FLAG FINANCIAL CORP
Form 10-K
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

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

For the transition period from ______ to ______

Commission File No. 0-24532

FLAG FINANCIAL CORPORATION
(Exact name of Registrant as specified in its charter)

Georgia	58-2094179
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 North Greenwood Street, LaGrange, Georgia 30240
(Address of principal executive offices)

(706) 845-5000
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $1.00 par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 the 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. X

The aggregate market value of the Registrant's outstanding Common Stock held by non-affiliates of the Registrant on March 22, 2002 was approximately $66,621,852. There were 8,172,545 shares of Common Stock outstanding as of March 22, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of

Shareholders to be held on May 28, 2002, are incorporated by reference in Part III hereof.

FLAG FINANCIAL CORPORATION
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2001

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These forward-looking statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify the forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

(1) The effects of future economic conditions;

(2) Governmental monetary and fiscal policies, as well as legislative and regulatory changes;

(3) The risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;

(4) The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in the Company's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, and computer and the Internet; and

(5) The failure of assumptions underlying the establishment of reserves for possible loan losses and estimations of values of collateral and various financial assets and liabilities.

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

PART I

ITEM 1. BUSINESS

The Company

FLAG Financial Corporation ("FLAG" or the "Company") is a bank holding company headquartered in LaGrange, Georgia and is registered under the Bank Holding Company Act of 1956, as amended. The Company is the sole shareholder of FLAG Bank (the "Bank") and was incorporated under the laws of the State of Georgia on February 9, 1993.

As a bank holding company, the Company facilitates the Bank's abilities to serve its customers' requirements for financial services. The holding company structure provides greater financial and operating flexibility than is available to the Bank. For example, the Company may assist the Bank in maintaining its required capital ratios by borrowing money and contributing the proceeds of the debt to the Bank as primary capital. Additionally, the Articles of Incorporation and Bylaws of the Company contain terms that provide a degree of anti-takeover protection to the Company that is currently unavailable to the Bank and its shareholders under regulations of the Federal Deposit Insurance Corporation (the "FDIC"), but is permissible for the Company under Georgia law.

FLAG is also a service provider of mortgage, appraisal, investment and insurance services though FLAG Mortgage, FLAG Appraisal Services, FLAG Investment Services and FLAG Insurance Services. All of these services are provided by a division of FLAG Bank.

In November 1999, FLAG established a corporate operations center called the Eagle's Landing Center, located in Stockbridge, Georgia. The Eagle's Landing Center supports the Bank's data/item processing operations and serves as executive management offices, a training facility and a corporate communications center.

The Bank

FLAG Bank is a state bank organized under the laws of the State of Georgia with banking offices in the following cities and counties: Unadilla (Dooly County), Vienna (Dooly County), Byromville (Dooly County), Montezuma (Macon County), Oglethorpe (Macon County), Buena Vista (Marion County), Cusseta (Chattahoochee County), Cordele (Crisp County), LaGrange (Troup County), Hogansville (Troup County), Thomaston (Upson County), Stockbridge (Henry County), McDonough (Henry County) and Suwanee (Forsyth County), Georgia. Effective December 31, 2001, the Company sold selected loans, deposits and property of its bank branches in Milan and McRae, Georgia. FLAG Bank was originally chartered in 1931 as the Citizens Bank and became a wholly-owned subsidiary of the Company through a series of acquisitions commencing in 1998.

FLAG Mortgage operates as a division of FLAG Bank and operates mortgage loan production offices in LaGrange (Troup County), Columbus (Muscogee County) and Macon (Bibb County), Georgia, and Phenix City (Russell County), Alabama.

Business of the Bank. The Bank's business consists primarily of attracting deposits from the general public and, with these and other funds, making residential mortgage loans, consumer loans, commercial loans, commercial real estate loans, residential construction loans and securities investments. In addition to deposits, sources of funds for the Banks' loans and other investments include amortization and prepayment of loans, loan origination and commitment fees, sales of loans or participations in loans, fees received for servicing loans sold to others and advances from the Federal Home Loan Bank of Atlanta ("FHLBA"). The Bank's principal sources of income are interest and fees collected on loans, including fees received for originating and selling loans and for servicing loans sold to others, and, to a lesser extent, interest and dividends collected on other investments and service charges on deposit

accounts. The Bank's principal expenses are interest paid on deposits, interest paid on FHLBA advances, employee compensation, federal deposit insurance premiums, office expenses and other overhead expenses.

While the Bank attempts to avoid concentrations of loans to a single industry or based on a single type of collateral, the various types of loans the Bank makes have certain risks associated with them. Consumer and commercial loans present risks which, among other things, include fraud, bankruptcy, economic downturn, deteriorated or non-existing collateral, changes in interest rates and customer financial problems. Real estate loans present risks related to, among other things, whether the builder is able to sell the property, whether the buyer is able to obtain permanent financing and the nature of changing economic conditions.

The Company's primary asset is its stock in the Bank. Accordingly, its financial performance is determined primarily by the results of operations of the Bank. For information regarding the consolidated financial condition and results of operations of the Company as of December 31, 2001 and 2000 and for the three years in the period ended December 31, 2001, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company, and the related notes presented in Part II hereof. All average balances presented in this report were derived based on daily averages.

Employees

As of December 31, 2001, the Company (including the Bank) had 271 full-time and 33 part-time employees. The employees are not represented by any collective bargaining unit, and the Company considers its relationship with its employees to be good.

Competition

The banking business in Georgia is highly competitive. The Bank competes not only with other banks and thrifts that are located in the same counties as the Bank and in surrounding counties, but also with other financial service organizations including credit unions, finance companies, and certain governmental agencies. To the extent that the Bank must maintain non-interest earning reserves against deposits, it may be at a competitive disadvantage when compared with other financial service organizations that are not required to maintain reserves against substantially equivalent sources of funds. Also, other financial institutions with which the Bank competes may have substantially greater resources and lending capabilities due to the size of the organization.

Supervision and Regulation

Both the Company and the Bank are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of their operations. These laws are generally intended to protect depositors and not shareholders. The following discussion describes the material elements of the regulatory framework that applies to us.

The Company

Since the Company owns all of the capital stock of the Bank, it is a bank holding company under the federal Bank Holding Company Act of 1956. As a result, the Company is primarily subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

- acquiring all or substantially all of the assets of any bank; or

- merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or, substantially lessen competition or otherwise function as a restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, the Company or any other bank holding company located in Georgia may purchase a bank located outside of Georgia. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Georgia may purchase a bank located inside Georgia. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- the bank holding company has registered securities under Section 12 of the Securities Act of 1934; or
- no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. Generally, bank holding companies are prohibited under the Bank Holding Company Act, from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than:

- banking or managing or controlling banks; and
- an activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities;

- leasing personal or real property;

- operating a non-bank depository institution, such as a savings association;

- trust company functions;

- financial and investment advisory activities;

- conducting discount securities brokerage activities;

- underwriting and dealing in government obligations and money market instruments;

- providing specified management consulting and counseling activities;

- performing selected data processing services and support services;

- acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and

- performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in activities that are financial in nature or incidental or complementary to financial activity. The Bank Holding Company Act expressly lists the following activities as financial in nature:

- lending, trust and other banking activities;

- insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;

- providing financial, investment, or advisory services;

- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;

- underwriting, dealing in or making a market in securities;

- other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks;

- foreign activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking operations abroad;

- merchant banking through securities or insurance affiliates; and
- insurance company portfolio investments.

To qualify to become a financial holding company, the Bank and any other depository institution subsidiary of the Company must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least satisfactory. Additionally, the Company must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days' written notice prior to engaging in a permitted financial activity. Although we are eligible to elect to become a financial holding company, we currently have no plans to make such an election.

Support of Subsidiary Institutions. Under Federal Reserve policy, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when, without this Federal Reserve policy, the Company might not be inclined to provide it. In addition, any capital loans made by the Company to the Bank will be repaid only after its deposits and various other obligations are repaid in full. In the unlikely event of the Company's bankruptcy, any commitment by it to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

The Bank

Since the Bank is a commercial bank chartered under the laws of the State of Georgia, it is primarily subject to the supervision, examination and reporting requirements of the FDIC and the Georgia Department of Banking and Finance. The FDIC and Georgia Department of Banking and Finance regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, the Bank's deposits are insured by the FDIC to the maximum extent provided by law. The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities and operations.

Branching. Under current Georgia law, the Bank may open branch offices throughout Georgia with the prior approval of the Georgia Department of Banking and Finance. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Georgia. The Bank and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the applicable states' laws. Georgia law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Under the Federal Deposit Insurance Act, states may "opt-in" and allow out-of-state banks to branch into their state by establishing a new start-up branch in the state. Currently, Georgia has not opted-in to this provision. Therefore, interstate merger is the only method through which a bank located outside of Georgia may branch into Georgia. This provides a limited barrier of entry into the Georgia banking market, which protects us from an important segment of potential competition. However, because Georgia has elected not to opt-in, our ability to establish a new start-up branch in another state may be limited. Many states that have elected to opt-in have done so on a reciprocal basis, meaning that an out-of-state bank may establish a new start-up branch only if their home state has also elected to opt-in. Consequently, until Georgia changes its election, the only way we will be able to branch into states that have elected to opt-in on a reciprocal basis will be through interstate merger.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each of the other categories. At December 31, 2001, we qualified for the well-capitalized category.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution in any of the undercapitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

FDIC Insurance Assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per $100 of deposits, depending on the institution's capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the $780 million in annual interest payments on the $8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. This assessment rate is adjusted quarterly and is set at 1.82 cents per $100 of deposits for the first quarter of 2002.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve or the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank and the Company. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Other Regulations. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. For example, under the Soldiers' and Sailors' Civil Relief Act of 1940, a lender is generally prohibited from charging an annual interest rate in excess of 6% on any obligation for which the borrower is a person on active duty with the United States military.

The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- The Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service; and
- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- The Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern

automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Capital Adequacy

The Company and the Bank are required to comply with the capital adequacy standards established by the Federal Reserve, in the case of the Company, and the FDIC and Georgia Department of Banking and Finance, in the case of the Bank. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries, qualifying noncumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock and trust preferred securities, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2001 our ratio of total capital to risk-weighted assets was 11.5% and our ratio of Tier 1 Capital to risk-weighted assets was 10.3%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. At December 31, 2001, our leverage ratio was 8.1%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

The Bank and the Company are also both subject to leverage capital guidelines issued by the Georgia Department of Banking and Finance, which provide for minimum ratios of Tier 1 capital to total assets. These guidelines are substantially similar to those adopted by the Federal Reserve in the case of the Company and those adopted by the FDIC in the case of the Bank.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See "--Prompt Corrective Action."

Payment of Dividends

The Company is a legal entity separate and distinct from the Bank. The principal source of the Company's cash flow, including cash flow to pay dividends to its shareholders, is dividends that the Bank pays to it. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders.

If, in the opinion of the federal banking regulator, the Bank were engaged in or about to engage in an unsafe or unsound practice, the federal banking regulator could require, after notice and a hearing, that it cease and desist from its practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal

agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "--Prompt Corrective Action" above.

The Georgia Department of Banking and Finance also regulates the Bank's dividend payments and must approve dividend payments that would exceed 50% of the Bank's net income for the prior year. Our payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

At January 1, 2002, the Bank was able to pay approximately $2,094,000 in dividends to the Company without prior regulatory approval.

Restrictions on Transactions with Affiliates

The Company and the Bank are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- loans or extensions of credit to affiliates;
- investment in affiliates;
- the purchase of assets from affiliates, except for real and personal property exempted by the Federal Reserve;
- loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- any guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Company must also comply with other provisions designed to avoid the taking of low-quality assets.

The Company and the Bank are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to

any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

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 (USA PATRIOT) 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.

Under the USA PATRIOT Act, financial institutions have 180 days from enactment (or until April 25, 2002) to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

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

Before the 180-day grace period expires, the Secretary of the Treasury will prescribe regulations that consider the extent to which these new requirements are commensurate with the size, location, and activities of financial institutions subject to the Act.

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.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions operating in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Polices

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

ITEM 2. PROPERTIES

The executive offices of the Company are located at 235 Corporate Center Drive, The Eagle's Landing Center, Stockbridge, Georgia. The Company leases this property. The Company and the Bank conduct business from facilities primarily owned by the Bank, all of which are in good condition and are adequate for the Bank's current and foreseeable needs. The Company and FLAG Bank provide services or perform operational functions at 21 locations, of which 13 locations are owned and 8 are leased. See "Item 1 -- Business" for a list of the locations in which the Company and the Bank have offices.

