UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2009

The Savannah Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

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

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [ ]

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

The aggregate market value of the voting and non-voting common equity at June 30, 2009 held by non-affiliates, based on the price of the last trade of $6.65 per share times 4,637,433 non-affiliated shares, was $30,838,929.

APPLICABLE ONLY TO CORPORATE REGISTRANTS
As of February 28, 2010, the registrant had outstanding 5,938,632 shares of common stock.

EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as originally filed with the Securities and Exchange Commission on March 17, 2010, is to correct the signature page, various page references and the non-affiliated share ownership reported on the cover page.

No other changes have been made to the Form 10-K other than the corrections described above. This Amendment No. 1 does not reflect subsequent events occurring after the original filing date of the Form 10-K or modify or update in any way disclosures made in the Form 10-K.

Portions of the 2009 Annual Report to Shareholders of Registrant are incorporated in Parts I, II and IV of this report. Portions of the Proxy Statement of Registrant dated March 29, 2010 are incorporated in Part III of this report.

REGISTRANT'S DOCUMENTS INCORPORATED BY REFERENCE

Document Incorporated by Reference	**Part Number and Item Number of Form 10-K Into Which Incorporated**
Pages F-32 and F-33 of Registrant's 2009 Annual Report to Shareholders	Part II, Item 5, Market for Registrant's Common Equity and Related Shareholder Matters
Pages F-30-32, F-41, F-46-47 of Registrant's 2009 Annual Report to Shareholders	Part II, Item 6, Selected Financial Data
Pages F-30 through F-47 of Registrant's 2009 Annual Report to Shareholders	Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations
Pages F-42, F-43 and F-45 of Registrant's 2009 Annual Report to Shareholders	Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk
Pages F-3 through F-29 of Registrant's 2009 Annual Report to Shareholders	Part II, Item 8, Financial Statements and Supplementary Data
See Registrant's Proxy Statement in connection with its Annual Shareholders' Meeting to be held April 21, 2010 ("2010 Proxy Statement")	Part III, Item 10, Directors and Executive Officers
See Registrant's 2010 Proxy Statement	Part III, Item 11, Executive Compensation
See Registrant's 2010 Proxy Statement	Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters
See Registrant's 2010 Proxy Statement	Part III, Item 13, Certain Relationships and Related Transactions
See Registrant's 2010 Proxy Statement	Part III, Item 14, Principal Accountant Fees and Services
Pages F-2 through F-29 of Registrant's 2009 Annual Report to Shareholders	Part IV, Item 15, Exhibits and Financial Statement Schedules

THE SAVANNAH BANCORP, INC.
2009 ANNUAL REPORT ON FORM 10-K
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PART I

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

- **The strength of the United States economy in general and the strength of the local economies in which the Company conducts operations;**
- **The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;**
- **Inflation, interest rate, market and monetary fluctuations;**
- **Adverse conditions in the stock market and other capital markets and the impact of those conditions on our capital markets and capital management activities, including our investment and wealth management advisory businesses;**
- **Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which the Company is perceived in such markets;**
- **The effects of harsh weather conditions, including hurricanes;**
- **Changes in United States foreign or military policy;**
- **The timely development of competitive new products and services by the Company and the acceptance of those products and services by new existing customers;**
- **The willingness of customers to accept third-party products marketed by us;**
- **The willingness of customers to substitute competitors' products and services for the Company's products and services and vice versa;**
- **The impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);**
- **Technological changes;**
- **Changes in consumer spending and saving habits;**
- **The effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;**
- **The growth and profitability of our noninterest or fee income being less than expected;**
- **Unanticipated regulatory or judicial proceedings;**
- **The impact of changes in accounting policies by the SEC or the Financial Accounting Standards Board;**
- **The limited trading activity of our common stock;**
- **The effects of our lack of a diversified loan portfolio, including the risks of geographic concentrations;**
- **Adverse changes in the financial performance and/or condition of our borrowers, which could impact the repayment of those borrowers' outstanding loans; and**
- **The success of the Company at managing the risks involved in the foregoing.**

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

Item 1. Business

(a) General Development of Business

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

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

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

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

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

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

As of December 31, 2009, Savannah had eight full service offices and one loan production office, total assets of $768 million, total loans of $651 million, total deposits of $668 million, total shareholders' equity of $61.3 million and $1.4 million in 2009 net income. As of December 31, 2009, Bryan Bank had two full service offices, total assets of $260 million, total loans of $218 million, total deposits of $217 million, total shareholders' equity of $21.9 million and net income of $2.8 million for the year then ended.

In September 2005, the Company formed SAVB Properties, LLC for the primary purpose of owning a 50 percent interest in two real estate partnerships. Johnson Square Associates, a Georgia general partnership, owns a seven-story, 35,000 square foot building at 25 Bull Street on Johnson Square in downtown Savannah. The Company currently leases approximately 40 percent of this space for its corporate headquarters and the main office of Savannah. Whitaker Street Associates, a Georgia Limited Partnership, owns the 80' x 200' parking lot directly across Whitaker Street from 25 Bull Street. Under an agreement with the City of Savannah, the parking lot has been re-developed as part of a 3 acre, 1100 space underground parking garage and now includes the structural foundation adequate to support a 6-story building, the maximum height allowed on this property by city ordinances. This lot adjoins Ellis Square, one of Savannah's original squares, which has been restored by the City of Savannah.

(b) Information about Industry Segments

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

(c) Narrative Description of Business

General

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

Banking Services

The Company has approximately 201 full time equivalent employees as of December 31, 2009. The Subsidiary Banks offer a full range of deposit services, including checking accounts, savings accounts and various time deposits ranging from daily money market accounts to long-term certificates of deposit. The transaction accounts and time deposits are tailored to the principal market areas at rates competitive with those offered in the area. In addition, retirement accounts such as Individual Retirement Accounts and Simplified Employee Pension accounts are offered. The FDIC insures all deposit accounts up to the maximum amount of $250,000 through December 31, 2013. The Subsidiary Banks solicit these accounts from individuals, businesses, foundations, organizations, and governmental authorities. The Subsidiary Banks participate in the Transaction Account Guarantee Program ("TAGP"), which is part of the FDIC's voluntary Temporary Liquidity Guarantee Program established in November 2008. Under the TAGP the FDIC will provide full FDIC deposit insurance coverage for noninterest-bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.50% interest per annum, and Interest and Lawyers Trust Accounts held at participating FDIC insured institutions through June 30, 2010.

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

The Subsidiary Banks' lending policies provide each lending officer with written guidance for lending activities as approved by the Board of Directors ("Board") of the Banks. Real estate loan-to-value guidelines generally conform to regulatory loan-to-value limits. Additionally, the existence of reliable sources of repayment/cash flow are usually required before making any loan, regardless of the collateral. Appraisals are obtained as required. Lending officers or contract inspectors make on-site inspections on construction loans. Lending authority is delegated to each lending officer by the Credit Committee of each Subsidiary Banks' Board. Loans in excess of the individual officer limits must be approved by a senior officer with sufficient approval authority delegated by these committees. Loans to borrowers whose aggregate combined companywide exposure exceeds $2,500,000 at Savannah and $1,000,000 at Bryan Bank require the approval of the Subsidiary Bank's Credit Committee.

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

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

In 2008, the Company discontinued the origination of mortgage loans on a correspondent basis and is now exclusively brokering mortgage loans. The Company does continue to service previously sold loans.

Credit Risk Management and Allowance for Loan Losses

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

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

The allowance for loan losses is evaluated as described in the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") section of the 2009 Annual Report to Shareholders ("2009 Annual Report") on pages F-35 through F-38.

Other Banking Services

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

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

The Subsidiary Banks offer cash management services, remote deposit capture, Internet banking, electronic bill payment, non-cash deposit courier service, safe deposit boxes, travelers checks, direct deposit of payroll, U.S. Savings bonds, official bank checks and automatic drafts for various accounts.

The Subsidiary Banks have twelve automated teller machines and are members of the *STAR* network of automated teller machines. The Subsidiary Banks issue ATM and debit cards. They also offer Discover, VISA and MasterCard credit cards as an agent for a correspondent bank.

Location and Service Area

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

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

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

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

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

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

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

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

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

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

In August 2008, Bryan opened its second office in Richmond Hill at 3700 Highway 17, about one-half mile from I-95. The new branch is 3,000 square feet. The Company also relocated its regional banking operations center from previously leased space in Savannah to the new facility.

The imaged item processing, statement rendering, information technology, deposit operations and branch operations support functions are located at this center. The operations center occupies the remainder of the 11,500 square foot facility.

In October 2008, Savannah opened a loan production office located at 400 Main Street in St. Simons Island, Georgia.

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

Liquidity and Interest Rate Sensitivity Management

Quantitative disclosures regarding the Company’s liquidity management are included on pages F-41 through F-43 in the 2009 Annual Report.

Interest Rate Risk

Quantitative discussion of the Company’s interest rate risk is included on pages F-42 and F-43 in the 2009 Annual Report.

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

Bank holding companies and commercial banks are extensively regulated under both federal and state law. These laws and regulations delineate the nature and extent of the activities in which commercial banks may engage. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Change in applicable laws or regulations may have a material effect on the business of the Company and its subsidiaries.

Savannah is subject to extensive supervision and regulation by the OCC and Bryan Bank is subject to extensive supervision by the GBDF and the FDIC. The regulators are responsible for overseeing the affairs of the Subsidiary Banks and periodically examining the Banks to determine their compliance with laws and regulations. The Subsidiary Banks must make quarterly reports of financial condition and results of operations to the regulators. This quarterly financial information is made available to the public approximately 45 days after each quarter-end. Regulators use this data for quarterly offsite monitoring of the financial condition of the Banks. Quarterly holding company reports are filed with the Federal Reserve Bank (“FRB”) of Atlanta (“FRB Atlanta”) within 40 days of each quarter-end. This financial information is reviewed by the FRB Atlanta for accuracy, consistency and reasonableness and is also made available to holding company database providers within 75 days of the end of each quarter. Bank analysts, regulators and consultants regularly use this information in analyzing historical and expected performance of banks and bank holding companies.

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

Regulators have adopted risk-based capital requirements that specify the minimum level for which no prompt corrective action is required. In addition, the FDIC adopts FDIC insurance assessment rates based on certain risk-based and equity capital ratios. The regulators have authority to establish higher capital requirements if they determine that the circumstances of a particular institution require it and to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution’s degree of undercapitalization. The table in Note 14 to the Consolidated Financial Statements in the 2009 Annual Report shows the capital ratios for the Company and Subsidiary Banks and the regulatory minimum capital ratios at December 31, 2009.

The capital ratios of the Company and each Subsidiary Bank exceed the ratios required to be considered "well-capitalized" by the FDIC.

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

Shareholders of banks (including bank holding companies which own stock in banks, such as the Company) may be compelled by bank regulatory authorities to invest additional capital in the event their bank's capital becomes impaired by losses or otherwise. Failure to pay such an assessment could cause a forced sale of the holder's bank stock. In addition, the Company may also be required to provide additional capital to any banks that it acquires as a condition to obtaining the approvals and consents of regulatory authorities in connection with such acquisitions.

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

The Company, as a bank holding company, is required to register as such with the FRB and the GDBF. It is required to file with both of these agencies quarterly and annual reports and other information regarding its business operations and those of its subsidiaries. It is also subject to examination by these two agencies and will be required to obtain their approval before acquiring, directly or indirectly, ownership or control of any voting shares of a bank or bank subsidiary of a bank holding company if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting stock of such bank or banking subsidiary of a bank holding company. Furthermore, a bank holding company is prohibited from acquiring direct or indirect ownership or control of any voting stock of any company which is not a bank or bank holding company, with limited exceptions. It must engage only in the business of banking, managing or controlling banks or furnishing services to or performing services for its subsidiary banks. During 1996, the Fed enacted regulations that are slightly less restrictive regarding the types of businesses which bank holding companies may own.

Banking organizations are prohibited under the Act from participating in new financial affiliations unless their depository institution subsidiaries are well-capitalized and well-managed. Regulators are required to address any failure to maintain safety and soundness standards in a prompt manner. In addition, regulators must prohibit holding companies from participating in new financial affiliations if, at the time of certification, any insured depository affiliate had received a less than "satisfactory" CRA rating at its most recent examination.

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

The Fed may act by either regulation or order in determining what activities are financial in nature, incidental to financial in nature, or complementary. In doing so, the Fed must notify the Treasury Department (“Treasury”) of requests to engage in new financial activities and may not determine that an activity is financial or incidental to a financial activity if Treasury objects. Furthermore, Treasury may propose that the Fed find a particular activity financial in nature or incidental to a financial activity.

GLB establishes a similar procedure with regard to the Treasury's (acting through the OCC) determination of financial activities and activities that are incidental to financial activities for subsidiaries of national banks. Congress intended for the Fed and Treasury to establish a consultative process that would negate the need for either agency to veto a proposal of the other agency.

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

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

- requires financial institutions to establish privacy policies and disclose them annually to all customers, setting forth how the institutions share nonpublic personal financial information with affiliates and third parties;
- directs regulators to establish regulatory standards that ensure the security and confidentiality of customer information;
- permits customers to prohibit ("opt out" of permitting) such institutions from disclosing personal financial information to nonaffiliated third parties;
- prohibits transfer of credit card or other account numbers to third-party marketers;
- prohibits pretext calling (that is, makes it illegal for information brokers to call banks to obtain customer information with the intent to defraud the bank or customer);
- protects stronger state privacy laws, as well as those not "inconsistent" with the federal rules;
- requires the Treasury and other federal regulators to study the appropriateness of sharing information with affiliates, including considering both negative and positive aspects of such sharing for consumers.

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

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act") has introduced a process that enables nationwide interstate banking through bank subsidiaries and interstate bank mergers. Separately, the Riegle-Neal Act also permits bank subsidiaries to act as agents for each other across state lines. Since September 29, 1995, adequately capitalized and managed bank holding companies have been permitted to acquire control of a bank in any state. Acquisitions are subject to concentration limits. Beginning June 1, 1997, banks were permitted to merge with one another across state lines. The Interstate Banking Act also permits de novo branching to the extent that a particular state "opts into" the de novo branching provisions. The legislation preserves the state laws which require that a bank must be in existence for a minimum period of time before being acquired as long as the requirement is five years or less. This legislation has relevance for the banking industry due to increased competitive forces from institutions which may consolidate through mergers and those which may move into new markets through enhanced opportunities to branch across state lines. Georgia and South Carolina do not have reciprocal provisions for de novo branches or charters. Holding companies domiciled in Georgia may not branch or charter banks in South Carolina and vice versa. Alternatives for expansion between these states include acquiring an existing financial institution, chartering a federal savings bank or moving the charter of a national bank within 35 miles of its headquarters into the new state.

A bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit or provision of any property or service. Thus, a bank may not extend credit, lease or sell property or furnish any service or fix or vary the consideration for such on the condition that (i) the customer should obtain or provide some additional credit, property or service from or to such bank (other than a loan, discount, deposit or trust service related to and usually provided in connection with a loan, discount, deposit or trust service), its bank holding company or any other subsidiary of its bank holding company or (ii) the customer may not obtain some other credit, property or service from a competitor, except to the extent reasonable conditions are imposed in a credit transaction to assure the soundness of the credit extended.

The FRB has cease and desist powers over bank holding companies and non-banking subsidiaries should their actions constitute a serious threat to the safety, soundness or stability of a subsidiary bank.

The Company is also subject to certain restrictions with respect to engaging in the business of issuing, underwriting and distributing securities.

Although the Company is not presently subject to any direct regulatory restrictions on dividends (other than those of Georgia corporate law), the Company's long-term ability to pay cash dividends will depend on the amount of dividends paid by the Subsidiary Banks and any other subsequently acquired entities. OCC regulations restrict the amount of dividends which Savannah may pay without obtaining prior approval. Based on such regulatory restrictions without prior approval, Savannah is restricted from paying dividends in a calendar year which exceeds the current year's net income combined with the retained net profits of the preceding two years. Bryan Bank may pay dividends equal to no more than 50 percent of prior year net income without prior approval from the GDBF. The dividend payout plans of the Subsidiary Banks consider the objective of maintaining their “well-capitalized” status.

The Subsidiary Banks are members of the FHLB System, which consists of 12 regional FHLBs subject to supervision and regulation by the Federal Housing Finance Agency. The FHLBs maintain central credit facilities primarily for member institutions. The Subsidiary Banks, as members of the FHLB of Atlanta, are required to hold shares of capital stock in the FHLB of Atlanta in an amount equal to: (i) 18 basis points of the Bank’s total assets (adjusted annually) and (ii) 4.5 percent of its advances (borrowings) from the FHLB of Atlanta. The Subsidiary Banks are in compliance with this requirement at December 31, 2009.

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

Community Reinvestment Act

CRA requires the federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low- and moderate-income borrowers in their local communities. In May 1995, the federal bank regulatory agencies published final amended regulations promulgated pursuant to the CRA. The final regulations eliminate the 12 assessment factors under the former regulation and replace them with performance tests. Institutions are no longer required to prepare CRA statements or extensively document director participation, marketing efforts or the ascertainment of community credit needs. Under the final rule, an institution's size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions have the option of being evaluated under a strategic plan formulated with community input and pre-approved by the applicable bank regulatory agency.

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

Public disclosure of written CRA evaluations of financial institutions made by regulatory agencies is required under the CRA. This promotes enforcement of CRA requirements by providing the public with the status of a particular institution's community reinvestment record. Savannah and Bryan Bank received a "satisfactory" rating on the most recent performance evaluations of their CRA efforts by their respective banking regulatory agencies.

