MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition at December 31, 2011 and 2010 and our results of operations for the years ended December 31, 2011, 2010, and 2009. The purpose of this discussion is to provide information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein. In addition, this discussion and analysis contains forward-looking statements, so you should refer to Item 1A, "Risk Factors" and "Special Cautionary Notice Regarding Forward-Looking Statements".

Certain amounts reported in prior periods have been reclassified to conform to the current-period presentation. These reclassifications had no effect on the Company's previously reported stockholders' equity or net earnings during the periods involved.

OVERVIEW

The Company was incorporated in 1990 under the laws of the State of Delaware and became a bank holding company after it acquired its Alabama predecessor, which was a bank holding company established in 1984. The Bank, the Company's principal subsidiary, is an Alabama state-chartered bank that is a member of the Federal Reserve System and has operated continuously since 1907. Both the Company and the Bank are headquartered in Auburn, Alabama. The Bank conducts its business primarily in East Alabama, including Lee County and surrounding areas. The Bank operates full-service branches in Auburn, Opelika, Hurtsboro, Notasulga and Valley, Alabama. In-store branches are located in the Auburn and Opelika Kroger stores, as well as Wal-Mart SuperCenter stores in Auburn, Opelika and Phenix City, Alabama. Loan production offices are located in Montgomery and Phenix City, Alabama.

Summary of Results of Operations

	Year ended December 31		
(Dollars in thousands, except per share amounts)	**2011**	**2010**	**2009**
Net interest income (a)	$ 20,944	$ 20,664	$ 20,448
Less: tax-equivalent adjustment	1,719	1,765	1,633
Net interest income (GAAP)	19,225	18,899	18,815
Noninterest income	5,177	6,718	2,433
Total revenue	24,402	25,617	21,248
Provision for loan losses	2,450	3,580	5,250
Noninterest expense	16,357	15,893	13,934
Income tax expense (benefit)	57	798	(340)
Net earnings	$ 5,538	$ 5,346	$ 2,404
Basic and diluted earnings per share	$ 1.52	$ 1.47	$ 0.66

(a) Tax-equivalent. See "Table 1 - Explanation of Non-GAAP Financial Measures".

Financial Summary

The Company's net earnings were $5.5 million, or $1.52 per share, for the full year 2011, compared to $5.3 million, or $1.47 per share, for the full year 2010.

Tax-equivalent net interest income increased 1% in 2011 from 2010 as improvement in the Company's net interest margin offset a decrease in average total interest earning assets in 2011 compared to 2010. Average total interest earning assets decreased 2% in 2011 when compared to 2010 as cash proceeds from securities sold, called, and matured in 2011 were used to reduce the level of wholesale funding (such as brokered certificates of deposit and Federal Home Loan Bank advances) on our balance sheet. Average loans decreased slightly in 2011 compared to 2010 due to weak loan demand and a challenging economic environment. Average loans were $373.9 million in 2011, a decrease of 1%, compared to 2010.

In 2011, the Company's net charge-off ratio was 0.86%, compared to 0.64% in 2010. The provision for loan losses was $2.5 million for 2011, compared to $3.6 million in 2010. Despite the increase in net charge-offs during 2011, the provision for loan losses decreased during 2011 primarily due to the reduced level of allowance for loan losses related to the construction and land development loan portfolio segment. The decline in the allowance for loan losses was due to declines