ITEM 3. LEGAL PROCEEDINGS

Walter Terry Branyan and Robert Tommy Gilder III. Terry Branyan was a borrower from the Company, borrowing $1,271,324.54 in three separate promissory notes on March 17, 1999. Terry Branyan's obligation was guaranteed by Walter Branyan for $300,000 and Tommy Gilder for $1,000,000. Terry Branyan defaulted on his obligation, and the Company initiated suit to collect against all three. Walter Branyan has settled his portion of the guaranty. Default judgment was entered against Terry Branyan on January 3, 2001. Mr. Gilder answered the complaint and counterclaimed against the Company for breach of fiduciary duty in connection with his guaranty. The company and Mr. Gilder have reached a settlement agreement which is in the process of being documented. In the unlikely event the settlement is not consummated, the Company intends to vigorously pursue its claims and vigorously defend against the claims of Mr. Gilder. At this time it is impossible to determine the likelihood of a favorable outcome or make an estimate as to the range of potential loss resulting from an unfavorable outcome as to Mr. Gilder's claims.

The Company and the Bank are periodically involved as plaintiff or defendant in various other legal actions in the ordinary course of their business. We do not believe that such litigation presents a material risk to the Company's business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted by the Company to a vote of its shareholders during the fourth quarter of 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

The following table sets forth the high and low sales prices for the FLAG common stock, as reported by the Nasdaq Stock Market, and the cash dividends paid per share of common stock for the periods indicated.

Quarter	High	Low
2002		
First through March 22, 2002	$10.90	$7.50
2001		
Fourth	$8.60	$7.64
Third	7.87	7.16
Second	7.00	6.01

First	7.38	6.38
2000		
Fourth	$6.00	$5.00
Third	5.88	4.13
Second	6.50	4.25
First	7.25	5.50

Subject to board approval, the Company pays quarterly dividends on the first business day of January, April, July and October. See "Item 1 -- Business -- Supervision and Regulation -- Payment of Dividends" for information regarding regulatory restrictions on the Company's ability to pay dividends.

During the first quarter of 2001, the Company issued a total of 1,068,000 shares of common stock and 1,068,000 warrants to purchase common stock to directors and members of senior management in a private placement to accredited and fewer than 35 unaccredited investors under Rule 506 of the Securities Act of 1933, as amended. The purchase price of the common stock and the exercise price of the warrants was $9.10 per share for 1,062,000 of the shares and warrants; $9.90 per share for 6,000 of the shares and warrants. The increased prices represent adjustments necessary to match the price of the securities with the market price of the common stock at the time of the sale. The purchase price of the warrants was $1.00 per warrant in each case. The total number of securities authorized for issuance was 1.3 million shares and 1.3 warrants.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from and should be read in conjunction with our consolidated financial statements, which are included elsewhere in this report.

(In thousands except per share data)		2001	2000	1999
FOR THE YEAR				
Net interest income	$	23,980	24,961	26,490
Provision for loan losses		2,488	3,597	4,656
Non-interest income		10,668	11,962	10,072
Non-interest expense		25,701	27,633	30,615
Income taxes		1,753	1,409	78
Extraordinary item		696	--	--
Net earnings	$	4,010	4,284	1,213
PER COMMON SHARE				
Basic earnings per share	$	.51	.52	.15
Diluted earnings per share		.51	.52	.15
Cash dividends declared		.24	.24	.24
Book value	$	7.33	6.83	6.43
AT YEAR END				
Loans, net	$	368,967	384,661	419,079
Earning assets		512,942	501,046	521,452
Assets		570,202	559,037	587,870

Deposits		440,582	461,438	483,987
Stockholders' equity	$	54,023	55,498	53,197
Common shares outstanding		7,370	8,123	8,273
AVERAGE BALANCES				
Loans	$	378,867	405,101	449,689
Earning assets		508,752	510,898	556,577
Assets		560,816	566,355	617,764
Deposits		449,985	455,338	496,998
Stockholders' equity	$	56,294	53,853	55,365
Weighted average shares outstanding		7,808	8,210	8,258
KEY PERFORMANCE RATIOS				
Return on average assets		.72%	.77%	.20%
Return on average stockholders' equity		7.12%	7.95%	2.19%
Net interest margin, tax equivalent basis		4.83%	4.99%	4.90%
Dividend payout ratio		46.27%	45.98%	153.50%
Average equity to average assets		10.04%	9.51%	8.96%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

FLAG Financial Corporation ("FLAG") is a bank holding company that owns 100 percent of the common stock of FLAG Bank (the "Bank"). During 2000, The Citizens Bank and Thomaston Federal Savings Bank were merged into First Flag Bank. Effective December 31, 2000, First Flag Bank merged into Citizens Bank and the name of the surviving institution was changed to FLAG Bank. The Bank is a full-service, retail oriented bank primarily engaged in retail banking, small business, residential and commercial real estate lending, and mortgage banking.

The following discussion focuses on significant changes in the financial condition and results of operations of FLAG during the three years ended December 31, 2001. This discussion and the financial information contained herein are presented to assist the reader in understanding and evaluating the financial condition, results of operations, and future prospects of FLAG and should be read as a supplement to and in conjunction with the Consolidated Financial Statements and Related Notes.

Capital Issues

During the fourth quarter of 1999, FLAG implemented a stock repurchase program. FLAG repurchased 755,257 shares of it common stock in 2001, 145,244 shares of its common stock in 2000 and 7,500 shares of its common stock in 1999.

Merger, Expansion and Disposition Activity

Effective August 31, 1999, FLAG acquired, for approximately 1.2 million shares of its common stock, all of the outstanding stock of Thomaston, a $55 million thrift located in Thomaston, Georgia.

Effective September 30, 1999, FLAG acquired, for approximately 575,000 shares of its common stock, all of the outstanding stock of First Hogansville Bankshares, Inc., the holding company of the $31 million Citizens Bank, located in Hogansville, Georgia.

Effective September 30, 2000, FLAG sold the loans, deposits and property of its bank branches in Cobbtown, Metter and Statesboro, Georgia.

Effective September 30, 2000, FLAG sold the loans, deposits and property of its bank branches in Blackshear, Homerville and Waycross, Georgia.

On December 29, 2000, FLAG acquired certain loans, deposits and property of bank branches in Montezuma, Oglethorpe, Cusseta and Buena Vista, Georgia.

Effective December 31, 2001, FLAG sold selected loans, deposits and property of its bank branches in Milan and McRae, Georgia.

Net Income

The following table shows the major components of FLAG's net earnings for the three years ended December 31, 2001:

	2001	2000
	(In Thousands)	
Net interest income	$ 23,980	24,961
Provision for loan losses	2,488	3,597
Other income:		
Fees and service charges	4,520	4,490
Gains (losses) relating to investment securities	-	(263)
Gain on sales of loans	1,108	895
Gain on sale of branch offices	3,285	5,080
Other	1,755	1,760
Total other income	10,668	11,962
Other expenses	25,701	27,633
Provision for income taxes	1,753	1,409
Earnings before extraordinary item	4,706	4,284
Extraordinary item, net of income taxes	696	-
Net earnings	$ 4,010	4,284

Net earnings decreased $274,000 during 2001 compared to 2000. The primary reasons for the decrease in net earnings were a decrease in net interest income, a decrease in the gain on the sale of branches and an increase in the extraordinary item (loss on redemption of debt), partially offset by a decrease in the provision for loan losses and a decrease in other operating expenses. Net earnings increased $3,071,000 during 2000 compared to 1999 due to an increase in the gain on the sale of branches, a decrease in the provision for loan losses and a decrease in other operating expenses, partially offset by a decrease in net interest income and a decrease in gains relating to investment securities and a decrease in the gain of the sale of loans.

During 2001, FLAG repaid $26,000,000 in advances from the Federal Home Loan Bank ("FHLB") prior to their original maturity date and incurred a prepayment penalty of approximately $1,123,000. These advances were repaid due to a falling interest rate environment in which FLAG could obtain new borrowings at significantly lower rates. It is anticipated that FLAG's future interest expense, including the prepayment penalty, will be reduced over the life of the new borrowings. This redemption of debt has been recorded as an extraordinary item, net of income taxes of approximately $427,000, in the 2001 statement of earnings.

Net Interest Income

Net interest income (the difference between the interest earned on assets and the interest paid on deposits and other interest-bearing liabilities) is the single largest component of FLAG's operating income. The management of net interest income is of most importance in the banking industry. FLAG manages this income source while it controls credit, liquidity, and interest rate risks. Net interest income decreased 3.93% in 2001, from $25.0 million in 2000 to $24.0 million in 2001. Net interest income decreased 5.77% in 2000 compared to 1999. Net interest income decreased in 2001 due to a decrease in net earning assets as well as a decrease in the interest rates earned on those net earning assets.

Total interest income decreased 4.00% in 2001 and decreased 5.62% in 2000. Interest expense decreased approximately 4.09% in 2001 and decreased 5.44% in 2000. The interest expense variances from year to year have been primarily influenced by the average balances of interest bearing liabilities (see Tables 1 & 2).

Table 1 - Consolidated Average Balances, Interest, and Rates - Taxable Equivalent Basis (dollars in thousands)

	Years Ended December 31,					
	2001			2000		
	Interest Average Balance	Weighted Income/ Expense	Average Rate	Interest Average Balance	Weighted Income/ Expense	Average Rate
ASSETS						
Interest-earning assets:						
Loans..............	$ 378,867	36,798	9.71%	$ 405,101	40,014	9.88%
Taxable investment securities........	107,777	6,825	6.33%	84,833	5,471	6.45%
Tax-free investment securities........	10,155	887	8.74%	11,180	861	7.70%
Interest-bearing deposits in other banks...	2,962	159	5.37%	2,718	163	6.00%
Federal funds sold.	8,991	435	4.84%	7,066	409	5.79%
Total interest-earning assets..	508,752	45,104	8.87%	510,898	46,918	9.18%
Other assets.........	52,064			55,457		
Total assets.....	$ 560,816			566,355		

LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
Interest-bearing demand deposits........	$ 69,046	1,101	1.59%	55,803	973	1.74%
Savings deposits ..	65,612	1,764	2.69%	61,843	1,790	2.89%
Other time deposits	267,703	15,381	5.75%	284,307	16,237	5.71%
Federal funds purchased	3,210	158	4.92%	7,990	506	6.33%
FHLB advances and other borrowings	37,768	2,151	5.70%	30,349	1,925	6.34%
Total interest-bearing liabilities	443,339	20,555	4.64%	440,292	21,431	4.87%
Non-interest bearing demand deposits.	47,624			53,385		
Other liabilities....	13,559			18,825		
Stockholders' equity.	56,294			53,853		
Total liabilities and stockholders' equity	$ 560,816			566,355		
Tax-equivalent adjustment		569			526	
Net interest income..		23,980			24,961	
Interest rate spread.			4.23%			4.31%
Net interest margin..			4.83%			4.99%
Interest-earning assets/ interest-bearing liabilities			115%			116%

Consolidated Average Balances, Interest, and Rates

Net interest income is determined by the amount of interest-earning assets compared to interest-bearing liabilities and their related yields and costs. The difference between the weighted average interest rates earned on interest-earning assets (i.e., loans and investment securities) and the weighted average interest rates paid on interest-bearing liabilities (i.e., deposits and borrowings) is called the net interest spread. Another measure of the difference in interest income earned versus interest expense paid is net interest margin. Net interest margin is calculated by dividing net interest income (on a tax-equivalent basis) by average earning assets.

Table 1 presents for the three years ended December 31, 2001, average balances of interest-earning assets and interest-bearing liabilities and the weighted average interest rates earned and paid on those balances. In addition, interest rate spreads, net interest margins and the ratio of interest-earning assets versus interest-bearing liabilities for those years are presented. Average interest-earning assets were $508.8 million in 2001 versus $510.9 million in 2000, and $556.6 million in 1999. Average interest-bearing liabilities were $443.3 million in 2001 versus $440.3 million in 2000 and $495.6 million in 1999. The interest rate spread was 4.23% in 2001 versus 4.31% in 2000 and 4.40% in 1999, while the net interest margin was 4.83% in 2001, 4.99% in 2000 and 4.90% in 1999.

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Table 2 shows the change in net interest income from 2001 to 2000 and from 2000 to 1999 due to changes in volumes and rates.

Table 2 - Rate/Volume Variance Analysis - Taxable Equivalent Basis
(dollars in thousands)

	Years Ended December 31,			
	2001 Compared to 2000			2000 C
	Volume	Rate/ Yield	Net Change	Volume
Interest income:				
Loans	$(2,564)	(651)	(3,215)	(4,375)
Taxable investment securities	1,453	(99)	1,354	87
Tax-free investment securities	(89)	115	26	(11)
Interest-bearing deposits in other banks	13	(17)	(4)	(231)
Federal funds sold	93	(67)	26	90
Total interest income	(1,094)	(719)	(1,813)	(4,440)
Interest expense:				
Interest bearing demand deposits	231	(103)	128	(54)
Savings deposits	109	(135)	(26)	(250)
Other time deposits	(948)	92	(856)	(1,344)
Federal funds purchased	(303)	(45)	(348)	168
FHLB advances and other borrowings	471	(245)	226	(1,183)
Total interest expense	(440)	(436)	(876)	(2,663)
Net interest income	$ (654)	(283)	(937)	(1,777)

Non-interest Income

Other income decreased to $10.7 million in 2001 from $12.0 million in 2000 and increased from $10.1 million in 1999. The decreases in other income in 2001 resulted from a decrease in gain on the sale of branches, offset by increases in gains on the sale of investment securities and loans. The increases in other income in 2000 resulted from the increase in gain on the sales of branches, offset by decreases in the gains on the sale of investment securities and loans.

