FLAG FINANCIAL CORP
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2002

OR

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

For the Transition Period from _____ to ______

Commission file number 0-24532

FLAG FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

P.O. Box 3007 LaGrange, Georgia	30241
(Address of principal executive offices)	(Zip Code)

(706) 845-5000

(Telephone Number)

Indicate by check mark whether the registrant has (1) 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 [ ]

Common stock, par value $1 per share: 8,392,445 shares
Outstanding as of August 6, 2002

FLAG Financial Corporation and Subsidiaries

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Part I. Financial Information
Item 1. Financial Statements
FLAG Financial Corporation and Subsidiaries
Consolidated Balance Sheets

	June 30, 2002	De
ASSETS	(UNAUDITED)	

Cash and due from banks	$ 13,991,856
Federal funds sold	479,000
Total cash and cash equivalents	14,470,856
Interest-bearing deposits	--
Investment securities available-for-sale	124,513,166
Other investments	6,148,798
Mortgage loans held-for-sale	5,491,417
Loans, net	348,863,329
Premises and equipment, net	13,760,004
Interest receivable	3,934,318
Other assets	20,318,293
Total assets	$ 537,500,181
LIABILITIES	
Non interest-bearing deposits	$ 37,785,842
Interest-bearing demand deposits	126,466,847
Savings	25,576,785
Time	223,469,329
Total deposits	413,298,803
Federal funds purchased and repurchase agreements	8,558,670
Other borrowings	--
Advances from Federal Home Loan Bank	47,000,000
Accrued interest payable and other liabilities	9,474,746
Total liabilities	478,332,219
STOCKHOLDERS' EQUITY	
Preferred stock (10,000,000 shares authorized, none issued and outstanding)	--
Common stock ($1 par value, 20,000,000 shares authorized 9,629,406 and 8,277,995 shares issued in 2002 and 2001, respectively	9,629,406
Additional paid-in capital	23,417,860
Retained earnings	33,334,947
Accumulated other comprehensive income	2,253,259
Less: Treasury stock at cost; 1,236,961 shares at June 30,2002, 908,001 shares at December 31, 2001 and 383,556 shares at June 30, 2001, respectively	(9,467,510)
Total stockholders' equity	59,167,962
Total liabilities and stockholders' equity	$ 537,500,181

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

	(UNAU	
	Three Months Ended June 30,	
	2002	2001
Interest Income		
Interest and fees on loans	$ 7,303,073	9,574,7
Interest on securities	1,780,966	1,702,9
Interest on federal funds sold and interest-bearing deposits	31,913	272,5
Total interest income	9,115,952	11,550,3
Interest Expense		
Interest on deposits:		
Demand	461,320	625,8
Savings	55,513	91,3
Time	2,152,776	3,994,9
Interest on other borrowings	211,941	503,1
Total interest expense	2,881,550	5,215,3
Net interest income before provision for loan losses	6,234,402	6,334,9
Provision for Loan Losses	150,000	252,0
Net interest income after provision for loan losses	6,084,402	6,082,9
Other Income		
Fees and service charges on deposit accounts	795,260	781,2
Mortgage banking activities	767,704	456,5
Insurance commissions and brokerage fees	118,675	161,7
Other income	151,727	278,5
Total other income	1,833,366	1,678,0
Other Expenses		
Salaries and employee benefits	3,740,347	3,446,0
Occupancy	817,520	935,3
Professional fees	315,069	305,0
Postage, printing and supplies	235,962	292,1
Amortization of intangibles	129,204	124,3
Communications and data	512,128	522,2
Other operating	618,326	841,3
Total other expenses	6,368,556	6,466,5
Earnings (loss) before provision for income taxes and extraordinary item	1,549,212	1,294,5
Provision for income taxes	326,957	322,6
Earnings (loss) before extraordinary item	1,222,255	971,8
Extraordinary item - loss on redemption of debt, net of income tax benefit of $101,377 in 2002	--	
Net earnings (loss)	$ 1,222,255	971,8
Basic earnings (loss) per share before extraordinary item	$ 0.15	$ 0.

