ending December 31, 2008. The increase results from $16 million in provision expense and $14.4 million in net charge-offs. As of December 31, 2008, the ALL as a percentage of gross loans (reserve ratio) is 2.63% versus 2.03% for the prior year-end.

The rise in the overall reserve ratio is due to: (a) a rise in the degree of potential loss in loans with more than the normal risk of repayment (impaired loans); and (b) a rise in the qualitative factors utilized in the methodology used to determine ALL adequacy. Total impaired loans rose $13.6 million or 55% and the level of potential loss on impaired loans rose which resulted in $1.2 million more required reserve. Given the continuing decline in market conditions for commercial and residential real estate, management adjusted its qualitative factors used in determining ALL adequacy in 2008. This change resulted in a required ALL that was $1.3 million higher. Had these events not occurred in 2008, the reserve ratio would have been 1.86%. The following table outlines impaired loans:

The following table outlines the changes in impaired loans:

In (000s) Impaired loans by loan type:	Years Ending December 31, 2008	 2007
Commercial, financial & agricultural	$ 3,664	$ 31
Real estate-mortgage	6,463	3,158
Real estate-construction	27,567	21,483
Consumer loans	576	41
Total impaired loans	**$ 38,270**	**$ 24,713**
Allowance for impaired loans	**$ (4,163)**	**$ (2,917)**
Impaired Loan %	**10.9%**	**11.8%**

The following table highlights the ALL by loan category:

ALL by Loan Category In (000s)	2008 Total	2008 %	2007 Total	2007 %
Commercial, financial & agricultural	$ 995	1.47%	$ 589	1.02%
Real estate-mortgage	2,070	1.16%	2,173	1.37%
Real estate-construction	5,220	8.28%	3,932	3.58%
Consumer loans	232	1.51%	262	1.63%
Total Allowance for Loan Losses	$ 8,517	2.63%	$ 6,956	2.03%

Years Ending December 31, (applies to all columns above)

The increase in reserve ratio for the commercial, financial, and agricultural category is due to changes in qualitative factors and higher impairment estimates. Had the qualitative factors remained unchanged from 2007, the ALL for the commercial, financial, and agricultural category would have been $156,000 higher. Had the estimate of impairment for this category remained unchanged from 2007, the reserve would have been $532,000 lower. Had these events not occurred, the reserve ratio for the commercial, financial, and agricultural category would have been 0.91%.

The decrease in the reserve ratio for the real estate mortgage category is due to changes in qualitative factors and higher impairment estimates. Had the qualitative factors remained unchanged from 2007, the ALL for the real estate mortgage category would have been $306,000 higher. Had the estimate of impairment for this category remained unchanged from 2007, the reserve would have been $91,000 lower. Had these events not occurred, the reserve ratio for the real estate-mortgage category would have been 1.28%.

The increase in reserve ratio for the real estate construction category from the prior year is due to increases in qualitative factors and higher impairment estimates. Qualitative factors were increased due to the overall softness in residential real estate values. Had the qualitative factors remained unchanged from 2007, the ALL for the real estate construction category would have been $1.8 million lower. Had the estimate of impairment for this category remained unchanged from 2007, the reserve would have been $593,000 lower. Had these events not occurred, the reserve ratio for the real estate mortgage category would have been 4.48%. The overall rise in reserve ratio from 2007 is predominately the result of loans in this category declining $46.7 million from 2007 to 2008; however, the reserve associated with this category only rose $1.3 million during the same period.

The decrease in reserve ratio for the consumer loan category from the prior year is due to decreases in qualitative factors and higher impairment estimates. Had the qualitative factors remained unchanged from 2007, the ALL for the consumer loan category would have been $31,000 higher. Had the estimate of impairment for this category remained unchanged from 2007, the reserve would have been $30,000 lower. Had these events not occurred, the reserve ratio for the consumer loan category would have been 1.52%.

The Bank's delinquency ratio (loans past due 30 days or more and loans on nonaccrual as a percentage of gross loans) rose from 8.72% to 11.43% during the year. The higher delinquency ratio is principally due to $8.2 million more loans on nonaccural offset by $0.9 million less in loans delinquent 30 days or greater past due and not on nonaccrual. As of December 31, 2008, 36 relationships were on nonaccrual. The following table outlines nonaccrual loans:

	Years Ending December 31,	
In (000s)	**2008**	**2007**
Total Nonaccrual Loans	$ 29,755	$ 21,565
Nonaccrual Loans to Gross Loans	9.2%	6.3%

In accordance with Statement of Financial Accounting Standards No. 15, *Accounting by Creditors for Trouble Debt Restructurings,* (SFAS 15), management has identified $2.4 million in loans restructured from their original terms. The result of these trouble debt restructurings is the Bank agreed to forbear on collecting $127,959 in accrued but unpaid interest when the notes matured and were renewed. These credits are currently on nonaccrual and have been reviewed for impairment.

The Bank historically attempts to meet the housing needs of its markets. As of December 31, 2008 and 2007, loans secured by 1-4 family properties totaled 48% and 50%, respectively, of total loans. Following is a table outlining the Bank's loans on 1-4 family properties:

	Years Ending December 31,	
In (000s)	**2008**	**2007**
1-4 family construction loans	$ 61,395	$ 97,416
1-4 family mortgages – first lien	64,677	49,724
1-4 family mortgages – junior lien	28,485	22,892
Total	$ 154,557	$ 170,032

As of December 31, 2008, the Company continued to have a concentration in AD&C loans. Management has lowered its maximum limit where total AD&C loans may not exceed 37% of the Company's loan portfolio including unfunded commitments. As of December 31, 2008, AD&C loans represented 24% of gross loans and commitments versus 38% as of the prior year-end. The primary risks of AD&C lending are:

(a) Loans are dependent upon continued strength in demand for residential real estate. Demand for residential real estate is dependent on favorable real estate mortgage rates and population growth from expanding industry and services in the metropolitan Atlanta area;

(b) Loans are concentrated to a limited number of borrowers; and

(c) Loans may be less predictable and more difficult to evaluate and monitor.

Builders and developers are what comprise the AD&C concentration as well as the bulk of the Bank's nonaccrual loans. Management believes AD&C conditions in the markets served by the Company remain under severe stress from the glut of lot inventory, foreclosure activity, and slow housing turnover. The nationalization of Fannie Mae and Freddie Mac in the second half of 2008 has led to considerably less liquidity for residential mortgages. In addition, underwriting standards have tightened significantly leading to lower home mortgage originations. Bank management believes the effect of the downturn in residential real estate continues to be further aggravated by the level of foreclosure activity for both lots and homes. The result has been, and will likely remain for at least the next 18 months, downward pressure on house and lot prices. The marked decline in residential real estate values experienced during the last 24 months has and will continue to erode or eliminate the collateral margins the Bank typically utilizes to protect itself against losses.

On December 12, 2006 the federal bank regulatory agencies released guidance on *Concentration in Commercial Real Estate Lending*. This guidance defines commercial real estate (CRE) loans as loans secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm nonresidential property where the primary or a significant source of repayment is derived from rental income associated with the property (that is, loans for which 50% or more of the source of repayment comes from third party, non-affiliated, rental income) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans for owner occupied CRE are generally excluded from the CRE guidance.

The CRE guidance is triggered where either:

(a) Total loans for construction, land development, and other land represent 100% or more of the Bank's total risk based capital; or

(b) Total loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land represent 300% or more of the Bank's total risk based capital.

Banks that are subject to the CRE guidance's triggers will need to implement enhanced strategic planning, CRE underwriting policies, risk management and internal controls, portfolio stress testing, risk exposure limits, and other policies, including management compensation and incentives, to address the CRE risks. Higher allowances for loan losses and capital levels may also be appropriate.

The following table outlines the Bank's CRE loans by category and CRE loans as percent of total risked based capital for the years ending December 31, 2008 and 2007.

	2008		2007	
In (000s)	**Aggregate Balance**	**Percent of Total**	**Aggregate Balance**	**Percent of Total**
Loan Types:				
Construction & development	$ 69,359	47%	$ 110,321	58%
Land	33,854	23%	34,600	18%
Sub total	103,213	70%	144,921	76%
Multi-family	3,602	3%	4,086	2%
Non-farm non-residential	39,566	27%	41,665	22%
Total	$ 146,381	100%	$ 190,672	100%
	Bank Limit	**Actual**	**Bank Limit**	**Actual**
Percent of Total Risk Based Capital:				
Construction, development & land	415%	276%	415%	347%
Construction, development & land, multi-family, and non-farm, non-residential (nonowner occupied)	540%	392%	540%	456%

The following is recap of other real estate activity from December 31, 2007 to December 31, 2008:

In (000s)	
Balance as of December 31, 2007	$ 6,247
Additions to base amount	1,822
Write-down	(246)
Sale of 11 residential vacant lots	(1,773)
Sale of 38 residential construction properties	(6,460)
Foreclosure on 103 residential lots and unimproved acreage	4,843
Foreclosure on 35 residential construction properties	9,833
Foreclosure on 1 commercial property	563
Balance as of December 31, 2008	$14,829

The Bank foreclosed 139 properties with carrying balances totaling $15.2 million and sold 49 properties with carrying balances totaling $8.2 million from year-end 2007 to December 31, 2008. The Bank devotes two seasoned construction lenders to marketing its other real estate holdings. Despite these efforts, management believes liquidation of unimproved real estate and residential lot inventory will be protracted until the residential real estate market improves. Through 2008, other real estate properties were sold at an average 14% discount to carrying value. Additions to the base amount reflect improvements made to finish foreclosed residences. Management anticipates a significant increase in newly foreclosed properties over the next twelve months.

The following is an inventory of other real estate as of December 31, 2008:

In (000s) except for number	Number	Carrying Amount
1-4 Family Residences	35	$ 7,639
Residential Lots	175	4,227
Commercial Property	1	563
Unimproved Acres of Land	370	2,400
Total Other Real Estate		$14,829

Deposits

Total deposits declined $11.7 million or 3% from December 31, 2007 to 2008. The change from the prior year-end is principally attributable to a $27 million or 23% decrease in money market and NOW account balances partially offset by an $8.9 million or 71% increase in savings account balances and a $6 million or a 2% increase in time deposits. Time deposits include $50 million in brokered deposits which is a decrease of $7.2 million or 12% from December 31, 2007. Brokered deposits include $29.1 million in reciprocal deposits placed under the Certificate of Deposit Account Registry System (CDARS). These CDARS deposits represent stable local deposits, but are designated and reported as brokered deposits under regulatory requirements. The decrease in brokered deposits from December 31, 2007 to 2008 is essentially the result of asset shrinkage. Time deposits represent 64% and 61% of total deposits as of December 31, 2008 and 2007, respectively. The rise in time deposits for funding mix is due to declining interest rates which leads customers to lock in interest rates. See Liquidity and Interest Rate Risk comments for further discussion.

Capital

For the year ending December 31, 2008, the Company's equity capital declined $5.5 million or 15% from the prior period. The change in equity capital over the period resulted from a $8.2 million net loss, a $0.8 million rise in net unrealized gains on securities available for sale, a $0.9 million decline in the after-tax effect of the Company's current unfunded pension liability (see footnotes 1 and 9 of the Company's consolidated financials statements for further discussion), $93,000 in noncash compensatory stock option expense, $253,000 in cash dividends paid, and stock issuance with net proceeds totaling $3 million.

Liquidity

The Bank must maintain, on a daily basis, sufficient funds to cover depositor withdrawals and to supply new borrowers with funds. To meet these obligations, the Bank keeps cash on hand, maintains account balances with its correspondent banks, and purchases and sells Federal funds and other short-term investments. Asset and liability maturities are monitored in order to avoid significant mismatches which could adversely impact liquidity. It is the policy of the Bank to monitor its liquidity to achieve earnings enhancements and meet regulatory requirements while funding its obligations.

Liquidity is monitored daily and formally measured on a monthly basis. As of December 31, 2008, the Bank's liquidity ratio was 11.4% versus 10.5% as of the prior year-end. In 2008, the Bank's brokered deposits declined $7.2 million or 12% from December 31, 2007. Management may continue to reduce the level of brokered deposits and thus total assets over the next 12 months.

Management has established a noncore funding (wholesale, brokered (excluding CDARs), and out-of-territory deposits) guideline not to exceed 20% of Bank deposits. As of December 31, 2008 and 2007 the Bank's noncore funding measure was 11.4% and 20.1%, respectively.

The Bank has a $6.5 million secured line of credit with a correspondent bank to supplement short term liquidity. During 2008, the Bank borrowed for nine days under this commitment with average borrowing of $1.7 million at a weighted average rate of 2.58% and a high of $3.5 million in May 2008.

The Bank has a $2 million FHLB advance that matures January 2009 and $5 million in fixed rate advances that may convert to 3 month LIBOR in 2009. Management believes unless LIBOR rises significantly before conversion, the FHLB will not exercise its right to convert these advances. Bank management believes that the repayment of $2 million in FHLB advances during 2009 will not materially impact liquidity.

Advances are drawn under a $28.3 million line of credit with the FHLB. The line of credit with FHLB is secured by a blanket lien on the Bank's qualified 1-4 family residential mortgages, home equity mortgages, and multifamily mortgages outstanding as well as the Bank's holdings of FHLB stock. During 2008, management drew $4 million in convertible term FHLB advances. The weighted average rate on these advances was 3.23% and the weighted average term was 8.5 years. During 2008, management utilized the daily revolving credit (DRC) facility as part of its FHLB credit line for 44 days with an average borrowing of $3.4 million, a weighted average rate of 2.38%, and a high of $5 million in May, June, and July 2008. See Table 8 for a recap of Bank borrowing.