Effective December 31, 2001, FLAG sold selected loans, deposits and property of its branches in Milan and McRae, Georgia and recognized a gain on sale of approximately $3,285,000. Gain on sale of loans increased to $1,108,000 in 2001 versus $895,000 in 2000. The increase was a result of increased volumes in the sale of mortgage loans, servicing released, as a result of increased mortgage refinancing activity during 2001.

During 2000, FLAG sold the loans, deposits and property of its bank branches in Cobbtown, Metter and Statesboro, Georgia and recognized a gain on sale of approximately $2,011,000. FLAG also sold the loans, deposits and property of its bank branches in Blackshear, Homerville and Waycross, Georgia and recognized a gain on sale of approximately $3,069,000. Gains on investment securities decreased $1,689,000 in 2000 from 1999 due to losses in the amount of $263,000 on the sale of investment securities which were incurred as a strategy to restructure the investment portfolio to take advantage of a higher interest rate environment. Gain on sale of loans decreased to $895,000 in 2000 versus $2,086,000 in 1999. This decrease was due in part to a one time gain on the sale of the guaranteed portion of a commercial loan during 1999 in the amount of $382,000, as well as decreased volume in the sale of mortgage loans, servicing released.

Fees and service charges on deposits remained stable at approximately $4.5 million in 2001 compared to 2000. Fees and service charges on deposits decreased slightly from 1999 to 2000.

Non-interest Expenses

Salary and employee benefits decreased to $13.9 million in 2001 from $14.4 million in 2000 and from $15.1 million in 1999. This decrease in 2001 and 2000 was primarily due to reduced salary and employee benefits attributed to the sale of the branch offices during the third quarter of 2000 as well as management's continued emphasis on consolidation and cost containment in an effort to increase the efficiency of our operations. Management also believes consolidation efficiencies will continue to be realized as operations are combined in the current single charter environment.

Occupancy expenses decreased to $3.8 million in 2001 from $4.3 million in 2000 and decreased from $4.1 million in 1999. The decrease in 2001 occupancy expenses was predominately the result of a decrease in depreciation expense on certain fixtures and equipment, as well as a decrease in occupancy expenses attributed to the sale of branches during 2000. The increase in 2000 occupancy expenses was the result of an increase in depreciation on certain fixtures and equipment.

Other expenses were $8.0 million in 2001 versus $9.0 million in 2000 and $11.4 million in 1999. The decrease in 2001 and 2000 other expenses was the result of a decrease in operating expenses attributed to the sale of branch offices during the third quarter of 2000, as well as a decrease in data processing, item processing and imaging expenses as a result of bringing these operations in-house.

Investment Securities

The composition of the investment securities portfolio reflects management's strategy of maintaining an appropriate level of liquidity, while providing a relatively stable source of income. The portfolio also provides a balance to interest rate risk and credit risk in other categories of FLAG's balance sheet while providing a vehicle for the investment of available funds, furnishing liquidity, and providing securities to pledge as required collateral for certain deposits.

Investment securities increased $30.8 million to $131.5 million at December 31, 2001 from $100.7 million at December 31, 2000. At December 31, 2001, all investment securities outstanding were classified as available-for-sale. The overall increase in investments was due to the investment of proceeds received from the sale of the branch locations during 2000. At December 31, 2001, gross unrealized gains in the total portfolio amounted to $2,628,000 and gross unrealized losses amounted to $631,000.

Table 3 reflects the carrying amount of the investment securities portfolio for the past three years.

Table 3 - Carrying Value of Investments
(dollars in thousands)

	December 31,		
	2001	2000	1999
Securities held-to-maturity:			
U.S. Treasuries and agencies	$ --	--	10,178
State, county and municipal	--	--	2,997
Mortgage-backed securities	--	--	2,318
Collateralized mortgage obligations	--	--	751
Securities available-for-sale:			
U.S. Treasuries and agencies	25,859	22,554	18,877
Corporate debt securities	2,673	2,014	--
State, county and municipal	10,572	10,652	8,732
Mortgage-backed securities	77,418	56,202	22,376
Trust Preferred Securities	14,448	8,811	7,431
Collateralized mortgage obligations	--	--	14,264
Equity securities	556	489	1,378
Total	$131,526	100,722	89,302

Carrying Value of Investments

As of December 31, 2001, all of FLAG's investment securities are classified as available-for-sale. FLAG adopted Statement of Financial Accounting Standards No. 133 ("SFAS No. 133") in 2000 and transferred all of its held-to-maturity investment securities into available-for-sale.

The December 31, 1999 market value of securities held-to-maturity, as a percentage of amortized cost, was 98%. The market value of the securities held-to-maturity will change as interest rates change and such unrealized gains and losses will not flow through the earnings statement unless the related securities become permanently impaired or they are called at prices which differ from the carrying value at the time of the call.

Loans

Gross loans receivable decreased by approximately $14.9 million in 2001 to $376.3 million from $391.2 million at December 31, 2000. This decrease was the result of declines in commercial, financial and agricultural loans, installment loans, and real estate mortgages, partially offset by an increase in real estate construction loans and lease financings. The decrease in loans in 2001 is largely attributable to the sale of real estate mortgage loans during 2001 as well as the sale of loans in connection with the branch sales during 2001. As shown in Table 4, real estate mortgage loans decreased approximately $14.8 million, commercial, financial and agricultural loans decreased approximately $18.2 million, installment loans decreased approximately $11.0 million, lease financing receivables increased approximately $1.4 million, and real estate construction loans increased approximately $26.6 million.

Table 4 - Loan Portfolio
(dollars in thousands)

	December 31,					
	2001		2000		1999	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial/financial/agricultural	$ 74,569	19.8%	92,757	23.7%	$ 117,728	27.6%
Real estate construction.......	65,052	17.3%	37,501	9.6%	43,602	10.2%
Real estate mortgage...........	213,748	56.8%	228,508	58.4%	218,920	51.4%
Installment loans to individuals	17,793	4.7%	28,767	7.4%	40,620	9.5%
Lease financings..............	5,153	1.4%	3,711	0.9%	5,226	1.2%
Total loans..............	376,315	100%	391,244	100%	426,096	100%
Less:						
Allowance for loan losses......	7,348		6,583		7,017	
Total net loans...........	$ 368,967		384,661		419,079	

Table 5 represents the expected maturities for commercial, financial, and agricultural loans and real estate construction loans at December 31, 2001. The table also presents the rate structure for these loans that mature after one year.

Table 5 - Loan Portfolio Maturity
(dollars in thousands)

	Maturity				Rate Str Maturit
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total	Floating or Ad Interest
Commercial, financial, and agricultural..............	$ 42,123	18,426	14,020	74,569	15
Real estate - construction	62,288	2,764	0	65,052	
	$104,411	21,190	14,020	139,62	116

Provision and Allowance for Loan Losses

Table 6 presents an analysis of activities in the allowance for loan losses for the past five years. An allowance for possible losses is provided through charges to FLAG's earnings in the form of a provision for loan losses. The provision for loan losses was $2,488,000 in 2001, $3,597,000 in 2000 and $4,656,000 in 1999.

The provision for 2001 included additional provisions in the amount of $1,500,000 made for certain larger agricultural credits located in central and southeast Georgia.

The provision for 2000 included additional provisions in the amount of $1,000,000 made for certain loans retained as a result of the Homerville, Ga. branch sale, as well as an additional provision in the amount of $750,000 made for a large agricultural credit located in southeast Georgia.

Management determines the level of the provision for loan losses based on outstanding loan balances, the levels of non-performing assets, and reviews of assets classified as substandard, doubtful, or loss and larger credits, together with an analysis of historical loss experience, and current economic conditions.

As shown in Table 6, the year-end allowance for loan losses increased to $7.3 million at December 31, 2001, from $6.6 million at December 31, 2000. The allowance for loan losses was $7.0 million at December 31, 1999. The increase in the allowance at December 31, 2001 was due primarily to the lower charge-offs during 2001. Total charge-offs were $2.1 million in 2001, $4.5 million in 2000, and $4.1 million in 1999. The allowance for loan losses was 1.99% of net outstanding loans at December 31, 2001, versus 1.71% of net outstanding loans at December 31, 2000, and 1.67% of net outstanding loans at December 31, 1999.

Management believes that the allowance for loan losses is both adequate and appropriate. However, the future level of the allowance for loan losses is highly dependent upon loan growth, loan loss experience, and other factors, which cannot be anticipated with a high degree of certainty.

Table 6 - Analysis of the Allowance for Loan Losses
(dollars in thousands)

	Years Ended December 31			
	2001	2000	1999	1
Average loans	$378,867	405,101	449,689	43
Allowance for loan losses, beginning of the period	6,583	7,017	6,194	
Charge-offs for the period:				
Commercial/financial/agricultural	400	1,246	722	
Real estate construction loans	24	--	--	
Real estate mortgage loans	980	2,308	1,305	
Installment loans to individuals	453	894	1,007	
Lease financings	206	6	1,056	
Total charge-offs	2,063	4,454	4,090	

	2001	2000	1999	
Recoveries for the period:				
Commercial/financial/agricultural	102	86	46	
Real estate construction loans	--	--	--	
Real estate mortgage loans	134	964	60	
Installment loans to individuals	34	93	149	
Lease financings	70	109	2	

Total recoveries	340	1,252	257
Net charge-offs for the period	1,723	3,202	3,833
Provision for loan losses	2,488	3,597	4,656
Allowance related to assets purchased and sold	--	(829)	--
Allowance for loan losses, end of period	$ 7,348	6,583	7,017
Ratio of allowance for loan losses to total net loans outstanding	1.99%	1.71%	1.67%
Ratio of net charge-offs during the period to average net loans outstanding during the period	0.46%	0.79%	0.85%

Asset Quality

At December 31, 2001, non-performing assets totaled $20.5 million compared to $12.8 million at year-end 2000. The increase in 2001 is primarily attributed to an increase in loans on non-accrual as well as other real estate owned, partially offset by a decrease in loans past due 90 days and still accruing. As part of the Company's renewed credit culture, a special assets division has been established for the purpose of managing all nonperforming assets. The primary concentration of nonaccrual loans reside with several commercial and agri-business loans. There were no commitments to lend additional funds to customers with loans on nonaccrual at December 31, 2001. Table 7 summarizes the non-performing assets for each of the last five years.

Table 7 - Risk Elements
(dollars in thousands)

	December 31,			
	2001	2000	1999	1998
Loans on nonaccrual....................	$ 17,122	7,144	12,118	7,729
Loans past due 90 days and still accruing	594	4,701	2,775	813
Other real estate owned.................	2,831	992	939	2,251
Total non-performing assets.............	$ 20,547	12,837	15,832	10,793
Total non-performing loans as a percentage of net loans.........	5.57%	3.34%	3.78%	2.54%

Risk Elements

There may be additional loans within FLAG's loan portfolio that may become classified as conditions may dictate; however, management was not aware of any such loans that are material in amount at December 31, 2001. At December 31, 2001, management was unaware of any known trends, events, or uncertainties that will have, or that are reasonably likely to have a material effect on the Bank's or FLAG's liquidity, capital resources, or operations.

Deposits and Borrowings

Total deposits decreased approximately $20.9 million during 2001, totaling $440.6 million at December 31, 2001 versus $461.4 million at December 31, 2000. Total deposits decreased during 2001 from levels of 2000 due primarily to the sale of branches during 2001. The maturities of time deposits of $100,000 or more issued by the Bank at December 31, 2001, are summarized in Table 8.

Table 8 - Maturities of Time Deposits Over $100,000
(dollars in thousands)

Three months or less..................	$ 25,223
Over three months through six months..	16,413
Over six months through twelve months.	21,978
Over twelve months....................	21,609
	$ 85,223

At December 31, 2001, the Bank was a shareholder in the Federal Home Loan Bank of Atlanta ("FHLBA"). Through this affiliation, advances totaling $39.4 million were outstanding at rates competitive with time deposits of like maturities. Management anticipates continued utilization of this short- and long-term source of funds to minimize interest rate risk and to fund competitive fixed rate loans to customers.

During 2001, FLAG repaid $26,000,000 in advances from the FHLB prior to their original maturity date. These advances were repaid due to a falling interest rate environment in which FLAG could obtain new borrowings at significantly lower rates.

Asset-Liability Management

A primary objective of FLAG's asset and liability management program is to control exposure to interest rate risk (the exposure to changes in net interest income due to changes in market interest rates) so as to enhance its earnings and protect its net worth against potential loss resulting from interest rate fluctuations.