Fair Lending

Congress and various federal agencies responsible for implementing fair lending laws have been increasingly concerned with discriminatory lending practices. In 1994, those federal agencies announced a Joint Policy Statement detailing specific discriminatory practices prohibited under the Equal Opportunity Act and the Fair Housing Act. In the Policy Statement, three methods of proving lending discrimination were identified: (i) overt evidence of discrimination, where a lender blatantly discriminates on a prohibited basis; (ii) evidence of disparate treatment, when a lender treats applicants differently based upon a prohibited factor, even where there is no evidence showing that the treatment was motivated by intention to discriminate; and (iii) evidence of disparate impact, when a lender applies a practice uniformly to all applicants, but the practice has a discriminatory effect, even where such practices are neutral in appearance and applied equally.

Anti-Money Laundering

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

Rules Adopted by the SEC

The Sarbanes-Oxley Act of 2002 (“Sarbox”) was enacted to enhance penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures under the federal securities laws. Sarbox typically applies to all companies, including the Company, which file or are required to file periodic reports with the SEC. Generally, Sarbox (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the SEC; (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert;” and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

Recent Banking Legislation

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

Competition

The banking business is very competitive. Banks generally compete with other financial institutions using the mix of banking products and services offered, the pricing of services, the convenience and availability of services, and the degree of expertise and the personal manner in which services are offered. The Subsidiary Banks compete with other commercial and savings banks in their primary service areas. The Subsidiary Banks also compete with credit unions, consumer finance companies, insurance companies, money market mutual funds, brokerage firms and other financial institutions, some of which are not subject to the degree of regulation and restriction imposed upon the Subsidiary Banks.

Many of these competitors have substantially greater resources and lending limits than the Subsidiary Banks and offer certain services that the Subsidiary Banks do not provide currently.

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

The Subsidiary Banks experience the most competition from new local community bank entrants into the market area. Numerous banking offices of community banks and de novo banks have opened in the Savannah market since January 1, 2002. Other banks have indicated interest in the coastal Georgia and South Carolina markets. These new entrants have increased and will continue to increase the competition for existing and new business.

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

SELECTED STATISTICAL INFORMATION FOR THE COMPANY

Investments

Table 1 - Weighted Average Yields by Maturity

The following table sets forth the amortized cost, fair value and tax-equivalent yields by investment type and contractual maturity at December 31, 2009:

	Amortized Cost	Fair Value	Taxable Equivalent Yield (a)
	(Thousands)		(%)
Securities available for sale:			
U.S. government-sponsored enterprises ("GSE") and mortgage-backed:			
Within one year	$ -	$ -	-
One year to five years	734	775	5.42
Five years to ten years	993	1,088	4.94
Mortgage-backed securities - GSE	73,203	74,287	3.10
Total	74,929	76,151	3.15
Other interest-earning investments:			
Within one year	-	-	-
One year to five years	1,187	1,225	5.25
Five years to ten years	1,666	1,688	4.39
Due after ten years	5,054	5,096	4.71
Restricted equity securities	3,760	3,760	1.18
Total	11,667	11,768	1.54
Total securities available for sale	$ 86,596	$ 87,919	4.68

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

Loans

Following is certain information regarding the loan portfolio as of December 31, 2009 on a consolidated basis.

Table 2 - Loan Repricing Opportunities

The following table sets forth certain loan maturity and repricing information as of December 31, 2009. Loan renewals generally reprice relative to the prime rate in effect at the time of the renewal. Management expects that certain real estate mortgage loans which have maturities of one to three years with longer amortization periods will renew at maturity.

($ in thousands) Loan Category	One Year or Less	After One Year Through Five years	Over Five Years	Total
Real estate-construction and development	$ 55,386	$ 4,293	$ -	$ 59,679
Commercial	63,771	23,042	2,466	89,279
Total	$ 119,157	$ 27,335	$ 2,466	$ 148,958
Loans with fixed rates	$ 41,686	$ 27,335	$ 2,466	$ 71,487
Loans with floating and adjustable rates	77,471	-	-	77,471
Total	$ 119,157	$ 27,335	2,466	$ 148,958

Nonaccrual, Past Due and Restructured Loans

At December 31, 2009 and 2008, nonperforming loans were $34,115,000 and $27,603,000, respectively. At December 31, 2009, the Subsidiary Banks had nonaccruing loans of $32,545,000 and $1,570,000 in loans past due 90 days or more. Interest income of $957,000 was recognized on impaired loans in 2009.

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

Loan Concentrations

Most of the Company’s business activity is with customers located within Chatham and Bryan County, Georgia and southern Beaufort County, South Carolina. Table 7 on page F-41 of the 2009 Annual Report provides details of the various real estate loan concentrations. The Company has no loans that are considered to be highly leveraged transactions or foreign credits.

Allowance for Loan Losses

See pages F-35 through F-38 of the 2009 Annual Report for details about the activity and breakdown of the allowance for loan losses and additional information regarding accounting estimates in the allowance.

Deposits

Deposit Average Balances and Rates Paid

Tables 9 and 10 on pages F-46 and F-47 of the 2009 Annual Report summarize the average balances of the Company’s deposits and the average rates paid on such deposits during 2009, 2008 and 2007.

Table 3 - Long-term Obligations

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

($ in thousands)	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	More than 5 Years
FHLB advances - long-term	$ 15,664	$ -	$ 2,016	$ 3,511	$ 10,137
Subordinated debt	10,310	-	-	-	10,310
Operating leases - buildings	6,086	597	1,601	1,204	2,684
Long-term contracts	2,697	1,222	1,475	-	-
Total	$ 34,757	$ 1,819	$ 5,092	$ 4,715	$ 23,131

Item 1A. Risk Factors

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

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

Credit Risk

Our business is affected by the strength of the local economies where we operate.

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

Any adverse market or economic conditions in coastal Georgia and South Carolina may disproportionately increase the risk that our borrowers will be unable to make their loan payments. In addition, the market value of the real estate securing loans could be adversely affected by unfavorable changes in market and economic conditions. The Bluffton/Hilton Head Island ("Bluffton/HHI") market experienced a pronounced slowdown beginning in 2007 which seriously and adversely affected our residential real estate loans that were originated in that market. The Company has also experienced a slowdown in its other real estate markets. As of December 31, 2009, approximately 88% of our loans held for investment were secured by real estate. Of the commercial real estate loans in our portfolio, approximately 39% represent properties owned and occupied by businesses to which we have extended loans. The current sustained period of increased payment delinquencies, foreclosures and losses caused by adverse market and economic conditions in coastal Georgia and South Carolina has adversely affected the value of our assets, our revenues, results of operations and overall financial condition and is likely to continue to at least in the short term.

Our business is concentrated in the areas of Chatham and Bryan County, Georgia and southern Beaufort County, South Carolina.

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

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

Our loan customers may not repay their loans according to the terms of these loans and the collateral securing the payment of these loans may be insufficient to assure repayment. We may continue to experience significant charge-offs which could have a material adverse effect on our operating results. Our management makes various assumptions and judgments about the collectibility of our loans, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of our loans. We maintain an allowance for loan losses in an attempt to cover any charge-offs which may occur. In determining the size of the allowance, we rely on an analysis of our loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and nonaccruals, national and local economic conditions and other pertinent information. As noted above, the Bluffton/HHI market experienced a significant slowdown beginning in 2007 which necessitated additional provisions for loan losses. Our Georgia markets are experiencing a slowdown as well.

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

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

Market Risk

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

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

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

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

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

Monetary policies may adversely affect our business and earnings.

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

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

Asset management fee revenues are directly impacted by the total investments under management. The assets under management are impacted by stock values, bond values, interest rates and the gain or loss of accounts due primarily to investment performance. Minis' selling shareholders have significant earn-out incentives to maintain and increase revenues through June 2010. However, events and decisions beyond their control can negatively impact assets under management and the related revenues from such assets.

Liquidity Risk

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

We use wholesale, institutional and brokered deposits, uninsured local deposits and other borrowings, including repurchase agreements, federal funds purchased, FRB discount window borrowings and FHLB borrowings, to fund a portion of our operations. Federal law requires a bank to be well-capitalized if it accepts new brokered deposits. Thus, the Company and the Banks must maintain a "well-capitalized" status to meet our funding plans. Failure to maintain "well-capitalized" status would limit our access to wholesale and brokered deposits and federal funds purchased (but not necessarily repurchase agreements or FHLB or FRB borrowings), which could impair our liquidity. We will be considered "well-capitalized" if we (i) have a total risk-based capital ratio of 10.0 percent or greater; (ii) have a Tier 1 risk-based capital ratio of 6.0 percent or greater; (iii) have a leverage ratio of 5.0 percent or greater; and (iv) are not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC to meet and maintain a specific capital level for any capital measure.

Depositors that invest in brokered deposits are generally interest rate sensitive and well informed about alternative markets and investments. Consequently, funding with brokered deposits may not provide the same stability to our deposit base as traditional local retail deposit relationships. Our liquidity may be negatively affected if brokered deposit supply declines due to a loss of investor confidence or a flight to higher quality investments such as U.S. Treasury securities. In addition, brokered deposits historically have a higher rate of interest than core local deposits.

Deposit balances in excess of the FDIC's $250,000 insurance limit (through December 31, 2013) per depositor are uninsured deposits. Customers with uninsured deposits are more sensitive to financial or reputation risk than insured depositors. Consequently, uninsured deposits do not provide the same stability to our deposit base as insured deposits. Our liquidity may be negatively affected by a decline in uninsured deposits due to a loss of investor confidence and a flight to insured deposits at other financial institutions.

The Subsidiary Banks participate in the FDIC's voluntary TAGP. Under the TAGP the FDIC will provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, NOW accounts paying less than 0.50 percent interest per annum, and Interest and Lawyers Trust Accounts held at participating FDIC insured institutions through June 30, 2010.

Operational Risk

Future departures of our key personnel may impair our operations.

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

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We believe that our current capital resources are sufficient in the short term. We do, however, continue to evaluate the need to raise additional capital to support growth and a possible further deterioration of current economic conditions.

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

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

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

In February 2009, the FDIC adopted a long-term deposit insurance fund ("DIF") restoration plan as well as an additional emergency assessment for 2009. The restoration plan increases base assessment rates for banks in all risk categories with the goal of raising the DIF reserve ratio. Banks in the best risk category paid initial base rates ranging from 12 to 16 basis points of assessable deposits beginning April 1, 2009. Additionally, the FDIC adopted a final rule imposing a special emergency assessment on all financial institutions of 5 basis points of total assets minus Tier 1 capital as of June 30, 2009. Our special emergency assessment totaled $425,000 and was collected on September 30, 2009. The FDIC is also permitted to impose an emergency special assessment after June 30, 2009 of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance. The FDIC has not to date imposed such an assessment. The increase in assessments by the FDIC could have a material adverse effect on our earnings.

On November 12, 2009, the FDIC imposed a requirement on all financial institutions to prepay three years of FDIC insurance premiums. On December 30, 2009, we prepaid $5.1 million of FDIC insurance premiums for the next three years.

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

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

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

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

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

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

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

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

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

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

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

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

The failure of other financial institutions could adversely affect us.

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

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

As previously mentioned, the Company has a related party promissory note ("Note") in the current amount of $16.0 million. The Note is secured by the unconditional guarantee of the Company and SAVB Holdings' blanket assignment or pledge of all of its assets and the proceeds thereof to the Note's holder. The Note contains the following financial covenants: (i) during the term of the Note, the dividends paid out by the Company, on a quarterly basis, shall not exceed 50 percent of the Company's after tax net income for the proceeding quarter; (ii) Savannah and Bryan shall each maintain a "well-capitalized" status as determined by the OCC and GDBF, respectively; (iii) on the last day of each calendar quarter during the term of the Note, SAVB Holdings shall maintain a loan-to-value ratio of at least 1.00:1.00; and (iv) on the last day of each calendar quarter during the term of the Note, the amount of non-performing assets of the Company shall not exceed 4.75 percent of the total assets of the Company. At December 31, 2009, the Company met all covenants contained in the Note.

Common Stock Marketability Risk

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

Our Articles of Incorporation authorize the issuance of up to 10,000,000 shares of preferred stock, par value $1.00 per share. The authorized but unissued preferred stock constitutes what is commonly referred to as "blank check" preferred stock. This type of preferred stock may be issued by us, at the direction of our Board, from time to time on any number of occasions, without shareholder approval, as one or more separate series of shares comprised of any number of the authorized but unissued shares of preferred stock, designated by resolution of the Board stating (i) the dividend rate or the amount of dividends to be paid thereon, whether dividends shall be cumulative and, if so, from which date(s), the payment date(s) for dividends, and the participating or other special rights, if any, with respect to dividends; (ii) the voting powers, full or limited, if any, of shares of such series; (iii) whether the shares of such series shall be redeemable and, if so, the price(s) at which, and the terms and conditions on which, such shares may be redeemed; (iv) the amount(s) payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company; (v) whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price or prices at which such shares may be redeemed or purchased through the application of such funds; (vi) whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes of stock of the Company, and, if so, the conversion price(s), or the rate(s) of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion and exchange; (vii) the price or other consideration for which the shares of such series shall be issued; (viii) whether the shares of such series which are redeemed or converted shall have the status of authorized but unissued shares of serial preferred stock and whether such shares may be reissued as shares of the same or any other series of serial preferred stock;

and (ix) whether the shares of such series shall be entitled to other rights, preferences and privileges. Such preferred stock may provide our Board the ability to hinder or discourage any attempt to gain control of us by a merger, tender offer at a control premium price, proxy contest or otherwise. Consequently, the preferred stock could entrench our management. The market price of our common stock could be depressed to some extent by the existence of the preferred stock. Moreover, any preferred stock that is issued will rank ahead of our common stock, in terms of dividends, priority and liquidation preferences and may have greater voting rights than our Company's common stock. No shares of preferred stock have been issued as of December 31, 2009.

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

As of December 31, 2009, our directors and executive officers, collectively, beneficially owned approximately 22 percent of our outstanding common stock. As a result of their ownership, the directors and executive officers, as a group, have the ability to significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors and the approval of mergers and other significant corporate transactions, even if their interests conflict with those of other shareholders, which could adversely affect the market price of our common stock.

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

The OCC, FDIC and the GDF are the primary regulatory agencies that examine the Subsidiary Banks. Under certain circumstances, including any determination that the activities of a bank or their subsidiaries constitute unsafe and unsound banking practices, the regulators have the authority by statute to restrict the Subsidiary Banks' ability to transfer assets, make shareholder distributions, and redeem preferred securities or pay dividends to the parent company. In addition, as noted previously, one of our loan agreements contains a covenant that restricts quarterly dividends to 50 percent of quarterly net income.

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

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

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

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

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

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

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

We have various obligations to issue additional shares of common stock in the future. These obligations include non-qualified and incentive stock options as detailed in Note 13 on page F-19 and page F-20 to the Consolidated Financial Statements in the 2009 Annual Report.

The options permit the holders to purchase shares of our common stock at specified prices. These purchase prices may be less than the then current market price of our common stock. Any shares of our common stock issued pursuant to these options would dilute the percentage ownership of existing shareholders. The terms on which we could obtain additional capital during the life of these options may be adversely affected because of such potential dilution. Finally, we may issue additional shares in the future. There are no preemptive rights in connection with our common stock. Thus, the percentage ownership of existing shareholders may be diluted if we issue additional shares in the future. For issuances of shares and grants of options, our Board will determine the timing and size of the issuances and grants and the consideration or services required thereof. Our Board intends to use its reasonable business judgment to fulfill its fiduciary obligations to our then existing shareholders in connection with any such issuance or grant. Nonetheless, future issuances of additional shares could cause immediate and substantial dilution to the net tangible book value of shares of our common stock issued and outstanding immediately before such transaction. Any future decrease in the net tangible book value of such issued and outstanding shares could materially and adversely affect the market value of the shares.

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

Any sales of large quantities of shares of our common stock, or the perception that any such sales are likely to occur, could reduce the market price of our common stock. In 2005, we issued 397,273 restricted shares to investors in a private placement of our shares which were registered with the SEC on October 21, 2005. When the registration statement covering the resale of those restricted shares became effective, the holders of those shares are able to offer to sell those shares from time to time at the current market price or at negotiated prices. In 2007, we issued 71,000 shares related to the acquisition of Minis. If holders sell large quantities of shares of our common stock, the market price of our common stock may decrease and the public market for our common stock may otherwise be adversely affected because of the additional shares available in the market.

Our common stock has experienced only limited trading.

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

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We, therefore, can give no assurance that sales of substantial amounts of our common stock in the market, or the potential for large amounts of sales in the market, would not cause the market price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

As of December 31, 2009, there were 5,933,789 shares of common stock outstanding. The price of our common stock will be determined in the marketplace and may be influenced by many factors, including the following:

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

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

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

See Note 5 and Note 15 of Notes to Consolidated Financial Statements on page F-16 and page F-21 of the Registrant's 2009 Annual Report, which is specifically incorporated herein by reference.

Savannah's main office is located at 25 Bull Street, Savannah, Georgia, on the ground floor of a seven story office building located on Johnson Square in downtown Savannah. The building also serves as the headquarters for the Company. Savannah has leased space at this location since 1990. The Company signed a new lease as of February 1, 2010 increasing the total square footage rented in the building to approximately 18,800 square feet, which is 40% of the building. Minis and the Trust department of Savannah will move into the building from other leased space in 2010. The Company is responsible for its pro rata share of operating cost increases in utilities, janitorial services, property taxes and insurance. In September 2005, SAVB Properties LLC, a nonconsolidated subsidiary of the Company, acquired a 50 percent interest in Johnson Square Associates, LLP, which owns the 25 Bull Street property. SAVB Properties LLC also acquired a 50 percent interest in Whitaker Street Associates, which owns the adjacent parking lot.