In October 2008, the Bank withdrew its pledge of commercial real estate mortgages from the FHLB. Instead, management has elected to pledge commercial real estate mortgages to the Federal Reserve Bank of Atlanta (FRB) where terms are considered more favorable to the Bank. The Bank has available credit with the FRB as of December 31, 2008 of $15 million. No advances on this line occurred in 2008. Management expects to increase this credit line by another $15 million in 2009 through the pledge of additional commercial real estate mortgages.

In January 2008, the Company renewed its line of credit with its primary correspondent bank. The renewal increased the line of credit $4 million to $12 million. The line of credit is tied to the prime lending rate and was to mature in 2010. The schedule of payments for the line called for interest only for a period followed by amortizing the outstanding balance over 10 years. The line of credit was secured by all stock of the Bank and included negative and positive covenants covering, in part, capital, earnings, and cash dividends. The line was closed in December 2008 and the bank stock pledge was released.

In October 2008, the FDIC approved a program to strengthen market stability for financial institutions called the Temporary Liquidity Guaranty Program (TLGP). Provision one of the TLGP allows the FDIC to guaranty the debit issued by financial institutions for liabilities outstanding as of September 30, 2008. The debt guaranty amount for the Bank is $8.4 million. Management is still assessing the benefits of this provision of the program and did not opt out of the program in case further developments prove to benefit the Bank. Provision two of the TLGP raises the FDIC insurance level for all deposit accounts to $250,000 through December 31, 2009. Management has determined this provision would be beneficial to the Bank and its customers and has opted to take part. The FDIC is not permitted to charge assessments for this added coverage until after December 31, 2009. Management at this time is not aware of the assessment amounts for this coverage beyond December 31, 2009 as the FDIC has not announced such. Provision three of the TLGP allows the FDIC to insure all the Bank's noninterest bearing and interest bearing deposits paying less than 0.50% through December 31, 2009. Management has determined this provision would be beneficial to the Bank and its customers and has opted to take part. The Bank will pay 10 basis points per annum for this deposit coverage above the $250,000 temporary limit outlined in provision two. Management believes that participation in the program will result in additional expenses of less than $15,000 per year.

Beginning in the second quarter of 2007, management began offering a retail repurchase agreement to certain Bank customers. The agreement allows the Bank to sell its investment securities overnight and repurchase those securities the following business day. The rate floats and is tied to the ninety day U. S. Treasury bond. As of December 31, 2008 and 2007, the Bank has sold and is obligated to repurchase $440,757 and $304,555, respectively, in investment securities.

Beginning in the second quarter of 2007, the Bank began participating in a borrowing arrangement with the U. S. Treasury. The Bank, as an approved U. S. Treasury depository, historically accepts treasury, tax, and loan payments. Those payments were previously remitted to the U. S. Treasury on a daily basis; however, now those payments, up to an agreed upon maximum, can remain on deposit with the Bank. This obligation is repaid periodically as the U. S. Treasury requires and bears a variable rate of interest approximating the ninety day U. S. Treasury bond. As of December 31, 2008 and 2007, the Bank had $215,746 and $156,823, respectively, in note obligations under this program.

Critical Accounting Policies

Critical accounting policies are dependent on estimates that are particularly susceptible to significant changes. Determination of the Bank's ALL and income taxes have been identified as critical accounting policies.

The ALL is maintained at a level believed to be appropriate by management to provide for probable loan losses inherent in the portfolio as of each quarter-end. Management's judgment as to the amount of the ALL, including the allocated and unallocated elements, is a result of ongoing review of lending relationships, the overall risk characteristics of the portfolio segments, changes in the character or size of the portfolio segments, the level of impaired or nonperforming loans, historical net charge-off experience, prevailing economic conditions and other relevant factors. Loans are charged off to the extent they are deemed to be uncollectible. The ALL level is highly dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status, and the timing of collecting nonperforming loans. Such estimates may be subject to frequent adjustments by management and reflected in the provision for loan losses in the periods in which they become known.

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets or liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The determination of current and deferred taxes is based on complex analyses of many factors including interpretation of Federal and state income tax laws, the difference between tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts due or owed such as the reversals of temporary differences, and current financial accounting standards. Actual results could differ significantly from the estimates and interpretations used in determining current and deferred taxes.

Off-Balance Sheet Arrangements

As described further in footnote 14 to the Company's audited financial statements, the Bank's lending activities regularly result in unfunded commitments to creditworthy customers requesting financing for working capital, construction and development activities, and home equity lines of credit. Commercial unfunded commitments are typically secured by collateral margined in accordance with the Bank's lending policy. Commercial unfunded commitments, excluding construction and development, are generally for terms less than three years. Unfunded commitments for construction and development are typically for terms less than 18 months. Home equity lines of credit are generally secured by collateral margined in accordance with Bank's lending policy and mature in ten years. Advances under all loan commitments occur in the normal course of the Bank's operations. Management considers its unfunded commitments when assessing the Bank's liquidity and monitoring concentrations of credit. Commitment fees generally represent 0.5% to 1.0% of the total commitment amount (funded and unfunded) and are recognized as origination fees. Origination fees for the years ending December 31, 2008, and 2007 were $369,277 and $791,379 respectively.

From time to time the Bank is asked by its creditworthy customers to issue standby or performance letters of credit. These letters of credit are generally issued for terms no longer than two years and are secured by collateral margined in accordance with the Bank's lending policy. The Bank has not been asked to perform on any of its outstanding letters of credit during 2008 or 2007. Fees for issuing letters of credit totaled $14,482 and $13,463 for the years ending December 31, 2008 and 2007, respectively.

The following table represents outstanding contingent liabilities by category for the years ending December 31, 2008 and 2007, respectively.

Contingent Liabilities by Category (Amount in thousands)	2008 Total	% of Total	2007 Total	% of Total
Unfunded commitments secured by 1-4 family RE	$ 14,713	57.1%	$ 14,811	31.1%
Unfunded commitments secured by commercial RE	5,704	22.1%	25,607	53.8%
Other unfunded commitments	4,073	15.8%	5,149	10.8%
Financial standby letter of credit	290	1.1%	350	0.7%
Performance standby letters of credit	995	3.9%	1,719	3.6%
Total Contingent Liabilities	$ 25,775	100%	$ 47,636	100%

Contractual Obligations

In the ordinary course of operations, the Company enters into certain contractual obligations. The following table summarizes the Company's significant fixed and determinable contractual obligations, by payment date, as of December 31, 2008.

	Payments Due by Period (Amount in thousands)				
	Total	Less than 1 year	Over 1 to 3 years	Over 3 to 5 years	More than 5 years
Contractual Obligations:					
Deposits without stated maturity	$ 143,192	$ 143,192	$ —	$ —	$ —
Certificates of deposit	252,407	189,734	47,123	15,550	—
Federal Home Loan Bank advances	16,000	2,000	3,000	2,000	9,000
Other borrowed funds	657	657	—	—	—
Lease obligations	781	131	262	262	126
Total	$ 413,037	$ 335,714	$ 50,385	$ 17,812	$ 9,126

Results of Operations – Twelve Months Ended December 31, 2008 Compared to 2007

Net interest income for the year ending December 31, 2008 decreased $4.8 million or 27% from the year-ago period. The decrease in net interest income is attributable to the reversal of interest income on loans placed on nonaccrual totaling $1.2 million, holding of other real estate and nonaccrual loans averaging $9.6 million and $28.7 million, respectively, $493,000 less in loan fee income, and net interest margin compression resulting from asset sensitivity as the prime lending rate fell 400 basis points (bps) during the year ending December 31, 2008. Management estimates that the effect of 2008 nonaccrual activity in terms of balance and lost interest income along with balances in other real estate results in $3.5 million in foregone loan interest income. This foregone interest income equates to 0.75% lost to the net interest margin.

The December 31, 2008 tax equivalent net interest margin of 3.11% fell 102 basis points from the year-ago period. Margin decline was attributable to a 92 basis point decrease in the net interest component of the net interest margin and an 11 basis point decline in the loan fee component of the net interest margin relative to the prior year. The 11 basis point decline in the loan fee component of the margin is due to $140.7 million fewer loans originated versus the prior year. The decline in the interest component of the net interest margin is principally due to the amount of nonaccrual loans and other real estate and secondarily to loans and other earning assets repricing faster downward than the decline in funding costs. The yield on earning assets declined 173 basis points from 2007 to 2008 while the cost of funds declined 86 basis points over the same period. The Bank's average loan-to-funding ratio declined from 82.5% to 82% for 2007 to 2008.

Total interest income for the year ending December 31, 2008 declined $8.3 million or 24% from the year-ago period. The decrease in interest income was attributable to a decline in average earning assets and the level of nonaccrual loans.

In 2008 versus 2007, total average earning assets declined $12 million or 3% and average nonaccrual loans increased $24.5 million or 573%. The tax equivalent yield on earning assets as of December 31, 2008 was 6.17% and declined 175 basis points from the year-ago period. This decrease results from a 207 basis point fall in loan yield, a 5 basis point decline in investment portfolio yield, and a 285 basis point decline in yield on federal funds sold and interest bearing deposits. The overall decline in yield on earning assets from the year-ago period is principally due to the volume of nonaccrual loans and other real estate and secondarily to loans and other earning assets repricing faster downward as the prime lending rate fell 400 basis points during the year.

Interest expense for the twelve months ending December 31, 2008 declined $3.4 million or 21% from the year-ago period. The decrease in interest expense is due to an 86 basis points decline in cost of funds.

The cost of funds as of December 31, 2008 was 3.44% and fell 86 basis points from the year-ago period. The decrease in cost of funds results from a 161 basis point decline in the cost of interest bearing demand deposit accounts, a 1 basis point decline in the cost of funds on savings accounts, a 74 basis point decrease in cost of funds on time deposits, and a 16 basis point decline in borrowed money. The small decline in cost of funds for savings deposits is due to the increased popularity of a savings account that's tied to 50% of the prime lending rate and a teaser rate associated with that product. The overall decline in the cost of funds from the year-ago period results from nonmaturing and maturing deposits repricing at lower rates as rates have fallen over the year.

Provision for loan losses for the twelve months ending December 31, 2008 increased $12.6 million or 380% from the year-ago period. The rise in provision expense versus the prior year-end was primarily due to $14.4 million in net charge-offs and an increase in problem loans. Refer to the discussion on loans and ALL adequacy for further comment.

During 2008, other income, excluding investment securities, other real estate, and fixed asset gains or losses, declined $37,709 or 1% from the year-ago period. Income from secondary market financing activity declined $137,855 or 20% from the year-ago period due to tightened credit underwriting standards resulting in lower volume. Mortgage originations for purchasing or refinancing residential real estate and sold into the secondary market fell 64 or 24% in number and 25% by dollar amount from 2007 to 2008. Overdraft fee income rose $118,225 or 7% due to higher overdraft fees and volume.

Investment securities gains totaling $2,158,514 represent the sale of the Company's equity stake in Silverton Financial Services, Inc.

During 2008, other noninterest expense increased $447,166 or 3% from the year-ago period. This increase is principally attributable to two factors: a $166,261 or 242% increase in collection expenses associated with the increase in noncurrent loans; a $602,126 or 519% increase in other real estate expenses associated with the increased activity in other real estate. These higher expenses were partially off-set by a $445,787 or 5% decline in salary and employee benefit expense. From 2007 to 2008 full time equivalent employees declined 22 or 15%.

During 2008, the Company realized a $5.1 million income tax benefit. This benefit reflects the increase in certain deferred tax credits, a two year net operating loss carry-back, and $287,829 in net operating loss carry-forwards as permitted by tax code. This benefit was the result of the Company's loss before income taxes.

McIntosh Bancshares, Inc.
Table 1 - Average Balance Sheets, Interest and Rates

The table below shows the year-to-date average balance for each category of interest earning assets and interest-bearing liabilities for the indicated periods and the average rate of interest earned or paid thereon.