Historically, the average term to maturity or repricing (rate changes) of assets (primarily loans and investment securities) has exceeded the average repricing period of liabilities (primarily deposits and borrowings). Table 9 provides information about the amounts of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2001, that are expected to mature, prepay, or reprice in each of the future time periods shown (i.e., the interest rate sensitivity). As presented in this table, at December 31, 2001, the liabilities subject to rate changes within one year exceeded its assets subject to rate changes within one year. This mismatched condition subjects FLAG to interest rate risk within the one year period because the assets, due to their generally shorter term to maturity or repricing, are more sensitive to short-term interest rate changes than the liabilities. It is management's belief that the result of this position would be a decrease in net interest income if market interest rates rise and an increase in net interest income if market interest rates decline.

Management carefully measures and monitors interest rate sensitivity and believes that its operating strategies offer protection against interest rate risk. As required by various regulatory authorities, FLAG's Board of Directors has established an interest rate risk policy, which sets specific limits on interest rate risk exposure. Adherence to this policy is reviewed quarterly by the Board of Directors' Asset Liability Committee.

Management has maintained positive ratios of average interest-earning assets to average interest-bearing liabilities. As represented in Table 1 this ratio, based on average balances for the respective years, was 115% in 2001, 116% in 2000 and 112% in 1999.

Table 9 - Interest Rate Sensitivity Analysis
(dollars in thousands)

	December 31, 2001 Maturing or Repricing		
	One Year or Less	Over 1 Year Through 3 Years	Over 3 Years Through 5 Years
Interest-earning assets:			
Adjustable rate mortgages	$ 117,295	3,087	72
Fixed rate mortgages	31,395	39,707	30,713
Other loans	106,114	22,046	8,930
Investment securities	14,225	10,606	17,296
Interest-bearing deposits in other banks and Federal funds sold	160	--	--
Total interest-earning assets	269,189	75,446	57,011
Interest-bearing liabilities:			
Fixed maturity deposits	193,111	46,226	7,977
NOW and money market demand accounts	119,246	--	--
Fed funds purchased	18,001	--	--
Passbook accounts	24,989	--	--
Other borrowed funds..........................	5,000	--	--
FHLB advances	25,119	5,000	878
Total interest-bearing liabilities	385,466	51,226	8,855
Interest rate sensitivity gap	(116,277)	24,220	48,156
Cumulative interest rate sensitivity gap	$(116,277)	(92,057)	(43,901)
Cumulative interest rate sensitivity gap to total assets	(20.39)%	(16.14)%	(7.70)%

Table 10 represents the expected maturity of investment securities by maturity date and average yields based on amortized cost at December 31, 2001. It should be noted that the composition and maturity/repricing distribution of the investment portfolio is subject to change depending on rate sensitivity, capital needs, and liquidity needs.

Table 10 - Expected Maturity of Investment Securities Available-for-sale
(dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		
	Amount	Yield	Amount	Yield	Amount	Yield	
U.S. Treasury and agencies ...	$ 500	5.61%	$ 20,767	7.52%	$ 1,996	7.00%	$
State, county and municipals .	585	4.82%	3,127	4.94%	1,999	5.03%	
Corporate debt securities	--	--	2,544	7.39%	--	--	
Equity securities	4	--	--	--	--	--	
Mortgage-backed securities ...	25	7.50%	1,487	6.21%	10,549	5.28%	
Trust preferred securities ...	--	--	500	6.50%	--	--	
	$1,114	5.22%	$ 28,425	7.02%	$14,544	5.48%	$

Liquidity

The objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet the ongoing operational cash needs of FLAG and to take advantage of income producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of FLAG to maintain a sufficient level of liquidity in all expected economic environments. Liquidity is defined as the ability of a bank to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining FLAG's ability to meet the daily cash flow requirements of the Bank's customers, both depositors and borrowers.

The primary objectives of asset/liability management are to provide for adequate liquidity in order to meet the needs of customers and to maintain an optimal balance between interest-sensitive assets and interest-sensitive

liabilities, so that FLAG can also meet the investment requirements of its shareholders as market interest rates change. Daily monitoring of the sources and use of funds is necessary to maintain a position that meets both requirements.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities. Mortgage loans held for sale totaled $6.5 million at December 31, 2001, and typically turn over every 45 days as the closed loans are sold to investors in the secondary market. Real estate-construction and commercial loans that mature in one year or less amounted to $104.4 million, or 28%, of the total loan portfolio at December 31, 2001. Other short-term investments such as federal funds sold are additional sources of liquidity.

The liability section of the balance sheet provides liquidity through depositors' interest bearing and non-interest bearing deposit accounts. Federal funds purchased, FHLBA advances, other borrowings and securities sold under agreements to repurchase are additional sources of liquidity and represent FLAG's incremental borrowing capacity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

As disclosed in FLAG's consolidated statements of cash flows included in the consolidated financial statements, net cash provided by operating activities was $8.3 million during 2001. The major sources of cash provided by operating activities are net income and the changes in other assets and liabilities. Net cash used in investing activities of $46.9 million consisted primarily of funds used for cash paid in branch sales as well as to purchase securities available-for-sale, partially offset by proceeds from sales and maturities of securities available-for-sale. Net cash provided by financing activities consisted primarily of a $16.0 million net decrease in deposits and a net decrease in federal funds purchased and repurchase agreements of $17.3 million.

In the opinion of management, FLAG's liquidity position at December 31, 2001, is sufficient to meet its expected cash flow requirements. Reference should be made to the consolidated statements of cash flows appearing in the consolidated financial statements for the three-year analysis of the changes in cash and cash equivalents resulting from operating, investing and financing activities.

Capital Resources and Dividends

Stockholders' equity at December 31, 2001, decreased 2.7% from December 31, 2000. This decrease resulted from the purchase of treasury stock as well as the payment of dividends, partially offset by net income and an increase in accumulated other comprehensive income. Dividends of $1.9 million or $.24 per share were declared in 2001 and 2000.

Average stockholders' equity as a percent of total average assets is one measure used to determine capital strength. The ratio of average stockholders' equity to average total assets was 10.04% for 2001 and 9.51% for 2000. Table 11 summarizes these and other key ratios for FLAG for each of the last three years.

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") required federal banking agencies to take "prompt corrective action" with regard to institutions that do not meet minimum capital requirements. As a result of FDICIA, the federal banking agencies introduced an additional capital measure called the "Tier 1 risk-based capital ratio." The Tier 1 ratio is the ratio of core capital to risk adjusted total assets. Note 11 to the Consolidated Financial Statements presents a summary of FDICIA's capital tiers compared to FLAG's and the Banks' actual capital levels. The Bank exceeded all requirements of a "well-capitalized" institution at December 31, 2001.

Table 11 - Equity Ratios

	Years Ended December 31,		
	2001	2000	1999
Return on average assets...........	.72%	.77%	.20%
Return on average equity...........	7.12%	7.95%	2.19%
Dividend payout ratio..............	46.27%	45.98%	153.50%
Average equity to average assets...	10.04%	9.51%	8.96%

Provision for Income Taxes

The provision for income taxes was $1,753,000 in 2001, versus $1,409,000 in 2000, and $78,000 in 1999. The effective actual tax rates for 2001, 2000, and 1999 (tax provision as a percentage of income before taxes) were 27%, 25%, and 6%, respectively. These tax rates are lower than the statutory Federal tax rate of 34% primarily due to interest income on tax exempt securities and general business credits. See FLAG's consolidated financial statements for an analysis of income taxes.

Impact of Inflation and Changing Prices

The consolidated financial statements and related financial data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in relative purchasing power over time due to inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than does the effect of inflation. The liquidity and maturity structures of FLAG's assets and liabilities are critical to the maintenance of acceptable performance levels.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of SFAS No. 125", was effective for transfers and servicing of financial assets occurring after March 31, 2001 and was effective for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The implementation of SFAS No. 140 did not have a material impact on FLAG's financial position, results of operations or liquidity.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 is effective for business combinations initiated after June 30, 2001 and requires all business combinations completed after its adoption to be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 will be effective for FLAG on January 1, 2002 and addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. Upon adoption of SFAS No. 142, goodwill and some intangible assets will no longer be amortized and will be tested for impairment at least annually. FLAG believes the adoption of SFAS No. 142 will not have a material impact on its financial position, results of operations or liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's net interest income and the fair value of its financial instruments (interest-earning assets and interest-bearing liabilities) are influenced by changes in market interest rates. The Company actively manages its exposure to interest rate fluctuations through policies established by its Asset/Liability Management Committee (the "ALCO"). The ALCO meets regularly and is responsible for approving asset/liability management policies, developing and implementing strategies to improve balance sheet positioning and net interest income and assessing the interest rate sensitivity of the Banks.

The Company utilizes an interest rate simulation model to monitor and evaluate the impact of changing interest rates on net interest income and the market value of its investment portfolio. The ALCO policy limits the maximum percentage changes in net interest income and investment portfolio equity, assuming a simultaneous, instantaneous change in interest rate. These percentage changes are as follows:

Changes in Interest Rates (In Basis Points)	Percentage Change in Net Interest Income	Percent Chang Market Valu Portfolio E
300	20%	20%
200	20%	20%
100	20%	20%

As of December 31, 2001, the Company was in compliance with its ALCO policy.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included herein:

Report of Independent Certified Public Accountants
Consolidated Balance Sheets as of December 31, 2001 and 2000
Consolidated Statements of Earnings for the years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Comprehensive Income for the years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999
Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
FLAG Financial Corporation
Stockbridge, Georgia

We have audited the accompanying consolidated balance sheets of FLAG Financial Corporation and subsidiary as of December 31, 2001 and 2000, and the related statements of earnings, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of FLAG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 FLAG Financial Corporation and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/S/ PORTER KEADLE MOORE, LLP

PORTER KEADLE MOORE, LLP

Atlanta, Georgia
January 25, 2002, except for note 19 as
to which the date is February 19, 2002

FLAG FINANCIAL CORPORATION

Consolidated Balance Sheets

December 31, 2001 and 2000

Assets

	2001

(I

Cash and due from banks, including reserve requirements of $9,362 and $2,144	$ 20,07
Federal funds sold	--
Cash and cash equivalents	20,07
Interest-bearing deposits	16
Investment securities available-for-sale	131,52
Other investments	5,83
Mortgage loans held-for-sale	6,45
Loans, net	368,96
Premises and equipment, net	13,94
Other assets	23,23
	$ 570,20

Liabilities and Stockholders' Equity

Deposits:	
Demand	$ 48,55
Interest-bearing demand	119,98
Savings	24,24
Time	162,57
Time, over $100,000	85,22
Total deposits	440,58
Federal funds purchased and repurchase agreements	18,00
Advances from Federal Home Loan Bank	39,44
Other borrowings	5,00
Other liabilities	13,14
Total liabilities	516,17
Stockholders' equity:	
Preferred stock (10,000,000 shares authorized; none issued and outstanding)	--
Common stock ($1 par value, 20,000,000 shares authorized, 8,277,995 and 8,275,405 shares issued in 2001 and 2000, respectively)	8,27
Additional paid-in capital	11,35
Retained earnings	39,22
Accumulated other comprehensive income (loss)	1,61
	60,46
Less: treasury stock, at cost; 908,001 shares in 2001 and 152,744 shares in 2000	(6,44
Total stockholders' equity	54,02
	$ 570,20

See accompanying notes to consolidated financial statements.

FLAG FINANCIAL CORPORATION

Consolidated Statements of Earnings

For the Years Ended December 31, 2001, 2000 and 1999

	2001
	(In Thousands
Interest income:	
Interest and fees on loans	$ 36,566
Interest on investment securities	7,375
Interest -bearing deposits	159
Federal funds sold	435
Total interest income	44,535
Interest expense:	
Deposits	18,246
Borrowings	2,309
Total interest expense	20,555
Net interest income before provision for loan losses	23,980
Provision for loan losses	2,488
Net interest income after provision for loan losses	21,492
Other income:	
Fees and service charges	4,520
Gain (loss) on sales of investment securities	--
Gain on sale of trading securities	--
Unrealized gain on trading securities	--
Gain on sales of loans	1,108
Gain on sale of branch offices	3,285
Other	1,755
Total other income	10,668
Other expenses:	
Salaries and employee benefits	13,933
Occupancy	3,751
Other operating	8,017
Total other expenses	25,701
Earnings before provision for income taxes and extraordinary item	6,459
Provision for income taxes	1,753
Earnings before extraordinary item	4,706
Extraordinary item - loss on redemption of debt, net of income tax benefit of $427 in 2001	696

Net earnings	$ 4,010
Basic and diluted earnings per share:	
Earnings before extraordinary item	$ .60
Extraordinary item	(.09)
Net earnings	$ .51

See accompanying notes to consolidated financial statements.

FLAG FINANCIAL CORPORATION

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000
		(In Thousan
Net earnings	$ 4,010	4,284
Other comprehensive income, net of tax:		
Unrealized gains (losses) on investment securities available-for-sale:		
Unrealized gains (losses) arising during the period, net of tax of $1,169, $177, and $1,232, respectively	1,907	288
Less: reclassification adjustment for (gains) loss included in net earnings, net of tax of $100 in 2000 and $(436) in 1999	--	163
Gains on trading securities included in net earnings, net of tax of $206 in 1999	--	--
Unrealized gain (loss) on cash flow hedges, net of tax of $18 in 2001 and $247 in 2000	(29)	403
Other comprehensive income (loss)	1,878	854
Comprehensive income (loss)	$ 5,888	5,138

See accompanying notes to consolidated financial statements.