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

Savannah leases approximately 6,500 square feet on the first floor of a two-story building located at 400 Mall Boulevard, Savannah, Georgia. This space is used for a branch location and the mortgage and construction lending departments. The building is near the intersection of Mall Boulevard and Hodgson Memorial Drive, a location that is convenient to a significant concentration of commercial, service, and retail entities. The lease rate increases with the Consumer Price Index. The initial lease term was for five years and ended March 31, 1997. Savannah committed to exercise the third five-year lease option in February 2007. There is one additional five-year renewal option included in the terms. Savannah is also responsible for its prorata share of increases in the cost of ad valorem taxes, insurance and maintenance of common areas. Savannah renovated the space, constructed a vault, and added a five lane drive-through teller facility adjacent to the building.

During 1995, Savannah entered into a five-year ground lease with seven five-year renewal options on land located at 100 Chatham Parkway. Savannah also has a right of first refusal to buy the property at appraised value should the owner ever decide to sell the property.

The location is at the intersection of Chatham Parkway and U.S. Highway 80, a major commercial and industrial intersection in west Chatham County. Savannah made land improvements and constructed a 2,200 square-foot banking facility including four drive-through lanes and an ATM drive-through lane. The West Chatham Office opened for business on November 20, 1995.

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

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

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

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

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

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

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

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

In October 2008, Savannah entered into a two year lease for office space located at 400 Main Street in St. Simons Island, Georgia. The location serves as a loan production office for the Brunswick/St. Simons Island area.

Item 3. Legal Proceedings

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

Item 4. Reserved

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Incorporated herein by reference to sections entitled “Table 4 - Market for Registrant's Common Equity and Related Shareholder Matters” on page F-32 of the Financial Statement Section of the 2009 Annual Report.

Item 6. Selected Financial Data

Incorporated herein by reference to sections entitled “Table 1– Selected Financial Condition Highlights – Five-Year Comparison,” “Table 2 – Selected Operating Highlights – Five-Year Comparison,” “Table 3 – Selected Quarterly Data,” “Table 6 – Allowance for Loan Losses and Nonperforming Assets,” “Table 7 – Loan Concentrations,” “Table 9 – Average Balance Sheet and Rate/Volume Analysis-2009 and 2008” and “Table 10 – Average Balance Sheet and Rate/Volume Analysis-2008 and 2007” in the Registrant’s MD&A on pages F-30 through F-47 of the Financial Statement Section of the 2009 Annual Report. Additional selected financial data is included on pages 14 through 16 of this Annual Report on Form 10-K.

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

The MD&A on pages F-30 through F-47 of the Financial Statement Section of the 2009 Annual Report are incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Incorporated herein by reference to the sections entitled “Liquidity and Interest Rate Sensitivity Management” and “Table 8 – Cash Flow/Maturity Gap and Repricing Data” in the Registrant’s MD&A on pages F-42, F-43 and F-45 of the Financial Statement Section of the 2009 Annual Report.

Item 8. Financial Statements and Supplementary Data

(a)

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

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

None

Item 9A. Controls and Procedures

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

Management’s Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm - Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

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

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009. Mauldin & Jenkins, LLC has audited the effectiveness of our internal control over financial reporting and their report is included below.

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

Report of Independent Registered Public Accounting Firm

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

We have audited The Savannah Bancorp Inc. internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Savannah Bancorp Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Savannah Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Savannah Bancorp, Inc. and Subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. Our report dated March 15, 2010 expressed an unqualified opinion.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
March 15, 2010

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated herein by reference to the sections entitled “Election of Directors,” “Information about the Board of Directors and Certain Committees” and “Executive Compensation and Benefits” in the Registrant’s Proxy Statement dated March 29, 2010 and filed on March 22, 2010. All transactions required pursuant to the insider trading regulations were filed on either Form 4 or Form 5 of the SEC. The required Code of Ethics disclosures are also incorporated by reference to the section entitled “Code of Business Conduct and Ethics” in the Registrant’s Proxy Statement dated March 29, 2010.

Item 11. Executive Compensation

Incorporated herein by reference to the sections entitled “Information about the Board of Directors and Certain Committees” under the caption “Compensation Committee” and “Executive Compensation and Benefits” in the Registrant’s Proxy Statement dated March 29, 2010 and filed on March 22, 2010.

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

Incorporated herein by reference to the sections entitled “Election of Directors” and “Ownership of Equity Securities” in the Registrant’s Proxy Statement dated March 29, 2010 and filed on March 22, 2010.

Item 13. Certain Relationships and Related Transactions

Incorporated by reference, the information contained in Note 4 and Note 8 to the Consolidated Financial Statements and under the caption “Certain Transactions” in the Registrant’s Proxy Statement dated March 29, 2010 and filed on March 22, 2010.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference to the information under the caption entitled “Principal Accountant Fees and Services” in the Registrant’s Proxy Statement dated March 29, 2010 and filed on March 22, 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial statements

   Incorporated herein by reference to the financial statements, together with the applicable report of independent accountants, are included on pages F-2 through F-29 of the Financial Statement Section of the 2009 Annual Report. The index for the financial statements is as follows:

2. Required financial statement schedules

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

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

Index to Exhibits

Exhibit Number	Description
3.1 *	Articles of Incorporation
3.2 *	By-laws as amended
10.1 *	Lease for Bank site at 25 Bull Street and Assumption of Lease
10.5 *	Form of Organizers' Stock Option Agreement
10.6 *	Lease for Mall Boulevard Office dated February 14, 1992
10.7	The Savannah Bancorp, Inc. Incentive Stock Option Plan approved by shareholders on April 18, 1995
10.8	Amendment to The Savannah Bancorp, Inc. Incentive Stock Option Plan approved by shareholders on April 16, 1996.
10.9 *	The Savannah Bancorp, Inc. 2005 Omnibus Stock Ownership and Long Term Incentive Plan approved by shareholders on April 21, 2005.
10.10 *	Lease for Harbourside Community Bank main office dated February 24, 2006.
11	Computation of Earnings Per Share **
	** Earnings per share data is provided in Note 1 to the consolidated financial statements in the 2009 Annual Report.
13	2009 Annual Report to Shareholders
21	Subsidiaries of Registrant
22	Proxy Statement for Annual Meeting – filed in DEF 14A on March 22, 2010
23.1	Consent of Mauldin & Jenkins, LLC, Independent Registered Public Accounting Firm
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Items 3.1, 10.1 and 10.5 were previously filed by the Company as Exhibits (with the same respective Exhibit Numbers as indicated herein) to the Company's Registration Statement (Registration No. 33-33405) filed in February 1990 and such documents are incorporated herein by reference.
Item 3.2 was filed as an exhibit in the Company’s Registration Statement (Registration No. 333-128724) filed in September 2005.
Item 10.6 was filed as an exhibit with the 1992 Annual Report on Form 10-K in March 1993.
Item 10.9 was filed as an exhibit with the DEF 14A on March 25, 2005.

Signature Page

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on March 15-16, 2010 by the undersigned, thereunto duly authorized.

THE SAVANNAH BANCORP, INC.

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

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

Directors:

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

____
E. James Burnsed
Vice Chairman

/s/ FRANCIS A. BROWN
Francis A. Brown

____
Russell W. Carpenter

/s/ CLIFFORD H. DALES
Clifford H. Dales

/s/ ROBERT H. DEMERE, JR.
Robert H. Demere, Jr.

/s/ BERRYMAN W. EDWARDS
Berryman W. Edwards

/s/ L. CARLTON GILL
L. Carlton Gill

/s/ JOHN C. HELMKEN II
John C. Helmken II

/s/ AARON M. LEVY
Aaron M. Levy

/s/ J. CURTIS LEWIS III
J. Curtis Lewis III

/s/ M. LANE MORRISON
M. Lane Morrison

/s/ J. TOBY ROBERTS, SR.
J. Toby Roberts, Sr.

/s/ JAMES W. ROYAL, SR.
James W. Royal, Sr.

____
Robert T. Thompson, Jr.

The Savannah Bancorp, Inc. and Subsidiaries
Financial Statement Section
Index

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of The Savannah Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Savannah Bancorp, Inc. and its subsidiaries as of December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Savannah Bancorp, Inc. and its subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* and our report dated March 15, 2010, expressed an unqualified opinion.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
March 15, 2010

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

	December 31, 2009	2008
Assets		
Cash and due from banks	**$ 19,253**	$ 15,088
Federal funds sold	**8,575**	9,701
Interest-bearing deposits in banks	**12,707**	3,312
Cash and cash equivalents	**40,535**	28,101
Securities available for sale, at fair value (amortized cost of $86,596 and $79,447)	**87,919**	81,619
Loans held for sale	**-**	291
Loans, net of allowance for loan losses of $17,678 and $13,300	**866,208**	851,674
Premises and equipment, net	**15,574**	11,107
Other real estate owned	**8,329**	8,100
Bank-owned life insurance	**6,434**	6,216
Goodwill and other intangible assets, net	**2,498**	2,642
Other assets	**23,011**	17,534
Total assets	**$ 1,050,508**	$ 1,007,284
Liabilities		
Deposits:		
Noninterest-bearing	**$ 82,557**	$ 82,723
Interest-bearing demand	**143,559**	128,965
Savings	**16,893**	14,370
Money market	**228,124**	199,194
Time deposits	**413,436**	406,763
Total deposits	**884,569**	832,015
Short-term borrowings	**39,553**	55,636
Other borrowings	**15,988**	12,151
Federal Home Loan Bank advances – long-term	**15,664**	10,169
Subordinated debt to nonconsolidated subsidiaries	**10,310**	10,310
Other liabilities	**5,398**	6,071
Total liabilities	**971,482**	926,352
Commitments and contingencies (Notes 15 and 18)		
Shareholders' equity		
Preferred stock, par value $1 per share: authorized 10,000,000 shares, none issued	**-**	-
Common stock, par value $1 per share: shares authorized 20,000,000, issued 5,933,789	**5,934**	5,934
Additional paid-in capital	**38,605**	38,516
Retained earnings	**33,383**	33,552
Treasury stock, at cost, 1,443 and 318 shares	**(4)**	(4)
Accumulated other comprehensive income, net	**1,108**	2,934
Total shareholders' equity	**79,026**	80,932
Total liabilities and shareholders' equity	**$ 1,050,508**	$ 1,007,284

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

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

	For the Years Ended December 31,		
	2009	2008	2007
Interest and dividend income			
Loans, including fees	**$ 47,081**	$ 53,259	$ 59,435
Loans held for sale	**-**	60	98
Investment securities:			
Taxable	**3,220**	2,803	2,594
Tax-exempt	**154**	87	95
Dividends	**45**	191	218
Federal funds sold	**18**	133	472
Deposits with banks	**45**	149	346
Total interest and dividend income	**50,563**	56,682	63,258
Interest expense			
Deposits	**16,454**	21,842	26,415
Short-term and other borrowings	**1,140**	1,661	2,612
Federal Home Loan Bank advances	**302**	294	413
Subordinated debt	**362**	642	842
Total interest expense	**18,258**	24,439	30,282
Net interest income	**32,305**	32,243	32,976
Provision for loan losses	**13,065**	6,000	4,675
Net interest income after provision for loan losses	**19,240**	26,243	28,301
Noninterest income			
Trust and asset management fees	**2,351**	2,832	1,513
Service charges on deposit accounts	**1,809**	1,881	1,383
Mortgage related income, net	**432**	295	615
Other operating income	**1,238**	1,216	1,242
Gain on hedges	**873**	1,288	-
Gain on sale of securities	**2,119**	163	-
Total noninterest income	**8,822**	7,675	4,753
Noninterest expense			
Salaries and employee benefits	**12,146**	13,584	11,846
Occupancy and equipment	**3,716**	3,884	3,294
FDIC deposit insurance	**1,886**	653	251
Information technology	**1,810**	1,633	1,616
Amortization of client list	**144**	144	48
Loss on sale and write-downs of foreclosed assets	**2,566**	228	44
Other operating expense	**4,710**	4,616	4,084
Total noninterest expense	**26,978**	24,742	21,183
Income before income taxes	**1,084**	9,176	11,871
Income tax expense	**155**	3,170	4,235
Net income	**$ 929**	$ 6,006	$ 7,636
Net income per share:			
Basic	**$ 0.16**	$ 1.01	$ 1.31
Diluted	**$ 0.16**	$ 1.01	$ 1.29
Dividends per share	**$ 0.185**	$ 0.50	$ 0.48
Average basic shares (000s)	**5,933**	5,930	5,850
Average diluted shares (000s)	**5,936**	5,947	5,922

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

The Savannah Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
($ in thousands, except share data)

	For the Years Ended December 31,		
	2009	2008	2007
Common shares issued			
Shares, beginning of year	**5,933,789**	5,923,797	5,781,381
Common stock issued	**-**	6,211	78,006
Exercise of options	**-**	3,781	64,410
Shares, end of year	**5,933,789**	5,933,789	5,923,797
Treasury shares owned			
Shares, beginning of year	**318**	318	318
Unvested restricted stock	**1,125**	-	-
Shares, end of year	**1,443**	318	318
Common stock			
Balance, beginning of year	**$ 5,934**	$ 5,924	$ 5,781
Common stock issued	**-**	6	78
Exercise of options	**-**	4	65
Balance, end of year	**5,934**	5,934	5,924
Additional paid-in capital			
Balance, beginning of year	**38,516**	38,279	35,747
Common stock issued, net of issuance costs	**-**	68	1,702
Stock-based compensation expense, net	**89**	137	147
Exercise of options	**-**	32	683
Balance, end of year	**38,605**	38,516	38,279
Retained earnings			
Balance, beginning of year	**33,552**	30,512	25,681
Net income	**929**	6,006	7,636
Dividends paid	**(1,098)**	(2,966)	(2,805)
Balance, end of year	**33,383**	33,552	30,512
Treasury stock			
Balance, beginning of year	**(4)**	(4)	(4)
Exercise of options	-	-	-
Balance, end of year	**(4)**	(4)	(4)
Accumulated other comprehensive income, net			
Balance, beginning of year	**2,934**	1,561	(631)
Change in unrealized gains/losses on securities available for sale, net of reclassification adjustment	**(531)**	842	662
Change in fair value and gains on termination of derivative instruments, net of tax	**(1,295)**	531	1,530
Balance, end of year	**1,108**	2,934	1,561
Total shareholders' equity	**$ 79,026**	$ 80,932	$ 76,272

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

See Note 1 for other comprehensive income disclosures.

The Savannah Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	For the Years Ended December 31,		
($ in thousands)	**2009**	2008	2007
Operating activities			
Net income	**$ 929**	$ 6,006	$ 7,636
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	**13,065**	6,000	4,675
Loans originated for sale	**-**	(10,255)	(24,834)
Proceeds from sale of loans originated for sale	**291**	10,202	25,715
Net amortization (accretion) of securities	**432**	(95)	(122)
Depreciation and amortization	**1,513**	1,383	1,118
Accretion of gain on termination of derivatives	**(1,962)**	(2,670)	-
Proceeds from termination of derivatives	**1,299**	3,225	-
Non cash stock-based compensation expense	**144**	221	184
(Increase) decrease in deferred income taxes, net	**(1,748)**	621	(677)
Gain on sale of loans and securities, net	**(2,119)**	(221)	(147)
Loss on sale and write-downs of foreclosed assets	**2,566**	228	44
Equity in net income of nonconsolidated subsidiary	**(43)**	(94)	(89)
Disposition of premises and equipment	**305**	-	-
Increase in CSV of bank-owned life insurance policies	**(218)**	(231)	(225)
Increase in prepaid FDIC deposit insurance assessment	**(5,037)**	-	-
Change in other assets and other liabilities, net	**395**	1,209	3,232
Net cash provided by operating activities	**9,812**	15,529	16,510
Investing activities			
Activity in available for sale securities			
Purchases	**(88,741)**	(44,616)	(29,356)
Sales	**62,076**	5,248	-
Maturities, calls and paydowns	**21,203**	20,420	23,400
Loan originations and principal collections, net	**(35,442)**	(71,955)	(90,451)
Proceeds from sale of other real estate owned	**5,048**	3,852	342
Investment in low income housing tax credits	**-**	-	(2,000)
Distribution from nonconsolidated subsidiary	**-**	350	-
Purchase of consolidated subsidiary	**-**	-	(1,901)
Additions to premises and equipment	**(6,141)**	(5,516)	(1,450)
Net cash used in investing activities	**(41,997)**	(92,217)	(101,416)
Financing activities			
Net decrease in noninterest-bearing deposits	**(166)**	(5,780)	(12,653)
Net increase in interest-bearing deposits	**52,720**	73,577	70,047
Net (decrease) increase in short-term borrowings	**(16,083)**	(14,963)	29,912
Net increase in other borrowings	**3,837**	12,151	-
Net increase (decrease) in FHLB advances – long-term	**5,495**	7,196	(10,336)
Payment on note payable	**(86)**	(1,840)	-
Dividends paid	**(1,098)**	(2,966)	(2,805)
Exercise of options and issuance of common stock	**-**	110	748
Net cash provided by financing activities	**44,619**	67,485	74,913
Increase (decrease) in cash and cash equivalents	**12,434**	(9,203)	(9,993)
Cash and cash equivalents, beginning of year	**28,101**	37,304	47,297
Cash and cash equivalents, end of year	**$ 40,535**	$ 28,101	$ 37,304
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest on deposits and other borrowings	**$ 18,826**	$ 25,920	$ 29,865
Income taxes	**550**	2,595	5,560
Non cash investing activity:			
Transfer to other real estate owned from loans	**(7,843)**	(10,068)	(1,953)

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

Note 1 - Organization and Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of The Savannah Bancorp, Inc. ("the Company") and its wholly-owned subsidiaries, The Savannah Bank, N.A. ("Savannah"), Bryan Bank & Trust ("Bryan"), and Minis & Co., Inc. ("Minis"), a registered investment advisory firm acquired on August 31, 2007. The Company formed a new subsidiary, SAVB Holdings, LLC ("SAVB Holdings"), in the third quarter 2008 for the purpose of holding problems loans and other real estate. The two bank subsidiaries, together, are referred to as the "Subsidiary Banks". All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to the current year presentation.