	For the Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)	Average Balance	Interest Income/ Expense	Weighted Average Rate (TE)
ASSETS									
Interest earning assets:									
Federal funds sold and interest bearing deposits	$ 11,562,650	$ 234,238	2.03%	$ 9,232,956	$ 453,892	4.92%	$ 14,024,172	$ 689,783	4.92%
Taxable investments	66,738,075	3,287,427	4.93%	70,679,753	3,525,154	4.99%	55,261,514	2,491,875	4.51%
Non-taxable investments	6,635,100	258,390	5.90%	10,703,778	428,973	6.07%	10,504,769	434,784	6.27%
Total investments	73,373,175	3,545,817	5.01%	81,383,531	3,954,127	5.13%	65,766,283	2,926,659	4.79%
Taxable loans	334,324,739	21,971,222	6.57%	343,471,851	29,718,212	8.65%	312,246,281	27,809,041	8.91%
Non-taxable loans	3,869,941	181,853	7.12%	1,068,467	59,886	8.49%	1,336,525	73,368	8.32%
Total loans	338,194,680	22,153,075	6.58%	344,540,318	29,778,098	8.65%	313,582,806	27,882,409	8.90%
Total interest earning assets	423,130,505	25,933,130	6.18%	435,156,805	34,186,117	7.91%	393,373,261	31,498,851	8.07%
Allowance for loan losses	(8,487,782)			(5,124,334)			(4,462,140)		
Other assets	39,259,217			29,713,256			29,970,446		
Total assets	$453,901,940			$ 459,745,727			$ 418,881,567		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Deposits:									
Demand	$100,223,572	$ 1,328,132	1.33%	$ 116,866,109	$ 3,441,208	2.94%	$ 113,605,552	$ 2,941,889	2.59%
Savings	17,381,179	264,539	1.52%	12,010,137	184,350	1.53%	11,448,003	139,380	1.22%
Time	245,510,133	10,884,689	4.43%	234,323,402	12,125,482	5.17%	199,110,346	9,260,632	4.65%
Total Deposits	363,114,884	12,477,360	3.44%	363,199,648	15,751,040	4.34%	324,163,901	12,341,901	3.81%
Federal funds purchased	42,855	1,244	2.90%	84,245	4,577	5.43%	105,287	6,594	6.26%
FHLB advances	14,846,735	531,654	3.58%	18,941,714	689,972	3.64%	22,832,877	825,134	3.61%
Other borrowings	540,955	5,131	0.95%	274,602	9,808	3.57%	—	—	—
Total interest bearing liabilities	378,545,429	13,015,389	3.44%	382,500,209	16,455,397	4.30%	347,102,065	13,173,629	3.80%
Non-interest bearing demand deposits	34,093,123			34,636,932			34,738,891		
Other liabilities	4,987,974			4,811,079			3,223,539		
Stockholders' equity	36,275,414			37,797,507			33,817,072		
Total liabilities and stockholders' equity	$453,901,940			$ 459,745,727			$ 418,881,567		
Net interest income		$ 12,917,741			$ 17,730,720			$ 18,325,222	
Net interest spread (TE)			2.74%			3.61%			4.27%
Net interest margin (TE)			3.11%			4.13%			4.72%

Non-accrual loans and the interest income which was recorded on these loans, if any, are included in the yield calculation for loans in all periods reported.

(TE) - Tax Equivalent. Loan fees of $1,141,948; $1,634,948; and $1,995,433 are included in the yields for 2008, 2007 and 2006 respectively.

McIntosh Bancshares, Inc.
Table 2 - Rate/Volume Variance Analysis

The following tables show a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates for each major category of interest-earning assets and interest-bearing liabilities for 2008 over 2007 and 2007 over 2006.

	2008 over 2007		
	Increase (decrease) due to changes in:		
	Volume	Rate	Change
Interest earned on:			
Federal funds sold and interest bearing deposits	$ 47,195	$ (266,849)	$ (219,654)
Taxable investments	(194,162)	(43,565)	(237,727)
Non-taxable investments	(158,446)	(12,137)	(170,583)
Taxable loans	(601,132)	(7,145,858)	(7,746,990)
Non-taxable loans	131,644	(9,677)	121,967
Total Interest Income	$ (774,901)	$ (7,478,086)	$ (8,252,987)
Interest paid on:			
Deposits:			
Demand	(220,542)	(1,892,534)	(2,113,076)
Savings	81,746	(1,557)	80,189
Time	495,964	(1,736,757)	(1,240,793)
Federal funds purchased	(1,201)	(2,132)	(3,333)
FHLB advances	(146,639)	(11,679)	(158,318)
Other borrowings	2,526	(7,203)	(4,677)
Total Interest Expense	$ 211,854	$ (3,651,862)	$ (3,440,008)
Net Interest Income	$ (986,755)	$ (3,826,224)	$ (4,812,979)

Note : Rate/volume variance were allocated between rate variances and volume variances using a weighted average allocation method.

McIntosh Bancshares, Inc.
Table 2 - Rate/Volume Variance Analysis (continued)

	2007 over 2006		
	Increase (decrease) due to changes in:		
	Volume	Rate	Change
Interest earned on:			
Federal funds sold and interest bearing deposits	$ (235,536)	$ (355)	$ (235,891)
Taxable investments	768,985	264,294	1,033,279
Non-taxable investments	7,976	(13,787)	(5,811)
Taxable loans	2,701,730	(792,559)	1,909,171
Non-taxable loans	(15,025)	1,543	(13,482)
Total Interest Income	$ 3,228,130	$ (540,864)	$ 2,687,266
Interest paid on:			
Deposits:			
Demand	96,009	403,310	499,319
Savings	8,628	36,342	44,970
Time	1,822,162	1,042,688	2,864,850
Federal funds purchased	(1,143)	(874)	(2,017)
FHLB advances	(141,740)	6,578	(135,162)
Other borrowings	9,808	—	9,808
Total Interest Expense	$ 1,793,724	$ 1,488,044	$ 3,281,768
Net Interest Income	$ 1,434,406	$ (2,028,908)	$ (594,502)

Note : Rate/volume variance were allocated between rate variances and volume variances using a weighted average allocation method.

McIntosh Bancshares, Inc.
Table 3 - Investment Portfolio

The following table presents the carrying value of investments by category at December 31, 2008, 2007, and 2006. Amounts in thousands.

Securities Available For Sale	2008 Total Market Value	2007 Total Market Value	2006 Total Market Value
US Treasuries and Agencies	$ 27,606	$ 43,315	$ 57,877
Corporate debt securities	491	505	500
SCM's	2,259	11,366	9,891
Mortgage backed securities	40,300	20,665	16,692
Equities	—	—	565
Subtotal	$ 70,656	$ 75,851	$ 85,525

Securities Held To Maturity	2008 Total Book Value	2007 Total Book Value	2006 Total Book Value
SCM's	—	236	323
Total	**$ 70,656**	**$ 76,087**	**$ 85,848**

McIntosh Bancshares, Inc.
Table 3 - Investment Portfolio (continued)

The following table presents the maturities of all investment securities at carrying value and the weighted average yields for each category of securities presented:

	<One Year Total	1 to 5 Years Total	>5 to 10 Years Total	>10 Years Total	Total	Weighted Average Yield (TE)
Securities available for sale:						
Treasuries and US government agencies	1,273,826	21,077,125	5,254,690	—	27,605,641	4.96%
State and political divisions	388,534	1,009,686	642,065	219,170	2,259,455	6.35%
Corporate debt securities	—	—	490,890	—	490,890	6.25%
Mortgage-backed securities	168,093	6,174,977	7,359,157	26,597,673	40,299,900	4.90%
Equities	—	—	—	—	—	—
Total	**$ 1,830,453**	**$ 28,261,788**	**$ 13,746,802**	**$ 26,816,843**	**$ 70,655,886**	4.98%

Mortgage backed securities are included in the maturities categories in which the are anticipated to be repaid based on scheduled maturities.

McIntosh Bancshares, Inc.
Table 4 - Loan Portfolio

The following table presents loans by type and the percentage of loans by type at the end of the last 5 years. Amounts in thousands.

	2008 Total	2008 %	2007 Total	2007 %	2006 Total	2006 %	2005 Total	2005 %	2004 Total	2004 %
Classifications:										
Commercial, financial & agricultural	$ 63,787	19.7%	$ 56,713	16.6%	$ 49,914	15.2%	$ 44,242	15.6%	$ 31,134	13.3 %
Real estate-mortgage	178,287	55.0%	158,317	46.3%	150,893	45.9%	147,541	52.2%	144,056	61.7 %
Real estate-construction	63,052	19.4%	109,739	32.1%	112,220	34.1%	75,246	26.6%	42,527	18.2 %
Consumer loans	15,324	4.7%	16,074	4.7%	14,718	4.5%	14,507	5.1%	14,060	6.0 %
Tax-exempt	3,881	1.2%	1,011	0.3%	1,132	0.3%	1,450	0.5%	1,806	0.8 %
	324,331	100.0%	341,854	100.0%	328,877	100.0%	282,986	100.0%	233,583	100.0 %
Allowance	(8,517)		(6,956)		(4,662)		(4,077)		(2,913)	
Net Loans	$ 315,814		$ 334,898		$ 324,215		$ 278,909		$ 230,670	

At December 31, 2008, maturities of loans in the indicated classifications were as follows. Amounts in thousands.

	Maturity			
	One Year Or Less	Over One To Five Years	Over Five Years	Total
Commercial, financial & agricultural	$ 40,361	$ 21,187	$ 2,239	$ 63,787
Real estate-construction	62,689	363	—	63,052
Total	$103,050	$ 21,550	$ 2,239	$126,839

As of December 31, 2008, the interest terms of loans in the indicated classifications for the indicated maturity ranges are as follows. Amounts in thousands.

	Rate Structure for Loans Maturing Over One Year		
	Adjustable Rate	Fixed Rate	Total
Commercial, financial & agricultural	$ 7,772	$ 15,654	$ 23,426
Real estate-construction	363	—	363
Total	$ 8,135	$ 15,654	$ 23,789

McIntosh Bancshares, Inc.
Table 4 - Loan Portfolio (continued)

The following summarizes past-due and non-accrual loans, other real estate and repossessions and income that would have reported on non-accrual loans for the years ended December 31, 2008, 2007, 2006, 2005, and 2004. Amounts in thousands.

	2008 Total	2007 Total	2006 Total	2005 Total	2004 Total
Loans on non-accrual	$ 27,315	$ 21,565	$ 602	$ 420	$ 1,307
Trouble debt restructuring (nonaccrual)	2,440	—	—	—	—
Loans 90 days or more past due	1	44	335	118	116
Other real estate and repossessions	14,829	6,249	2,208	611	202
	$ 44,585	$ 27,858	$ 3,145	$ 1,149	$ 1,625
Non-performing loans as a % of loans	9.17%	6.32%	0.28%	0.19%	0.61%
Interest that would have been recognized	$ 3,475	$ 1,134	$ 60	$ 38	$ 117

A loan is placed on non-accrual status when, in management's judgment, the collection of interest appears doubtful. As a result of management's ongoing review of the loan portfolio, loans are classified as non-accrual generally when they are past due in principal and interest for more than 90 days or it is otherwise not reasonable to expect collection of principal and interest under the original terms. Exceptions are allowed for 90 day past due loans when such loans are well secured and in process of collection. Generally, payments received on non-accrual loans are applied directly to principal.

McIntosh Bancshares, Inc.
Table 5 - Analysis of the Allowance for Loan Losses

The following table summarizes information concerning the allowance for loan loss. Amounts in thousands.

	2008	2007	2006	2005	2004
Allowance at beginning of year	$ 6,956	$ 4,662	$ 4,077	$ 2,913	$ 3,178
Charge-offs:					
Commercial, financial, and agricultural	259	33	10	47	680
Real estate - mortgage	449	72	120	84	—
Real estate-construction	13,601	958	5	—	—
Consumer loans	161	175	114	89	63
Tax exempt	—	—	—	—	—
Total charge-offs	14,470	1,238	249	220	743
Recoveries:					
Commercial, financial, and agricultural	—	1	—	6	6
Real estate - mortgage	12	147	23	119	—
Real estate-construction	19	—	—	—	—
Consumer loans	52	60	33	19	14
Tax exempt	—	—	—	—	—
Total recoveries	83	208	56	144	20
Net charge-offs	14,387	1,030	193	76	723
Provisions charged to earnings	15,948	3,324	778	1,240	458
Allowance at end of year	$ 8,517	$ 6,956	$ 4,662	$ 4,077	$ 2,913
Ratio of net charge-offs to avg. loans	4.25%	0.30%	0.06%	0.03%	0.33%
Ratio of allowance to total loans	2.63%	2.03%	1.42%	1.44%	1.25%

The Company has a dedicated loan review function. Sixty-two percent of the portfolio was reviewed in 2008 and placed into loan grading categories, which assist in developing lists of potential problem loans. These loans are regularly monitored by the loan review function to ensure early identification of deterioration. The formal allowance for loan loss adequacy test is performed at each calendar quarter end. Specific amounts of loss are estimated on problem loans and historical loss percentages are applied to the balance of the portfolio using certain portfolio stratifications. Additionally, the evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions, regulatory examination results, and the existence of loan concentrations.

McIntosh Bancshares, Inc.
Table 5 - Con't Analysis of the Allowance for Loan Losses

The following table presents the allocation of allowance for loan losses by category and the percentage of loans in each category to total loans at end of the last 5 years. Amounts in thousands.

	2008 Amount	2008 %	2007 Amount	2007 %	2006 Amount	2006 %	2005 Amount	2005 %	2004 Amount	2004 %
Balance at End of Period Applicable to:										
Commercial, financial, agricultural and tax exempt	$ 995	20.9%	$ 589	16.9%	$ 671	15.5%	$ 599	16.1%	$ 422	14.1%
Real estate-mortgage	2,070	55.0%	2,173	46.3%	2,192	45.9%	2,153	52.2%	1,545	61.7%
Real estate-construction	5,220	19.4%	3,932	32.1%	1,537	34.1%	1,030	26.6%	661	18.2%
Consumer loans	232	4.7%	262	4.7%	262	4.5%	295	5.1%	285	6.0%
Total allowance for loan loss	$ 8,517	100.0%	$ 6,956	100.0%	$ 4,662	100.0%	$ 4,077	100.0%	$ 2,913	100.0%

McIntosh Bancshares, Inc.
Table 6 - Deposits

The average balance of the deposits and the average rates paid on such deposits are summarized for the periods indicated in the following table.

	2008		2007		2006	
Deposits:						
Non-interest bearing demand deposits	$ 34,093,123	—	$ 34,636,932	—	$ 34,738,891	—
Interest bearing demand	100,223,572	1.33%	116,866,109	2.94%	113,605,552	2.59%
Savings	17,381,179	1.52%	12,010,137	1.53%	11,448,003	1.22%
Time	245,510,133	4.43%	234,323,402	5.17%	199,110,346	4.65%
Total	$ 397,208,007		$ 397,836,580		$ 358,902,792	

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2008 summarized as follows. Amounts in thousands.