Extraordinary item	--	-
Basic earnings (loss) per share	0.15	0.
Diluted earnings (loss) per share before extraordinary item	$ 0.14	$ 0.
Extraordinary item	--	
Diluted earnings (loss) per share	0.14	0.

See Accompanying Notes to Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

	Three Months End June 30, 2002	2
Net earnings (loss)	$ 1,222,255	$ 9
Other comprehensive income, net of tax:		
Unrealized gains on investment securities available-for-sale:		
Unrealized gains arising during the period, net of tax of $617,886, $137,653, $484,405 and $962,085, respectively	997,004	2
Plus: Reclassification adjustment for losses included in net earnings (loss) , net of tax of $6,819 and $4,240, respectively .	11,126	
Unrealized gain (loss) on cash flow hedges, net of tax of $45,837, $222,614, $91,674 and $298,614 respectively	(74,787)	3
Other comprehensive income	933,343	5
Comprehensive income (loss)	$ 2,041,056	$ 1,5

See Accompanying Notes to Consolidated Financial Statements

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Consolidated Statements of Cash Flows

	2
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss) earnings	$ (4,
Adjustment to reconcile net (loss) earnings to net cash used in operating activities:	
Depreciation, amortization and accretion	1,
Provision for loan losses	4,
Loss on sale of available-for-sale securities	
Gain on sales of loans	(
Loss (gain)on sale of other real estate	
Change in:	
Mortgage loans-held-for sale	1,
Other	(6,
Net cash used in operating activities	(4,
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net change in interest-bearing deposits	
Proceeds from sales and maturities of investment securities available-for-sale	45,
Purchases of investment securities available-for-sale	(37,
Purchases of other investments	(
Net change in loans	15,
Proceeds from sale of other real estate	1,
Proceeds from sale of premises and equipment	
Purchases of premises and equipment	(1,
Purchases of cash surrender value life insurance	
Net cash provided by (used in) investing activities	23,
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net change in deposits	(27,
Change in federal funds purchased and repurchase agreements	(9,
Change in other borrowed funds	(5,
Proceeds from FHLB advances	35,
Payments of FHLB advances	(27,
Purchase of treasury stock	(3,
Proceeds from issuance of stock	11,
Proceeds from exercise of stock options	
Proceeds from issuance of warrants	1,
Cash dividends paid	(
Net cash (used in) provided by financing activities	(24,
Net change in cash and cash equivalents	(5,
Cash and cash equivalents at beginning of period	20,
Cash and cash equivalents at end of period	$ 14,

See Accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

The accompanying consolidated financial statements have not been audited. The results of operations are not necessarily indicative of the results of operations for the full year or any other interim periods.

The accounting principles followed by FLAG Financial Corporation ("FLAG") and its bank subsidiary and the methods of applying these principles conform with accounting principles generally accepted in the United States of America and with general practices within the banking industry. Certain principles, which significantly affect the determination of financial position, results of operations, and cash flows are summarized below and in FLAG's annual report on Form 10-K for the year ended December 31, 2001.

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of FLAG and its wholly owned subsidiary, FLAG Bank (Vienna, Georgia). All significant inter-company accounts and transactions have been eliminated in consolidation.

The consolidated financial information furnished herein represents all adjustments that are, in the opinion of management, necessary to present a fair statement of the results of operations, and financial position for the periods covered herein and are normal and recurring in nature. For further information, refer to the consolidated financial statements and footnotes included in FLAG's annual report on Form 10-K for the year ended December 31, 2001.