Nature of Operations - The Company is a bank holding company headquartered in Savannah, Georgia that owns two banks and a registered investment advisory firm. The Company has ten banking offices and twelve ATMs in Savannah, Garden City, Skidaway Island, Whitemarsh Island, Pooler, and Richmond Hill, Georgia and Hilton Head Island and Bluffton, South Carolina. The Company also has mortgage lending offices in Savannah, Richmond Hill and Hilton Head Island and an investment management office in Savannah. In addition, the Company has a loan production office on St. Simons Island, Georgia. Through the subsidiaries, the Company offers a full range of lending, deposit, residential mortgage origination, fiduciary, trust and investment advisory products. The primary service area of the Company is Chatham County and Bryan County, Georgia and southern Beaufort County in South Carolina. In 2005, the Company formed a nonconsolidated subsidiary, SAVB Properties, LLC, which purchased a 50 percent interest in two real estate partnerships that own the Company's headquarters building and the adjacent parking lot. This investment is accounted for using the equity method of accounting. Effective September 30, 2009, the Company merged the charter of Harbourside Community Bank, its wholly-owned subsidiary, into Savannah.

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

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

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

The Financial Accounting Standards Board ("FASB") recently issued accounting guidance related to the recognition and presentation of other-than-temporary impairment. See the "Recent Accounting Pronouncements" section for additional information. Prior to the adoption of the recent accounting guidance on April 1, 2009, management considered, in determining whether other-than-temporary impairment exists, (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held For Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. In estimating fair value, consideration is given to commitments from investors and prevailing market prices. Loan origination fees applicable to mortgage loans held for sale, net of certain direct origination costs, are deferred and recognized as an adjustment to the related gain or loss on subsequent sale of the loan. In 2008, the Company discontinued the origination of mortgage loans on a correspondent basis and is now exclusively brokering mortgage loans.

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

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

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Revolving credit loans and other personal loans are typically charged-off when payments are 120 days past due. Past due status is based on the contractual terms of the loan. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest in full becomes doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Management charges down the loan or establishes a valuation allowance when management determines the value is less than the carrying amount.

Allowance for Loan Losses - The allowance for loan losses is based on estimates and maintained at a level considered adequate to provide for potential losses inherent in the portfolio based on the current environment. The adequacy of the allowance is based on management's continuing evaluation of the loan portfolio considering current economic conditions, underlying collateral value securing loans and other relevant qualitative and quantitative factors that deserve recognition in estimating loan losses. Actual future losses may be different from estimates due to unforeseen events. Loans that are determined to be uncollectible are charged-off against the allowance.

The adequacy of the allowance for loan losses is evaluated on a regular basis by management and reported quarterly to the Audit Committee of the Board of Directors (“Board”). The evaluation is based upon management’s periodic review of the collectability of specific loans, adverse situations that may affect specific borrowers’ ability to repay, the estimated value of any underlying collateral, the composition and size of the loan portfolio and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general reserve components. The specific component relates to loans that are deemed to be impaired. For such loans that are classified as impaired, an allowance is established or the loan is charged-down when the discounted cash flows (or value of related collateral or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers doubtful or substandard loans not considered impaired and non-classified loans. The general reserve components are based on historical loss experience adjusted for qualitative factors.

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

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

Other Real Estate Owned - Assets acquired through loan foreclosure are held for sale and are initially recorded at fair value less estimated disposal costs at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated disposal costs. Valuation allowances are established or the asset is written-down when subsequent valuations are less than current carrying amounts. Expenses from operations, changes in the valuation allowance, write-downs and net expenses from holding these assets are included in noninterest expense.

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

Intangible Assets - Intangible assets include goodwill and other identifiable assets, such as customer lists, resulting from the acquisition of Minis. Customer list intangibles are amortized on a straight-line basis over an estimated useful life of ten years and evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Goodwill is not amortized but tested annually for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Examples of such events or circumstances include adverse change in operations, legal factors, business climate, unanticipated competition, change in regulatory environment, or loss of key personnel. The goodwill and intangible assets were evaluated for impairment as of August 31, 2009 and based on that evaluation it was determined that there was no impairment.

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

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

On January 1, 2009, the Company adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

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

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

(amounts in thousands)

Years Ended December 31,	2009	2008	2007
Average number of common shares outstanding - basic	5,933	5,930	5,850
Effect of dilutive options	3	17	72
Average number of common shares outstanding - diluted	5,936	5,947	5,922

Stock option shares in the amount of 194,814, 192,022 and 102,602 for the years ended 2009, 2008 and 2007, respectively, were excluded from the diluted earnings per share calculation due to their anti-dilutive effect.

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

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

Other Comprehensive Income (Loss) - Comprehensive income (loss) is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources.

($ in thousands)	2009	2008	2007
Net income	$ 929	$ 6,006	$ 7,636
Change in unrealized gains/losses on securities			
available for sale, net of reclassification adjustment	(531)	842	662
Change in fair value and gains on termination of			
derivative instruments, net of tax	(1,295)	531	1,530
Other comprehensive income (loss)	$ (897)	$ 7,379	$ 9,828

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

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

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

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

In 2005, shareholders approved the 2005 Omnibus Stock Ownership and Long-Term Incentive Plan ("2005 Omnibus Plan") and authorized 250,000 option or restricted shares to be available for issuance. The total number of remaining options or awards available for issuance at December 31, 2009 under the 2005 Omnibus Plan was 128,980 shares of common stock. Options granted under both plans have a term of ten years and generally become fully vested over periods ranging from three to ten years. Performance based options granted to directors vest over three quarters from the date of grant.

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

($ in thousands)	2009	2008	2007
Salaries and employee benefits	$ 94	$ 189	$ 143
Directors' stock-based compensation	50	32	41
Pre-tax stock-based compensation expense	144	221	184
Income tax benefit	(55)	(84)	(37)
Total stock-based compensation expense, net of tax	$ 89	$ 137	$ 147

During 2009 and 2008 no income tax benefits were realized on stock option exercises. In 2007, the Company realized $15,000 in income tax benefit associated with certain stock option exercises.

The Company recognizes stock-based compensation expense using the graded vesting attribution method. The remaining unrecognized compensation cost related to unvested incentive stock option and restricted share awards at December 31, 2009 is approximately $196,000. The weighted-average period of time over which this cost will be recognized is approximately 2.8 years. This amount does not include the cost of any additional options that may be granted in future periods nor any reduction in cost for potential forfeitures.

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

	2009	2008	2007
Weighted average fair value of options granted	$ 1.87	$ 4.29	$ 7.71
Expected volatility	39.1%	31.4%	28.6%
Dividend yield	2.67%	2.87%	1.90%
Risk-free interest rate	1.82%	2.48%	4.92%
Expected life	6.0 years	6.0 years	6.0 years

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

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

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

Recent Accounting Pronouncements

Effective July 1, 2009, the Company adopted a new accounting guidance related to U.S. GAAP [FASB Accounting Standards Codification ("ASC") 105, *Generally Accepted Accounting Principles*]. This guidance establishes FASB ASC as the source of authoritative U.S. GAAP recognized by FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. FASB ASC supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the ASC has become nonauthoritative. FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASU"), which will serve to update the ASC, provide background information about the guidance, and provide the basis for conclusions on the changes to the ASC. The ASC is not intended to change U.S. GAAP or any requirements of the SEC. This guidance is effective for the Company as of December 31, 2009.

Effective April 1, 2009, the Company adopted new accounting guidance related to recognition and presentation of other-than-temporary impairment (ASC 320-10). This recent accounting guidance amends the recognition guidance for other-than-temporary impairments of debt securities and expands the financial statement disclosures for other-than-temporary impairment losses on debt and equity securities. The recent guidance replaced the "intent and ability" indication in current guidance by specifying that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

The Company adopted accounting guidance related to fair value measurements and disclosures (ASC 820, *Fair Value Measurements and Disclosures*). This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The effect of adoption was not material.

FASB issued ASU 2009-05 (ASC 820) which describes the valuation techniques companies should use to measure the fair value of liabilities for which there is limited observable market data. If a quoted price in an active market is not available for an identical liability, an entity should use one of the following approaches: (1) the quoted price of the identical liability when traded as an asset, (2) quoted prices for similar liabilities or similar liabilities when

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

traded as an asset, or (3) another valuation technique that is consistent with the accounting guidance in the ASC for fair value measurements and disclosures. When measuring the fair value of liabilities, this guidance reiterates that companies should apply valuation techniques that maximize the use of relevant observable inputs, which is consistent with existing accounting provisions for fair value measurements. In addition, this guidance clarifies when an entity should adjust quoted prices of identical or similar assets that are used to estimate the fair value of liabilities. This guidance is effective as of December 31, 2009 with adoption applied prospectively.

In addition, the following accounting pronouncement was issued by FASB, but is not yet effective:

FASB issued accounting guidance (FASB Statement No. 166) which modifies certain guidance contained in the *Transfers and Servicing* topic of the ASC (ASC 860). This standard eliminates the concept of qualifying special purpose entities, provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets, and requires additional disclosures. This guidance is effective for the Company as of January 1, 2010, with adoption applied prospectively for transfers that occur on or after the effective date.

Note 2 - Restrictions on Cash and Demand Balances Due from Banks and Interest-Bearing Bank Balances

The Subsidiary Banks are required by the Federal Reserve Bank (“FRB”) to maintain minimum cash reserves based upon reserve requirements calculated on their deposit balances. Cash reserves of $339,000 and $507,000 are required as of December 31, 2009 and 2008, respectively. The Company pledges interest-bearing cash balances at the Federal Home Loan Bank of Atlanta (“FHLB”) in addition to investment securities to secure public fund deposits and securities sold under repurchase agreements. Pledged cash balances are $11,500,000 and $2,000,000 at December 31, 2009 and 2008, respectively.

Note 3 - Securities Available for Sale

The aggregate amortized cost and fair value of securities available for sale as of December 31, 2009 and 2008 are as follows:

	2009			
($ in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Investment securities:				
U.S. government-sponsored enterprises (“GSE”)	$ 1,727	$ 136	$ -	$ 1,863
Mortgage-backed securities - GSE	73,203	1,205	(120)	74,288
State and municipal securities	7,906	108	(6)	8,008
Restricted equity securities	3,760	-	-	3,760
Total investment securities	$ 86,596	$ 1,449	$ (126)	$ 87,919

	2008			
($ in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Investment securities:				
U.S. government-sponsored enterprises	$ 17,417	$ 828	$ -	$ 18,245
Mortgage-backed securities - GSE	55,597	1,220	(4)	56,813
State and municipal securities	2,719	128	-	2,847
Restricted equity securities	3,714	-	-	3,714
Total investment securities	$ 79,447	$ 2,176	$ (4)	$ 81,619

Note 3 - Securities Available for Sale (continued)

The distribution of securities by contractual maturity at December 31, 2009 is shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

($ in thousands)	Amortized Cost	Fair Value
Securities available for sale:		
Due in one year or less	$ -	$ -
Due after one year through five years	1,920	2,001
Due after five years through ten years	1,999	2,089
Due after ten years	5,714	5,781
Mortgage-backed securities	73,203	74,288
Restricted equity securities	3,760	3,760
Total investment securities	$ 86,596	$ 87,919

At December 31, 2009 and 2008, investment securities with a carrying value of $60,260,000 and $58,205,000, respectively, are pledged as collateral to secure public funds, securities sold under repurchase agreements and FHLB borrowings.

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

($ in thousands)	2009	2008	2007
Gross gains	$ 2,170	$ 163	$ -
Gross losses	(51)	-	-
Net realized gains	$ 2,119	$ 163	$ -

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

($ in thousands)	2009	2008
FHLB stock	$ 3,205	$ 3,159
FRB stock	555	555
Total	$ 3,760	$ 3,714

The unrealized losses on the Company's investment in GSE mortgage-backed securities were caused by interest rate increases. The Company purchased those investments at a premium relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2009.

Note 4 - Loans

The composition of the loan portfolio at December 31, 2009 and 2008 is presented below:

($ in thousands)	2009	Percent of Total	2008	Percent of Total
Commercial	$ 89,380	10.1%	$ 81,396	9.5%
Real estate - construction and development	61,476	7.0	99,809	11.5
Real estate - mortgage	718,060	81.2	666,075	77.0
Installment and other consumer	14,970	1.7	17,694	2.0
Gross loans	883,886	100.0%	864,974	100.0%
Allowance for loan losses	(17,678)		(13,300)	
Net loans	$ 866,208		$ 851,674	

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

($ in thousands)	2009	2008	2007
Balance, beginning of year	$ 13,300	$ 12,864	$ 8,954
Provision for loan losses	13,065	6,000	4,675
Charge-offs	(8,893)	(5,714)	(874)
Recoveries	206	150	109
Balance, end of year	$ 17,678	$ 13,300	$ 12,864

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

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

($ in thousands)	2009	2008
Impaired loans without a valuation allowance	$ 15,887	$ 19,289
Impaired loans with a valuation allowance	38,167	18,441
Total impaired loans	$ 54,054	$ 37,730
Valuation allowance related to impaired loans	$ 6,129	$ 2,796
Average investment in impaired loans	$ 45,892	$ 26,197
Interest income recognized on impaired loans	$ 957	$ 659

Impaired loans with a valuation allowance include pools of impaired loans. At December 31, 2009 and 2008, loans on nonaccrual status amounted to approximately $32,545,000 and $26,277,000, respectively, and loans past due 90 days or more and still accruing interest were $1,570,000 and $1,326,000, respectively.

The Company has granted loans to certain directors and executive officers of the Company and to their related interests. The aggregate amount of loans was $37,933,000 and $31,325,000 at December 31, 2009 and 2008, respectively. During 2009, new loans of $16,292,000 were made and repayments of $9,484,000 were received. Also, related party loan totals decreased by an additional $200,000 during 2009 due to changes in related party status. Unfunded commitments of credit available to related parties aggregated $2,515,000 and $4,295,000 at December 31, 2009 and 2008, respectively. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collection.

Note 5 - Premises and Equipment

Premises and equipment at December 31, 2009 and 2008 are summarized as follows:

($ in thousands)	Depreciable Lives	2009	2008
Land	-	$ 2,635	$ 2,635
Buildings and improvements	5 - 50	11,334	5,361
Furniture and banking equipment	3 - 15	7,637	7,420
Leasehold improvements	5 - 32	1,710	2,277
Total cost		23,316	17,693
Less accumulated depreciation and amortization		7,742	6,586
Premises and equipment, net		$ 15,574	$ 11,107

Depreciation expense was $1,369,000, $1,239,000, and $1,070,000 for the years ended December 31, 2009, 2008 and 2007, respectively. In 2009, buildings and improvements includes approximately $5.7 million for the purchase of the Company's previously leased building on Hilton Head Island.

Note 6 - Other Real Estate Owned

Other real estate owned at December 31, 2009 and 2008 is summarized as follows:

($ in thousands)	2009	2008
Balance, beginning of year	$ 8,100	$ 2,112
Additions	7,843	10,068
Disposals	(6,772)	(3,994)
Additional write-downs	(842)	(86)
Balance, end of year	$ 8,329	$ 8,100

Note 7 - Deposits

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2009 and 2008 is $261,795,000 and $204,650,000, respectively. At December 31, 2009, brokered time deposits mature as follows: 2010 - $100,252,000; 2011 - $1,874,000; and 2012 - $387,000. Additionally, $69,368,000 of non-maturity institutional money market accounts are considered brokered deposits because the deposits are from customers of brokerage firms up to a maximum of $250,000 per depositor.

The scheduled maturities of time deposits at December 31, 2009 are as follows:

($ in thousands)	Total
2010	$ 368,383
2011	23,911
2012	7,083
2013	2,781
2014 and thereafter	11,278
Total	$ 413,436

Note 8 - Short-Term Borrowings

Short-term borrowings at December 31, 2009 and 2008 consist of federal funds purchased, securities sold under agreements to repurchase, and FHLB and FRB short-term advances:

($ in thousands)	Federal Funds Purchased	Securities Sold Under Repurchase Agreements	FHLB and FRB Short-Term Advances
2009			
Balance at December 31	$ 1,320	$ 12,233	$ 26,000
Maximum indebtedness at any month end	3,247	18,459	34,000
Daily average indebtedness outstanding	1,045	14,835	18,496
Average rate paid for the year	0.34%	0.53%	0.75%
Average rate paid on period-end borrowings	0.20%	0.50%	0.41%
2008			
Balance at December 31	$ 2,066	$ 20,520	$ 33,050
Maximum indebtedness at any month end	2,066	27,137	71,000
Daily average indebtedness outstanding	1,322	22,656	40,852
Average rate paid for the year	2.23%	1.76%	2.61%
Average rate paid on period-end borrowings	0.69%	0.50%	1.11%

The maximum amount of short-term borrowings outstanding at the end of any month was $52,819,000 and $94,266,000 during 2009 and 2008, respectively. At December 31, 2009, federal funds borrowing arrangements aggregating $29,000,000 were available to the Subsidiary Banks from correspondent banking institutions. There are no commitment fees and no requirements for compensating balances. These unused lines principally serve as temporary liquidity back-up lines and are subject to availability of funds and other specific limitations of the correspondent banks.

Savannah is a member and shareholder of the FRB of Atlanta. The Subsidiary Banks have been approved to access the FRB discount window to borrow on a secured basis at 25 basis points over the Federal Funds Target Rate. The amount of credit available is subject to the amounts and types of collateral available when borrowings are requested. The Subsidiary Banks were approved by the FRB under the borrower-in-custody of collateral ("BIC") arrangement. This temporary liquidity arrangement allows collateral to be maintained at the Subsidiary Banks rather than being delivered to the FRB or a third party custodian. At December 31, 2009, the Company had secured borrowing capacity of $83.8 million with the FRB and $10.0 million outstanding.