FLAG FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2001, 2000 and 1999

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumul Othe Comprehe Income (
	(In Thousands Except Share Data				
Balance, December 31, 1998	8,223,231	$ 8,223	11,306	35,403	1,9
Purchase of treasury stock	-	-	-	-	-
Exercise of stock options of pooled subsidiary	38,175	38	-	-	-
Exercise of stock options	11,409	12	36	-	-
Change in accumulated other comprehensive income	-	-	-	-	(3,0
Net earnings	-	-	-	1,213	-
Dividends declared	-	-	-	(1,862)	-
Balance, December 31, 1999	8,272,815	8,273	11,342	34,754	(1,1
Purchase of treasury stock	-	-	-	-	-
Exercise of stock options	2,590	2	6	-	-
Change in accumulated other comprehensive income	-	-	-	-	8
Net earnings	-	-	-	4,284	-
Dividends declared	-	-	-	(1,969)	-
Balance, December 31, 2000	8,275,405	8,275	11,348	37,069	(2
Purchase of treasury stock	-	-	-	-	-
Exercise of stock options	2,590	3	7	-	-
Change in accumulated other comprehensive income	-	-	-	-	1,8
Net earnings	-	-	-	4,010	-
Dividends declared	-	-	-	(1,856)	-
Balance, December 31, 2001	8,277,995	$ 8,278	11,355	39,223	1,6

See accompanying notes to consolidated financial statements.

FLAG FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2001, 2000 and 1999

	2001
Cash flows from operating activities:	
Net earnings	$ 4,0
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation, amortization and accretion	2,7
Provision for loan losses	2,4
Deferred tax benefit	(1,1
Gain on sale of branches	(3,2
Loss (gain) on sales of securities	--
Unrealized gain on trading securities	--
Gain on sale of trading securities	--
Loss (gain) on other real estate	--
Proceeds from sale of trading securities	--
Change in:	
Mortgage loans held for sale	(2,3
Other assets and liabilities	5,8
Net cash provided by operating activities	8,2
Cash flows from investing activities (net of effect of branch sales and acquisitions):	
Net change in interest-bearing deposits	3,2
Proceeds from sales and maturities of securities available-for-sale	41,4
Proceeds from maturities of securities held-to-maturity	--
Proceeds from sale of other investments	--
Purchases of other investments	(4
Purchases of securities available-for-sale	(69,1
Purchases of investments held-to-maturity	--
Net change in loans	(2,9
Proceeds from sales of real estate	1,1
Purchases of premises and equipment	(1,6
Cash acquired in branch acquisition, net of premium paid	--
Cash paid in branch sale	(18,7
Net cash provided by (used in) investing activities	(46,9
Cash flows from financing activities (net of effect of branch sales and acquisitions):	
Net change in deposits	15,9
Change in federal funds purchased and repurchase agreements	17,3
Change in other borrowings	3,5
Proceeds from FHLB advances	40,0

Payments of FHLB advances	(32,5
Proceeds from exercise of stock options	
Purchase of treasury stock	(5,5
Stock transactions of pooled entities	--
Cash dividends paid	(1,9
Net cash (used in) provided by financing activities	36,8
Net change in cash and cash equivalents	(1,7
Cash and cash equivalents at beginning of year	21,8
Cash and cash equivalents at end of year	$ 20,0

FLAG FINANCIAL CORPORATION

Consolidated Statements of Cash Flows, continued

For the Years Ended December 31, 2001, 2000 and 1999

	2001
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	$ 20,820
Income taxes	$ 1,910
Supplemental schedule of noncash investing and financing activities:	
Real estate acquired through foreclosure	$ 1,627
Change in unrealized gain/loss on securities available-for-sale, net of tax	$ 1,907
Transfer of investment securities from available-for-sale to trading	$ --
Transfer of investment securities from trading to available-for-sale	$ --
Transfer of investment securities from held to maturity to available for sale	$ --
Increase (decrease) in dividends payable	$ (46)
Deposit liabilities assumed in branch acquisition	$ --
Assets acquired in branch acquisition, other than cash and cash equivalents	$ --
Assets disposed of in branch sale	$ 14,858

See accompanying notes to consolidated financial statements.

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of FLAG Financial Corporation ("FLAG") and its wholly- owned subsidiary, FLAG Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation. During 2000, The Citizens Bank ("Hogansville") and Thomaston Federal Savings Bank ("Thomaston") were merged into First Flag Bank ("First Flag"). Effective December 29, 2000, First Flag merged into Citizens Bank ("Citizens") and the name of the surviving institution was changed to Flag Bank. All of these mergers were between subsidiaries of FLAG; therefore, the consolidated financial statements were not affected by these mergers.

FLAG is a bank holding company formed in 1994 whose business is conducted by the Bank. FLAG is subject to regulation under the Bank Holding Company Act of 1956. The Bank is primarily regulated by the Georgia Department of Banking and Finance ("DBF") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank provides a full range of commercial, mortgage and consumer banking services in West-Central, Middle and South Georgia.

The accounting principles followed by FLAG and its subsidiary, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, the valuation allowance for mortgage servicing rights and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income.

Cash and Cash Equivalents

Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

Investment Securities

FLAG classifies its securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are securities held for the purpose of generating profits on short-term differences in price. Securities held-to-maturity are those securities for which FLAG has the ability and intent to hold to maturity. All other securities are classified as available-for-sale. As of December 31, 2001, all of FLAG's investment securities were classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings in the period in which the gain or loss occurs. Unrealized holding gains and losses, net of the related tax effect, on securities available-for-sale are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

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.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses are included in earnings and the cost of securities sold are derived using the specific identification method.

(1) Summary of Significant Accounting Policies, continued

Other Investments

Other investments include Federal Home Loan Bank ("FHLB") stock, other equity securities with no readily determinable fair value and an investment in a limited partnership. FLAG owns a 43% interest in a limited partnership, which invests in multi-family real estate and passes low income housing credits to the investors. FLAG recognizes these tax credits in the year received. These investments are carried at cost, which approximates fair value.

Mortgage Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes, if any, in the valuation allowance are included in the determination of net earnings in the period in which the change occurs. FLAG has recorded no valuation allowance related to its mortgage loans held-for-sale as their cost approximates market value. Gains and losses from the sale of loans are determined using the specific identification method.

Loans, Loan Fees and Interest Income

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding unpaid principal balances, net of the allowance for loan losses, deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in interest income using the level-yield method over the contractual lives of the loans, adjusted for estimated prepayments based on the Banks' historical prepayment experience. Commitment fees and costs relating to commitments whose likelihood of exercise is remote are recognized over the commitment period on a straight-line basis. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the life of the loan as an adjustment to the yield. Premiums and discounts on purchased loans are amortized over the remaining lives of the loans using the level-yield method. Fees arising from servicing loans for others are recognized as earned.

FLAG considers a loan 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. 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 the fair value of the collateral of the loan if the loan is collateral dependent. Interest income from impaired loans is recognized using a cash basis method of accounting during the time within that period in which the loans were impaired.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount which, in management's judgment, will be adequate to absorb losses on existing loans that may become uncollectible. The allowance is established through consideration of such factors as changes in the nature and volume of the portfolio, adequacy of collateral, delinquency trends, loan concentrations, specific problem loans, and economic conditions that may affect the borrower's ability to pay.

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

(1) Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Real estate acquired through foreclosure is carried at the lower of cost (defined as fair value at foreclosure) or fair value less estimated costs to dispose. Fair value is defined as the amount that is expected to be received in a current sale between a willing buyer and seller other than in a forced or liquidation sale. Fair values at foreclosure are based on appraisals. Losses arising from the acquisition of foreclosed properties are charged against the allowance for loan losses. Subsequent writedowns are provided by a charge to operations through the allowance for losses on other real estate in the period in which the need arises.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Major additions and improvements are charged to the asset accounts while maintenance and repairs that do not improve or extend the useful lives of the assets are expensed currently. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in earnings for the period.

Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15-40 years
Furniture and equipment	3-10 years

Mortgage Servicing Rights

FLAG's mortgage banking division accounts for mortgage servicing rights as a separate asset regardless of whether the servicing rights are acquired through purchase or origination. FLAG's mortgage servicing rights represent the unamortized cost of purchased and originated contractual rights to service mortgages for others in exchange for a servicing fee and ancillary loan administration income. Mortgage servicing rights are amortized over the period of estimated net servicing income and are periodically adjusted for actual and anticipated prepayments of the underlying mortgage loans. Impairment analysis is performed quarterly after stratifying the rights by interest rate. Impairment, defined as the excess of the asset's carrying value over its current fair value, is recognized through a valuation allowance. At December 31, 2001 and 2000, no valuation allowances were required for FLAG's mortgage servicing rights.

FLAG did not recognize any servicing asset during 2001 or 2000 and recognized approximately $460,000 in servicing assets during 1999, and recognized amortization expense relating to servicing assets of approximately $13,000, $71,000, and $346,000 during 2001, 2000 and 1999, respectively. The risk characteristics that FLAG uses to stratify recognized servicing assets for purposes of measuring impairment include the interest rate and term of the underlying loans serviced.

Core Deposit Intangible

Purchased core deposit intangibles and the associated expenses have been capitalized and are being amortized using the straight-line method over the 15 year estimated average life of the deposit base acquired and is included as a component of other assets.

Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities 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 tax expense in the period that includes the enactment date.

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Income Taxes, continued

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of FLAG's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided 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.

A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance, as described in note 9. Such a deferred tax liability will only be recognized when it becomes apparent that those temporary differences will reverse in the foreseeable future.

Net Earnings Per Common Share

FLAG is required to report earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants on the face of the statements of earnings. Basic earnings per common share are based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per share. Additionally, FLAG must reconcile the amounts used in the computation of both "basic earnings per share" and "diluted earnings per share". Antidilutive stock options have not been included in the diluted earnings per share calculations. Antidilutive stock options totaled 603,624, 896,198 and 811,534 as of December 31, 2001, 2000 and 1999, respectively. Earnings per common share amounts for the years ended December 31, 2001, 2000 and 1999 are as follows (in thousands, except share and per share amounts):

For the Year Ended December 31, 2001

	Net Earnings (Numerator)	Com (De
Basic earnings per share	$ 4,010	7
Effect of dilutive securities - stock options	-	
Diluted earnings per share	$ 4,010	7

For the Year Ended December 31, 2000

	Net Earnings (Numerator)	Com (De
Basic earnings per share	$ 4,284	8
Effect of dilutive securities - stock options	-	
Diluted earnings per share	$ 4,284	8

For the Year Ended December 31, 1999

	Net Earnings (Numerator)	Com (De
Basic earnings per share	$1,213	8
Effect of dilutive securities - stock options	-	
Diluted earnings per share	$1,213	8

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Derivative Instruments and Hedging Activities

Effective April 1, 2000, FLAG adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which establishes accounting and reporting standards for hedging activities and for derivative instruments including derivative instruments embedded in other contracts. SFAS No. 133 requires the fair value recognition of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of instruments used as fair value hedges is accounted for in the income of the period simultaneous with accounting for the fair value change of the item being hedged. The change in fair value of the effective portion of cash flow hedges is accounted for in comprehensive income rather than income, and the change in fair value of foreign currency hedges is accounted for in comprehensive income as part of the translation adjustment. The change in fair value of derivative instruments that are not intended as a hedge is accounted for in the income of the period of the change. At the date of initial application, an entity may transfer any held-to-maturity security into the available-for-sale or trading categories without calling into question the entity's intent to hold other securities to maturity in the future. In 2000, FLAG transferred all held-to-maturity investment securities to available-for-sale under this provision of SFAS No. 133. The held-to-maturity investment securities had amortized cost of $16,111,000 and net unrealized gains of $440,000. The result of the transfer was to increase stockholders' equity by $273,000, which represented the net of tax effect of the unrealized gains associated with the held-to-maturity investment securities transferred.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of SFAS No. 125", was effective for transfers and servicing of financial assets occurring after March 31, 2001 and was effective for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The implementation of SFAS No. 140 did not have a material impact on FLAG's financial position, results of operations or liquidity.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 is effective for business combinations initiated after June 30, 2001 and requires all business combinations completed after its adoption to be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS No. 142 will be effective for FLAG on January 1, 2002 and addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. Upon adoption of SFAS No. 142, goodwill and some intangible assets will no longer be amortized and will be tested for impairment at least annually. FLAG believes the adoption of SFAS No. 142 will not have a material impact on its financial position, results of operations or liquidity.

Reclassifications

Certain reclassifications have been made to the 2000 and 1999 financial statements to conform with classifications for 2001.

(2) Business Combinations

Effective August 31, 1999, FLAG acquired, for approximately 1.2 million shares of its common stock, all of the outstanding stock of Thomaston, a $55 million thrift located in Thomaston, Georgia. Effective September 30, 1999, FLAG acquired, for approximately 575,000 shares of its common stock, all of the outstanding stock of First Hogansville Bankshares, Inc., the holding company of the $31 million Hogansville, located in Hogansville, Georgia. These acquisitions were accounted for as poolings of interests.