Note 2. Earnings Per Share

Net earnings (loss) per common share are based on the weighted average number of common shares outstanding during each period. The calculation of basic and diluted earnings (loss) per share is as follows:

	Three Months Ended June 30,		Six
	2002	2001	2002
Basic earnings (loss) per share:			
Net earnings (loss)	$1,222,255	971,881	(4,894,2
Weighted average common shares outstanding	8,260,185	7,973,448	8,006,6
Per share amount	$ 0.15	0.12	(0.
Diluted earnings (loss) per share:			
Net earnings (loss)	$1,222,255	971,881	(4,894,2
Effect of dilutive securities - stock options	283,508	21,788	23,8
Diluted earnings (loss) per share	$ 0.14	0.12	(0.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following is a discussion of our financial condition as of June 30, 2002 compared to December 31, 2001 and the results of our operations for the quarter and six months ended June 30, 2002 compared to the quarter and six months ended June 30, 2001. These comments should be read in conjunction with our consolidated financial statements and accompanying footnotes appearing in this report. This report contains "forward-looking statements" relating to, without limitation, future economic performance, plans and objectives of management for future operations, and projections of revenues and other financial items that are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. The words "expect", "estimate", "anticipate", and "believe", as well as similar expressions, are intended to identify forward-looking statements. Our actual results may differ materially from the results discussed in the forward-looking statements, and our operating performance each quarter is subject to various risks and uncertainties. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

(1) the strength of the U.S. economy in general and the strength of the local economies in which operations are conducted;
(2) 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;
(3) inflation, interest rate, market and monetary fluctuations;
(4) the timely development of and acceptance of new products and services and perceived overall value of these products and services by users;
(5) changes in consumer spending, borrowing and saving habits;
(6) technological changes;
(7) acquisitions;
(8) the ability to increase market share and control expenses;
(9) the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiary must comply;
(10) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board;
(11) changes in the Company's organization, compensation and benefit plans;
(12) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; and
(13) the Company's success at managing the risks involved in the foregoing.

Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made to reflect the occurrence of unanticipated events.

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

Financial Condition

Overview
The Company experienced a reduction in earning assets and funding during the first six months of 2002. Most of the reductions were the result of decisions made by management in an effort to improve the net interest margin and/or credit quality.

Assets and Funding
Total assets were $537.5 million at June 30, 2002, a decrease of $32.7 million or 5.7% from December 31, 2001. This decrease in total assets was mainly attributable to a reduction in net loans outstanding of approximately $20.1 million, a reduction in investment securities of approximately $7.0 million and a reduction in cash and cash equivalents of approximately $5.6 million. A significant portion of the reduction in loans outstanding was the result of the Company's decision to return lower yielding loan participations to the originating bank and refocus the Company's efforts on loan growth in existing local markets. The reduction in investment securities of $7.0 million was largely the result of expected calls and contractual maturities, while the reduction in cash and equivalents was the result of improved management of lower earning assets.

Interest-bearing deposits decreased $16.5 million compared to December 31, 2001, while non-interest bearing deposits decreased $10.8 million over the same period. The decrease in non-interest bearing deposits in the first six months of 2002 was mainly attributed to a seasonal reduction resulting from traditionally high balances at year end. Funding from non-deposit sources decreased $6.9 million to $55.6 million at June 30, 2002, made possible by the reduction in loans and investment securities. The decrease in interest bearing funding was partially the result of FLAG's margin management where the company has begun to focus efforts on lower cost funding as opposed to traditionally higher costing time deposits. Time deposits have decreased to $223.5 million at June 30, 2002, a decrease of 9.8% from December 31, 2001.

Liquidity and Capital Resources
The Company maintains borrowing lines with various other financial institutions including the Federal Home Loan Bank. At June 30, 2002, the Company had total borrowing agreements of approximately $ 101 million of which approximately $55.5 million was advanced.

The Company's Board of Directors approved a 1,300,000 share private placement during the first quarter of 2002. At June 30, 2002, 1,272,000 shares and 1,272,000 warrants had been sold for $12.9 million. All shares and warrants purchased or subscribed through the private placement were with the Company's management or employees.

The funds provided from the private placement contributed to an increase of 9.5% in stockholders' equity to $59.2 million over December 31, 2001 levels. The increase provided by the private placement funds was partially offset by the net loss of $4.9 million and an increase in treasury stock of $3.0 million. Stockholders' equity as a percentage of total assets was 11.0% at June 30, 2002 versus 9.5% at December 31, 2001.