Note 9 - Other Borrowings

Other borrowings consist of a note payable due to related parties (directors) of $15,988,000. The proceeds were used to fund SAVB Holdings. Principal payments are due monthly based on repayments, sales, charge-offs or other activity in the assets held by SAVB Holdings. At December 31, 2009, interest is at prime plus two percent with a floor of 7.5 percent and is due monthly. The note requires a cumulative remaining principal pay down of $1.7 million by September 30, 2010 and $5.5 million by September 30, 2011, with all indebtedness due and payable by September 30, 2012. The agreement includes customary performance covenants and a guarantee of the Company. One of the covenants is that the Company's dividend payout ratio will not exceed 50 percent on a quarterly basis.

Note 10 - Federal Home Loan Advances – Long-Term

Convertible Advances - The Company had convertible fixed rate advances of $10,000,000 at December 31, 2009 and 2008. The weighted-average interest rates on convertible advances were 2.26 percent at December 31, 2009 and 2008. The advances mature in 2018 and are convertible each quarter beginning in 2010 at the option of the FHLB to an advance with an interest rate equal to the current three-month LIBOR.

Long-term Advances - Long-term advances from the FHLB totaled $5,664,000 and $169,000 at December 31, 2009 and 2008, respectively. The weighted-average interest rates on the long-term advances were 1.95 and 0.50 percent at December 31, 2009 and 2008, respectively. Aggregate maturities are $2,000,000 in 2011, $3,500,000 in 2012 and $164,000 in 2014 and thereafter. Interest is generally payable monthly and scheduled principal reductions are made quarterly, semi-annually or at maturity. The long-term advances include prepayment penalties for each advance.

FHLB Advance Borrowing Capacity - The Subsidiary Banks are shareholders of the FHLB and have access to secured borrowings from the FHLB under Blanket Floating Lien Agreements. Under these agreements, the Subsidiary Banks have pledged certain 1-4 family first mortgage loans, commercial real estate loans, home equity lines of credit and second mortgage residential loans. The Subsidiary Banks' individual borrowing limits range from 20 to 25 percent of assets. In aggregate, the Subsidiary Banks had secured borrowing capacity of approximately $122.9 million of which $31.7 million was advanced at December 31, 2009. These credit arrangements serve as a core funding source as well as liquidity backup for the Subsidiary Banks. Additional advances are subject to review and approval by the FHLB.

Note 11 - Subordinated Debt to Nonconsolidated Subsidiaries

During the third quarters 2003 and 2004, the Company formed SAVB Capital Trust I and SAVB Capital Trust II (the "Trusts"), nonconsolidated subsidiaries whose sole purpose was to issue $6,000,000 and $4,000,000, respectively, in Trust Preferred Securities through investment pools sponsored by two national brokerage firms. The Trust Preferred Securities have maturities of 30 years and are redeemable at the Company's option on any quarterly interest payment date after five years. There are certain events (as defined in the Trust agreements) in which the securities may be redeemed within the first five years at the Company's option. At December 31, 2009, the interest rates on the securities were 3.13 and 2.45 percent, respectively, with quarterly resets at the three-month LIBOR plus 2.85 and 2.20 percent, respectively. The Company's liabilities to the nonconsolidated Trusts are recorded as liabilities of $6.186 million and $4.124 million and investments of $186,000 and $124,000, respectively, in the consolidated balance sheet. Subject to certain limitations, the securities qualify as Tier 1 capital for regulatory capital purposes under FRB regulations.

Note 12 - Income Taxes

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

($ in thousands)	2009	2008	2007
Current federal	$ 1,861	$ 2,757	$ 5,355
Current state	42	310	418
Total current	1,903	3,067	5,773
Deferred federal	(1,417)	88	(1,364)
Deferred state	(331)	15	(174)
Total deferred	(1,748)	103	(1,538)
Income tax expense	$ 155	$ 3,170	$ 4,235

Investments in federal and state low-income housing tax credit partnerships reduced federal and state income tax expense approximately $113,000, $145,000 and $265,000 in 2009, 2008 and 2007, respectively.

Note 12 - Income Taxes (continued)

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

($ in thousands)	2009	2008	2007
Tax provision at 34%	$ 369	$ 3,120	$ 4,036
State tax, net of federal tax benefit	46	196	212
Benefit of tax-exempt income, net	(141)	(127)	(121)
Other	(119)	(19)	108
Income tax expense	$ 155	$ 3,170	$ 4,235

Deferred income tax assets and liabilities are comprised of the following at December 31, 2009 and 2008:

($ in thousands)	2009	2008
Deferred tax assets:		
Allowance for loan losses	$ 6,455	$ 4,947
Tax-deductible goodwill	741	800
Write-down of foreclosed assets	319	-
Unamortized loan fees	179	193
Unamortized non-compete costs	23	28
Deferred compensation expense	452	397
Stock-compensation expense	114	76
Other	84	184
Total deferred tax assets	8,367	6,625
Deferred tax liabilities:		
Depreciation	616	460
Unrealized gains on securities	502	821
Deferred costs on loans and deposits	129	187
Unrealized gains on derivatives	177	970
Other	16	120
Total deferred tax liabilities	1,440	2,558
Net deferred tax assets	$ 6,927	$ 4,067

The net deferred tax assets are included in the consolidated balance sheets in other assets. The Company files a consolidated Federal tax return and a consolidated Georgia return for the Georgia-based parent and subsidiaries.

Note 13 - Stock Option and Employee Benefit Plans

As discussed in Note 1, the Company has two stock option plans. All authorized shares have been awarded from the 1995 Plan. There are 128,980 authorized option shares remaining under the 2005 Omnibus Plan at December 31, 2009. The options granted in the chart below generally vest 20 percent each year over five years and are exercisable over ten years except for 51,870 option shares granted to directors which vest within one year and 18,310 restricted share awards which vest from three to ten years. Some of the executive officer option shares also include minimum performance triggers as a condition of vesting.

Note 13 - Stock Option and Employee Benefit Plans (continued)

Changes in stock options outstanding for the years ended December 31, 2009, 2008 and 2007 are as follows.

	2009		2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	192,022	$ 18.28	210,484	$ 17.76	271,230	$ 15.58
Granted	19,291	8.74	9,850	17.44	24,733	25.39
Exercised	-	-	(3,781)	10.23	(64,410	11.63
Forfeited	(16,499)	21.12	(24,531)	14.72	(21,069	5.52
Outstanding at end of year	194,814	$ 17.09	192,022	$ 18.28	210,484	$ 17.76
Exercisable at end of year	175,625	$ 16.75	150,307	$ 17.30	148,013	$ 16.30

At December 31, 2009, there is no aggregate intrinsic value for the outstanding or exercisable stock options.

Options outstanding at December 31, 2009 are as follows:

	Outstanding			Exercisable	
Outstanding Common Options	Remaining Contractual Number	Weighted Average Life	Weighted Average Price	Number	Weighted Average Price
Range of exercise prices					
$8.74 - $12.00	40,088	4.87	$ 9.44	35,274	$ 9.54
$12.01 - $15.00	20,622	2.54	13.02	20,622	13.02
$15.01 - $20.00	76,240	4.61	16.83	76,250	16.83
$20.01 - $25.00	33,405	5.14	22.32	28,030	22.35
$25.00 - $28.56	24,449	6.98	26.76	15,449	27.60
Total outstanding	194,814	4.83	$ 17.09	175,625	$ 16.75

Restricted Stock - In 2007 and 2006, the Board granted 18,310 shares of restricted stock under the 2005 Omnibus Plan which awards certain officers common shares of the Company. The cost of these shares is being amortized against earnings using the vesting schedule over the three and ten year vesting periods. In 2009 and 2008, 1,500 shares did not vest or were forfeited. Unrecognized compensation cost for restricted stock awards was $189,000 at December 31, 2009.

The Company sponsors a 401(k) employee savings and profit sharing plan in which substantially all full-time employees are eligible to participate. The plan allows eligible employees to save a portion of their salary on a pre-tax basis. Contributions by the Company to the plan are discretionary. Contributions and administrative expenses related to the plan aggregated $290,000, $339,000 and $354,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 14 - Capital Ratios and Dividend Restrictions

The Subsidiary Banks' primary regulators have adopted capital requirements that specify the minimum capital level for which no prompt corrective action is required. In addition, the Federal Deposit Insurance Corporation ("FDIC") has adopted FDIC insurance assessment rates based on certain "well-capitalized" risk-based and equity capital ratios. Failure to meet minimum capital requirements can result in the initiation of certain actions by the regulators that, if undertaken, could have a material effect on the Company's and the Subsidiary Banks' financial statements.

Note 14 - Capital Ratios and Dividend Restrictions (continued)

As of December 31, 2009, the Subsidiary Banks were categorized as well-capitalized under the regulatory framework for prompt corrective action in the most recent notification from the FDIC. There are no conditions or events since the notification that management believes have changed the institutions' categories. Harbourside Community Bank ("Harbourside") was consolidated with Savannah in 2009. In prior years Harbourside was a separately chartered institution.

Banking regulations restrict the amount of cash dividends that banks may pay without obtaining regulatory approval. At December 31, 2009, approximately $6.8 million in retained earnings of the Subsidiary Banks was available for the payment of dividends, subject to maintaining adequate capital ratios in the Subsidiary Banks. The Company is not subject to any regulatory restrictions on the payment of dividends to its shareholders.

Management believes that the Company and the Subsidiary Banks meet all capital adequacy requirements to which they are subject as of December 31, 2009. The following tables show the capital amounts and ratios for the Company and the Subsidiary Banks at December 31, 2009 and 2008:

($ in thousands)	Company		Savannah		Bryan	
	2009	2008	2009	2008	2009	2008
Qualifying Capital						
Tier 1 capital	$ 85,420	$ 85,356	$ 60,461	$ 54,665	$ 21,672	$ 20,553
Total capital	95,880	95,767	68,061	61,434	24,255	23,176
Leverage Ratios						
Tier 1 capital to average assets	8.25%	8.63%	7.93%	8.39%	8.57%	8.62%
Risk-based Ratios						
Tier 1 capital to risk-weighted assets	10.30%	10.28%	10.02%	10.13%	10.57%	9.80%
Total capital to risk-weighted assets	11.56%	11.54%	11.28%	11.38%	11.83%	11.05%

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

Note 15 - Leases and Commitments

Future minimum payments under non-cancelable land and office space operating leases with remaining terms in excess of one year are presented as follows: 2010 - $597,000; 2011 - $849,000; 2012 - $752,000; 2013 - $640,000; 2014 and thereafter is $3,247,000. The land and office space leases contain customary escalation clauses. The Company or the Subsidiary Banks are responsible for taxes, insurance and maintenance during the lease term under certain leases. Future minimum payments due under the Company's long-term data processing contract are as follows: 2010 - $1,222,000; 2011 - $1,259,000; and 2012 - $216,000. The contract contains customary escalation and buyout clauses.

The net rental expense for all office space operating leases amounted to $636,000 in 2009, $1,452,000 in 2008 and $1,169,000 in 2007. The leases on the office space have five to twenty-year renewal options and require increased rental payments under consumer price index escalation clauses.

Note 16 - Other Operating Expense

The components of other operating expense for the years ended December 31, 2009, 2008 and 2007 are as follows:

($ in thousands)	2009	2008	2007
Professional and directors fees	$ 1,114	$ 957	$ 854
Loan costs	1,107	605	209
Regulatory assessments and audit fees	592	536	625
Postage and courier	310	321	277
Stationery and supplies	253	332	300
Taxes and licenses	244	237	203
Advertising and sales promotion	233	425	433
Telephone	175	209	203
Dues and subscriptions	115	135	116
Insurance	95	65	77
Correspondent bank charges	50	101	123
Other expense	422	693	664
Total other operating expense	$ 4,710	$ 4,616	$ 4,084

Note 17 - On-Balance Sheet Derivative Instruments and Hedging Activities

Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

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

	2009		2008	
	Fair Value		Fair Value	
($ in thousands)	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments:				
Interest rate products	$ -	$ -	$ 922	$ -
Derivatives not designated as hedging instruments:				
Interest rate products	32	20	553	-
Total	$ 32	$ 20	$ 1,475	$ -

Note 17 - On-Balance Sheet Derivative Instruments and Hedging Activities (continued)

Cash Flow Hedges of Interest Rate Risk

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

During the year ended December 31, 2009, the Company had a $40 million interest rate collar which was used to hedge the cash inflows associated with then-existing pools of Prime-based loan assets. This interest rate collar hedging the Company's variable cash inflows associated with Prime-based loan pools failed to qualify for hedge accounting due to the mismatch in the collar notional and designated loan principal; accordingly, all changes in fair value of the collars from the date of failure through the date of termination were recorded directly in earnings. Refer to amounts disclosed under the sections entitled "Derivatives Not Designated as Hedging Instruments" throughout this footnote. No hedge ineffectiveness was recognized during the year ended December 31, 2009.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. During 2010, the Company estimates that $464,000 will be reclassified as an increase to interest income. During the twelve months ended December 31, 2009, the Company accelerated the reclassification of amounts in other comprehensive income to earnings as a result of a portion of the hedged forecasted transactions related to the Company's interest rate swaps, collars and interest rate floor becoming probable not to occur. The accelerated amount for the twelve months ended December 31, 2009 was a gain of $794,000.

Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the Company's derivative financial instruments on the income statement for the twelve months ended December 31, 2009 ($ in thousands):

Cash Flow Hedging Relationships	Gain Recognized in OCI on Derivative (Effective Portion)	Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Gain Reclassified from Accumulated OCI into Income (Effective Portion)
Interest Rate Products	$ -	Interest income	$ 1,205
		Noninterest income	794
Total	$ -		$ 1,999

In the first quarter of 2009, the Company terminated a $15 million interest rate collar position for net proceeds of $512,000. In April 2009, the Company terminated a $25 million interest rate collar position for net proceeds of $787,000. In 2008, the Company terminated $50 million of interest rate swap positions for net proceeds of $2,369,000. The Company also terminated $35 million of an interest rate floor for net proceeds of $856,000. The amounts in other comprehensive income related to the terminated transactions will be reclassified into earnings over the remaining lives of the original hedged transactions.

Note 17 - On-Balance Sheet Derivative Instruments and Hedging Activities (continued)

Non-designated Hedges

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are used to manage the Company’s exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As noted under “Cash Flow Hedges of Interest Rate Risk,” collars hedging the Company’s variable cash inflows associated with Prime-based loans disqualified for hedge accounting as of December 31, 2008 and March 31, 2009; accordingly, the changes in fair value of the collars were subsequently recognized directly in earnings through the date of termination. The Company recognized a loss of $10,000 relating to the changes in fair value of these interest rate collars during the year ended December 31, 2009.

As of December 31, 2009 none of the Company’s outstanding derivatives are designated in qualifying hedging relationships. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by executing offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2009, the Company had two interest rate swaps with an aggregate notional amount of $5,347,625 related to this program. During the year ended December 31, 2009, the Company recognized a net gain of $12,000 related to changes in fair value of these swaps.

Credit-risk-related Contingent Features

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

As of December 31, 2009 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $10,000. As of December 31, 2009, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $54,000 against its obligations under these agreements. If the Company had breached any of these provisions at December 31, 2009, it would have been required to settle its obligations under the agreements at the termination value.

Note 18 - Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit losses is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Note 18 - Financial Instruments with Off-Balance Sheet Risk (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2009 and 2008 unfunded commitments to extend credit and unfunded lines of credit were $87,480,000 and $118,088,000, of which some were subject to interest rate lock commitments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Company upon extension of credit, if deemed necessary, is based on management's credit evaluation of the customer. Collateral may include cash, securities, accounts receivable, inventory, equipment, and real estate.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The letters of credit are primarily issued to support public and private borrowing arrangements. At December 31, 2009 and 2008, commitments under letters of credit aggregated approximately $2,175,000 and $7,733,000, respectively.