During 2000, FLAG acquired certain loans, deposits and property of bank branches in Montezuma, Oglethorpe, Cusseta and Buena Vista, Georgia for a net purchase price of approximately $5,462,000. During 1999, FLAG acquired a bank branch in Blackshear, Georgia, including certain loans, deposits and property for a net purchase price of approximately $882,000.

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(2) Business Combinations, continued

During 2000, FLAG sold the loans, deposits, and property of its bank branches in Cobbtown, Metter and Statesboro, Georgia and recognized a gain on sale of approximately $2,011,000. FLAG also sold the loans, deposits, and property of its bank branches in Blackshear, Homerville and Waycross, Georgia and recognized a gain on sale of approximately $3,069,000.

During 2001, FLAG sold the loans, deposits and property of its branches in McRae and Milan, Georgia and recognized a gain of approximately $3,285,000.

(3) Investment Securities

Investment securities at December 31, 2001 and 2000 are summarized as follows (in thousands):

Investment Securities Available-for-Sale	December 31, 2001 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasuries and agencies	$ 25,263	596	--
State, county and municipals	10,470	206	104
Equity securities	863	103	410
Mortgage-backed securities	76,534	1,001	117
Corporate debt securities	2,544	129	--
Trust preferred securities	13,855	593	14,448
	$129,529	2,628	631

Investment Securities Available-for-Sale	December 31, 2001 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasuries and agencies	$ 22,567	106	119
State, county and municipals	10,541	167	56
Equity securities	893	41	445
Mortgage-backed securities	56,417	163	378
Collateralized mortgage obligations	2,039	--	25
Trust preferred securities	9,343	--	532
	$101,800	477	1,555

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2001, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
U.S. Treasuries and agencies, state, county and municipals and corporate debt:		
Within 1 year	$ 1,085	1,090
1 to 5 years	26,438	27,105
5 to 10 years	3,995	4,157
More than 10 years	6,759	6,752
Equity securities	863	556
Mortgage-backed securities	76,534	77,418
Trust preferred securities	13,855	14,448
	$ 129,529	131,526

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(3) Investment Securities, continued

Proceeds from sales of securities available-for-sale during 2001, 2000 and 1999 totaled approximately $306,000, $14,706,000, and $11,720,000 respectively. No gain or loss was realized on those sales during 2001. Gross gains of approximately $1,213,000 were realized on those sales during 1999. Gross losses of approximately $263,000 and $65,000 were realized on those sales for the years ended December 31, 2000 and 1999, respectively. During 1999, FLAG recognized gross gains of $255,000 and no losses in earnings from transfers of securities from the available-for-sale category into the trading category.

Securities and interest-bearing deposits with a carrying value of approximately $94,443,000 and $40,791,000 at December 31, 2001 and 2000, respectively, were pledged to secure advances from FHLB, U.S. Government and other public deposits.

(4) Loans

Major classifications of loans at December 31, 2001 and 2000 are summarized as follows (in thousands):

	2001	2000
Commercial, financial and agricultural	$ 74,569	92,757
Real estate - construction	65,052	37,501
Real estate - mortgage	213,748	228,508
Installment loans to individuals	17,793	28,767
Lease financings	5,153	3,711

Gross loans	376,315	391,244
Less allowance for loan losses	7,348	6,583
	$ 368,967	384,661

FLAG concentrates its lending activities in the origination of permanent residential mortgage loans, commercial mortgage loans, commercial business loans, and consumer installment loans. The majority of FLAG's real estate loans are secured by real property located in West-Central, Middle and South Georgia.

FLAG has recognized impaired loans of approximately $10,259,000 and $8,954,000 at December 31, 2001 and 2000, respectively, with a total allowance for loan losses related to these loans of approximately $2,893,000 and $1,343,000, respectively. Interest income on impaired loans of approximately $480,000 and $839,000 was recognized for cash payments received in 2001 and 2000, respectively.

Activity in the allowance for loan losses is summarized as follows for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Balance at beginning of year	$ 6,583	7,017	6,194
Provisions charged to operations	2,488	3,597	4,656
Loans charged off	(2,063)	(4,454)	(4,090)
Recoveries on loans previously charged off	340	1,252	257
Allowance related to loans sold and purchased	-	(829)	-
Balance at end of year	$ 7,348	6,583	7,017

Mortgage loans serviced for others are not included in the accompanying consolidated financial statements. As of December 31, 2001, FLAG no longer services loans for others. Unpaid principal balances of these loans at December 31, 2000 approximate $40,820,000. Custodial escrow balances maintained in connection with loan servicing, and included in demand deposits, were approximately $98,000 at December 31, 2000.

Mortgage loans secured by 1-4 family residences totaling approximately $33,519,000 and $43,994,000 were pledged as collateral for outstanding FHLB advances as of December 31, 2001 and 2000, respectively.

(5) Premises and Equipment

Premises and equipment at December 31, 2001 and 2000 are summarized as follows (in thousands):

	2001	2000
Land and land improvements	$ 1,911	1,814
Buildings and improvements	11,943	10,993
Furniture and equipment	16,672	17,480
	30,526	30,287
Less accumulated depreciation	16,582	15,353
	$ 13,944	14,934

Depreciation expense approximated $2,273,000, $3,573,000 and $2,589,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

(6) Time Deposits

At December 31, 2001, contractual maturities of time deposits are summarized as follows (in thousands):

Year ending December 31,	
2002	$ 192,299
2003	37,107
2004	9,132
2005	2,674
2006	6,128
Thereafter	453
	$ 247,793

(7) FHLB Advances

FHLB advances are collateralized by FHLB stock, certain investment securities and first mortgage loans. Advances from the FHLB outstanding at December 31, 2001 mature and bear fixed interest rates as follows (in thousands):

Year	Amount	Interest Rate
2002	$ 25,119	1.95% - 8.00%
2003	5,000	2.063%
2005	256	6.65% - 6.83%
2006	622	6.88% - 7.55%
Thereafter	8,451	5.97% - 6.88%
	$ 39,448	1.95% - 8.00%

During 2001, FLAG repaid $26,000,000 in advances from the FHLB prior to their original maturity date and incurred a prepayment penalty of approximately $1,123,000. These advances were repaid due to a falling interest rate environment in which FLAG could obtain new borrowings at significantly lower rates. This redemption of debt has been recorded as an extraordinary item, net of income taxes or approximately $427,000, in the 2001 statement of earnings.

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(8) Other Borrowings

Other borrowings consist of a line of credit with a bank with a total commitment amount of $5,000,000 of which $5,000,000 was outstanding as of December 31, 2001. The line of credit bears interest at .5% below the prime rate and is secured by common stock of the Bank. The line of credit expires on October 1, 2008. At December 31, 2001, the interest rate on the line of credit was 4.25%. The terms of the line of credit include certain restrictive covenants regarding the performance of FLAG and the payment of dividends. Management believes that they are in compliance with all required covenants.

(9) Income Taxes

The following is an analysis of the components of income tax expense (benefit) for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Current	$ 2,912	1,628	946
Deferred	(1,159)	(219)	(817)
Change in valuation allowance	-	-	(51)
	$ 1,753	1,409	78

The differences between income tax expense and the amount computed by applying the statutory federal income tax rate to earnings before taxes for the years ended December 31, 2001, 2000 and 1999 are as follows (in thousands):

	2001	2000	1999
Pretax income at statutory rate	$ 2,196	1,936	439
Add (deduct):			
Tax-exempt interest income	(309)	(366)	(352)
State income taxes, net of federal effect	258	228	52
Increase in cash surrender value of life insurance	(52)	(79)	(56)
Nondeductible merger expenses	--	--	252
General business credits	(123)	(120)	(121)
Other	(217)	(190)	(85)
Change in valuation allowance	--	(51)	
	$ 1,753	1,409	78

The following summarizes the net deferred tax asset. The deferred tax asset is included as a component of other assets at December 31, 2001 and 2000 (in thousands).

	2001	2000
Deferred tax assets:		
Allowance for loan losses	$2,738	2,161
Net operating loss carryforwards and credits	201	172
Nondeductible interest on non-accrual loans	139	275
Nondeductible expenses	158	256
Unrealized losses on securities available-for-sale	--	410
Other	454	53
Total gross deferred tax assets	3,690	3,327
Deferred tax liabilities:		
Premises and equipment	77	467
Unrealized gain on cash flow hedges	299	247
Unrealized gain on securities available-for-sale	759	--
Other	30	26
Total gross deferred tax liabilities	1,165	740
Net deferred tax asset	$2,525	2,587

(9) Income Taxes, continued

The Internal Revenue Code ("IRC") was amended during 1996 and the IRC section 593 reserve method for loan losses for thrift institutions was repealed. Effective January 1, 1996, First Flag and Thomaston now compute their tax bad debt reserves under the rules of IRC section 585, which apply to commercial banks. In years prior to 1996, First Flag and Thomaston obtained tax bad debt deductions approximating $2.9 million in excess of their financial statement allowance for loan losses for which no provision for federal income tax was made. These amounts were then subject to federal income tax in future years pursuant to the prior IRC section 593 provisions if used for purposes other than to absorb bad debt losses. Effective January 1, 1996, approximately $2.9 million of the excess reserve is subject to recapture only if First Flag and Thomaston cease to qualify as a bank pursuant to the provisions of IRC section 585.

(10) Employee and Director Benefit Plans

Defined Contribution Plan

FLAG sponsors the FLAG Financial Profit Sharing Thrift Plan that is qualified pursuant to IRC section 401(k). The plan allows eligible employees to defer a portion of their income by making contributions into the plan on a pretax basis. The plan provides a matching contribution based on a percentage of the amount contributed by the employee. The plan also provides that the Board of Directors may make discretionary profit-sharing contributions up to 15% of eligible compensation to the plan. The plan allows participants to direct up to 75% of their account balance and/or contributions to be invested in the common stock of FLAG. The trustee of the plan is required to purchase the FLAG stock at market value and may not acquire more than 25% of the issued and outstanding shares. During the years ended December 31, 2001, 2000 and 1999, the Company contributed approximately $420,000, $391,000 and $323,000, respectively, to this plan under its matching provisions.

Directors' Retirement Plan

The Bank sponsors a defined contribution postretirement benefit plan to provide retirement benefits to certain of their Board of Directors and to provide death benefits for their designated beneficiaries. Under this plan, the Bank purchased split-dollar whole life insurance contracts on the lives of each Director. The increase in cash surrender value of the contracts, less the Bank's cost of funds, constitutes their contribution to the plan each year. In the event the insurance contracts fail to produce positive returns, the Bank has no obligation to contribute to the plan. At December 31, 2001 and 2000, the cash surrender value of the insurance contracts was approximately $4,478,000 and $4,187,000. Expenses incurred for benefits were approximately $20,000, $19,000 and $50,000 during 2001, 2000 and 1999, respectively.

Defined Benefit Plans

Prior to 2000, Hogansville sponsored a noncontributory defined benefit pension plan covering substantially all of its employees who have completed one year of service. This pension plan was frozen effective September 30, 1999 and terminated effective October 30, 1999 at which time all accrued benefits became fully vested. During 2000, FLAG fully satisfied its liability under this plan.

Stock Option Plan

FLAG sponsors an employee stock incentive plan and a director stock incentive plan. The plans were adopted for the benefit of directors and key officers and employees in order that they may purchase FLAG stock at a price equal to the fair market value on the date of grant. A total of 914,000 shares were reserved for possible issuance under the employee plan and 166,938 shares were reserved under the director plan. The options generally vest over a four-year period and expire after ten years.

(10) Employee and Director Benefit Plans, continued

Stock Option Plan, continued

Thomaston previously sponsored a stock option plan for its directors and key officers. Prior to its merger with FLAG, Thomaston had approximately 27,595 options outstanding to purchase Thomaston common stock. This stock option plan was terminated upon Thomaston's merger with FLAG, and each option holder was issued options to purchase FLAG common stock in an amount equal to their options previously outstanding under the Thomaston stock option plan multiplied by the conversion factor of 1.7275.

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, entities to compute the fair value of options at the date of grant and to recognize such costs as compensation expense immediately if there is no vesting period or ratably over the vesting period of the options. FLAG has chosen not to adopt the cost recognition principles of this statement. No compensation expense has been recognized in 2001, 2000 or 1999 related to the stock option plans. Had compensation cost been determined based upon the fair value of the options at the grant dates consistent with the method of the statement, FLAG's net earnings and net earnings per share would have been reduced to the pro forma amounts indicated below.

		2001	2000
Net earnings (in thousands)	As reported	$ 4,010	4,284
	Pro forma	3,130	3,411
Basic earnings per share	As reported	.51	.52
	Pro forma	.40	.42
Diluted earnings per share	As reported	.51	.52
	Pro forma	.40	.41

The fair value of each option is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions: dividend yield ranging from 3% to 3.55%; volatility ranging from .2159 to .9803; risk free interest rate ranging from 4.5% to 6% and an expected life of 5 years. The weighted average grant-date fair value of options granted in 2001, 2000 and 1999 was $1.79, $5.21 and $5.38, respectively.