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

Results of Operations

Overview of six month period ending June 30,2002.

Net loss for the six month period ending June 30,2002 was $4.9 million or $0.61 per share compared to net income of $2,241,000 or $0.28 per share for the first six months of 2001. The net loss in 2002 includes an after tax restucting charge of $3,380,000, a one-time after tax provision for loan losses of $2,483,000, and an after tax extraordinary charge of $165,000 related to the prepayment of a portion of the Company's Federal Home Loan Bank borrowings.

Net interest income for the six months ending June 30,2002 was $11.4 million, a decrease of $1.3 million or 10.3% from the same period in 2001. This decrease is a combination of a 23% decrease in interest income to $17.9 million and a 39% decrease in interest expense to $6.5 million. Although FLAG's balance sheet has contracted over the year in queston, these decreases in interest income and interest expence are mostly the result of a lower interest rate environment that started in the second half of 2001.

Non-interest income for six month period ending June 30, 2002 decreased 4.0% to $3.4 million when compared to the six months ending June 30, 2001. While income from mortgage activities remained flat for the period, FLAG experienced a decrease in fees and service charges on deposit accounts of $289,000 or 14.7%. This decrease was mainly attributed to FLAG's decision to sell two branches in December 2001 with approximately $37 million in deposits.

Excluding the one-time charges mentioned above, FLAG had $13.0 million in non-interest expences for the six month period ending June 30, 2002, an increase of $316,000 or 2.5% over the comparable period in 2001. On a recurring basis excluding one time charges for these periods, salaries and benefits increased by $456,000 to $7.5 million, professional fees increased $199,000 to $560,000. These increases were partially offset by decreases in occupancy of $303,000 to $1.5 million.

Results of operations for quarter ending June 30, 2002

Net income for the quarter ended June 30, 2002 was $1,222,000 or $0.14 per diluted share, an increase of 26% compared to net income of $972,000 or $.012 per share for the same period in 2001. Net interest income for the quarter ending June 30, 2002 decreased approximately $101,000 or 1.6% over the comparable quarter in 2001. For these periods, net interest margin increased to 5.21% from 5.12%.

Interest income for the second quarter of 2002 was $9.1 million, a decrease of $2.4 million or 21.1% over the same quarter in 2001. The majority of this decrease is attributable to the decrease in interest and fees on loans from $9.6 million to $7.3 million, a decrease of 24%. FLAG's yield on loans decreased during the second quarter of 2002 to 8.41% from 10.32% in the second quarter of 2001. This decrease is attributable to the low rate environment that began during 2001. Average loans outstanding during the second quarter of 2002 were $347.3 million, a decrease of $23.9 million or 6.4% compared to the comparable quarter a year ago. This decrease in average loans outstanding is largely the result of the Company's decision to return lower yielding loan participations to the originating bank and refocus the Company's efforts on loan growth in existing local markets. At June 30, 2002, gross loans accounted for 67.4% of total assets and approximately 73.4% of interest earning assets. This compares with June 30, 2001 ratios of 66.1% and 73.2%, respectively.

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

Interest income on investment securities increased by $78,000 during the quarter ending June 30, 2002 to $1.8 million when compared to the same quarter in 2001. The yield on the investment portfolio decreased from 7.22% to 5.47% over this period, due largely to the low interest rate environment. The decrease in yield on the portfolio was offset by an increase in average investment securities. For the quarters ended June 30, 2002 and 2001, FLAG had average investment securities of $130.3 million and $94.4 million, respectively.

FLAG aggressively manages earning assets in order to maintain a balanced combination of credit and market risk, as well as yield. In the current rate environment, FLAG has attempted to maintain a very low level of federal funds sold, relying on borrowing lines with other financial institutions, including but not limited to the FHLB. During the second quarter of 2002, FLAG was successful in averaging approximately $5.6 million of federal funds sold and interest bearing deposits with other banks, compared to $18.3 million during the second quarter of 2001. Federal funds sold and interest bearing deposits with other banks averaged 1.2% and 3.7% of total interest earning assets for the quarters ending June 30, 2002 and 2001, respectively.