	Total
Three months or less	$ 12,627
Over three months through six months	27,412
Over six months through twelve months	38,176
Over twelve months	30,728
	$108,943

McIntosh Bancshares, Inc.
Table 7 - Selected Ratios

The following table sets out certain ratios of the Company as of and for the years indicated. Amounts in thousands.

	2008	2007	2006
Net income	$ (8,229)	$ 2,588	$ 4,918
Average assets	453,902	459,746	418,882
Average equity	36,275	37,798	33,817
Dividends	253	1,012	840
Return on average assets	-1.81%	0.56%	1.17%
Return on average equity	-22.69%	6.85%	14.54%
Dividend payout ratio	N/A	39.10%	17.07%
Average equity to average assets	7.99%	8.22%	8.07%

McIntosh Bancshares, Inc.
Table 8 - Analysis of Short-term and Long-term Borrowings

The following table sets out certain information regarding the Company's borrowings.

		2008		2007	
Type: Federal Home Loan Bank Advances	**Maturity**	**Amount**	**Rate**	**Amount**	**Rate**
Fixed rate	01/25/09	2,000,000	4.05%	2,000,000	4.05%
Fixed rate	01/25/10	3,000,000	4.17%	3,000,000	4.17%
Fixed rate convertible to 3 month LIBOR 12/19/08	12/19/13	2,000,000	3.44%	2,000,000	3.44%
Fixed rate convertible to 3 month LIBOR 3/17/09	03/17/14	3,000,000	2.91%	3,000,000	2.91%
Fixed rate convertible to 3 month LIBOR 5/19/09	05/19/15	2,000,000	3.77%	2,000,000	3.77%
Fixed rate convertible to 3 month LIBOR 5/24/10	05/22/15	2,000,000	2.86%	—	—
Fixed rate convertible to 3 month LIBOR 5/23/13	05/23/18	2,000,000	3.60%	—	—
Total		$ 16,000,000		$ 12,000,000	
Maximum borrowing at any given month end - FHLB		$ 21,000,000		$ 21,000,000	
Average outstanding borrowings for the period		$ 14,846,735	3.58%	$ 18,941,714	3.64%

McIntosh Bancshares, Inc.
Table 9 - Interest Rate Sensitivity Analysis

Amounts in thousands repricing or maturing.	One Year or Less	Over 1 Yr. Through 3 Years	Over 3 Yrs. Through 5 Years	Over 5 Years	Total
Interest earning assets:					
Adjustable rate loans	$ 144,922	$ —	$ —	$ —	$ 144,922
Fixed rate loans	66,710	66,096	17,358	29,245	179,409
Investment securities	33,192	16,009	7,772	13,683	70,656
Other investments	—	—	—	3,348	3,348
Bank owned life insurance	6,774	—	—	—	6,774
Int bearing deposits in other banks & Fed Funds sold	9,649	—	—	—	9,649
Total interest earning assets	261,247	82,105	25,130	46,276	414,758
Interest bearing liabilities:					
Fixed maturity deposits	189,734	47,123	15,550	—	252,407
Interest bearing DDA accounts (NOW, Super NOW, MMDA)	89,486	—	—	—	89,486
Savings accounts	21,488	—	—	—	21,488
Other borrowed funds	9,657	5,000	2,000	—	16,657
Total interest bearing liabilities	$ 310,365	$ 52,123	$ 17,550	$ —	$ 380,038
Interest rate sensitivity gap	$ (49,118)	$ 29,982	$ 7,580	$ 46,276	$ 34,720
Cummulative interest rate sensitivity gap	$ (49,118)	$ (19,136)	$ (11,556)	$ 34,720	
Cummulative interest rate sensitivity gap to total assets	-10.89%	-4.24%	-2.56%	7.70%	

Item 8. Financial Statements

The following consolidated financial statements of the Registrant and its subsidiaries are included on Exhibit 13.1 of this Annual Report on Form 10-K:

Consolidated Balance Sheets - December 31, 2008 and 2007

Consolidated Statements of Operations - December 31, 2008 and 2007

Consolidated Statements of Comprehensive Income - December 31, 2008 and 2007

Consolidated Statements of Changes in Stockholders' Equity - December 31, 2008 and 2007

Consolidated Statements of Cash Flows - December 31, 2008 and 2007

Notes to Consolidated Financial Statements

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

The principal independent accountant of the Company and of the Bank has not resigned, declined to stand for re-election, or been dismissed during the two most recent fiscal years or any later interim period.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and the Principal Financial and Accounting Officer, of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

The management of McIntosh Bancshares, Inc. and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system has been designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of the Company's published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The management of McIntosh Bancshares, Inc. and subsidiaries has assessed the effectiveness of the Company's internal control over financial reporting for the years ending December 31, 2008 and 2007, respectively. To make this assessment, we used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2008 and 2007, respectively, the Company's internal control over financial reporting met those criteria and is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls

There were no changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that have materially affected, or are reasonably likely to materially after these controls.

See the Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Item 9B. Other Information

On December 23, 2008, the Company entered into a Debenture Agreement with Redemptus Group LLC ("Redemptus"), pursuant to which the Company will issue to Redemptus $8 million in debentures. The Debenture Agreement with Redemptus provides for the issuance to Redemptus of fixed rate debentures in principal amount of $439,229 (the "Fixed Rate Debentures") and floating rate debentures in principal amount of $7,560,771 (the "Floating Rate Debentures," and, collectively with the Fixed Rate Debentures, the "Debentures"). The Floating Rate Debentures will have quarterly coupon payments at an annual rate based on the prime rate plus 4.50%, subject to a minimum coupon of 7.50% and a maximum coupon of 12.75% and will be convertible at the option of the holder into common shares of the Company at a conversion price of $6.85 per share (the "Conversion Price"). The Conversion Price is subject to certain anti-dilution adjustments under the terms of the Debenture Agreement.

The Fixed Rate Debentures will have quarterly coupon payments at an annual rate of 12.75% and will be mandatorily convertible into an equal principal amount of Floating Rate Debentures upon the issuance by the Company of a sufficient number of common shares to result in Redemptus owning fewer than 25% of the outstanding common shares upon conversion of all the Debentures.

The Debentures will be secured by all of the outstanding common stock of the Bank and a $1.5 million interest payment account. The security interest in the Bank stock will terminate at the end of the fiscal quarter during which the Bank has consummated the sale of certain troubled assets in accordance with the provisions of the Debenture Agreement, provided that specified capital ratios for the Company and the Bank meet or exceed "well-capitalized" regulatory standards and that no event of default has occurred and is continuing.

The Debentures have a term of ten years, and will be callable by the Company at its option after five years under certain conditions described in the Debenture Agreement, subject in all cases to prior approval by the Federal Reserve Board, if then required.

Indebtedness under the Debentures may be accelerated and Redemptus or any subsequent holder of the Debentures may exercise their rights to the collateral and receive a default rate of interest if any of the following events of default occur:

(1) failure to pay any obligation when due;

(2) failure to complete a subsequent private placement and the sale of certain assets in accordance with the provisions of the Debenture Agreement;

(3) breach of or default under any of the terms and conditions of the Debenture Agreement, subject to a 30-day right to cure certain breaches or defaults;

(4) failure to make a position available for the holder's nominee on the boards of directors of the Company and the Bank;

(5) court-ordered attachment, seizure, receivership, injunction or similar action relating to the material assets or activities of the Company or the Bank;

(6) insolvency or bankruptcy of the Company or closure or receivership of the Bank;

(7) material misrepresentations or omissions reasonably relied upon in evaluating the purchase of the Debentures; or

(8) certain change in control transactions.

The issuance of the Debentures is expected to close on or before March 31, 2009 and is subject to specified closing conditions, including but not limited to receipt of required regulatory approvals; receipt of transaction financing by Redemptus; completion of a $3.0 million private placement to directors and executive officers of the Company; payment of a placement fee and reimbursement of certain expenses to Redemptus; and Redemptus's reasonable satisfaction with its continuing due diligence.

Item 10. Directors, Executive Officers and Corporate Governance

Code of Ethics

Upon written request, a copy of the McIntosh Bancshares, Inc. Code of Ethics shall be furnished to shareholders without charge. Please direct your written request to James P. Doyle, McIntosh Bancshares, Inc., 210 South Oak Street, Jackson, Georgia 30233.

The remaining information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

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

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of or incorporated by reference in this report:

(1) Financial Statements: The consolidated balance sheets of McIntosh Bancshares, Inc. and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the years then ended, together with the related notes and the report of Porter Keadle Moore, LLP, independent registered public accounting firm.

(2) Financial statement schedules: All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

(3) Exhibits: A list of the Exhibits as required by Item 601 of Regulation S-K to be filed as part of this Annual Report is shown on the "Exhibit Index" filed herewith.

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McINTOSH BANCSHARES, INC.

Date: March 25, 2009

BY:/s/ William K. Malone
WILLIAM K. MALONE
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William K. Malone, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 25, 2009.

Signature	Title
/s/ William K. Malone William K. Malone	Director, Chairman of the Board and CEO
/s/ J. Paul Holmes, Jr. J. Paul Holmes, Jr.	Director
/s/ Dennis Keith Fortson Dennis Keith Fortson	Director
/s/ John L. Carter John L. Carter	Director
/s/ William T. Webb William T. Webb	Director
/s/ George C. Barber George C. Barber	Director
/s/ Thurman L. Willis Thurman L. Willis	Director, President and Chief Operating Officer
/s/ James P. Doyle James P. Doyle	Chief Financial and Accounting Officer

EXHIBIT INDEX

Exhibit No.	Description
2.1	Articles of Incorporation of McIntosh Bancshares, Inc. (incorporated by reference to Exhibit 2(a) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
2.2	Amendment to Articles of Incorporation of McIntosh Bancshares, Inc.-April 23, 1998 (incorporated by reference to Exhibit 2(b) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
2.3	Bylaws of McIntosh Bancshares, Inc. (incorporated by reference to Exhibit 2(c) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
2.4	Amendment to bylaws of McIntosh Bancshares, Inc. dated April 23, 1998 (incorporated by reference to Exhibit 2(d) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No.0-49766).
2.5	Amendment to the Articles of Incorporation of McIntosh Bancshares, Inc. – January 29, 2009 (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8K, filed by the Registrant on January 30, 2009, File No. 0-049766).
4.1	Debenture Agreement between the Registrant and Redemptus, dated December 23, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8K, filed by the Registrant on December 31, 2008, File No. 0-049766).
10.1	Stock Option Agreement with William K. Malone (incorporated by reference to Exhibit 6(a) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.2	Stock Option Agreement with Thurman L. Willis (incorporated by reference to Exhibit 6(b) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.3	Stock Option Agreement with Bruce E. Bartholomew (incorporated by reference to Exhibit 6(c) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.4	Stock Option Agreement with James P. Doyle (incorporated by reference to Exhibit 6(d) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.5	Change in Control Agreement with William K. Malone (incorporated by reference to Exhibit 6(e) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.6	Change in Control Agreement with Thurman L. Willis (incorporated by reference to Exhibit 6(f) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.7	Change in Control Agreement with Bruce E. Bartholomew (incorporated by reference to Exhibit 6(g) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.8	Change in Control Agreement with James P. Doyle (incorporated by reference to Exhibit 6(h) to the Registrant's Form 10-KSB, filed by the Registrant on April 29, 2002, File No. 0-49766).
10.9	Stock Option Agreement with Jason Patrick dated September 18, 2003 (incorporated by reference to Exhibit 6.9 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.10	Stock Option Agreement with Rob Beall dated September 18, 2003 (incorporated by reference to Exhibit 6.10 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.11	Stock Option Agreement with Bruce Bartholomew dated September 18, 2003 (incorporated by reference to Exhibit 6.11 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.12	Stock Option Agreement with James P. Doyle dated September 18, 2003 (incorporated by reference to Exhibit 6.12 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.13	Stock Option Agreement with William K. Malone dated September 18, 2003 (incorporated by reference to Exhibit 6.13 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.14	Stock Option Agreement with Thurman Willis dated September 18, 2003 (incorporated by reference to Exhibit 6.14 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 30, 2004, File No. 000-49766).
10.15	Salary Continuation Agreement with Thurman L. Willis dated August 10, 2004 (incorporated by reference to Exhibit 6.15 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 31, 2005, File No. 000-49766).
10.16	Stock Option Agreement with Rob Beall dated October 20, 2005 (incorporated by reference to Exhibit 10.16 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 28, 2006, File No. 000-49776).
10.17	Stock Option Agreement with Jason Patrick dated October 20, 2005 (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-KSB, filed with the Commission on March 28, 2006, File No. 000-49776).

