



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank South
Charter Number 16258**

**423 West 12th Street
Alma, GA 31510**

**Comptroller of the Currency
North Florida Field Office
8375 Dix Ellis Trail, Suite 403
Jacksonville, FL 32256**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank South's performance rating is supported by the following:

- The loan-to-deposit ratio exceeds satisfactory performance given the bank's size, financial condition, and the credit needs within the community;
- The majority of loans and other lending activities are in the bank's assessment area and,
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

As of April 7, 2003, the First National Bank South (FNB South) was a \$215 million retail banking institution headquartered in Alma, Georgia. The bank services the credit and deposit needs of its customers from its main branch located at 423 West 12th Street in Alma, Georgia and branches at 198 West Parker Street in Baxley, Georgia and 914 South Peterson in Douglas, Georgia. All facilities offer full service banking, including drive-up and ATM services. The bank is 100% owned by First Bankshares of the South East, Inc., a one bank, \$217 million holding company located at 423 West 12th Street in Alma, Georgia. FNB South's primary lending focus is commercial and real estate lending. There are no known financial or legal impediments that would hinder the bank from meeting the credit needs of its assessment area.

FNB South offers a wide variety of financial products including commercial loans, residential mortgage loans, agricultural loans, consumer loans and deposit accounts. As of December 31, 2002, net loans of \$176.7 million comprised 82% of assets. The composition of the loan portfolio includes commercial/commercial real estate, \$85 million or 48%; residential real estate, \$39.9 million or 23%; agricultural lending, \$29.5 million or 17%, consumer lending, \$19.6 million or 11%, and loans to political subdivisions, \$2.7 million or 1%.

The bank's last CRA Public Evaluation was dated July 27, 1998 and the rating was "Satisfactory." This evaluation covers the period of August 1998 to April 2003.

DESCRIPTION OF BACON COUNTY, APPLING COUNTY AND COFFEE COUNTY

FNB South designates the geographic boundaries of Bacon, Appling and Coffee Counties in Georgia as its assessment area. The city of Alma is Bacon County's only incorporated municipality. Appling County has three incorporated municipalities, Baxley, Graham and Surrency. Coffee County has four incorporated municipalities, Ambrose, Broxton, Douglas and Nicholls. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. All three counties are located in a Non-

Metropolitan Statistical Area (NMSA). The 2002 Housing and Urban Development estimate of the NMSA median family income for Georgia was \$42,200. Based on this figure, low-income, defined as less than 50% of median family income, would be less than \$21,100. Moderate-income, more than 50% but less than 80% of median family income would range between \$21,100 and \$33,759. Middle-income, more than 80% but less than 120% of median family income, would range between \$33,760 and \$50,640, and upper-income, more than 120%, would be greater than \$50,640.

Bacon County is located in southeast Georgia approximately 30 miles north of Waycross, Georgia and 120 miles northwest of Jacksonville, Florida. The estimated 2001 population for the county was 9,993. The average 2002 unemployment rate was 5.6% compared to the state of Georgia average of 4.5%. According to the U.S. Census Bureau, in 1990, 31% of households in Bacon County receive Social Security and 11% are retired. Additionally, 89% of housing units in those areas were occupied with 66% being owner-occupied. Major industries in the county include manufacturing and retail trade. Major employers include D. L. Lee and Sons, Milliken, Inc., Satilla Rural Electric Company, and Fleetwood Homes, Inc. According to the 1990 Census, Bacon County has two Block Numbering Areas (BNA's), and both are designated middle-income. In the county, 30% of families were considered low-income, 16% moderate-income, 20% middle-income, and 34% were considered upper-income families.

Appling County is adjacent to and north of Bacon County. The estimated 2001 population for the county was 17,472. The average 2002 unemployment rate was 8.3% compared to the state of Georgia average of 4.5%. According to the 1990 Census, 29% of households receive Social Security and 14% are retired. The area's housing units were 88% occupied with 67% being owner-occupied. Major industries in the county include manufacturing and government. The largest employers include Edwin I. Hatch Plant, Rayonier, and the Appling County School System. According to the same Census, Appling County has five BNA's, all of which are designated middle-income. In the county, 22% of families were considered low-income, 16% moderate-income, 25% middle-income and 37% were considered upper-income.

Coffee County is located adjacent to and west of Bacon County. The estimated 2001 population for the county was 37,815. The average 2002 unemployment rate was 4.6% compared to the state of Georgia average of 4.5%. According to the 1990 Census, 27% of households in Coffee County receive Social Security and 9% are retired. Additionally, 91% of housing units in those areas were occupied while 66% were owner-occupied. Major industries in the Coffee County area include manufacturing and retail trade. The largest employers are Wal-Mart Distribution Center, Gold Kist, Inc., PCC Airfoils, Tecumseh Products Company and Fleetwood Homes, Inc. In Coffee County, there are eight BNA's. One is designated moderate-income, six are designated middle-income and one is designated upper-income. Also in Coffee County, 25% of families are considered low-income, 18% moderate-income, 21% middle-income and 36% are considered upper-income.