FLAG uses customer deposits and borrowings from other financial institutions as its two primary sources to fund increases in interest earning assets. Total funding for FLAG at June 30, 2002 was $468.9 million with an overall cost for the quarter of 2.50%, compared to $483.9 million, costing 4.32% in the comparable quarter of 2001. The decreases in cost and balances resulted in a savings of $2.3 million or 44.7% for the quarter, and allowed FLAG to offset nearly all of the decrease in interest income.

Interest expense on customer deposits for the second quarter decreased by $2.0 million to $2.7 million when compared to the quarter ended June 30, 2001. This 43% decrease was mainly attributable to aggressive repricing efforts on all elements of FLAG's deposit base. Interest bearing demand deposits averaged $125.1 million with a cost of 1.48% for the quarter ending June 30, 2002 compared to $107.0 million costing 2.35% for the comparable quarter of 2001. Time deposits averaged $227.4 million and $269.2 million with costs of 3.79% and 5.95% for the second quarter of 2002 and 2001, respectively.

Interest expense on other borrowings consists of interest on FHLB advances and federal funds purchased. For the second quarter of 2002, interest expense on other borrowings was approximately $212,000 compared to $503,000 for the same quarter in 2001. This decrease of 58% is the result of the early repayment and refinance of fixed FHLB advances in recent quarters. This refinancing allowed FLAG to reduce the overall cost on other borrowings to 2.01% for the second quarter of 2002 compared to 6.17% a year ago.

Non-Interest Income and Expense
Non-interest income grew 9.25% during the second quarter of 2002 compared to the same period in 2001. Although deposits decreased 8.7% as the result of our divestiture of two offices, service charges on deposits increased 1.8% to $795,000 from $781,000. Income from mortgage banking activities (origination fees, gain on sale of loans and service release premiums) grew $311,000 to $768,000 in the second quarter of 2002, mostly the result of very favorable

interest rates on home mortgages. Non-interest income as a percent of total revenue grew to 23.2%, up from the 2001 level of 21.6%.

Non-interest expenses decreased during the quarter ended June 30, 2002 to $6.4 million from $6.5 million in the same quarter of 2001. This 1.5% decrease includes a $118,000 decrease in occupancy expense, a $223,000 decrease in other operating expense and a $294,000 increase in salaries and benefits. There was very little impact in the second quarter of FLAG's recently announced restructuring including, but not limited to, the closing of five banking locations and a 20% reduction of its workforce. The majority of the savings from these actions is expected during the fourth quarter of 2002.

Income Taxes

Income tax expense for the quarter ending June 30, 2002 was $327,000 compared to $323,000 for the same quarter in 2001. FLAG's effective tax rate for the quarter ended June 30, 2002 was 21% compared to 25% for the quarter ended June 30, 2001.

Loans

FLAG engages in a full complement of lending activities, including real estate-related, commercial and financial loans and consumer installment loans. FLAG generally concentrates lending efforts on real estate related loans. As of June 30, 2002, FLAG's loan portfolio consisted of 81.9% real estate-related loans, 12.9% commercial and financial loans, and 5.2% consumer installment loans. While risk of loss is primarily tied to the credit quality of the various borrowers, risk of loss may also increase due to factors beyond the FLAG's control, such as local, regional and/or national economic downturns. General conditions in the real estate market may also impact the relative risk in the real estate portfolio. Of the target areas of lending activities, commercial and financial loans are generally considered to have a greater risk of loss than real estate loans or consumer installment loans.