Exhibit No.	Description
10.18	Stock Option Agreement with Charles Harper dated October 20, 2005 (incorporated by reference to Exhibit 10.18 to Registrant’s Annual Report on Form 10-KSB, filed with the Commission on March 28, 2006, File No. 000-49776).
10.19	2006 Stock Compensation Plan (incorporated by reference to Appendix A of the Registrant’s Schedule 14A Proxy Statement, filed with the Commission on April 25, 2006, File No. 000-49766).
10.20	Stock Option Agreement with William K. Malone dated July 18, 2006 (2006 Stock Compensation Plan Example) (incorporated by reference to Exhibit 10.20 to Registrant’s Annual Report on Form 10-KSB, filed with the Commission on March 29, 2007, File No. 000-49776).
10.21-.25	Amendments to Salary Continuation Agreements filed on December 1, 2008 (incorporated by reference to Exhibits 10.21-.25 to the Registrant’s Form 8K, filed by the Registrant on December 1, 2008, File No. 0-049766).
13.1	Consolidated Financial Statements
21.1	Subsidiaries of the Registrant.
24.1	Power of Attorney relating to this Form 10-K is set forth on the signature page of this Form 10-K.
31.1	Certifications of the Registrant’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of the Registrant’s Chief Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	18 U.S.C. Section 1350 Certifications of the Registrant’s Chief Executive Officer and Chief Financial and Accounting Officer

EXHIBIT NO. 13.1

MCINTOSH BANCSHARES, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008 and 2007

(with Report of Independent Registered Public Accounting Firm)

Porter Keadle Moore, LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
McIntosh Bancshares, Inc.
Jackson, Georgia

We have audited the consolidated balance sheets of McIntosh Bancshares, Inc. (the Company) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Porter Keadle Moore, LLP

Atlanta, Georgia
March 25, 2009

MCINTOSH BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Cash and due from banks	$ 11,236,248	$ 6,491,435
Interest-bearing deposits	3,648,976	6,727,673
Federal funds sold	6,000,000	8,124,000
Investment securities held to maturity (market value of $231,047)	—	235,512
Investment securities available for sale	70,655,886	75,850,582
Other investments	3,347,979	1,760,865
Loans	324,331,007	341,854,333
Less: Allowance for loan losses	(8,517,479)	(6,956,164)
Loans, net	315,813,528	334,898,169
Premises and equipment, net	6,785,873	7,443,657
Other real estate	14,829,144	6,246,715
Accrued interest receivable	2,296,294	3,835,210
Bank owned life insurance	6,774,322	6,516,157
Other assets	9,765,916	4,324,605
Total assets	$ 451,154,166	$ 462,454,580
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 32,218,792	$ 31,891,955
Money market and NOW accounts	89,485,500	116,452,038
Savings	21,488,019	12,568,818
Time deposits of $100,000 or more	108,775,948	117,250,399
Time deposits	143,631,233	129,113,648
Total deposits	395,599,492	407,276,858
Borrowed funds	16,656,504	12,461,379
Accrued interest payable and other liabilities	6,624,647	4,913,897
Total liabilities	418,880,643	424,652,134
Commitments		
Stockholders' equity:		
Common stock, par value $2.50; 10,000,000 shares authorized, 3,252,581 shares for 2008 and 2,810,976 shares for 2007 issued and outstanding	8,131,453	7,027,440
Surplus	7,660,276	5,686,589
Retained earnings	16,689,822	25,172,294
Accumulated other comprehensive loss	(208,028)	(83,877)
Total stockholders' equity	32,273,523	37,802,446
Total liabilities and stockholders' equity	$ 451,154,166	$ 462,454,580

See accompanying notes to consolidated financial statements.

MCINTOSH BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

For the Years Ended December 31, 2008 and 2007

	2008	2007
Interest income:		
Loans, including fees	$ 22,153,075	$29,778,098
Interest on investment securities:		
U.S. Treasury, U.S. Government agency and mortgage-backed securities	3,191,545	3,367,380
State, county and municipal	258,272	428,973
Other investments	96,000	157,774
Federal funds sold and other short-term investments	234,238	453,892
Total interest income	25,933,130	34,186,117
Interest expense:		
Interest-bearing demand and money market	1,328,132	3,441,208
Savings	264,539	184,350
Time deposits of $100,000 or more	5,209,118	6,202,057
Other time deposits	5,675,571	5,923,425
Other	538,029	704,357
Total interest expense	13,015,389	16,455,397
Net interest income	12,917,741	17,730,720
Provision for loan losses	15,947,716	3,324,370
Net interest income (loss) after provision for loan losses	(3,029,975)	14,406,350
Other income:		
Service charges	2,503,665	2,307,843
Investment securities gains	2,184,140	156,053
Increase in cash surrender value of life insurance	297,560	286,074
Other real estate owned losses	(1,180,926)	(23,164)
Fixed and repossessed asset losses	(14,844)	(7,772)
Other income	1,242,182	1,487,199
Total other income	5,031,777	4,206,233
Other expenses:		
Salaries and employee benefits	9,126,505	9,582,292
Occupancy and equipment	1,795,829	1,744,790
Other operating	4,431,671	3,579,757
Total other expenses	15,354,005	14,906,839
Earnings (loss) before income taxes	(13,352,203)	3,705,744
Income tax (expense) benefit	5,122,719	(1,117,856)
Net earnings (loss)	$ (8,229,484)	$ 2,587,888
Basic earnings (loss) per common share based on average outstanding shares of 2,813,389 in 2008 and 2,810,554 in 2007	$ (2.93)	$ 0.92
Diluted net earnings (loss) per common share based on average outstanding shares of 2,813,389 in 2008 and 2,860,884 in 2007	$ (2.93)	$ 0.90
Dividends declared per share of common stock	$ 0.09	$ 0.36

See accompanying notes to consolidated financial statements.

MCINTOSH BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2008 and 2007

	2008	2007
Net earnings (loss)	$ (8,229,484)	$ 2,587,888
Other comprehensive income (loss), net of income tax:		
Unrealized gains on securities available for sale:		
Holding gains arising during period, net of tax of $413,831 and $230,417	803,319	447,281
Less: Reclassification adjustment for gains on sale of securities, net of tax of ($8,033) and ($50,270)	(15,592)	(97,583)
Change in unfunded pension liability, net of tax of ($469,758) and $14,402	(911,878)	27,958
Total other comprehensive income (loss)	(124,151)	377,656
Comprehensive income (loss)	$ (8,353,635)	$ 2,965,544

See accompanying notes to consolidated financial statements.

MCINTOSH BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

For The Years Ended December 31, 2008 and 2007	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2006	$7,022,440	$5,573,780	$23,596,177	$ (461,533)	$35,730,864
Net earnings	—	—	2,587,888	—	2,587,888
Change in unrealized gains/losses on securities available for sale	—	—	—	349,698	349,698
Change in unfunded pension obligation	—	—	—	27,958	27,958
Stock-based compensation	—	94,009	—	—	94,009
Cash dividend paid, $0.36 per share	—	—	(1,011,771)	—	(1,011,771)
Stock options exercised, 2,000 shares	5,000	18,800	—	—	23,800
Balance, December 31, 2007	$7,027,440	$5,686,589	$25,172,294	$ (83,877)	$37,802,446
Net loss	—	—	(8,229,484)	—	(8,229,484)
Change in unrealized gains/losses on securities available for sale	—	—	—	787,727	787,727
Change in unfunded pension obligation	—	—	—	(911,878)	(911,878)
Stock-based compensation	—	93,081	—	—	93,081
Cash dividend paid, $0.09 per share	—	—	(252,988)	—	(252,988)
Issued 441,605 shares of common stock $2.50 par, net of $40,375 issuance costs	1,104,013	1,880,606	—	—	2,984,619
Balance, December 31, 2008	$8,131,453	$7,660,276	$16,689,822	$ (208,028)	$32,273,523

See accompanying notes to consolidated financial statements.

MCINTOSH BANCSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Net earnings (loss)	$ (8,229,484)	$ 2,587,888
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation, accretion and amortization	821,995	633,132
Gain on sale of other investments	(2,158,514)	—
Gain on sale or call of securities available for sale	(25,626)	(156,053)
Provision for loan losses	15,947,716	3,324,370
Stock-based compensation	93,081	94,009
Provision for deferred income tax benefit	(69,520)	(1,072,034)
Loss on sale of other real estate	1,180,926	23,164
Loss on fixed and repossessed asset disposal	14,844	7,772
Change in:		
Accrued interest receivable and other assets	(4,041,120)	(82,272)
Accrued interest payable and other liabilities	329,115	(295,443)
Net cash provided by operating activities	3,863,413	5,064,533
Cash flows from investing activities:		
Proceeds from maturities and paydowns of securities available for sale	30,794,789	41,847,408
Proceeds from maturities and paydowns of securities held to maturity	235,000	100,000
Proceeds from sales of securities available for sale	9,468,448	335,326
Proceeds from sales of other real estate	7,285,425	2,855,029
Purchases of securities available for sale	(33,864,987)	(31,674,856)
Purchases of other investments	(2,631,179)	(1,478,500)
Proceed from sales of other investments	3,202,579	1,896,800
Additions to other real estate	(1,821,809)	(313,249)
Net change in loans	(12,090,046)	(20,611,278)
Purchases of premises and equipment	(148,907)	(1,376,735)
Net cash provided (used) by investing activities	429,313	(8,420,055)
Cash flows from financing activities:		
Net change in deposits	(11,677,366)	7,746,275
Proceed from sale of common stock	3,024,994	—
Stock issuance cost	(40,375)	—
Proceeds from exercise of stock options	—	23,800
Proceeds from borrowed funds	24,695,125	15,611,379
Repayment of borrowed fund	(20,500,000)	(24,150,000)
Dividends paid	(252,988)	(1,011,771)
Net cash used by financing activities	(4,750,610)	(1,780,317)
Net change in cash and cash equivalents	(457,884)	(5,135,839)
Cash and cash equivalents at beginning of period	21,343,108	26,478,947
Cash and cash equivalents at end of period	$ 20,885,224	$ 21,343,108
Supplemental schedule of noncash investing and financing activities:		
Change in net unrealized gain/loss on investment securities available-for-sale, net of tax	$ 787,727	$ 349,698
Change in unfunded pension liability	$ (911,878)	$ 27,958
Transfer of loans to other real estate	$ 15,238,971	$ 6,603,508
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 13,151,515	$ 16,257,535
Income taxes	$ —	$ 2,374,954

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McIntosh Bancshares, Inc. and subsidiaries (the “Company”) provide a full range of banking and bank-related services to individual and corporate customers in the Georgia counties of Butts, Jasper and Henry and surrounding areas. McIntosh Bancshares, Inc. and subsidiaries are subject to competition from other financial institutions and are also subject to the regulations of certain governmental agencies and undergo periodic examinations by those regulatory authorities.

The accounting and reporting policies of McIntosh Bancshares, Inc. and subsidiaries conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The following is a summary of the significant accounting policies.

Basis of Presentation

The consolidated financial statements include the accounts of McIntosh Bancshares, Inc (the “Parent Company”) and its wholly-owned subsidiaries, McIntosh State Bank (the “Bank”) and McIntosh Financial Services, Inc., collectively known as the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, 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 revenues and expenses for the period. Actual results could differ significantly 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 and the market valuation reserve on investment securities available for sale. Management believes that the allowance for loan losses is adequate and the market valuation reserve is appropriate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits with the Federal Home Loan Bank of (FHLB), the Federal Reserve Bank (FRB), and a broker-dealer, and federal funds sold. Generally, federal funds are sold for one day periods.

Investment Securities

The Company classifies its securities in one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in held-to-maturity are classified as available-for-sale.

Investment securities held to maturity are reported at cost, adjusted for amortization of premium and accretion of discount. Investment securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of stockholders’ equity, net of the related tax effect. Other investments are reported at cost and, accordingly, earnings are reported when interest is accrued or when dividends are received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Premiums and discounts on all noncallable investment securities are amortized and accreted, respectively, to interest income on the straight-line and interest methods over the period to the maturity of the related investment. Premiums on callable investment securities are amortized to interest income on a straight-line method over the period to the call date of the related investment. Discounts on callable investment securities are accreted to interest income on a straight-line method over the period to maturity of the related investment. Premiums and discounts on mortgage-backed securities are amortized and accreted, respectively, to interest income using level yield over the period to maturity of the related security, taking into consideration assumed prepayment patterns.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

A decline in the market value of any available for sale or held to maturity investment below cost that is deemed other than temporary is charged to earnings and establishes a new cost basis for the security.

Gains or losses on disposition are computed using the specific identification method for all securities except equity investments. Gains or losses on disposition of equity investments are computed using the average cost method.

Loans

Loans are reported at the gross amount outstanding net of the valuation allowance for loan losses. Interest income is generally recognized over the terms of the loans based on the principal amount outstanding. Loan origination fees and direct origination costs, which are approximately the same on most loans, are recognized at the time the loan is recorded on the books. If the collectibility of interest appears doubtful, accrual is discontinued. Accrued interest, which appears doubtful of collection, is reversed against interest income if accrued in the current year or charged to the allowance for loan losses if accrued in prior years. Payments received on non-accrual loans are recorded as a reduction to the loan’s balance. Accrual of interest is resumed if management believes a borrower’s financial position has improved sufficient to support the debt and demonstrated through payment history.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Loans or relationships exceeding $200,000 on nonaccrual or internally graded Substandard or Doubtful are reviewed for impairment. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or at the loan’s observable market price, or at the fair value of the collateral of the loan if the loan is collateral dependent. Interest income from impaired loans is recognized when received.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance represents an amount which, in management’s judgment, will be adequate to absorb probable losses on existing loans that may become uncollectible. The Bank’s practice is to charge-off loans (in whole or part) when the credit (1) becomes 120 days past due and is not real estate secured, (2) is deemed collateral dependent and impaired when secured by real estate, or (3) is rated Loss. Management’s judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans and takes into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower’s ability to pay, overall portfolio quality, and review of specific nonperforming loans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Management's quantitative and qualitative assessment of allowance adequacy considers loans identified with more than the normal risk of repayment or impaired credits, a historical loss experience factor by loan category, and a qualitative factor considering national, regional, and local economic conditions, industry specific prospects, and collateral and margin estimates by loan category. For loans considered impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. Historical loss experience applies to performing loans where management is unaware of specific circumstances that would lead it to believe collectability of principal and interest is in doubt. Qualitative factors are applied to cover uncertainties that could affect management's estimate of probable losses and reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general loan losses in the portfolio.