Note 19 - Fair Value of Financial Instruments

Determination of Fair Value

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

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

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value:

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

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

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

Note 19 - Fair Value of Financial Instruments (continued)

Recurring Fair Value Changes

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

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

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

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

($ in thousands)	Carrying Value	Fair Value Measurements at December 31, 2009 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities	$ 87,919	$ -	$ 84,159	$ 3,760
Derivative asset positions	32	-	32	-
Derivative liability positions	20	-	20	-

($ in thousands)	Carrying Value	Fair Value Measurements at December 31, 2008 Using Level 1	Level 2	Level 3
Investment securities	$ 81,619	$ -	$ 77,905	$ 3,714
Loans held for sale	291	-	291	-
Derivative asset positions	1,475	-	1,475	-

Nonrecurring Fair Value Changes

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

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

Note 19 - Fair Value of Financial Instruments (continued)

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

		Carrying Values at December 31, 2009			
($ in thousands)	Total	Level 1	Level 2	Level 3	Total gain (loss)
Impaired loans	$ 14,021	$ -	$ -	$ 14,021	$ (5,613)
OREO	3,390	-	-	3,390	(841)

		Carrying Values at December 31, 2008			
($ in thousands)	Total	Level 1	Level 2	Level 3	Total gain (loss)
Impaired loans	$ 21,021	$ -	$ -	$ 21,021	$ (3,754)

Fair Value Disclosures

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

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

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

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

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

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

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

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

Note 19 - Fair Value of Financial Instruments (continued)

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

($ in thousands)	2009 Carrying Value	2009 Estimated Fair Value	2008 Carrying Value	2008 Estimated Fair Value
Financial assets:				
Cash and federal funds sold	$ 27,828	$ 27,828	$ 24,789	$ 24,789
Interest-bearing deposits	12,707	12,707	3,312	3,312
Securities available for sale	87,919	87,919	81,619	81,619
Loans held for sale	-	-	291	291
Loans, net of allowance for loan losses	866,208	873,705	851,674	856,799
Accrued interest receivable	3,923	3,923	4,292	4,292
Derivative asset positions	32	32	1,475	1,475
Financial liabilities:				
Deposits	884,569	887,969	832,015	840,383
Short-term borrowings	39,553	39,553	55,636	55,523
Other borrowings	15,988	15,988	12,151	12,135
FHLB advances – long-term	15,664	16,094	10,169	9,883
Subordinated debt to nonconsolidated subsidiaries	10,310	10,310	10,310	10,310
Accrued interest payable	1,628	1,628	2,195	2,195
Derivative liability positions	20	20	-	-

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Note 20 - The Savannah Bancorp, Inc. (Parent Company Only) Financial Information ($ in thousands)

The following are condensed balance sheets of the Parent Company at December 31, 2009 and 2008:

	2009	2008
Assets		
Cash on deposit	$ 65	$ 54
Interest-bearing deposits	197	1,230
Investment in subsidiaries	86,399	87,407
Premises and equipment	831	1,172
Investment in nonconsolidated subsidiary	1,394	1,351
Other assets	1,953	1,752
Total assets	$ 90,839	$ 92,966
Liabilities		
Subordinated debt	$ 10,310	$ 10,310
Other liabilities	1,503	1,724
Total liabilities	11,813	12,034
Shareholders' equity		
Common stock	5,934	5,934
Additional paid-in capital	38,605	38,516
Retained earnings	33,383	33,552
Treasury stock	(4)	(4)
Accumulated other comprehensive income, net	1,108	2,934
Total shareholders’ equity	79,026	80,932
Total liabilities and equity	$ 90,839	$ 92,966

Note 20 - The Savannah Bancorp, Inc. (Parent Company Only) Financial Information (continued) ($ in thousands)

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

	2009	2008	2007
Dividends from subsidiaries	**$ 4,200**	$ 3,450	$ 7,500
Interest income	**4**	15	27
Interest expense	**362**	642	842
Net interest and dividend income	**3,842**	2,823	6,685
Other income	**29**	35	38
Processing / management fees	**5,267**	5,468	5,090
Total income	**9,138**	8,326	11,813
Corporate expenses	**733**	669	618
Processing / management costs	**5,342**	5,543	5,165
Other expenses	**6,075**	6,212	5,783
Income before income taxes and (distributions in excess of earnings)			
equity in undistributed net income of subsidiaries	**3,063**	2,114	6,030
Income tax benefit	**395**	415	415
Income before (distributions in excess of earnings)			
equity in undistributed net income of subsidiaries	**3,458**	2,529	6,445
(Distributions in excess of earnings)			
equity in undistributed net income of subsidiaries	**(2,529)**	3,477	1,191
Net income	**$ 929**	$ 6,006	$ 7,636

Note 20 - The Savannah Bancorp, Inc. (Parent Company Only) Financial Information (continued) ($ in thousands)

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

	2009	2008	2007
Operating activities			
Net income	**$ 929**	$ 6,006	$ 7,636
Adjustments to reconcile net income to cash provided by operating activities:			
Distributions in excess of earnings (equity in undistributed net income) of subsidiaries	**2,529**	(3,477)	(1,191)
Depreciation of equipment	**449**	445	369
Non cash stock-based compensation expense	**144**	221	184
Change in other assets and liabilities, net	**(477)**	60	(141)
Net cash provided by operating activities	**3,574**	3,255	6,857
Investing activities			
Distribution from nonconsolidated subsidiary	**-**	350	-
Investment in consolidated subsidiary	-	-	(1,970)
Purchase of equipment and software	**(108)**	(545)	(437)
Capital contribution to consolidated subsidiaries	**(3,390)**	-	(2,000)
Net cash used in investing activities	**(3,498)**	(195)	(4,407)
Financing activities			
Dividends paid	**(1,098)**	(2,966)	(2,805)
Issuance of common stock	**-**	74	-
Exercise of options	**-**	36	748
Net cash used in financing activities	**(1,098)**	(2,856)	(2,057)
(Decrease) increase in cash and cash equivalents	**(1,022)**	204	393
Cash, beginning of year	**1,284**	1,080	687
Cash, end of year	**$ 262**	$ 1,284	$ 1,080

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

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

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

($ in thousands, except share data)	**2009**	2008	2007	2006	2005
Selected Average Balances					
Assets	**$ 1,018,470**	$ 960,260	$ 869,026	$ 769,917	$ 685,163
Total interest-earning assets	**935,617**	898,295	830,900	734,470	655,632
Loans held for sale	-	765	1,299	7,842	23,033
Loans, net of unearned fees	**841,033**	821,673	754,490	658,750	565,131
Securities	**81,282**	62,019	58,910	50,600	41,300
Other interest-earning assets	**13,302**	13,838	16,201	17,278	26,168
Interest-bearing deposits	**777,763**	701,045	628,310	542,375	487,493
Borrowed funds	**71,967**	88,553	70,939	62,255	55,255
Total interest-bearing liabilities	**849,730**	789,598	699,249	604,630	542,748
Noninterest-bearing deposits	**82,406**	83,678	91,367	96,113	89,386
Total deposits	**860,169**	784,723	719,677	638,488	576,879
Shareholders' equity	**79,804**	78,998	71,516	61,766	47,428
Loan to deposit ratio – average	**98%**	105%	105%	103%	98%
Selected Financial Data at Year-End					
Assets	**$ 1,050,508**	$ 1,007,284	$ 932,459	$ 843,514	$ 717,901
Interest-earning assets	**959,219**	931,448	878,992	803,927	685,531
Loans held for sale	-	291	180	914	10,473
Loans, net of unearned fees	**883,886**	864,974	808,651	720,918	613,667
Deposits	**884,569**	832,015	764,218	706,824	600,510
Interest-bearing liabilities	**883,527**	837,558	759,597	669,974	558,116
Shareholders' equity	**79,026**	80,932	76,272	66,574	58,543
Loan to deposit ratio	**100%**	104%	106%	102%	102%
Shareholders' equity to total assets	**7.52%**	8.03%	8.18%	7.89%	8.15%
Dividend payout ratio	**118.19%**	49.38%	36.73%	25.92%	25.53%
Risk-based capital ratios:					
Tier 1 capital to risk-weighted assets	**10.30%**	10.28%	10.49%	11.09%	11.52%
Total capital to risk-weighted assets	**11.56%**	11.54%	11.74%	12.34%	12.77%
Loan Quality Data					
Nonperforming assets	**$ 42,444**	$ 35,703	$ 19,535	$ 2,776	$ 1,357
Nonperforming loans	**34,115**	27,603	17,424	2,231	1,357
Nonaccruing loans	**32,545**	26,277	14,663	825	1,313
Loans past due 90 days - accruing	**1,570**	1,326	2,761	1,406	44
Net charge-offs	**8,687**	5,564	765	444	76
Allowance for loan losses	**17,678**	13,300	12,864	8,954	7,813
Allowance for loan losses to total loans	**2.00%**	1.54%	1.59%	1.24%	1.27%
Nonperforming loans to loans	**3.86%**	3.19%	2.15%	0.31%	0.22%
Nonperforming assets to assets	**4.04%**	3.54%	2.09%	0.33%	0.19%
Net charge-offs to average loans	**1.03%**	0.68%	0.10%	0.07%	0.01%
Per Share Data at Year-End (a)					
Book value	**$ 13.32**	$ 13.64	$ 12.88	$ 11.52	$ 10.20
Tangible book value	**$ 12.90**	$ 13.19	$ 12.40	$ 11.52	$ 10.20
Common stock closing price (NASDAQ)	**$ 8.00**	$ 8.85	$ 17.14	$ 27.25	$ 28.38
Common shares outstanding (000s)	**5,932**	5,934	5,924	5,781	5,739

(a) Share and per share amounts have been restated to reflect the effect of a 5-for-4 stock split in December 2006.

Table 2 - Selected Operating Highlights – Five-Year Comparison

($ in thousands, except share data)	2009	2008	2007	2006	2005
Summary of operations					
Interest income - taxable equivalent	**$ 50,595**	$ 56,714	$ 63,414	$ 55,347	$ 42,544
Interest expense	**18,258**	24,439	30,282	22,737	14,679
Net interest income - taxable equivalent	**32,337**	32,275	33,132	32,610	27,865
Taxable equivalent adjustment	**(32)**	(32)	(156)	(158)	(186)
Net interest income	**32,305**	32,243	32,976	32,452	27,679
Provision for loan losses	**13,065**	6,000	4,675	1,585	1,500
Net interest income after provision for loan losses	**19,240**	26,243	28,301	30,867	26,179
Noninterest income					
Trust and asset management fees	**2,351**	2,832	1,513	658	501
Service charges on deposits accounts	**1,809**	1,881	1,383	1,526	1,622
Mortgage related income, net	**432**	295	615	886	1,292
Other operating income	**1,238**	1,216	1,242	1,233	979
Gain on hedges	**873**	1,288	-	-	-
Gain on sale of securities	**2,119**	163	-	-	-
Total noninterest income	**8,822**	7,675	4,753	4,303	4,394
Noninterest expense					
Salaries and employee benefits	**12,146**	13,584	11,846	10,852	9,530
Occupancy and equipment	**3,716**	3,884	3,294	2,920	2,199
FDIC deposit insurance	**1,886**	653	251	78	72
Information technology	**1,810**	1,633	1,616	1,525	1,244
Amortization of client list	**144**	144	48	-	-
Loss on sale and write-downs of foreclosed assets	**2,566**	228	44	-	7
Other operating expense	**4,710**	4,616	4,084	4,578	3,601
Total noninterest expense	**26,978**	24,742	21,183	19,953	16,653
Income before income taxes	**1,084**	9,176	11,871	15,217	13,920
Income tax expense	**155**	3,170	4,235	5,215	4,880
Net income	**$ 929**	$ 6,006	$ 7,636	$ 10,002	$ 9,040
Net income per share: (a)					
Basic	**$ 0.16**	$ 1.01	$ 1.31	$ 1.73	$ 1.68
Diluted	**$ 0.16**	$ 1.01	$ 1.29	$ 1.70	$ 1.63
Cash dividends paid per share	**$ 0.185**	$ 0.50	$ 0.48	$ 0.45	$ 0.43
Average basic shares outstanding (000s)	**5,933**	5,930	5,850	5,765	5,396
Average diluted shares outstanding (000s)	**5,936**	5,947	5,922	5,876	5,531
Performance ratios (averages)					
Net interest margin	**3.46%**	3.58%	3.99%	4.44%	4.25%
Return on average assets	**0.09%**	0.63%	0.88%	1.30%	1.32%
Return on average equity	**1.16%**	7.60%	10.68%	16.19%	19.06%
Efficiency ratio	**65.60%**	61.98%	56.15%	54.29%	51.92%

(a) Share and per share amounts have been restated to reflect the effect of a 5-for-4 stock split in December 2006.

Table 3 - Selected Quarterly Data

The following is a summary of unaudited quarterly results for 2009 and 2008:

	2009				2008			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Net interest income	$8,315	$8,240	$8,084	$7,666	$7,535	$8,251	$8,386	$8,071
Provision for loan losses	2,560	3,560	3,225	3,720	2,270	1,505	1,155	1,070
Net interest income after provision for loan losses	5,755	4,680	4,859	3,946	5,265	6,746	7,231	7,001
Noninterest income	2,680	2,227	1,906	2,009	1,958	2,021	1,791	1,763
Noninterest expense	7,288	6,476	6,739	6,475	6,065	6,234	6,151	6,150
Income (loss) before income taxes	1,147	431	26	(520)	1,158	2,533	2,871	2,614
Income tax expense (benefit)	385	85	(80)	(235)	380	895	985	910
Net income (loss)	$ 762	$ 346	$106	$ (285)	$ 778	$1,638	$1,886	$1,704
Per share: (a)								
Net income (loss) – basic	$ 0.13	$ 0.06	$ 0.02	$ (0.05)	$ .13	$ .28	$ .32	$ .29
Net income (loss) – diluted	$ 0.13	$ 0.06	$ 0.02	$ (0.05)	$ .13	$ .28	$ .32	$ .29
Dividends	$ .020	$ .020	$ .020	$ .125	$ .125	$ .125	$ .125	$ .125
Average shares (000s)								
Basic	5,932	5,932	5,932	5,933	5,933	5,930	5,931	5,928
Diluted	5,937	5,936	5,936	5,933	5,942	5,943	5,952	5,951

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

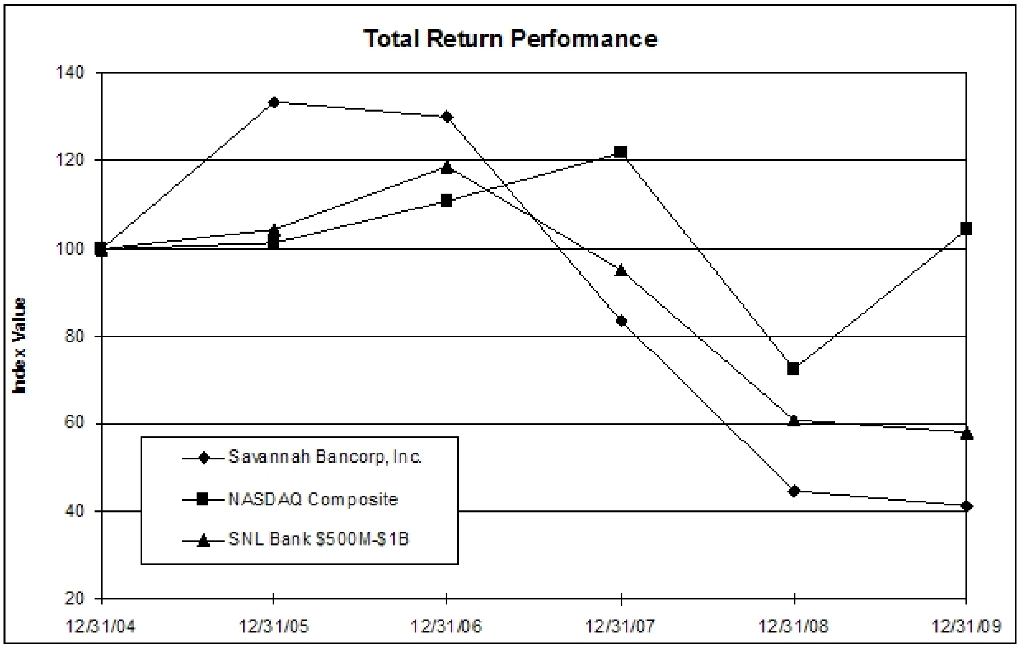
Table 4 - Market for Registrant's Common Equity and Related Shareholder Matters

The Company's common stock is traded on NASDAQ under the symbol SAVB. The quarterly high, low and closing stock trading prices for 2009 and 2008 are listed below. There were approximately 640 holders of record of Company common stock and, according to information provided to the Company, approximately 1,150 additional shareholders in street name through brokerage accounts at December 31, 2009.

	2009				2008			
Closing Market Prices	Fourth	Third	Second	First	Fourth	Third	Second	First
High	$ 9.25	$ 8.50	$ 10.93	$ 10.00	$ 13.35	$ 15.00	$ 18.73	$ 18.49
Low	7.00	6.65	6.65	6.00	8.57	11.89	12.75	15.76
Close	8.00	8.10	6.65	7.01	8.85	13.25	13.00	17.50

Table 5 - Stock Performance Graph

The following table provides a graphic comparison of the cumulative total shareholder return on the common stock of the Company for the five year period from December 31, 2004 through December 31, 2009. It includes the cumulative total return on the NASDAQ Market Index, the SNL $500M-$1B Bank Index and assumes the re-investment of all dividends over the same period. All cumulative returns assume an initial investment of $100.



	For the Years Ended December 31,					
Index	2004	2005	2006	2007	2008	2009
The Savannah Bancorp, Inc.	100.00	133.43	130.11	83.45	44.59	41.18
NASDAQ Composite	100.00	101.37	111.03	121.92	72.49	104.31
SNL $500M-$1B Bank Index	100.00	104.29	118.61	95.04	60.90	58.00

Source : SNL Financial LC, Charlottesville, VA © 2010

Introduction

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

Selected Financial Data Tables 1 - 5 (preceding pages)
Introduction
Critical Accounting Estimates
Results of Operations
Financial Condition and Capital Resources
Liquidity and Interest Rate Sensitivity Management
Off-Balance Sheet Arrangements
Forward Looking Statements

These discussions should facilitate a better understanding of the major factors and trends that affect the Company's earnings performance and financial condition and how the Company's performance during 2009 compared with prior years. Throughout this section, The Savannah Bancorp, Inc. and its subsidiaries, collectively, are referred to as "SAVB" or the "Company." The Savannah Bank, N.A. is referred to as "Savannah," Bryan Bank & Trust is referred to as "Bryan" and Minis & Co., Inc. is referred to as "Minis." The operations of Minis, a registered investment advisor and wholly-owned subsidiary, are included beginning September 1, 2007. The Company formed a new subsidiary, SAVB Holdings, LLC in the third quarter 2008 for the purpose of holding problems loans and other real estate. SAVB Holdings, LLC is referred to as "SAVB Holdings." Collectively, Savannah and Bryan are referred to as the "Subsidiary Banks."

The averages used in this report are the averages of daily balances for each respective period. See Tables 9 and 10 for average balances and interest rates presented on an annual basis. All share and per share amounts have been restated to reflect the effect of a 5-for-4 stock split in December 2006. Certain prior year balances have been reclassified to conform to the current year presentation.

The Company is headquartered in Savannah, Georgia and, as of December 31, 2009, had ten banking offices and twelve ATMs in Savannah, Garden City, Skidaway Island, Whitemarsh Island, Pooler, and Richmond Hill, Georgia and Hilton Head Island and Bluffton, South Carolina. The Company also has mortgage lending offices in Savannah, Richmond Hill and Hilton Head Island and an investment management office in Savannah. In addition, the Company has a loan production office on St. Simons Island, Georgia.