Loans are stated at unpaid balances, net of unearned income and deferred loan fees. Balances within the major loans receivable categories are represented in the following table:

	June 30, 2002	December 31, 2001	June 30, 2001
Commercial/financial/agricultural	$ 46,032	79,722	61,622
Real estate construction	75,380	65,052	57,165
Real estate - mortgage	51,062	47,180	45,752
Real estate - other	165,597	166,568	185,797
Installment loans to individuals	18,455	17,793	23,830
Total loans	356,526	376,315	374,166
less:			
Allowance for loan losses	7,662	7,348	6,647
Total net loans	$348,864	368,967	367,519

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

Provision and Allowance for Possible Loan and Lease Losses

FLAG maintains an allowance for loan losses appropriate for the quality of the loan portfolio and sufficient to meet anticipated future loan losses. FLAG utilizes a comprehensive loan review and risk identification process and the analysis of FLAG's financial trends to determine the adequacy of the allowance. Many factors are considered when evaluating the allowance. The analysis is based on historical loss trends; trends in criticized and classified loans in the portfolio; trends in past due and non-accrual loans; trends in portfolio volume, composition, maturity, and concentrations; changes in local and regional economic market conditions; the accuracy of the loan review and risk identification system, and the experience, ability, and depth of lending personnel and management.

Management evaluates the allowance on a quarterly basis. Through this evaluation, the appropriate provision for loan losses is determined by considering the current allowance level, actual loan losses and loan recoveries.

The provision for loan losses for the second quarter of 2002 was $150,000 versus $252,000 for comparable period in 2001. The allowance for loan and lease losses at June 30, 2002 was $7.7 million compared to $7.3 million at December 31, 2001. The ratio of the allowance for loan losses to outstanding loans at June 30, 2002 and December 31, 2001 was 2.15% and 1.95%, respectively.

The following table summarizes the changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off by loan category, and additions to the allowance which have been charged to operations in the Company's consolidated statements of operations.

	June 30, 2002	June 30, 2001
Balance of allowance for loan losses at beginning of period	$7,348	6,592
Provision charged to operating expense	4,204	504
Charge offs:		
Commercial	574	112
Construction		
Real estate - mortgage	338	335
Real estate - other	3,116	45
Consumer	273	183
Total charge-offs	4,301	675
Recoveries:		
Commercial	77	77
Construction	1	
Real estate - mortgage	11	3

Real estate - other	269	132
Consumer	53	14
Total recoveries	411	226
Net charge-offs	3,890	449
Balance of allowance for loan losses at end of period	$7,662	6,647

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

Non-Performing Assets

Non-performing assets (non-accrual loans, real estate owned and repossessions) totaled approximately $11.5 million at June 30, 2002 compared to $18.9 million at December 31, 2001 and $9.4 million at June 30, 2001. These levels as a percentage of loans outstanding represented 3.29%, 5.14% and 2.55%, respectively.

FLAG has a loan review function that continually monitors selected accruing loans for which general economic conditions or changes within a particular industry could cause the borrowers financial difficulties. The loan review function also identifies loans with high degrees of credit or other risks. The focus of loan review is to maintain a low level of non-performing assets and return current non-performing assets to earning status.

Non-performing assets	June 30, 2002	December 31, 2001	June 30, 2001
Loans on nonaccrual	$10,470	17,122	7,066
Loans past due 90 days and still accruing	46	594	1,049
Other real estate owned	950	1,231	1,240
Total non-performing assets	$11,466	18,947	9,355
Total non-performing loans as a percentage of net loans	3.29%	5.14%	2.55%

Capital

At June 30, 2002, FLAG and its bank were in compliance with various regulatory capital requirements administered by Federal and State banking agencies. The following is a table representing the Company's consolidated Tier-1 Capital, Tangible Capital, and Risk-Based Capital:

	June 30, 2002					
	Actual Amount	%	Required Amount	%	Excess Amount	%
Tier 1 Capital	$50,608	9.62%	$21,046	4.00%	$29,562	5.62%
Tangible Capital	$50,608	9.62%	$ 7,892	1.50%	$42,716	8.12%
Risk-Based Capital	$56,533	13.49%	$33,532	8.00%	$23,001	5.49%