Management reviews the adequacy of the allowance at least quarterly. This review considers changes to loan grades, delinquency levels, portfolio mix, and impairment testing results as well as changes to eight qualitative factors regarding the economy and overall underwriting standards. Recognized losses are charged to the allowance for loan losses, while subsequent recoveries are added to the allowance. Bank regulators may make the Bank increase the allowance based upon their examination results.

Premises and Equipment

Premises and equipment are reported at cost less accumulated depreciation. For financial reporting purposes, depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets which range from three to forty years. Expenditures for maintenance and repairs are charged to operations as incurred, while major renewals and betterments are capitalized. For federal tax reporting purposes, depreciation is computed using primarily accelerated methods.

Other Real Estate

Other real estate represents properties acquired through or in lieu of loan foreclosure. Other real estate is initially recorded at the lower of cost or fair value less estimated disposal costs. Fair value is reviewed annually after the initial determination, any write-down to fair value up to 90 days after transfer to other real estate is charged to the allowance for loan losses. Costs of improvements are capitalized, as long as the resulting balance of the asset does not exceed fair value less costs of disposal. Whereas costs relating to holding other real estate and valuation adjustments subsequent to 90 days of transfer are expensed. Revenue and expenses from operations and changes in the valuation allowance are included in gain (loss) from foreclosed assets.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

In May 2007, the Financial Accounting Standards Board (FASB) amended FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes.* FIN 48 requires that the Company determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Company has reviewed its tax planning and provisioning, and believes that no uncertain tax positions existed during the years presented.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets purchased in a business combination. Goodwill is required to be tested annually for impairment, or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value would be charged to earnings. The carrying amount of goodwill, which is included in other assets in the accompanying consolidated balance sheets, totaled $600,743 at December 31, 2008 and 2007. During 2008 and 2007, there was no charge to earnings for impairment of goodwill.

Earnings Per Common Share

Basic earnings (loss) per common share has been computed based on the weighted average number of shares outstanding during the period which totaled 3,252,581 and 2,810,554 for the years ended December 31, 2008 and 2007 respectively. The basic earnings per share calculation have been adjusted to reflect the impact of dilutive securities in the form of stock options. Inclusion of potential common shares for the period ending December 31, 2008 would have been anti-dilutive; therefore, these amounts are not presented. There were 199,892 anti-dilutive stock options outstanding at December 31, 2008. The basic and diluted earnings per share for 2007 are as follows:

	Net Earnings	Common Shares	Per Share Amount
For the year ended December 31, 2007			
Basic earnings per share	$2,587,888	2,810,554	$ 0.92
Effect of dilutive securities	—	50,330	(0.02)
Diluted earnings per share	$2,587,888	2,860,884	$ 0.90

Defined Benefit Pension Plan

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106, and 132(R).* FASB Statement No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity.

This Statement requires the Company to:

- Recognize the funded status of its defined benefit pension plan – measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation – in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation.
- Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions*, or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of Statements 87 and 106, if any, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.
- Measure defined benefit plan assets and obligations as of the date of the employers' fiscal year-end statement of financial position (with limited exceptions).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

While FASB Statement No. 158 amends FASB Statement No. 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FASB Statement No. 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and other related accounting literature, the Company will continue to apply the provisions in FASB Statements No. 87, 88, and 106 in measuring plan assets and benefit obligations as of the date of its balance sheets and in determining the amount of net periodic benefit cost.

Adoption of FASB Statement No. 158 requires the Company to charge other comprehensive income, net of tax, related to actuarial net gains or losses and prior service costs or credits that arose during the period but not recognized as components of net periodic benefit cost. Refer to Footnote 9 for further information on the Company's defined benefit pension plan.

Stock-Based Compensation

The Company accounts for its stock compensation plans using Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payments*, which requires a fair value based method of accounting for employee stock compensation plans whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Refer to Footnote 10 for more information about the Company's stock- based compensation program.

Comprehensive Income

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

Recent Accounting Pronouncements

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115* allows for voluntary use of fair value accounting at the instrument level. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected not to utilize fair value accounting.

Emerging Issues Task Force (EITF) Issue 99-20-1, *Amendments to the Impairment Guidance of EITF 99-20 Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests* addresses clarification on whether other-than-temporary impairment (OTTI) has occurred. EITF Issue 99-20-1 is effective for fiscal years beginning after December 15, 2008. The Company has evaluated the impact of implementation of EITF Issue 99-20-1 and found its application to OTTI assessment was immaterial to the consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB and other standard setting entities that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

NOTE 2. CASH AND DUE FROM BANKS

The Bank is required to maintain average reserve balances with the Federal Reserve Bank or in cash. At December 31, 2008 and 2007, the Bank's reserve requirement was approximately $4,869,000 and $176,000, respectively. The Bank maintained cash balances which were adequate to meet the requirements.

NOTE 3. INVESTMENT SECURITIES

Investment securities at December 31, 2008 and 2007 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities Held to Maturity				
December 31, 2007				
States and political subdivisions	$ 235,512	$ —	$ (4,465)	$ 231,047
Securities Available for Sale				
December 31, 2008				
U. S. Government-sponsored agencies	**$ 26,782,056**	**$ 823,585**	**$ —**	**$ 27,605,641**
Mortgage-backed securities	**39,267,722**	**1,039,517**	**(7,339)**	**40,299,900**
States and political subdivisions	**2,249,980**	**40,482**	**(31,007)**	**2,259,455**
Corporate debt securities	**500,000**	**—**	**(9,110)**	**490,890**
	$ 68,799,758	**$ 1,903,584**	**$ (47,456)**	**$ 70,655,886**
December 31, 2007				
U. S. Government-sponsored agencies	$ 42,645,853	$ 677,561	$ (8,801)	$ 43,314,613
Mortgage-backed securities	20,748,902	75,575	(159,928)	20,664,549
States and political subdivisions	11,293,221	133,703	(60,904)	11,366,020
Corporate debt securities	500,000	5,400	—	505,400
	$ 75,187,976	$ 892,239	$ (229,633)	$ 75,850,582

Other investments are comprised of the following:

	December 31, 2008	December 31, 2007
Federal Home Loan Bank	**$ 1,641,300**	$ 1,369,300
Silverton Financial Services, Inc.	**1,706,679**	391,565
	$ 3,347,979	$ 1,760,865

The amortized cost and estimated market value of investment securities available for sale at December 31, 2008, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid with or without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	Investment Securities Available for Sale	
	Amortized Cost	Market Value
Due in one year or less	$ 1,645,000	$ 1,662,359
Due from one to five years	21,496,302	22,086,810
Due from five to ten years	6,150,734	6,387,647
Due after ten years	240,000	219,170
Mortgage-backed securities	39,267,722	40,299,900
	$ 68,799,758	$ 70,655,886

Gross gains and losses on calls and sales of securities consist of the following:

	Years Ended December 31, 2008	2007
Gross gains on calls of securities	**$ 2,000**	$ 8,200
Gross gains on sales of securities	**2,182,140**	147,853
	$ 2,184,140	$ 156,053

NOTE 3. INVESTMENT SECURITIES (Continued)

Proceeds from the sale of available-for-sale securities for the years ended December 31, 2008 and 2007 totaled $9,468,448 and $335,326, respectively. Proceeds from the sale of other investments for the year ended December 31, 2008 totaled $3,202,579. There were no sales of other investments for the year ended December 31, 2007.

Investment securities with a market value of $69,883,410 and $72,624,840 at December 31, 2008 and 2007, respectively, were pledged to secure public funds required by law, collateralized United States Treasury, Tax and Loan deposits, collateralized a Federal Funds accommodation line, and sold under agreement to repurchase.

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

	Less Than Twelve Months		Twelve Months or More	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2008				
State and political subdivisions	**$ (31,007)**	**$ 708,993**	**$ —**	**$ —**
Mortgage-backed securities	**(23)**	**17,643**	**(7,316)**	**475,428**
Corporate debt securities	**(9,110)**	**490,890**	**—**	**—**
Total	**$ (40,140)**	**$ 1,217,526**	**$ (7,316)**	**$ 475,428**
December 31, 2007				
U.S. Government-sponsored agencies	$ (3,013)	$ 992,165	$ (5,788)	$ 4,399,003
State and political subdivisions	(11,669)	1,275,063	(53,700)	2,281,680
Mortgage-backed securities	(6,760)	2,953,009	(153,168)	9,307,228
Total	$ (21,442)	$ 5,220,237	$ (212,656)	$ 15,987,911

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies has occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary as of December 31, 2008 and 2007.

NOTE 4. LOANS

Major classifications of loans are summarized as follows:

	December 31,	
	2008	2007
Commercial, financial and agricultural	**$ 63,786,772**	$ 56,712,741
Real estate – mortgage	**178,287,266**	158,317,197
Real estate – construction	**63,051,843**	109,739,188
Consumer and other	**15,323,921**	16,074,053
Tax-exempt	**3,881,205**	1,011,154
	324,331,007	341,854,333
Less: Allowance for loan losses	**(8,517,479)**	(6,956,164)
	$ 315,813,528	$ 334,898,169

The Bank grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Butts, Jasper and Henry counties as well as other adjoining counties in Georgia. Although the Bank has a diversified portfolio, a substantial portion is secured by improved and unimproved real estate and is dependent on the real estate market.

NOTE 4. LOANS (Continued)

The following is a summary of activity in the allowance for loan losses:

	Years Ended December 31, 2008	2007
Balance at beginning of year	**$ 6,956,164**	$ 4,661,975
Provision charged to expense	**15,947,716**	3,324,370
Loans charged off	**(14,469,948)**	(1,238,344)
Recoveries of loans previously charged off	**83,547**	208,163
	$ 8,517,479	$ 6,956,164

Impaired loans totaled $38,269,840 and $24,713,216 at December 31, 2008 and 2007, respectively. Allocations of the loan loss reserve related to impaired loans totaled $4,163,312 and $2,916,854 at December 31, 2008 and 2007, respectively. The average balance for impaired loans in the years ended December 31, 2008 and 2007 was approximately $37,863,000 and $13,581,000, respectively. There were no significant amounts of interest income recognized on impaired loans for the years ended December 31, 2008 and 2007.

Loans on nonaccrual status totaled $29,754,944 and $21,564,737 at December 31, 2008 and 2007, respectively. Loans past due ninety days or more and still accruing interest totaled $512 and $43,704 at December 31, 2008 and 2007, respectively.

NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment are comprised of the following:

	December 31, 2008	2007
Land	**$ 785,361**	$ 800,433
Buildings and land improvements	**7,029,806**	7,149,531
Furniture, fixtures and equipment	**5,084,382**	4,846,686
	12,899,549	12,796,650
Less accumulated depreciation	**(6,113,676)**	(5,352,993)
	$ 6,785,873	$ 7,443,657

Depreciation expense totaled approximately $806,000 and $793,000 in 2008 and 2007, respectively.

NOTE 6. DEPOSITS

Maturities of time deposits at December 31, 2008 are as follows:

Maturing in:	
2009	$ 189,734,166
2010	34,511,006
2011	12,612,108
2012	8,755,253
2013	6,794,648
	$ 252,407,181

For the years ended December 31, 2008 and 2007 the Bank had $50,856,000 and $58,026,000, respectively, in brokered deposits outstanding. The daily average of such deposits totaled $53,382,000 and $47,352,000 for the years ended December 31, 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007 the weighted average cost of funds on these deposits was 4.44% and 5.32%, respectively. As of December 31, 2008 and 2007, the weighted average rate on these deposits was 3.99% and 4.76%, respectively. Brokered deposits mature from January 8, 2009 through December 8, 2011. Brokered deposits may not be renewed without prior approval of the FDIC if the Bank is less than Well Capitalized.

NOTE 7. OTHER BORROWED FUNDS

Other borrowed funds are summarized as follows:

	December 31,	
	2008	**2007**
FHLB advances	**$ 16,000,000**	$ 12,000,000
Repurchase agreements and other short-term borrowings	**656,504**	461,379
	$ 16,656,504	$ 12,461,379

The Bank has invested in FHLB stock for the purpose of establishing credit lines with the FHLB. Advances on the credit lines are secured by liens against the Bank's qualifying real estate loans. Total qualifying real estate loans eligible as collateral amounted to $61,945,000 and $81,332,000 at December 31, 2008 and 2007, respectively. The amount of qualifying real estate loans eligible was reduced during 2008 as the Bank opted to instead pledge commercial real estate loans as collateral for the Federal Reserve Bank discount window due to greater availability on eligible collateral. Outstanding borrowings totaled $16,000,000 and $12,000,000 at December 31, 2008 and 2007, respectively. All advances outstanding at December 31, 2008 carry fixed interest rates ranging from 2.86% to 4.17%, require monthly or quarterly payments of interest only, and mature through May 23, 2018. The FHLB has the option to convert $9,000,000 of the advances at dates through May 2013 to advances bearing interest based on LIBOR. At December 31, 2008, remaining credit availability for the Bank totaled approximately $12,300,000.

The Bank has access to the Federal Reserve Bank (FRB) of Atlanta discount window. Advances are collateralized by eligible loans including commercial real estate mortgages, commercial non real estate loans and agricultural loans. As of December 31, 2008, the Bank had $20,108,000 in eligible loans as collateral providing a borrowing capacity of approximately $15,100,000. Draws from the discount window are intended to be of a short term nature. The Bank had no borrowings from FRB outstanding at December 31, 2008.