Effective September 30, 2009, the Company merged the charter of Harbourside Community Bank ("Harbourside") into Savannah. The two branches of Harbourside increase the total number of Savannah branches to eight.

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

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

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

Critical Accounting Estimates

Allowance for Loan Losses

The Company considers its policies regarding the allowance for loan losses to be its most critical accounting estimate due to the significant degree of management judgment involved. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses based on management's continuous evaluation of the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the allowance reflects management's opinion of an adequate level to absorb probable losses inherent in the loan portfolio at December 31, 2009. The amount charged to the provision and the level of the allowance is based on management's judgment and is dependent upon growth in the loan portfolio, the total amount of past due and nonperforming loans, recent charge-off levels, known loan deteriorations and concentrations of credit. Other factors affecting the allowance include market interest rates, loan sizes, portfolio maturity and composition, collateral values and general economic conditions. Finally, management's assessment of probable losses, based upon internal credit grading of the loans and periodic reviews and assessments of credit risk associated with particular loans, is considered in establishing the amount of the allowance.

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

The allowance for loan losses totaled $17,678,000 or 2.00 percent of total loans at December 31, 2009. This is compared to an allowance of $13,300,000 or 1.54 percent of total loans at December 31, 2008. For 2009, the Company reported net charge-offs of $8,687,000 or 1.03 percent of average loans. This is compared to net charge-offs of $5,564,000 or 0.68 percent of average loans for 2008. The significantly higher level of charge-offs resulted primarily from continued weakness in the Company's local residential real estate markets particularly in the Bluffton / Hilton Head Island, South Carolina ("Bluffton/HHI") area. During 2009 and 2008, a provision for loan losses of $13,065,000 and $6,000,000, respectively, was added to the allowance for loan losses. Growth in the loan portfolio, real estate-related charge-offs, continued weakness in the Company's local real estate markets, and level or declining real estate values provide the basis for the higher provision for loan losses.

The Company's nonperforming assets consist of loans on nonaccrual status, loans which are contractually past due 90 days or more on which interest is still being accrued, and other real estate owned. Nonaccrual loans of $32,545,000 and loans past due 90 days or more and still accruing interest of $1,570,000 totaled $34,115,000, or 3.86 percent of gross loans, at December 31, 2009. Nonaccrual loans of $26,277,000 and loans past due 90 days or more and still accruing interest of $1,326,000 totaled $27,603,000, or 3.19 percent of gross loans, at December 31, 2008. Generally, loans are placed on nonaccrual status when the collection of the principal or interest in full becomes doubtful. Management typically writes down loans through a charge to the allowance when it determines they are impaired. Nonperforming assets also included $8,329,000 and $8,100,000 of other real estate owned at December 31, 2009 and 2008, respectively. Management is aggressively pricing and marketing the other real estate owned.

Impaired loans, which include loans modified in troubled debt restructurings, totaled $54,054,000 and $37,730,000 at December 31, 2009 and 2008, respectively.

At December 31, 2009 nonperforming loans consisted primarily of $14.6 million of improved real estate-secured loans and $13.1 million of land, lot and construction and development related loans. Less than one percent of the nonperforming loans were unsecured. The largest nonperforming relationship consists of four loans for $7.6 million to a residential developer in the Bluffton/HHI market. The loans are secured by residential land and lots. Approximately $1,097,000 of the allowance was allocated to this relationship as a general reserve. The next largest nonperforming relationship included nine loans for $3.0 million to a residential homebuilder in the Bluffton/HHI market. The collateral is completed or nearly completed 1-4 family properties as well as residential lots. The Company charged-off $1,139,000 in 2009 and has $287,000 specifically allocated in the allowance for this relationship.

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

If the allowance for loan losses had changed by five percent, the effect on net income would have been approximately $575,000. If the allowance had to be increased by this amount, it would not have changed the Subsidiary Banks' status as well-capitalized financial institutions.

Changes in the allowance for loan losses from 2005 through 2009 are summarized as follows:

($ in thousands)	2009	2008	2007	2006	2005
Balance at the beginning of the year	$ 13,300	$ 12,864	$ 8,954	$ 7,813	$ 6,389
Charge-offs – commercial	(459)	(387)	(150)	-	(22)
Charge-offs – consumer	(210)	(85)	(103)	(125)	(82)
Charge-offs – real estate	(8,224)	(5,242)	(621)	(381)	(48)
Charge-offs – total	(8,893)	(5,714)	(874)	(506)	(152)
Recoveries – commercial	22	13	6	6	7
Recoveries – consumer	29	28	43	54	53
Recoveries – real estate	155	109	60	2	16
Recoveries – total	206	150	109	62	76
Net charge-offs	(8,687)	(5,564)	(765)	(444)	(76)
Provision for loan losses	13,065	6,000	4,675	1,585	1,500
Balance at the end of the year	$ 17,678	$ 13,300	$ 12,864	$ 8,954	$ 7,813
Ratio of net charge-offs to average loans	1.03%	0.68%	0.10%	0.07%	0.01%

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

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

($ in thousands)	2009	2008	2007	2006	2005
Commercial	$ 1,184	$ 760	$ 750	$ 900	$ 700
Real estate-construction and development	6,020	5,291	4,150	4,350	3,750
Real estate-mortgage	10,200	7,061	6,750	2,350	1,900
Consumer	225	188	200	400	350
Unallocated	49	-	1,014	954	1,113
Total allowance for loan losses	$ 17,678	$ 13,300	$ 12,864	$ 8,954	$ 7,813

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

($ in thousands)	2009	2008	2007	2006	2005
Commercial	10.1%	9.5%	8.8%	8.0%	7.4%
Real estate-construction and development	7.0	11.5	16.6	23.1	23.6
Real estate-mortgage	81.2	77.0	72.3	66.6	66.7
Consumer	1.7	2.0	2.3	2.3	2.3
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%

Impairment of Loans

The Company measures impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is considered impaired when it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. A loan is not considered impaired during a period of delay in payment if the ultimate collection of all amounts due is expected. The Company maintains a valuation allowance or charges-down the loan balance to the extent that the measure of value of an impaired loan is less than the recorded investment.

Other Real Estate Owned

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

Table 6 – Allowance for Loan Losses and Nonperforming Assets

	2009				2008
($ in thousands)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Allowance for loan losses					
Balance at beginning of period	$ 16,880	$ 15,597	$ 15,309	$ 13,300	$ 12,390
Provision for loan losses	2,560	3,560	3,225	3,720	2,270
Net charge-offs	(1,762)	(2,277)	(2,937)	(1,711)	(1,360)
Balance at end of period	$ 17,678	$ 16,880	$ 15,597	$ 15,309	$ 13,300
As a % of loans	2.00%	1.95%	1.81%	1.77%	1.54%
As a % of nonperforming loans	51.77%	64.92%	56.99%	63.27%	48.18%
As a % of nonperforming assets	41.62%	46.56%	46.22%	47.05%	37.25%
Net charge-offs as a % of average loans (a)	0.83%	1.07%	1.41%	0.82%	0.65%
Risk element assets					
Nonaccruing loans	$ 32,545	$ 25,694	$ 24,994	$ 23,927	$ 26,277
Loans past due 90 days – accruing	1,570	307	2,374	268	1,326
Total nonperforming loans	34,115	26,001	27,368	24,195	27,603
Other real estate owned	8,329	10,252	6,377	8,342	8,100
Total nonperforming assets	$ 42,444	$ 36,253	$ 33,745	$ 32,537	$ 35,703
Loans past due 30-89 days	$ 5,182	$ 8,122	$ 6,670	$ 16,906	$ 8,269
Nonperforming loans as a % of loans	3.86%	3.00%	3.17%	2.80%	3.19%
Nonperforming assets as a % of loans and other real estate owned	4.76%	4.13%	3.88%	3.73%	4.09%
Nonperforming assets as a % of assets	4.04%	3.48%	3.31%	3.25%	3.54%

(a) Annualized

Results of Operations

2009 Compared with 2008

Net income for 2009 was $929,000, a decrease of 85 percent from $6,006,000 in 2008. Net income per diluted share was $0.16 and $1.01 in 2009 and 2008, respectively, a decrease of 84 percent. The earnings decrease was primarily attributable to a higher provision for loan losses, higher FDIC insurance premiums and a higher loss on sale of foreclosed assets partially offset by a higher gain on sale of securities. Return on average equity was 1.16 percent, return on average assets was 0.09 percent and the efficiency ratio was 65.60 percent in 2009.

Average interest-earning assets increased 4.2 percent to $936 million in 2009 from $898 million in 2008. Net interest income was $32.3 million in 2009 compared to $32.2 million in 2008. Average loans were $841 million for 2009, 2.3 percent higher when compared to $822 million in 2008. Shareholders' equity decreased to $79 million at December 31, 2009 from $81 million at December 31, 2008 due solely to a decrease in accumulated other comprehensive income. The Company's total capital to risk-weighted assets ratio was 11.56 percent at December 31, 2009, which exceeds the 10 percent required by the regulatory agencies to maintain well-capitalized status. The net interest margin decreased to 3.46 percent in 2009 from 3.58 percent in 2008. As shown in Table 9, the decline in net interest margin was primarily due to higher levels of noninterest-earning assets. The interest rate spread increased five basis points in 2009. As shown in Table 8, the Company's balance sheet continues to be asset-sensitive since the interest-earning assets reprice faster than interest-bearing liabilities. Rising interest rates favorably impact the net interest margin of an asset-sensitive balance sheet and falling rates adversely impact the net interest margin. However, when the prime rate stops decreasing, the interest rates on time deposits, certain non-maturity deposits and other funding sources will continue to decline due to the re-pricing lag associated with those liabilities. In addition the Company has instituted interest rate floors on many variable rate loans such that the loans will not reprice in a rising rate environment until the floating rate exceeds the floor.

The provision for loan losses was $13,065,000 for 2009, compared to $6,000,000 in 2008. Loan growth was $19 million in 2009 compared to $56 million in 2008. The higher provision for loan losses in 2009 as compared to 2008 is mainly attributable to real estate-related charge-offs and continued weakness in the Company's local real estate markets. Net charge-offs were $8,687,000 in 2009 as compared to $5,564,000 in 2008. The significant increase in charge-offs resulted primarily from continued weakness in the Company's local residential real estate markets particularly in the Bluffton/HHI area.

Noninterest income was $8,822,000 in 2009 compared to $7,675,000 in 2008, an increase of $1,147,000 or 15 percent. The increase was the result of a $2,119,000 gain on sale of securities, partially offset by $481,000 lower trust and asset management fees and $415,000 lower gain on hedges.

Noninterest expense was $26,978,000 in 2009 compared to $24,742,000 in 2008, an increase of $2,236,000, or 9.0 percent. Noninterest expense included a $2,338,000 higher loss on the sale and write-down of foreclosed assets, $1,233,000 of higher FDIC insurance premiums, a 188 percent increase, partially offset by $1,438,000 in lower salaries and employee benefits, or 11 percent decrease.

Income tax expense was $155,000 in 2009 and $3,170,000 in 2008. The combined effective federal and state tax rates were 14.3 percent and 34.5 percent, respectively. The lower income tax rate in 2009 was due to the impact of tax credits on lower taxable income. The Company has never recorded a valuation allowance against deferred tax assets. All significant deferred tax assets are considered to be realizable due to expected future taxable income.

2008 Compared with 2007

Net income for 2008 was $6,006,000, a decrease of 21 percent from $7,636,000 in 2007. Net income per diluted share was $1.01 and $1.29 in 2008 and 2007, respectively. The earnings decrease was primarily attributable to a lower net interest margin, a higher provision for loan losses and higher noninterest expense partially offset by an increase in noninterest income. Return on average equity was 7.60 percent, return on average assets was 0.63 percent and the efficiency ratio was 61.98 percent in 2008.

Average interest-earning assets increased 8.1 percent to $898 million in 2008 from $831 million in 2007. Net interest income was $32,243,000 in 2008 compared to $32,976,000 in 2007, a decrease of 2.2 percent. Average loans were $822 million for 2008, 9.0 percent higher when compared to $754 million in 2007. Shareholders' equity increased 6.6 percent to $81 million at December 31, 2008 from $76 million at December 31, 2007. The Company's total capital to risk-weighted assets ratio was 11.54 percent at December 31, 2008, well in excess of the 10 percent required by the regulatory agencies to maintain well-capitalized status. The net interest margin decreased to 3.58 percent in 2008 from 3.99 percent in 2007. As shown in Table 10, the decline in net interest margin was primarily due to the increase in noninterest-earning assets, a decrease in noninterest-bearing deposits and a decrease in interest rate spread. While the prime rate declined 400 basis points in 2008, the interest rate spread only decreased nine basis points.

The provision for loan losses was $6,000,000 for 2008, compared to $4,675,000 in 2007. Loan growth was $56 million in 2008 compared to $88 million in 2007. The higher provision for loan losses in 2008 as compared to 2007 is mainly attributable to higher nonperforming loans and net charge-offs as a result of the continued weakness in the real estate market. Net charge-offs were $5,564,000 in 2008 as compared to $765,000 in 2007. The significant increase in charge-offs resulted primarily from the nonperforming residential real estate-related loans in the Bluffton/HHI market and continued weakness in the overall real estate market.

Noninterest income was $7,675,000 in 2008 compared to $4,753,000 in 2007, an increase of $2,922,000 or 61 percent. The increase was the result of higher trust and asset management fees of $1,319,000 primarily due to Minis, a gain on hedges of $1,288,000 and an increase in service charges on deposits of $498,000 partially offset by a decrease of $320,000 in net mortgage related income. The higher service charges were primarily due to a new payment optimization program started in the first quarter 2008.

Noninterest expense was $24,742,000 in 2008 compared to $21,183,000 in 2007, an increase of $3,559,000, or 17 percent. The increase included a full year of Minis expenses of $1,399,000 in 2008 compared to four months of expenses of $455,000 in 2007. Salaries and employee benefits increased $1,738,000 or 15 percent due to Minis, additional employees in new markets and normal salary and benefit increases. Occupancy and equipment expense increased $590,000, or 18 percent, primarily due to new banking offices that were added in 2007 and 2008. Other operating expenses increased $1,116,000, or 25 percent and included $402,000 in higher FDIC insurance premiums and $483,000 in higher expenses related to other real estate and loan costs.

Income tax expense was $3,170,000 in 2008 and $4,235,000 in 2007. The combined effective federal and state tax rates were 34.5 percent and 35.7 percent, respectively. Lower taxable income in the 35 percent tax bracket and higher low income housing tax credits were the primary contributors to the lower effective tax rate in 2008. The Company has never recorded a valuation allowance against deferred tax assets. All significant deferred tax assets are considered to be realizable due to expected future taxable income.

Financial Condition and Capital Resources

Balance Sheet Activity

The major changes in the Company's assets and liabilities for the current and prior period are shown in the consolidated statements of cash flows. Average total assets increased 6.3 percent to $1.02 billion in 2009 from $960 million in 2008. Total assets were $1.05 billion and $1.01 billion at December 31, 2009 and 2008, respectively, an increase of 4.0 percent. The increase in loans of $19 million and securities of $6 million during 2009 was funded by $53 million in deposit growth. Additionally cash and cash equivalents increased $12 million and the Company had a $5 million prepaid FDIC assessment included in other assets.

The Company has classified all investment securities as available for sale. Lower short-term interest rates resulted in an overall net unrealized gain in the investment portfolio. The unrealized gain or loss amounts are recorded in shareholders' equity as accumulated other comprehensive income (loss), net of tax.

Historically, deposits at the Subsidiary Banks were obtained from local customers. Over the past several years funding sources have been expanded to include non-local deposits and more frequent use of advances from the FHLB. Total deposits included brokered time deposits and institutional money market accounts of $172 million at December 31, 2009 and $222 million at December 31, 2008. At December 31, 2009 and 2008, brokered time deposits include $38 million of reciprocal deposits from the Company's local customers that are classified as brokered because they are placed in the CDARS network for deposit insurance purposes.

Loans

The following table shows the composition of the loan portfolio at December 31, 2009 and 2008, including a more detailed breakdown of real estate secured loans by collateral type and purpose.

Table 7 - Loan Concentrations

($ in thousands)	**2009**	% of Total	2008	% of Total	% Change ($)
Non-residential real estate					
Owner-occupied	**$ 137,439**	*16*	$ 137,742	*16*	-
Non owner-occupied	**159,091**	*18*	124,502	*14*	*28*
Construction	**5,352**	*1*	26,965	*3*	*(80)*
Commercial land and lot development	**47,080**	*5*	42,590	*5*	*11*
Total non-residential real estate	**348,962**	*40*	331,799	*38*	*5*
Residential real estate					
Owner-occupied – 1-4 family	**95,741**	*11*	89,774	*10*	*7*
Non owner-occupied – 1-4 family	**158,172**	*18*	147,396	*17*	*7*
Construction	**27,061**	*3*	43,431	*5*	*(38)*
Residential land and lot development	**92,346**	*10*	98,715	*12*	*(7)*
Home equity lines	**57,527**	*6*	55,092	*6*	*4*
Total residential real estate	**430,847**	*48*	434,408	*50*	*(1)*
Total real estate loans	**779,809**	*88*	766,207	*88*	*2*
Commercial	**89,379**	*10*	81,348	*10*	*10*
Consumer	**14,971**	*2*	17,628	*2*	*(15)*
Unearned fees, net	**(273)**	-	(209)	-	*31*
Total loans, net of unearned fees	**$ 883,886**	*100*	$ 864,974	*100*	*2*

Capital Resources

The Office of the Comptroller of the Currency has adopted capital requirements that specify the minimum capital level for which no prompt corrective action is required. In addition, the FDIC assesses FDIC insurance premiums based on certain “well-capitalized” risk-based and equity capital ratios. As of December 31, 2009, the Subsidiary Banks and the Company exceeded the minimum requirements necessary to be classified as “well-capitalized.”