A summary of activity in these stock option plans is presented below:

	2001		2000		
	Shares	Weighted Average Option Price Per Share	Shares	Weighted Average Option Price Per Share	Share
Outstanding , beginning of year	949,949	$ 9.48	813,409	$ 10.34	
Granted during the year	90,250	6.93	257,751	6.62	
Granted for merger with Thomaston	--	--	--	--	
Cancelled during the year	(39,514)	9.20	(118,621)	9.73	
Exercised during the year	(2,590)	3.47	(2,590)	3.47	
Outstanding, end of year	998,095	$ 9.22	949,949	$ 9.48	

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(10) Employee and Director Benefit Plans, continued

Stock Option Plan, continued

A summary of options outstanding as of December 31, 2001 is presented below:

Options Outstanding	Range of Price per Share	Weighted Average Option Price Per Share	Years Remaining	Op C Ex
50,161	$3.47 - 5.13	$3.98	8	
576,435	6.00 - 9.19	7.33	8	2
371,499	10.00 -13.75	12.88	7	2
998,095	$ 3.47 - 13.75	$ 9.22	8	5

(11) Stockholders' Equity

Shares of preferred stock may be issued from time to time in one or more series as established by resolution of the Board of Directors of FLAG, up to a maximum of 10,000,000 shares. Each resolution shall include the number of shares issued, preferences, special rights and limitations as determined by the Board.

(12) Regulatory Matters

FLAG and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2001 that FLAG and the Bank meet all capital adequacy requirements to which they are subject.

Minimum ratios required by the Bank to ensure capital adequacy are 8% for total capital to risk weighted assets and 4% each for Tier 1 capital to average assets. Minimum ratios required by the Bank to be well capitalized under prompt corrective action provisions are 10% for total capital to risk weighted assets, 6% for Tier 1 capital to risk weighted assets and 5% for Tier 1 capital to average assets. Minimum amounts required for capital adequacy purposes and to be well capitalized under prompt corrective action provisions are presented below for FLAG and the Bank. Prompt corrective action provisions do not apply to bank holding companies.

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(12) Regulatory Matters, continued

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
	(000's)		(000's)	
As of December 31, 2001:				
Total Capital (to Risk Weighted Assets)				
FLAG consolidated	$ 51,196	11.5%	$ 35,754	8.0
FLAG Bank	$ 53,211	12.0%	$ 35,458	8.0
Tier 1 Capital (to Risk Weighted Assets)				
FLAG consolidated	$ 45,640	10.3%	$ 17,877	4.0
FLAG Bank	$ 47,897	10.8%	$ 17,729	4.0
Tier 1 Capital (to Average Assets)				
FLAG consolidated	$ 45,640	8.1%	$ 22,634	4.0
FLAG Bank	$ 47,897	8.5%	$ 22,512	4.0
As of December 31, 2000:				
Total Capital (to Risk Weighted Assets)				
FLAG consolidated	$ 53,390	12.5%	$ 34,116	8.0
FLAG Bank	$ 51,553	11.8%	$ 34,993	8.0
Tier 1 Capital (to Risk Weighted Assets)				
FLAG consolidated	$ 48,044	11.3%	$ 17,058	4.0
FLAG Bank	$ 46,072	10.5%	$ 17,496	4.0
Tier 1 Capital (to Average Assets)				
FLAG consolidated	$ 48,044	10.1%	$ 19,046	4.0
FLAG Bank	$ 46,072	9.8%	$ 18,813	4.0

Banking regulations limit the amount of dividends the Bank can pay to FLAG without prior regulatory approval. These limitations are a function of excess regulatory capital and net earnings in the year the dividend is declared. In 2002, the Bank can pay dividends totaling approximately $2,094,000 without prior regulatory approval.

(13) Commitments and Contingencies

Prior to 2001, FLAG sponsored a partially self-insured health care plan for the benefit of eligible employees and their eligible dependents, administered by a third party administrator. Claims in excess of $15,000 per person annually, but less than $1,000,000, are covered by an insurance policy with Guarantee Mutual Life Company. FLAG is responsible for any claims less than $15,000 per person annually. During 2001, FLAG discontinued this plan and became fully insured, subject to certain deductibles.

FLAG is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage its cost of funds. These financial instruments include commitments to extend credit, standby letters of credit and interest rate floor agreements. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts 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.

Commitments to originate first mortgage loans and 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. 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 counterparty. The Bank's loans are primarily collateralized by residential and other real properties, automobiles, savings deposits, accounts receivable, inventory and equipment.

(13) Commitments and Contingencies, continued

Standby letters of credit are written 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. Most letters of credit extend for less than one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

FLAG'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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. All standby letters of credit are secured at December 31, 2001 and 2000.

Financial instruments whose contract amounts represent credit risk (in thousands):

Commitments to extend credit
Standby letters of credit

FLAG maintains an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by certain movements in interest rates. FLAG views this strategy as a prudent management of interest rate sensitivity, such that earnings are not exposed to undue risk presented by changes in interest rates.

Derivative instruments that are used as part of FLAG's interest rate risk-management strategy include interest rate contracts (floors). As a matter of policy, FLAG does not use highly leveraged derivative instruments for interest rate risk management. Interest rate floor agreements provide for a variable cash flow if interest rates decline below the strike rate, based on a notional principal amount and maturity date.

By using derivative instruments, FLAG is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair-value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes FLAG, and, therefore, creates a repayment risk for FLAG. When the fair value of a derivative contract is negative, FLAG owes the counterparty and, therefore, it has no repayment risk. FLAG minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically.

FLAG's derivative activities are monitored by its asset/liability management committee as part of that committee's oversight of FLAG's asset/liability and treasury functions. FLAG's asset/liability committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest-rate risk management.

As described more fully in the summary of significant accounting policies, FLAG adopted SFAS No. 133 during 2000. All of FLAG's derivative financial instruments are classified as highly effective cash flow hedges.

For the year ended December 31, 2001, there were no material amounts recognized which represented the ineffective portion of cash flow hedges. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

(14) Related Party Transactions

FLAG conducts transactions with its directors and executive officers, including companies in which they have beneficial interest, in the normal course of business. It is the policy of FLAG that loan transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time for comparable loans to other persons. The following is a summary of activity for related party loans for 2001 (in thousands).

Balance at December 31, 2000	$ 863
New loans	1,137
Repayments	903
Balance at December 31, 2001	$ 1,097

At December 31, 2001, deposits from directors, executive officers and their related interests aggregated approximately $2,789,000. These deposits were taken in the normal course of business at market interest rates.

(15) Miscellaneous Operating Expenses

Components of other operating expenses in excess of 1% of interest and other income for the years ended December 31, 2001, 2000 and 1999 are as follows (in thousands):

	2001	2000	1999
Data processing	$ 344	724	1,587
Telephone	$ 789	707	884
Office supplies	$ 352	571	1,013

(16) FLAG Financial Corporation (Parent Company Only) Financial Information

Balance Sheets

December 31, 2001 and 2000

Assets

	2001	2000
	(In Thousands)	
Cash	$ 706	374
Investment securities	1,403	891
Investment in subsidiaries	56,538	53,782
Equipment, net	32	2,630
Other assets	1,013	1,169
	$59,692	58,846

Liabilities and Stockholders' Equity

	2001	2000
Accounts payable and accrued expenses	$ 669	1,848
Other borrowings	5,000	1,500
Stockholders' equity	54,023	55,498

	$59,692	58,846
	=======	=======

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(16) FLAG Financial Corporation (Parent Company Only) Financial Information, continued

Statements of Earnings

For the Years Ended December 31, 2001, 2000 and 1999

	2001
Income:	
Dividend income from subsidiaries	$ 3,250
Interest income	5
Gain (loss)on investments	(5)
Other	3
Total income	3,253
Operating expenses:	
Interest expense	93
Other	195
Total operating expenses	288
Earnings (loss)before income tax benefit and dividends received in excess of earnings of subsidiaries and equity in undistributed earnings of subsidiaries	2,965
Income tax benefit	107
Earnings before dividends received in excess of earnings of subsidiaries and equity in undistributed earnings of subsidiaries	3,072
Dividends received in excess of earnings of subsidiaries	--
Equity in undistributed earnings of subsidiaries	938
Net earnings	$ 4,010

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(16) FLAG Financial Corporation (Parent Company Only) Financial Information, continued

Statements of Cash Flows

For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000
		(In Thousands)
Cash flows from operating activities:		
Net earnings	$ 4,010	4,284
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15	502
Gain on investments	--	--
Proceeds from sale of trading securities	--	--
Dividends received in excess of earnings of subsidiaries	--	--
Equity in undistributed earnings of subsidiaries	(938)	(3,947)
Change in other assets and liabilities	(1,020)	148
Net cash provided by operating activities	2,067	987
Cash flows from investing activities:		
Purchase of investment securities	(450)	--
Proceeds from sale of investment securities	34	1
Purchase of equipment	--	(328)
Proceeds from sale of equipment to subsidiary	2,590	--
Investment in subsidiaries	--	--
Net cash used in investing activities	2,174	(327)
Cash flows from financing activities:		
Stock transactions of pooled entities	--	--
Change in other borrowings	3,500	1,500
Exercise of stock options	10	8
Purchase of treasury stock	(5,517)	(876)
Dividends paid	(1,902)	(1,974)
Net cash used in financing activities	(3,909)	(1,342)
Net change in cash	332	(682)
Cash at beginning of year	374	1,056
Cash at end of year	$ 706	374

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(17) Quarterly Operating Results (Unaudited)

The following is a summary of the unaudited condensed consolidated quarterly operating results of FLAG for the years ended December 31, 2001 and 2000 (amounts in thousands, except per share amounts):

	2001			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Interest income	$10,013	11,118	11,550	11,854
Interest expense	4,785	5,101	5,215	5,454
Net interest income	5,228	6,017	6,335	6,400
Provision for loan losses	1,900	84	252	252
Net interest income after provision for loan losses	3,328	5,933	6,083	6,148
Noninterest income	5,226	1,931	1,678	1,833
Noninterest expense	6,746	6,260	6,466	6,229
Earnings before income taxes and extraordinary item	1,808	1,604	1,295	1,752
Provision for income taxes	509	438	323	483
Earnings before extraordinary item	1,299	1,166	972	1,269
Extraordinary item	696	--	--	--
Net earnings	$ 603	1,166	972	1,269
Net earnings per share	$ .08	.15	.12	.16
Weighted average shares outstanding	7,465	7,769	7,973	8,032

	2000			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Interest income	$10,604	11,879	12,030	11,879
Interest expense	5,078	5,688	5,469	5,196
Net interest income	5,526	6,191	6,561	6,683

Provision for loan losses	88	2,183	733	593
Net interest income after provision for loan losses	5,438	4,008	5,828	6,090
Noninterest income	1,522	6,637	1,888	1,915
Noninterest expense	5,873	7,643	6,936	7,181
Earnings before income taxes	1,087	3,002	780	824
Provision for income taxes	217	924	120	148
Net earnings	$ 870	2,078	660	676
Net earnings per share	$ .11	.25	.08	.08
Weighted average shares outstanding	8,167	8,217	8,218	8,240

FLAG FINANCIAL CORPORATION

Notes to Consolidated Financial Statements, continued

(18) Fair Value of Financial Instruments

FLAG is required to disclose fair value information about financial instruments, whether or not recognized on the face of the balance sheet, for which it is practicable to estimate that value. The assumptions used in the estimation of the fair value of FLAG's financial instruments are detailed below. Where quoted prices are not available, fair values are based on estimates using discounted cash flows and other valuation techniques. The use of discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following disclosures should not be considered a surrogate of the liquidation value of FLAG or the Bank, but rather a good-faith estimate of the increase or decrease in value of financial instruments held by FLAG since purchase, origination or issuance.

Cash and Cash Equivalents and Interest-Bearing Deposits

For cash, due from banks, federal funds sold and interest-bearing deposits with other banks the carrying amount is a reasonable estimate of fair value.

Securities Available-for-Sale

Fair values for securities available-for-sale are based on quoted market prices.

Other investments

The carrying value of other investments approximates fair value.

Loans and Mortgage Loans Held-for-Sale

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value.

Mortgage Servicing Rights

The carrying value of mortgage servicing rights approximates fair value.

Cash Surrender Value of Life Insurance

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

Deposits

The fair value of demand deposits, savings accounts, NOW accounts, certain money market deposits, advances from borrowers and advances payable to secondary market is the amount payable on demand at the reporting date. 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.

Federal Funds Purchased, Repurchase Agreements and Other Borrowings

For federal funds purchased and repurchase agreements, the carrying amount is a reasonable estimate of fair value.

Advances from the Federal Home Loan Bank

The fair value of the FHLB fixed rate borrowings are estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to Originate First Mortgage Loans, Commitments to Extend Credit and Standby Letters of Credit

Because commitments to originate first mortgage loans, commitments to extend credit and standby letters of credit are made using variable rates, the contract value is a reasonable estimate of fair value.