Part 2. Other Information
FLAG Financial Corporation and Subsidiaries

PART II. Other Information

Item 1. Legal Proceedings

Walter Terry Branyan and Robert Tommy Gilder III. Terry Branyan was a borrower from the Company, borrowing $1,271,324.54 in three separate promissory notes on March 17, 1999. Terry Branyan's obligation was guaranteed by Walter Branyan for $300,000 and Tommy Gilder for $1,000,000. Terry Branyan defaulted on his obligation, and the Company initiated suit to collect against all three. Walter Branyan has settled his portion of the guaranty. Default judgment was entered against Terry Branyan on January 3, 2001. Mr. Gilder answered the complaint and counterclaimed against the Company for breach of fiduciary duty in connection with his guaranty. The Company and Mr. Gilder have reached a settlement agreement that is favorable to the Company.

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

Item 2. Changes in Securities

The Company issued the following numbers of shares of common stock and warrants at the prices and on the dates indicated to members of its senior management team in a private placement under Rule 506 of the Securities Act of 1933 as amended. The warrants were purchased at a price of $1.00 per warrant, are immediately exercisable in full and have a ten-year term.

Date Issued	No. of Shares	No. of Warrants	Stock Purchase Price/ Warrant Exercise Price
02/19/02	996,000	996,000	9.10
03/05/02	6,000	6,000	9.90
03/22/02	30,000	30,000	9.10

03/27/02	6,000	6,000	9.10
03/29/02	6,000	6,000	9.51
04/01/02	30,000	30,000	9.69
04/05/02	6,000	6,000	9.94
04/08/02	24,000	24,000	9.56
05/14/02	12,000	12,000	9.53
05/22/02	28,500	28,500	10.10
06/05/02	66,000	66,000	9.53
06/17/02	6,000	6,000	10.00
06/24/02	19,500	19,500	10.10

Item 3. Defaults upon Senior Securities - None

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

(a) The 2002 Annual Meeting of Shareholders was held on May 28, 2002

(b) Election of Directors

The following are the results of the votes cast by shareholders present at the 2002 annual meeting of Shareholders, by proxy or in person, for the following directors to serve until the 2005 Annual Meeting of Shareholders:

	For	Withhold
Stephen W. Doughty	6,237,786	49,517
James W. Johnson	6,237,786	49,517

(c) Ratifying the appointment of Porter Keadle Moore LLP, as independent accountants of the Company for the fiscal year ending December 31, 2002.

The shareholders voted 6,268,648 shares in the affirmative, 17,475 shares in the negative, with 1,180 shares abstaining for the ratification and appointment of Porter Keadle Moore LLP as independent accountants for the Company for the fiscal year ending December 31, 2002.

Item 5. Other Information

Pursuant to Rule 14a-14(c)(1) promulgated under the Securities Exchange Act of 1934, as amended, shareholders desiring to present a proposal for consideration at the Company's 2003 Annual Meeting of Shareholders must notify the Company in writing to the Secretary of the Company, at Eagle's Landing, 235 Corporate Center Drive, Stockbridge, Georgia 30281 of the contents of such proposal no later than December 15, 2002 to be included in the 2003 Proxy Materials. A shareholder must notify the Company before January 15, 2003 of a proposal for the 2003 Annual Meeting that the shareholder intends to present other than by inclusion in the Company's proxy material. If the Company does not receive such notice prior to January 15, 2003, proxies solicited by the management of the Company will confer discretionary authority upon the management of the Company to vote upon any such matter.

Other Information
FLAG Financial Corporation and Subsidiaries

Item 6. Exhibits and Report on Form 8-K

(a) Exhibits

99.1 Certification by Chief Executive Officer and Chief Financial Officer.

(b) Reports on Form 8-K

Reports on Form 8-K filed during the Second Quarter of 2002:

None

Reports on Form 8-K filed from Second Quarter End 2002 to Present:

None.

FLAG Financial Corporation and Subsidiaries

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

FLAG Financial Corporation

By: /s/ Joseph W Evans

Joseph W. Evans
(Chief Executive Officer)

Date: 8/12/02

By: /s/ J. Daniel Speight, Jr.

J. Daniel Speight, Jr.
(Chief Financial Officer)

Date: 8/12/02