The following table highlights the demographic composition of Coffee County.

Type of income BNA	Number of BNA	Percentage of Total Number of BNAs	Number of Households in BNAs	Percentage of Households in BNAs
Low (less than \$21,100)	0	0%	0	0%
Moderate (\$21,100 to \$33,759)	1	12.5%	883	8.4%
Middle (\$33,760 to \$50,640)	6	75%	8,532	81.2%
Upper (greater than \$50,640)	1	12.5%	1,092	10.4%

All of these county figures are based on published demographic information.

The banking industry in the assessment area is competitive. SunTrust Bank and Southtrust Bank of Georgia represent multinational and regional banks. They, along with community banks such as Peoples State Bank and Trust, Colony Bank Southeast, Citizens Security Bank, Alma Exchange Bank, local credit unions and savings and loan associations, afford community residents several alternatives for meeting their particular banking needs. As part of our examination, we met with a representative from the community regarding local economic conditions and community credit needs. Based on information provided by a representative from the Baxley-Applying County Chamber of Commerce and Industrial Authority, the primary lending needs in the area are centered in small business and industrial loans. Our contact indicates that area financial institutions are positively perceived for their involvement in the local community and that the area's banking needs are being adequately met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio – Exceeds the Standard for Satisfactory Performance

The bank's loan-to-deposit ratio is satisfactory based on its size and assessment of area credit needs. The average net loan-to-deposit ratio was 95% using quarter-end information from September 30, 1998 to December 31, 2002. The bank's ratio was compared to five other institutions of similar size and structure in the assessment area whose ratios averaged 87% during the same time period. As of April 7, 2003, FNB South's loan-to-deposit ratio was 96%.

Lending in Assessment Area - Meets the Standard for Satisfactory Performance

A majority of the bank's lending is within its defined assessment area (AA). An analysis of a sample of 22 commercial loans originated by the bank between September 1998 and April 2003 found that 20 loans were originated within the bank's AA as detailed below.

Commercial Lending in the Assessment Area					
	# of Loans in Sample	%	\$ of Loans (000)	%	
Inside AA	20	90	3,174	93	
Outside AA	2	10	241	7	
Totals	22	100	3,415	100	

In addition, because the bank also focuses on residential real estate lending and agricultural lending, we performed an analysis of the distribution of those types of loans originated between September 1998 and December 2002. The results of the analysis are as follows.

Residential Real Estate Lending in the Assessment Area					
	# of Loans in Sample	%	\$ of Loans (000)	%	
Inside AA	21	96	1,126	98	
Outside AA	1	4	26	2	
Totals	22	100	1,152	100	

Agricultural Lending in the Assessment Area					
	# of Loans in Sample	%	\$ of Loans (000)	%	
Inside AA	20	90	4,296	93	
Outside AA	2	10	50	7	
Totals	22	100	4,346	100	

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Meets the Standard for Satisfactory Performance

The dispersion of loans to borrowers of different income levels and businesses of different sizes is satisfactory. We sampled a total of 21 residential real estate loans originated since September 1998, to assess the income levels of borrowers. As the following tables indicate, FNB South's lending to borrowers of low- and moderate-income levels is satisfactory in view of the demographics of the assessment area. Approximately 57% of the number of loans and 17% of the dollar volume of loans were granted to low- and moderate-income borrowers. Distribution at other income levels is considered reasonable.

Distribution of Residential Loans by Borrower Income Level in Assessment Area				
Income Level	% Families in Assessment Area	% of Loans by Number	% of Loans by Dollar	Average Loan (\$000)
Low	25%	33%	17%	26
Moderate	18%	24%	10%	23
Middle	21%	19%	19%	54
Upper	36%	24%	54%	122
Total	100%	100%	100%	

The bank's lending volume regarding loans to small businesses is satisfactory. This type of lending was determined to be a credit need in the community as per our community contact. We chose a sample of 20 business loans originated within the bank's assessment area. Of that number, 17 loans, or 85%, were made to businesses having annual revenues of less than \$1 million.

Total Annual Revenue	Percentage of Total Business Loans Sampled		
	Number of loans	Dollar Volume	% Business in Assessment Area
<\$1 million (Small Business)	85%	72%	63%
>\$1 million (Large Business)	15%	28%	5%

The bank's lending volume regarding loans to small farms is satisfactory. We chose a sample of

20 farm loans originated within the bank's assessment area. Of that number, 18 loans, or 90%, were made to farms having annual revenues of less than \$1 million.

Total Annual Revenue	Percentage of Total Farm Loans Sampled		
	Number of loans	Dollar Volume	% Farms in Assessment Area
<\$1 million (Small Farm)	90%	28%	92%
>\$1 million (Large Farm)	10%	72%	6%

Geographic Distribution of Loans

Based on our sample, there appears to be reasonable distribution of lending within the assessment area. The bank does not perform this type of geographic analysis internally.

Responses to Complaints

FNB South has not received any written complaints concerning its performance in helping to meet the credit needs within its assessment area during the period of April 1998 to April 2003.

Fair Lending Review

An analysis of 1999 through 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on this analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998.