Securities sold under agreements to repurchase amounted to $440,757 and $304,555 at December 31, 2008 and 2007 respectively, mature on a daily basis, and are secured by securities with fair values of $1,797,996 and $6,208,398, respectively. The weighted average cost of funds on these agreements was 0.40% and 3.15% for the years ending December 31, 2008 and 2007, respectively.

United States Treasury, Tax, and Loan note obligations totaled $215,746 and $156,824 at December 31, 2008 and 2007, respectively, are callable by the Treasury, and are secured by mortgage-backed securities with a fair value of $270,618 and $343,386 at December 31, 2008 and 2007, respectively. The weighted average cost of funds for this agreement was 1.44% and 4.27% for the years ending December 31, 2008 and 2007, respectively.

NOTE 8. INCOME TAXES

The following are the components of income tax expense (benefit):

	Years Ended December 31,	
	2008	**2007**
Current	**$ (5,053,199)**	$ 2,189,890
Deferred	**218,309**	(1,072,034)
Net operating loss carry-forward	**(287,829)**	—
Total income tax expense (benefit)	**$ (5,122,719)**	$ 1,117,856

The Company has net operating loss carry-forwards in 2008 for federal and state income tax purposes of $487,000 and $3,273,000, respectively. If unused, the carry-forwards will expire in 2028.

NOTE 8. INCOME TAXES (Continued)

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to earnings (loss) before income taxes are as follows:

	December 31, 2008	December 31, 2007
Income tax (benefit) computed at federal statutory tax rate	**$ (4,539,749)**	$ 1,259,953
Increase (decrease) resulting from:		
Tax-exempt interest	**(147,660)**	(165,396)
Nondeductible interest on tax-exempt investments	**20,083**	28,576
Life insurance income	**(101,170)**	(97,265)
State income taxes (benefit), net of federal benefit	**(390,133)**	199
Other, net	**35,911**	91,789
	$ (5,122,719)	$ 1,117,856

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets as follows:

	December 31, 2008	December 31, 2007
Deferred income tax assets:		
Allowance for loan losses	**$ 2,008,998**	$ 2,462,594
Pension plan contributions	**—**	80,152
Deferred compensation	**746,313**	623,348
Net operating loss carry-forward	**287,829**	—
Accrued pension contribution	**224,703**	80,152
Unfunded pension liability	**738,253**	268,495
Other	**142,205**	123,963
Total gross deferred tax assets	**$ 4,148,301**	$ 3,638,704
Deferred income tax liabilities:		
Accumulated depreciation on premises and equipment	**$ (106,048)**	$ (168,114)
Unrealized gain on investment securities available for sale	**(631,083)**	(225,286)
Other	**(140,334)**	(107,949)
Total gross deferred tax liabilities	**$ (877,465)**	$ (501,349)
Net deferred income tax asset	**$ 3,270,836**	$ 3,137,355

NOTE 9. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

Defined Benefit Pension Plan

The Parent Company sponsors a defined benefit pension plan covering substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Parent Company and compensation rates for the last five years. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be performed in the future.

Pension expense includes the following components:

	December 31, 2008	December 31, 2007
Service cost of the current period	**$ 330,964**	$ 261,837
Interest cost on the projected benefit obligation	**200,812**	170,163
Return on plan assets	**(182,052)**	(152,447)
Net amortization of actuarial net gain/loss	**33,335**	27,208
Pension expense, net	**$ 383,059**	$ 306,761

The following table shows the pre-tax change in accumulated other comprehensive income (loss), a component of stockholders' equity, attributable to the components of net pension expense and reclassification adjustments:

For the year ended December 31, 2008	Unrecognized Actuarial Net Gain or Loss	Unamortized Prior Service Cost
Accumulated other comprehensive income, beginning of year	$ 789,690	$ —
Components of comprehensive income arising during period:		
Recognized during the period	1,414,970	—
Recognized in net periodic pension cost	(33,335)	—
Accumulated other comprehensive income, end of year	$2,171,325	$ —

The Parent Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses. During 2009, the Company expects to expense approximately $98,400 for unrecognized gains and losses.

The following sets forth the funded status of the plan and the amounts included in the accompanying balance sheet:

	December 31, 2008	December 31, 2007
Actuarial present value of benefit obligations:		
Accumulated benefit obligation	**$ 2,014,324**	$ 1,405,118
Projected benefit obligation	**$ 4,206,664**	$ 3,171,451
Fair value of assets held in the plan	**$ 1,439,877**	$ 2,207,269
Unfunded excess of projected benefit obligation over plan assets	**2,766,787**	964,182
Less accrued pension costs	**(595,462)**	(174,492)
Accrued pension liability recognized in other comprehensive income	**$ 2,171,325**	$ 789,690

NOTE 9. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS (Continued)

Defined Benefit Pension Plan (Continued)

The following table includes a reconciliation of projected benefit obligation:

	December 31, 2008	December 31, 2007
Projected benefit obligation beginning of year	**$3,171,451**	$2,673,181
Service cost	**330,964**	261,837
Interest cost	**200,812**	170,163
Distributions	**(2,678)**	(97,311)
Actuarial (gains) losses	**506,115**	163,581
Projected benefit obligation end of year	**$4,206,664**	$3,171,451

The following table includes a reconciliation of the fair value of plan assets:

	December 31, 2008	December 31, 2007
Fair value – beginning of year	**$2,207,269**	$1,848,558
Contributions	**—**	273,183
Return on plan assets	**47,038**	235,089
Distributions	**(2,678)**	(97,311)
Unrealized gains (losses)	**(811,752)**	(52,250)
Fair value – end of year	**$1,439,877**	$2,207,269

The following table sets forth the assumptions used to compute the estimated pension liability:

	December 31, 2008	December 31, 2007
Weighted average discount rate - projected benefit obligation	**5.80%**	6.00%
Increase in future compensation levels	**4.00%**	4.00%
Expected long-term rate of return	**8.25%**	8.25%

In consultation with the plan's investment management company and actuary, the Parent Company, as plan sponsor, arrives at an assumption for the expected long-term rate of return on plan assets which approximates the yield on AA rated corporate bonds. This rate is intended to reflect the average rate of earnings expected on funds invested given funding obligations, future compensation levels, and inflation. The expected long-term rate of return is not necessarily a reflection of recent experience but rather a historical estimate of future long-term rates of return. Anticipated returns for the plan are not reduced by taxes and assume the plan continues in place for the foreseeable future.

The Parent Company reviews the plan's asset allocation and investment mix at least annually. Plan assets may be invested in a mix of the following major classes: equity – large cap; equity – small and mid cap; equity – international; short and intermediate bond; and money market. Investment strategies are based, in part, on the Company's overall assessment of the state of the economy and its assumed direction, the Federal Reserve Board's bias in setting monetary policy, fiscal policy and its projected impact, and the direction of short and long-term interest rates. Investment strategies are guided by an investment policy that calls for comparing the investment performance of the investment management company to an appropriate benchmark. This evaluation is conducted over a three-year horizon and also considers the investment manager's performance relative to their discipline.

NOTE 9. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS (Continued)

Defined Benefit Pension Plan (Continued)

The estimated benefit payments by year to plan participants over the next 10 years are as follows:

2009	$ 1,000
2010	141,000
2011	33,000
2012	50,000
2013	1,558,000
2014-2018	1,569,000
Total estimated benefit payments over next ten years	$ 3,352,000

The Parent Company made no contribution to the plan in 2008 and contributed $273,183 to the plan in 2007. During 2009, the Company expects to contribute approximately $270,000 to the plan.

Profit Sharing Plan

The Parent Company sponsors an Internal Revenue Code Section 401(k) Employee Savings Plan that permits an employee to defer annual cash compensation. The Parent Company's Board of Directors determines the Parent Company's contribution, which was approximately $148,000 and $271,000 in 2008 and 2007, respectively.

Deferred Compensation Plans

The Bank has entered into salary continuation agreements with its directors, its chief executive officer and five other officers. In 2008 and 2007, the Bank expensed $394,987 and $381,452, respectively, for the accrual of future salary continuation benefits. The Bank has elected to fund the salary continuation liability with single premium universal life insurance policies. In 2008 and 2007, cash value income totaled $285,911 and $274,838, respectively. As of December 31, 2008 and 2007, other assets included $6,560,968 and $6,314,451, respectively, in surrender value. As of December 31, 2008 and 2007, other liabilities included salary continuation benefits payable of $1,977,729 and $1,651,870, respectively.

The Bank also maintains split dollar insurance on its chief executive officer. In 2008 and 2007, the increase in cash surrender value recorded in income totaled $11,649 and $11,236, respectively. As of December 31, 2008 and 2007, other assets include cash surrender value of $213,354 and $201,706, respectively.

NOTE 10. STOCK OPTION PLANS

The Company's stock option plans (1998 and 2006) (the "Plans") reserve a maximum of 331,892 shares of common stock as of December 31, 2008. Options are granted with exercise prices equal to the fair market value of the stock at the date of the grant. These options expire 10 years from the grant date and vest between four and six years. The Plans provide that upon exercise, the number of options awarded will be adjusted for any stock dividends occurring since the grant date. Therefore, the number of shares granted and the weighted average exercise prices have been adjusted for any stock dividends that have been declared since the first options were granted under the Plans.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatilities are based on a pool of similarly situated and traded Georgia community banks. The Company considers historical data and peer group data to estimate option exercise and employee terminations within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. No options were granted during the years ended December 31, 2008 or 2007.

NOTE 10. STOCK OPTION PLANS (Continued)

A summary status of the Company's stock option plans as of December 31, 2008 and 2007, and changes during the years ending on those dates is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	**199,892**	**$ 15.47**		
Granted	**—**	**—**		
Exercised	**—**	**—**		
Forfeited	**—**	**—**		
Outstanding at December 31, 2008	**199,892**	**$ 15.47**	**4.3**	**$ N/A**
Vested at December 31, 2008	**148,372**	**$ 13.92**	**3.2**	**$ N/A**
Outstanding at January 1, 2007	203,892	$ 15.48		
Granted	—	—		
Exercised	(2,000)	11.90		$ 16,200
Forfeited	(2,000)	20.00		—
Outstanding at December 31, 2007	199,892	$ 15.47	5.3	$905,511
Vested at December 31, 2007	124,719	$ 13.27	3.6	$921,711

Information pertaining to options outstanding at December 31, 2008 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$11.90 - $12.80	115,594	2.0 years	$ 12.23	115,594	$ 12.23
$18.00 - $21.00	84,298	7.5 years	$ 19.92	32,778	$ 19.87

As of December 31, 2008, there was $214,974 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Plans. The cost is expected to be recognized over three years.

NOTE 11. RELATED PARTY TRANSACTIONS

As of December 31, 2008 and 2007, the Bank had direct and indirect loans outstanding to or for the benefit of certain of the Bank's executive officers, directors, and their related interests of $2,521,696 and $2,193,987, respectively. During 2008 and 2007, $5,059,806 and $951,514 of such loans were made and repayments totaled $4,732,096 and $916,520, respectively. These loans were made in the ordinary course of business in conformity with normal credit terms, including interest rates and collateral requirements prevailing at the time for comparable transactions with other borrowers. These individuals and their related interests also maintain customary demand and time deposit accounts at the Bank which amounted to $4,343,038 and $5,075,091 at December 31, 2008 and 2007, respectively.

NOTE 12. REGULATORY MATTERS

The Parent Company and the Bank are subject to various capital requirements administered by the regulatory authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The regulations require the Parent Company and Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Parent Company and Bank assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Parent Company and Bank capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following tables) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined). As of December 31, 2008, the most recent notification from the FDIC categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized and adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, and Total risk-based ratios as set forth in the tables.

	Regulatory Guidelines		Company (consolidated)		Bank (only)	
	Adequately Capitalized	Well Capitalized	2008	2007	2008	2007
Leverage Ratio	3.0%	5.0%	**6.4%**	8.1%	**6.7%**	8.0%
Risked Based Ratios:						
Tier 1 capital	4.0%	6.0%	**8.2%**	10.0%	**8.3%**	10.0%
Total capital	8.0%	10.0%	**9.5%**	11.3%	**9.6%**	11.2%
(in thousands)						
Tier 1 capital			**$ 28,610**	$ 37,285	**$ 29,701**	$ 36,963
Total capital			**$ 33,011**	$ 41,956	**$ 34,118**	$ 41,629

Banking regulations limit the amount of dividends which the Bank may pay without obtaining prior approval. Under current state banking laws, the approval of the Georgia Department of Banking and Finance will be required if the total of all dividends declared in the calendar year exceeds 50 percent of the net profits for the previous calendar year, and the ratio of equity capital to adjusted total assets is less than 6 percent. At December 31, 2008, there was no stockholders' equity of the Bank available for the payment of dividends after that date to the Parent Company.

Due to its current condition and results of operation, the Company and Bank entered into informal agreements with regulatory authorities in the third quarter of 2008. These regulatory agreements are designed to help the Company and Bank return to profitability and capital adequacy by improving asset quality. Specifically, the agreements provide for reducing troubled assets; limiting credit to troubled borrowers; maintaining an adequate allowance for loans losses; revising policies to more comprehensively address commercial real estate lending; maintaining a Tier One leverage capital ratio of 8% or more, a Tier One risked-based capital ratio of 6% or more, and a Total risked-based capital ratio of 10% or more; prohibiting the Bank from paying dividends to the Company without prior approval; prohibiting the Company from paying dividends to shareholders without prior approval; prohibiting the Company from incurring debt without prior approval; and prohibiting the Company from repurchasing stock without prior approval. The Bank is presently unable to achieve the Tier One leverage and Total risked-based capital provisions of the agreements but is negotiating for added capital. Failure to raise capital to the prescribed levels may lead to the issuance of a cease and desist order and further limitations on banking activities.