Total equity capital for the Company was $79.0 million, or 7.52 percent of total assets, at December 31, 2009. Tier 1 capital was 10.30 percent of risk-weighted assets at the same date. Tier 1 capital at December 31, 2009 includes $10.0 million of trust preferred debt issued by the Company’s nonconsolidated subsidiaries.

Under Federal Reserve Bank holding company capital regulations, trust preferred debt qualifies for Tier 1 capital treatment up to a limit of 25 percent of tangible equity capital plus trust preferred debt. All of the Company’s trust preferred debt qualifies as Tier 1 capital.

Liquidity and Interest Rate Sensitivity Management

The objectives of balance sheet management include maintaining adequate liquidity and preserving reasonable balance between the repricing of interest sensitive assets and liabilities at favorable interest rate spreads. The objective of liquidity management is to ensure the availability of adequate funds to meet the loan demands and the deposit withdrawal needs of customers. This is achieved through maintaining a combination of sufficient liquid assets, core deposit growth and unused capacity to purchase and borrow funds in the money markets.

During 2009, portfolio loans increased $19 million to $884 million and deposits increased $53 million to $885 million. The loan to deposit ratio was 100 and 104 percent at December 31, 2009 and 2008, respectively.

In addition to local deposit growth, primary funding and liquidity sources include borrowing capacity with the FHLB, temporary federal funds purchased lines with correspondent banks and non-local institutional and brokered deposits. Contingency funding and liquidity sources include the ability to sell loans, or participations in certain loans, to investors and borrowings from the Federal Reserve Bank (“FRB”) discount window.

The Subsidiary Banks have Blanket Floating Lien Agreements with the FHLB. Under these agreements, the Subsidiary Banks have pledged certain 1-4 family first mortgage loans, commercial real estate loans, home equity lines of credit and second mortgage residential loans. The Subsidiary Banks’ individual borrowing limits range from 20 to 25 percent of assets. In aggregate, the Subsidiary Banks had secured borrowing capacity of approximately $122.9 million of which $31.7 million was advanced at December 31, 2009. These credit arrangements serve as a core funding source as well as liquidity backup for the Subsidiary Banks. The Subsidiary Banks also have conditional federal funds borrowing lines available from correspondent banks that management believes can provide up to $15 million of funding needs for 30-60 days. The Subsidiary Banks have been approved to access the FRB discount window to borrow on a secured basis at 25 basis points over the Federal Funds Target Rate. The amount of credit available is subject to the amounts and types of collateral available when borrowings are requested. The Subsidiary Banks were approved by the FRB under the borrower-in-custody of collateral (“BIC”) arrangement. This temporary liquidity arrangement allows collateral to be maintained at the Subsidiary Banks rather than being delivered to the FRB or a third-party custodian. At December 31, 2009, the Company had secured borrowing capacity of $83.8 million with the FRB and $10.0 million outstanding.

A continuing objective of interest rate sensitivity management is to maintain appropriate levels of variable rate assets, including variable rate loans and shorter maturity investments, relative to interest rate sensitive liabilities, in order to control potential negative impacts upon earnings due to changes in interest rates. Interest rate sensitivity management requires analyses and actions that take into consideration volumes of assets and liabilities repricing and the timing and magnitude of their price changes to determine the effect upon net interest income. The Company utilizes hedging strategies to reduce interest rate risk as noted below.

The Company's cash flow, maturity and repricing gap at December 31, 2009 was $53 million at one year, or 5.5 percent of total interest-earning assets. At December 31, 2008 the gap at one year was $29 million, or 3.1 percent of total interest-earning assets. Interest-earning assets with maturities over five years totaled approximately $48 million, or 5.0 percent of total interest-earning assets. See Table 8 for cash flow, maturity and repricing gap. The gap position between one and five years is of less concern because management has time to respond to changing financial conditions and interest rates with actions that reduce the impact of the longer-term gap positions on net interest income. However, interest-earning assets with maturities and/or repricing dates over five years may include significant rate risk and market value of equity concerns in the event of significant interest rate increases.

The Company is asset-sensitive within one year. The increased level of nonaccrual loans and other noninterest-earning assets has negatively impacted net interest income and the net interest margin.

The Company has implemented various strategies to reduce its asset-sensitive position, primarily through the increased use of fixed rate loans, interest rate floors on variable rate loans, short maturity funding sources and hedging strategies such as interest rate floors, collars and swaps. These actions have reduced the Company's exposure to falling interest rates. In the first quarter of 2009, the Company terminated a $15 million interest rate collar position for net proceeds of $512,000. In April 2009, the Company terminated a $25 million interest rate collar position for net proceeds of $787,000. In 2008, the Company terminated $50 million of interest rate swap positions for net proceeds of $2,369,000. The Company also terminated $35 million of an interest rate floor for net proceeds of $856,000. The amounts in other comprehensive income related to the terminated transactions will be reclassified into earnings over the remaining lives of the original hedged transactions.

Management monitors interest rate risk quarterly using rate-sensitivity forecasting models and other balance sheet analytical reports. If and when projected interest rate risk exposures are outside of policy tolerances or desired positions, specific strategies to return interest rate risk exposures to desired levels are developed by management, approved by the Asset-Liability Committee and reported to the Board.

Off-Balance Sheet Arrangements

In order to meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risks in the normal course of business. At December 31, 2009, the Company had unfunded commitments to extend credit of $87.5 million and outstanding standby letters of credit of $2.2 million. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Management does not anticipate that funding obligations arising from these financial instruments will adversely impact its ability to fund future loan growth or deposit withdrawals.

Forward Looking Statements

This MD & A and other Company communications and statements may contain "forward-looking statements." These forward-looking statements may include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and which may change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from what is contemplated in those forward-looking statements:

* The strength of the United States economy in general and the strength of the local economies in which we conduct operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio and allowance for loan losses;
* The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;
* Inflation, interest rate, market and monetary fluctuations;
* Adverse conditions in the stock market and other capital markets and the impact of those conditions on our capital markets and capital management activities, including our investment and wealth management advisory businesses;
* Changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which the Company is perceived in such markets;
* The effects of harsh weather conditions, including hurricanes;
* Changes in U.S. foreign or military policy;
* The timely development of competitive new products and services by us and the acceptance of those products and services by new and existing customers;
* The willingness of customers to accept third-party products marketed by us;
* The willingness of customers to substitute competitors' products and services for our products and services and vice versa;
* The impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
* Technological changes;
* Changes in consumer spending and saving habits;
* The effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
* The growth and profitability of our noninterest or fee income being less than expected;
* Unanticipated regulatory or judicial proceedings;
* The impact of changes in accounting policies by the SEC or the Financial Accounting Standards Board;
* The limited trading activity or our common stock;
* The effects of our lack of a diversified loan portfolio, including the risks of geographic concentrations;
* Adverse changes in the financial performance and/or condition of our borrowers, which could impact the repayment of those borrowers' outstanding loans; and
* Our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not exhaustive. Also, we do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf except as may be required by our disclosure obligations in filings we make with the SEC under federal securities laws.

Table 8 - Cash Flow/Maturity Gap and Repricing Data

The following is the cash flow/maturity and repricing data for the Company as of December 31, 2009:

($ in thousands)	Immediate	0 - 3 Months	3 - 12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
Interest-earning assets							
Investment securities	$ -	$ 6,783	$ 14,227	$ 36,992	$ 9,173	$ 19,421	$ 86,596
Federal funds sold	8,575	-	-	-	-	-	8,575
Interest-bearing deposits	11,895	80	255	477	-	-	12,707
Loans - fixed rates	-	105,542	146,450	161,623	47,484	28,359	489,458
Loans - variable rates	-	346,063	9,110	3,970	2,027	713	361,883
Total interest-earning assets	20,470	458,468	170,042	203,062	58,684	48,493	959,219
Interest-bearing liabilities							
NOW and savings **	-	8,022	16,045	40,113	48,136	48,136	160,452
Money market accounts **	-	93,181	55,565	31,751	47,627	-	228,124
Time deposits	-	134,409	235,344	29,711	13,815	157	413,436
Short-term borrowings	39,553	-	-	-	-	-	39,553
Other borrowings	-	1,000	3,000	11,988	-	-	15,988
FHLB advances - long-term	-	-	-	2,016	3,511	10,137	15,664
Subordinated debt	-	10,310	-	-	-	-	10,310
Total interest-bearing liabilities	39,553	246,922	309,954	115,579	113,089	58,430	883,527
GAP-Excess assets (liabilities)	(19,083)	211,546	(139,912)	87,483	(54,405)	(9,937)	75,692
GAP-Cumulative	$ (19,083)	$ 192,463	$ 52,551	$ 140,034	$ 85,629	$ 75,692	$ 75,692
Cumulative sensitivity ratio *	0.52	1.67	1.09	1.20	1.10	1.09	1.09

* Cumulative interest-earning assets / cumulative interest-bearing liabilities

** Repricing of NOW, savings and local money market accounts based on estimated percentages of market interest rate changes.

Note – At December 31, 2009 the Company had unfunded loan commitments and unfunded lines of credit totaling $87.5 million. The Company believes the likelihood of these commitments either being totally funded or funded at the same time is low. However, should a significant funding requirement occur, the Company has available borrowing capacity from the FHLB of $91 million. Additionally, further sources of funding include FRB advances, brokered time deposits and certain other non-local deposits.

Table 9 - Average Balance Sheet and Rate/Volume Analysis - 2009 and 2008

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the rate paid thereon during 2009 and 2008.

Average Balance		Average Rate			Taxable-Equivalent Interest (b)		Vari-	(a) Variance Attributable to	
2009	2008	2009	2008		2009	2008	ance	Rate	Volume
($ in thousands)		(%)			($ in thousands)			($ in thousands)	
				Assets					
$ 5,963	$ 7,033	0.75	2.11	Interest-bearing deposits	$ 45	$ 149	$ (104)	$ (96)	$ (8)
77,844	60,136	4.20	4.98	Investments - taxable	3,273	3,002	271	(469)	740
3,438	1,883	4.94	5.46	Investments - non-taxable	170	103	67	(10)	77
7,339	6,805	0.25	1.95	Federal funds sold	18	133	(115)	(116)	1
-	765	-	7.82	Loans held for sale	-	60	(60)	-	(60)
841,033	821,673	5.60	6.47	Loans (c)	47,089	53,267	(6,178)	(7,149)	971
935,617	898,295	5.41	6.30	Total interest-earning assets	50,595	56,714	(6,119)	(7,995)	1,876
82,853	61,965			Noninterest-earning assets					
$1,018,470	$960,260			Total assets					
				Liabilities and equity					
				Deposits					
$123,715	$120,661	0.46	1.15	NOW accounts	572	1,396	(824)	(833)	9
16,071	15,488	0.65	0.88	Savings accounts	104	137	(33)	(36)	3
131,402	128,826	1.74	2.38	Money market accounts	2,281	3,079	(798)	(824)	26
86,044	68,464	1.48	2.66	MMA - institutional	1,272	1,827	(555)	(808)	253
157,923	147,576	3.32	4.52	CDs, $100M or more	5,239	6,685	(1,446)	(1,771)	325
117,120	85,790	2.01	3.49	CDs, broker	2,356	2,998	(642)	(1,270)	628
145,488	134,240	3.18	4.25	Other time deposits	4,630	5,720	(1,090)	(1,436)	346
777,763	701,045	2.12	3.11	Total interest-bearing deposits	16,454	21,842	(5,388)	(6,940)	1,152
47,675	67,979	2.39	2.44	Short-term/other borrowings	1,140	1,661	(521)	(34)	(487)
13,982	10,264	2.16	2.86	FHLB advances – long-term	302	294	8	(72)	80
10,310	10,310	3.51	6.21	Subordinated debt	362	642	(280)	(278)	(2)
849,730	789,598	2.15	3.09	Total interest-bearing liabilities	18,258	24,439	(6,181)	(7,422)	1,241
82,406	83,678			Noninterest-bearing deposits					
6,530	7,986			Other liabilities					
79,804	78,998			Shareholders' equity					
$1,018,470	$960,260			Liabilities and equity					
		3.26	3.21	Interest rate spread					
		3.46	3.58	Net interest margin					
				Net interest income	$ 32,337	$ 33,27	$ 62	$ (573	$ 63
$ 85,887	$108,697			Net earning assets					
$860,169	$784,723			Average deposits					
		1.91	2.78	Average cost of deposits					
98%	105%			Average loan to deposit ratio					

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.
(b) The taxable equivalent adjustment of $32 in 2009 and in 2008 results from tax exempt income less non-deductible TEFRA interest expense.
(c) Average nonaccruing loans have been excluded from total average loans and included in noninterest-earning assets.

Table 10 - Average Balance Sheet and Rate/Volume Analysis - 2008 and 2007

The following table presents average balances of the Company and the Subsidiary Banks on a consolidated basis, the taxable-equivalent interest earned and the rate paid thereon during 2008 and 2007.

Average Balance		Average Rate			Taxable-Equivalent Interest (b)		Vari-	(a) Variance Attributable to	
2008	2007	2008	2007		2008	2007	ance	Rate	Volume
($ in thousands)		(%)			($ in thousands)			($ in thousands)	
				Assets					
$ 7,033	$ 6,958	2.11	4.97	Interest-bearing deposits	$ 149	$ 346	$ (197)	$ (200)	$ 3
60,136	56,851	4.98	5.01	Investments - taxable	3,002	2,848	154	(17)	171
1,883	2,059	5.46	7.33	Investments - non-taxable	103	151	(48)	(39)	(9)
6,805	9,243	1.95	5.11	Federal funds sold	133	472	(339)	(293)	(46)
765	1,299	7.82	7.54	Loans held for sale	60	98	(38)	4	(42)
821,673	754,490	6.47	7.89	Loans (c)	53,267	59,499	(6,232)	(10,743)	4,511
898,295	830,900	6.30	7.63	Total interest-earning assets	56,714	63,414	(6,700)	(11,081)	4,381
61,965	38,126			Noninterest-earning assets					
$960,260	$869,026			Total assets					
				Liabilities and equity					
				Deposits					
$120,661	$114,053	1.15	2.00	NOW accounts	1,396	2,279	(883)	(972)	89
15,488	17,831	0.88	0.99	Savings accounts	137	176	(39)	(20)	(19)
128,826	120,898	2.38	4.43	Money market accounts	3,079	5,355	(2,276)	(2,485)	209
68,464	46,989	2.66	3.85	MMA - institutional	1,827	1,809	18	(561)	579
147,576	131,553	4.52	5.35	CDs, $100M or more	6,685	7,020	(335)	(1,082)	747
85,790	74,234	3.49	4.83	CDs, broker	2,998	3,605	(607)	(1,020)	413
134,240	122,752	4.25	5.03	Other time deposits	5,720	6,171	(451)	(960)	509
701,045	628,310	3.11	4.20	Total interest-bearing deposits	21,842	26,415	(4,573)	(6,867)	2,294
67,979	52,796	2.44	4.95	Short-term/other borrowings	1,661	2,612	(951)	(1,329)	378
10,264	7,833	2.86	5.27	FHLB advances – long-term	294	413	(119)	(189)	70
10,310	10,310	6.21	8.17	Subordinated debt	642	842	(200)	(203)	3
789,598	699,249	3.09	4.33	Total interest-bearing liabilities	24,439	30,282	(5,843)	(8,694)	2,851
83,678	91,367			Noninterest-bearing deposits					
7,986	6,894			Other liabilities					
78,998	71,516			Shareholders' equity					
$960,260	$869,026			Liabilities and equity					
		3.21	3.30	Interest rate spread					
		3.58	3.99	Net interest margin					
				Net interest income	$33,275	$33,132	$ (857)	$(2,387)	$1,530
$108,697	$131,651			Net earning assets					
$784,723	$719,677			Average deposits					
		2.78	3.67	Average cost of deposits					
105%	105%			Average loan to deposit ratio					

(a) This table shows the changes in interest income and interest expense for the comparative periods based on either changes in average volume or changes in average rates for interest-earning assets and interest-bearing liabilities. Changes which are not solely due to rate changes or solely due to volume changes are attributed to volume.
(b) The taxable equivalent adjustment of $32 in 2008 and $156 in 2007 results from tax exempt income less non-deductible TEFRA interest expense.
(c) Average nonaccruing loans have been excluded from total average loans and included in noninterest-earning assets.

Exhibit 21

Subsidiaries of Registrant

Name	State of Incorporation
The Savannah Bank, National Association	United States (National Charter)
Bryan Bank & Trust	Georgia
Minis & Co, Inc.	Georgia
SAVB Holdings, LLC	Georgia
Nonconsolidated subsidiaries:	
SAVB Properties, LLC	Georgia
SAVB Capital Trust 1	Delaware
SAVB Capital Trust 2	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-163210), Form S-3 (No. 333-146547) and Form S-8 (No. 333-69175) of The Savannah Bancorp, Inc. of our report dated March 15, 2010, relating to the consolidated financial statements as of December 31, 2009 and for the three years then ended, which appear in the Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia
March 15, 2010

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John C. Helmken II, certify that:

1. I have reviewed this annual report on Form 10-K of The Savannah Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2010 *`/s/ John C. Helmken II`*

John C. Helmken II
President and Chief Executive Officer

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael W. Harden, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of The Savannah Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2010 *<u>/s/ Michael W. Harden, Jr.</u>*
Michael W. Harden, Jr.
Chief Financial Officer

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

We certify, pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2009 (the "Report") of The Savannah Bancorp, Inc. (the "Company") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: *3/16/10*

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

Date: *3/16/10*

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