Interest Rate Contracts

The fair value of interest rate contracts is obtained from dealer quotes. These values represent the amount the Company would receive to terminate the contracts or agreements, taking into account current interest rates and, when appropriate, the current creditworthiness of the counterparties.

(18) Fair Value of Financial Instruments, continued

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 FLAG's entire holdings of a particular financial instrument. Because no market exists for a significant portion of FLAG'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 the mortgage banking operation, deferred income taxes, premises and equipment and purchased core deposit intangible. 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.

The carrying amount and estimated fair values of FLAG's financial instruments at December 31, 2001 and 2000 are as follows (In Thousands):

	2001	
	Carrying Amount	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 20,078	20,078
Interest-bearing deposits	160	160
Investment securities available-for-sale	131,526	131,526
Other investments	5,835	5,835
Mortgage loans held for sale	6,454	6,454
Loans, net	368,967	369,611
Mortgage servicing rights	-	-
Cash surrender value of life insurance	4,478	4,478
Interest rate contracts	599	599
Liabilities:		
Deposits	$ 440,582	444,957
Federal funds purchased and repurchase agreements	18,001	18,001
FHLB advances	39,448	39,904
Other borrowings	5,000	5,000
Unrecognized financial instruments:		
Commitments to extend credit	$ -	71,599
Standby letters of credit	-	955

(19) Subsequent Events
On January 15, 2002, the Board of Directors approved a plan to effect a 1 for 6,000 reverse stock split. Under the terms of the reverse stock split, as subsequently modified, holders of fractional shares of common stock after the split would receive cash in lieu of fractional shares at a pre-split price of $9.10 per share. Upon consummation of the reverse stock split, FLAG was to de-register its common stock with the Securities and Exchange Commission and terminate the listing of its common stock on the Nasdaq Stock Market. In conjunction with this reverse stock split, a group of investors was to purchase up to 1,300,000 shares of common stock in a private placement for $9.10 per share

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(19) Subsequent Events, continued
and up to 1,300,000 warrants to purchase common stock at an exercise price of $9.10 per share and a purchase price of $1.00 per warrant. Management of FLAG was to change to include some of these investors. Certain members of FLAG's management were to receive payments totaling approximately $2,579,000 to buy out their existing management contracts.

On February 15, 2002, FLAG received a preliminary indication of interest regarding a potential acquisition of the company. The Board of Directors rejected this offer and withdrew its proposal to effect the 1 for 6,000 reverse stock split. It decided, however, to proceed with the private placement and management changes.

As of February 19, 2002, FLAG had received subscriptions to purchase the 1,300,000 shares of its common stock and warrants in the private placement discussed above and certain of these investors became members of FLAG's executive management team. Also on February 19, 2002, FLAG purchased the existing management contracts as discussed above.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the directors and executive officers of the Company is set forth under the captions "Proposal 1 - Election of Directors-Nominees, - Information Regarding Nominees and Continuing Directors and - Executive Officers" in the Company's Proxy Statement for its 2001 Annual Meeting of Shareholders to be held on May 28, 2002. Such information is incorporated herein by reference.

Information regarding compliance with Section 16(a) of the Securities

Exchange Act of 1934, as amended, by directors and executive officers of the Company and the Bank is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement referred to above. Such information is incorporated herein by reference. To the Company's knowledge, no person was the beneficial owner of more than 10% of the Company's common stock during 2001.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is set forth under the captions "Proposal 1- Election of Directors- Director Compensation" and "Executive Compensation" in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding ownership of the Company's common stock by management and beneficial owners of 5% of the Company's common stock is set forth under the captions "Proposal 1 - Election of Directors - Management Stock Ownership" and "Principal Shareholders" in the Proxy Statement referred in Item 10 above and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain transactions between the Bank and directors and executive officers of the Company and the Bank is set forth under the caption "Related Party Transactions" in the Proxy Statement referred to in Item 10 above and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The list of financial statements is included at Item 8.

(a)(2) The financial statement schedules are either included in the financial statements or are not applicable.

(a)(3) Exhibit List

Exhibit No.	Description
3.1	Articles of Incorporation of the Company, as amended through October 15, 1993 (incorporated by reference from Exhibit 3.1(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993)

3.2	Bylaws of the Company, as amended through March 30, 1998 (incorporated by reference from Exhibit 3.1(ii) to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
3.3	Amendment to Bylaws of the Company as adopted by resolution of Board of Directors on October 19, 1998 (incorporated by reference from Exhibit 3.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1998)
3.4	Amendment to Bylaws of the Company as adopted by resolution of the Board of Directors on December 20, 2000 (incorporated by reference from Exhibit 3.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
3.5	Amendment to Bylaws of the Company as adopted by resolution of the Board of Directors on February 19, 2001
4.1	Instruments Defining the Rights of Security Holders (See Articles of Incorporation at Exhibit 3.1 hereto and Bylaws at Exhibits 3.2, 3.3, 3.4 and 3.5 hereto)
10.1*	Amended and Restated Employment Agreement between J. Daniel Speight, Jr. and the Company dated as of January 1, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000), as further amended and restated pursuant to the Amended and Restated Employment Agreement between J. Daniel Speight, Jr. and the Company dated as of February 21, 2002.
10.2*	Amended and Restated Employment Agreement between John S. Holle and the Company dated as of January 1, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended

	December 31, 2000), as repurchased pursuant to the Repurchase of Employment Agreement between John S. Holle and the Company dated as of February 20, 2002, as amended as of March 26, 2002.
10.3*	Employment Agreement between Charles O. Hinely and the Company dated as of April 1, 1999 (incorporated by reference from Exhibit 10.4 to the Company's Annual Report on form 10-K for the fiscal year ended December 31, 1999), as amended and restated pursuant to the Amended and Restated Employment Agreement between Charles O. Hinely and the Company dated as of February 21, 2002.
10.4*	Separation Agreement between J. Preston Martin and the Company dated May 13, 1998 (incorporated by reference from Exhibit 10.6 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997), as cancelled pursuant to the Cancellation Agreement between J. Preston Martin and the Company dated as of February 19, 2002.
10.5*	[Reserved]

10.6*	Split Dollar Insurance Agreement between J. Daniel Speight, Jr. and Citizens Bank dated November 2, 1992 (incorporated by reference from Exhibit 10.7 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.7*	Director Indexed Retirement Program for Citizens Bank dated January 13, 1995 (incorporated by reference from Exhibit 10.8 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.8*	Form of Executive Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.9 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.9*	Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.10 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.10*	Director Indexed Fee Continuation Program for First Federal Savings Bank of LaGrange effective February 3, 1995 (incorporated by reference from Exhibit 10.12 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.11*	Form of Director Agreement (pursuant to Director Indexed Fee Construction Program for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.13 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.12*	Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Fee Continuation Program of First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.14 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

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10.13*	Form of Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.15 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.14*	Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Executive Salary Continuation Plan for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.16 to Amendment No. 1 to the

	Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.15*	Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and William F. Holle, Jr. dated February 3, 1995 (incorporated by reference from Exhibit 10.17 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
10.16*	Form of Deferred Compensation Plan by and between The Citizens Bank and individuals listed on exhibit cover page (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.17*	FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated through March 30, 1998) (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.18*	FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended through September 18, 1997) (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.19*	First Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of March 15, 1999 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.20*	Second Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of January 16, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.21*	First Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of December 21, 1998 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.22*	Second Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of October 25, 1999 (incorporated by reference from exhibit of the same number to

	the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.23*	Third Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated January 16, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

21	Subsidiaries (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
23	Consent of Porter Keadle Moore, LLP

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* The indicated exhibit is a compensatory plan required to be filed as an exhibit to this Form 10-K.

(b) Reports on Form 8-K filed during Fourth Quarter of 2001

None

(c) The Exhibits not incorporated herein by reference are submitted as a separate part of this report.

(d) Financial Statements Schedules: The financial statement schedules are either included in the financial statements or are not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FLAG FINANCIAL CORPORATION
(Registrant)

Date: March 26, 2002 By: /s/ Joseph W. Evans

Joseph W. Evans
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Joseph W. Evans and J. Daniel Speight, Jr., and each of them, as true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, as amended, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all which said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do, or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed by the following persons in the capacities indicated on March 26, 2002:

Signature	Title
/s/ William H. Anderson, II William H. Anderson, II	Director
/s/ H. Speer Burdette, III H. Speer Burdette, III	Director
/s/ Stephen W. Doughty Stephen W. Doughty	Executive Vice President, Chief Risk Management Officer and Director
/s/ David B. Dunaway David B. Dunaway	Director

/s/ Fred A. Durand, III Fred A. Durand, III	Director
/s/ Joseph W. Evans Joseph W. Evans	Chairman and Chief Executive Officer (principal executive officer)
/s/ Charles O. Hinely Charles O. Hinely	Chief Financial Officer (principal financial and accounting officer)
/s/ James W. Johnson James W. Johnson	Director
/s/ J. Daniel Speight, Jr. J. Daniel Speight, Jr.	President and Director
/s/ J. Thomas Wiley, Jr.	Executive Vice President, Chief Banking Officer and Director

J. Thomas Wiley, Jr.

Exhibit Index

The following exhibits are filed as part of or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses.

Exhibit No.	Description
3.6	Articles of Incorporation of the Company, as amended through October 15, 1993 (incorporated by reference from Exhibit 3.1(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993)
3.7	Bylaws of the Company, as amended through March 30, 1998 (incorporated by reference from Exhibit 3.1(ii) to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
3.8	Amendment to Bylaws of the Company as adopted by resolution of Board of Directors on October 19, 1998 (incorporated by reference from Exhibit 3.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1998)
3.9	Amendment to Bylaws of the Company as adopted by resolution of the Board of Directors on December 20, 2000 (incorporated by reference from Exhibit 3.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
3.10	Amendment to Bylaws of the Company as adopted by resolution of the Board of Directors on February 19, 2001
4.1	Instruments Defining the Rights of Security Holders (See Articles of Incorporation at Exhibit 3.1 hereto and Bylaws at Exhibits 3.2, 3.3, 3.4 and 3.5 hereto)
10.1*	Amended and Restated Employment Agreement between J. Daniel Speight, Jr. and the Company dated as of January 1, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000), as further amended and restated pursuant to the Amended and Restated Employment Agreement between J. Daniel Speight, Jr. and the Company dated as of February 21, 2002.
10.2*	Amended and Restated Employment Agreement between John S. Holle and the Company dated as of January 1, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000), as repurchased pursuant to the Repurchase of Employment Agreement between John S. Holle and the Company dated as of February 20, 2002, as amended as of March 26, 2002.

10.3* Employment Agreement between Charles O. Hinely and the Company dated as of April 1, 1999 (incorporated by reference from Exhibit 10.4 to the Company's Annual Report on form 10-K for the fiscal year ended December 31, 1999), as amended and restated pursuant to the Amended and Restated Employment Agreement between Charles O. Hinely and the Company dated as of February 21, 2002.

10.4* Separation Agreement between J. Preston Martin and the Company dated May 13, 1998 (incorporated by reference from Exhibit 10.6 to Amendment No. 1 to the Company's Annual Report on Form

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10-K/A for the fiscal year ended December 31, 1997), as cancelled pursuant to the Cancellation Agreement between J. Preston Martin and the Company dated as of of February 19, 2002.

10.5* [Reserved]

10.6* Split Dollar Insurance Agreement between J. Daniel Speight, Jr. and Citizens Bank dated November 2, 1992 (incorporated by reference from Exhibit 10.7 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.7* Director Indexed Retirement Program for Citizens Bank dated January 13, 1995 (incorporated by reference from Exhibit 10.8 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.8* Form of Executive Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.9 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.9* Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.10 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.10* Director Indexed Fee Continuation Program for First Federal Savings Bank of LaGrange effective February 3, 1995 (incorporated by reference from Exhibit 10.12 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.11* Form of Director Agreement (pursuant to Director Indexed Fee Construction Program for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.13 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.12* Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Fee

Continuation Program of First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.14 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.13* Form of Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.15 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.14* Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Executive Salary Continuation Plan for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.16 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.15* Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and William F. Holle, Jr. dated February 3, 1995 (incorporated by reference from Exhibit 10.17 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.16* Form of Deferred Compensation Plan by and between The Citizens Bank and individuals listed on exhibit cover page (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

10.17* FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated through March 30, 1998) (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

10.18* FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended through September 18, 1997) (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

10.19* First Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of March 15, 1999 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

10.20* Second Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of January 16, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)

10.21* First Amendment to the FLAG Financial Corporation 1994

	Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of December 21, 1998 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.22*	Second Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of October 25, 1999 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
10.23*	Third Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated January 16, 2001 (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
22	Subsidiaries (incorporated by reference from exhibit of the same number to the Annual Report on Form 10-K for the fiscal year ended December 31, 2000)
23	Consent of Porter Keadle Moore, LLP

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* The indicated exhibit is a compensatory plan required to be filed as an exhibit to this Form 10-K.