NOTE 13. STOCKHOLDERS EQUITY

On December 29, 2008, the Company issued 441,605 shares of commons stock to certain directors and executive officers for aggregate proceeds of $3,024,994, less a placement fee of $40,375.

On January 28, 2009 common shareholders approved an amendment to the Company's articles of incorporation allowing for the issuance of one or more series of preferred stock. The articles of incorporation were amended to allow the issuance of up to 10 million shares of preferred stock at no par value. Preferred stock can be issued with rights and conditions that might among other things restrict dividends on the common stock, dilute the voting power of the common stock, and reduce the market price for the common stock. The Company's board of directors is authorized to issue preferred stock from time to time, with full or limited voting powers, or without voting powers, and with all designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions upon each series of preferred stock.

NOTE 14. OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk 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 consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2008 and 2007, commitments to extend credit totaled $24,490,071 and $45,567,042, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. At December 31, 2008 and 2007, commitments under letters of credit aggregated $1,284,725 and $2,069,008, respectively. In 2008 and 2007, the Bank was not required to perform on any letters of credit.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the other party. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; and income-producing commercial properties on those commitments for which collateral is deemed necessary.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157, *Fair Value Measurements*, (SFAS 157) expands disclosures about fair value measurements and applies under other accounting statements that the Company has previously adopted. The effective date of SFAS 157 is for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Under SFAS 157, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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

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

The Company utilizes fair value measures to record fair value adjustments on certain assets and liabilities and to complete fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Other asset categories that are affected by periodic adjustments to fair value include: goodwill; impaired loans; and other real estate. The Company, as allowed under SFAS 157, elects to disclose on a prospective basis. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

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

Cash and Cash Equivalents

For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Investment Securities Available-for-Sale

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

Other Investments

The carrying value of other investments is estimated to approximate fair value.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are judged for impairment. Once a loan is identified as individually impaired, management measures impairment in accordance with Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*, (SFAS 114). The fair value of impaired loans is estimated using one of three methods, including collateral value, market value of similar debt, and discounted cash flow. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2008, substantially all of the Company's impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Bank Owned Life Insurance

The carrying value of cash surrender value of life insurance approximates fair value.

Goodwill

Goodwill is subject to periodic impairment testing. A discounted cash flow valuation method is used in the completion of impairment testing. This valuation method requires a significant degree of management judgment. In the event the projected discounted net operating cash flows are less than the carrying value, the asset is recorded at fair value as determined by the valuation model. As such in the period where an impairment charge is recorded, the Company classifies goodwill subjected to nonrecurring fair value adjustments as Level 3.

Deposits

The fair value of demand deposits, savings accounts, NOW accounts, and certain money market deposits are estimated by discounting the future cash flows using the rates currently offered for funding of similar maturities to the estimated average life for each type of deposit. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

NOTE 15. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Borrowed Funds

The fair value of fixed rate and convertible FHLB advances is estimated by discounting the future cash flows using the current rates at which similar advances would be drawn by the Bank. For variable rate FHLB advances, the carrying value approximates fair value. The carrying amounts of borrowings under repurchase agreements and other short-term borrowings approximate their fair value.

Commitments to Extend Credit and Standby Letters of Credit

Off-balance-sheet financial instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable interest rates. Therefore, both the carrying value and the fair value associated with these instruments are immaterial.

Assets Recorded At Fair Value on a Recurring Basis as of December 31, 2008

(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Investment Securities AFS	$ 70,656	$ —	$ 70,656	$ —
Total Recurring	$ 70,656	$ —	$ 70,656	$ —

Assets Recorded At Fair Value on a Nonrecurring Basis as of December 31, 2008

(Amounts in thousands)	Total	Level 1	Level 2	Level 3
Impaired Loans	$ 38,270	$ —	$ 18,283	$ 19,987
Other Real Estate	14,829	—	14,829	—
Total Nonrecurring	$ 53,099	$ —	$ 33,112	$ 19,987
Total Fair Value of Assets	$ 123,755	$ —	$ 103,768	$ 19,987

The carrying amount and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 are as follows:

	December 31, 2008		December 31, 2007	
(Amounts in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	**$ 20,885**	**$ 20,885**	$ 21,343	$ 21,343
Investment securities	**70,656**	**70,656**	76,086	76,082
Other investments	**3,348**	**3,348**	1,761	1,761
Loans (net)	**315,814**	**324,741**	334,898	334,679
Bank owned life insurance	**6,774**	**6,774**	6,516	6,516
Financial liabilities:				
Deposits	**$ 395,599**	**$ 395,591**	$ 407,277	$ 407,402
Other borrowed funds	**16,657**	**16,746**	12,461	12,545

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 16. CONDENSED FINANCIAL INFORMATION OF McINTOSH BANCSHARES, INC.

CONDENSED BALANCE SHEETS
(Parent Only)

	2008	2007
Assets		
Cash	**$ 135,068**	$ 367,968
Investment in McIntosh State Bank subsidiary	**33,835,340**	38,001,249
Investment in McIntosh Financial Services, Inc. subsidiary	**86,502**	142,386
Other assets	**1,023,716**	292,936
Total assets	**$ 35,080,685**	$ 38,804,539
Liabilities and Stockholders' Equity		
Unfunded pension liability	**$ 2,766,787**	$ 1,002,093
Other liabilities	**40,375**	—
Total liabilities	**2,807,162**	1,002,093
Stockholders' equity:		
Common stock	**8,131,453**	7,027,440
Surplus	**7,660,276**	5,686,589
Retained earnings	**16,689,822**	25,172,294
Accumulated other comprehensive loss	**(208,028)**	(83,877)
Total stockholders' equity	**32,273,523**	37,802,446
Total liabilities and stockholders' equity	**$ 35,080,685**	$ 38,804,539

CONDENSED STATEMENTS OF OPERATIONS
(Parent Only)

	2008	2007
Dividend income from Bank subsidiary	**$ —**	$ 900,000
Dividend income from non-bank subsidiary	**75,000**	—
Interest income	**1,459**	461
Income from gain on sale of securities	**—**	147,853
Operating expenses	**(396,483)**	(216,691)
Income (loss) before equity in undistributed earnings (loss) of subsidiaries	**(320,024)**	831,623
Equity in undistributed earnings (loss) of subsidiaries	**(7,909,460)**	1,756,265
Net earnings (loss)	**$ (8,229,484)**	$ 2,587,888

NOTE 16. CONDENSED FINANCIAL INFORMATION OF McINTOSH BANCSHARES, INC. (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
(Parent Only)

	2008	2007
OPERATING ACTIVITIES		
Cash flows from operating activities:		
Net earnings (loss)	**$ (8,229,484)**	$ 2,587,888
Adjustments to reconcile net earnings (loss) to net cash (used) provided by operating activities:		
Gain on sale of securities	**—**	(147,853)
Equity in undistributed (earnings) loss of subsidiaries	**7,909,460**	(1,756,265)
Stock-based compensation	**93,081**	94,009
Other operating activities	**162,413**	105,742
Net cash provided (used) by operating activities	**(64,531)**	883,521
INVESTING ACTIVITIES		
Cash flows from investing activities:		
Sales of securities	**—**	335,326
Investment in subsidiary	**(2,900,000)**	—
Net cash (used) provided by investing activities	**(2,900,000)**	335,326
FINANCING ACTIVITIES		
Cash flows from financing activities:		
Proceeds from exercise of stock options	**—**	23,800
Proceeds from sale of common stock	**2,984,619**	—
Dividends paid	**(252,988)**	(1,011,771)
Net cash provided (used) by financing activities	**2,731,631**	(987,971)
Net change in cash	**(232,900)**	230,876
Cash at beginning of year	**367,968**	137,092
Cash at end of year	**$ 135,068**	$ 367,968

NOTE 17. OTHER COMMITMENTS AND OBLIGATIONS

The Bank has entered into operating lease commitments for two banking offices and properties for signage and an ATM site. The following table outlines the total annual obligations arising from these leases:

	Annual Obligation
2009	$ 130,788
2010	130,320
2011	130,320
2012	130,320
2013	130,320
Thereafter	128,880
	$ 780,948

The Bank has available commitments to purchase federal funds from its correspondent banks totaling $6,500,000 as of December 31, 2008. As of December 31, 2008, the Bank has no outstanding balance under these commitments.

On December 23, 2008, the Company entered into a Debenture Agreement with Redemptus Group LLC (“Redemptus”), pursuant to which the Company will issue to Redemptus $8 million in debentures. The Debenture Agreement with Redemptus provides for the issuance to Redemptus of fixed rate debentures in principal amount of $439,229 (the “Fixed Rate Debentures”) and floating rate debentures in principal amount of $7,560,771 (the “Floating Rate Debentures,” and, collectively with the Fixed Rate Debentures, the “Debentures”). The Floating Rate Debentures will have quarterly coupon payments at an annual rate based on the prime rate plus 4.50%, subject to a minimum coupon of 7.50% and a maximum coupon of 12.75% and will be convertible at the option of the holder into common shares of the Company at a conversion price of $6.85 per share (the “Conversion Price”). The Conversion Price is subject to certain anti-dilution adjustments under the terms of the Debenture Agreement.

NOTE 17. OTHER COMMITMENTS AND OBLIGATIONS (Continued)

The Fixed Rate Debentures will have quarterly coupon payments at an annual rate of 12.75% and will be mandatorily convertible into an equal principal amount of Floating Rate Debentures upon the issuance by the Company of a sufficient number of common shares to result in Redemptus owning fewer than 25% of the outstanding common shares upon conversion of all the Debentures.

The Debentures will be secured by all of the outstanding common stock of the Bank and a $1.5 million interest payment account. The security interest in the Bank stock will terminate at the end of the fiscal quarter during which the Bank has consummated the sale of certain troubled assets in accordance with the provisions of the Debenture Agreement, provided that specified capital ratios for the Company and the Bank meet or exceed “well-capitalized” regulatory standards and that no event of default has occurred and is continuing.

The Debentures have a term of ten years, and will be callable by the Company at its option after five years under certain conditions described in the Debenture Agreement, subject in all cases to prior approval by the Federal Reserve Board, if then required.

Indebtedness under the Debentures may be accelerated and Redemptus or any subsequent holder of the Debentures may exercise their rights to the collateral and receive a default rate of interest if any of the following events of default occur:

a) failure to pay any obligation when due;

b) failure to complete a subsequent private placement and the sale of certain assets in accordance with the provisions of the Debenture Agreement;

c) breach of or default under any of the terms and conditions of the Debenture Agreement, subject to a 30-day right to cure certain breaches or defaults;

d) failure to make a position available for the holder’s nominee on the boards of directors of the Company and the Bank;

e) court-ordered attachment, seizure, receivership, injunction or similar action relating to the material assets or activities of the Company or the Bank;

f) insolvency or bankruptcy of the Company or closure or receivership of the Bank;

g) material misrepresentations or omissions reasonably relied upon in evaluating the purchase of the Debentures; or

h) certain change in control transactions.

The issuance of the Debentures is expected to close on or before March 31, 2009 and is subject to specified closing conditions, including but not limited to receipt of required regulatory approvals; receipt of transaction financing by Redemptus; completion of a $3.0 million private placement to directors and executive officers of the Company; payment of a placement fee and reimbursement of certain expenses to Redemptus; and Redemptus’s reasonable satisfaction with its continuing due diligence. Management is negotiating to extend this agreement beyond March 31, 2009. There is no certainty this extension will occur.

NOTE 18. MISCELLANEOUS OPERATING INCOME AND EXPENSES

Significant components of other operating income and expense included in the consolidated statements of operations in excess of 1% of interest and other income for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Other operating income:		
Secondary market mortgage origination fees	**$ 551,407**	$ 689,261
Other operating expenses:		
Professional fees	**$ 468,830**	$ 404,755
Data processing expenses	**$ 666,059**	$ 626,450

EXHIBIT NO. 21.1

SUBSIDIARIES OF THE REGISTRANT

Direct/Wholly-owned	State of Incorporation
1. McIntosh State Bank	Georgia
2. McIntosh Financial Services, Inc.	Georgia

EXHIBIT NO. 31.1

CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, William K. Malone, Chief Executive Officer, certify that:

1. I have reviewed this Form 10-K of McIntosh Bancshares, 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 officers 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 control 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 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   (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.

March 25, 2009

/s/ William K. Malone
WILLIAM K. MALONE
Chief Executive Officer

EXHIBIT NO. 31.2

CERTIFICATIONS PURSUANT TO RULE 13a-14(a)/15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, James P. Doyle, Chief Financial and Accounting Officer, certify that:

1. I have reviewed this Form 10-K of McIntosh Bancshares, 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 officers 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 control 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 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (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.

March 25, 2009

/s/ James P. Doyle
JAMES P. DOYLE
Chief Financial and Accounting Officer

EXHIBIT NO. 32.1

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-K of McIntosh Bancshares, Inc. (the “Company”) for the year ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), William K. Malone, Chief Executive Officer of the Company, and James P. Doyle, Chief Financial and Accounting Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge that:

(1) The Report 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 operation of the Company.

/s/ William K. Malone
WILLIAM K. MALONE
Chief Executive Officer
March 25, 2009

/s/ James P. Doyle
JAMES P. DOYLE
Chief Financial Officer and
Accounting Officer
March 25, 2009

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.