



Intermediate Small Bank

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 13, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank South
Charter Number 16258

423 West 12th Street
Alma, GA 31510

Office of the Comptroller of the Currency

North Florida Field Office
8375 Dix Ellis Trail, Suite 403
Jacksonville, FL 32256-8273

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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The Lending Test is rated Outstanding

The Community Development Test is rated Outstanding

The major factors to support this rating include:

- *First National Bank South's (FNB South) quarterly average loan-to-deposit (LTD) ratio is more than reasonable and exceeds peer group averages.*
- *A majority of business loans originated by FNB South over the evaluation period was within its AA.*
- *FNB South's lending activities show excellent penetration among businesses of different sizes given its performance context.*
- *Community development performance demonstrates an excellent responsiveness to the community development needs of the bank's AAs.*

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses First National Bank South's (FNB South) record of meeting the credit needs of the communities in which it operates. We evaluated the bank as an Intermediate Small Bank using the Community Reinvestment Act (CRA) procedures which includes a lending test and a community development test. The bank's lending performance is evaluated using the small bank lending test. The community development test evaluates a bank's community development lending, investments and service activities.

Based on both the number and dollar amount of loan originations provided by the bank for the time period of January 1, 2009 through May 31, 2011, the primary loan product was business originations, accounting for 1523 (78% of total) in number and \$157 million (77%) in dollar volume. As such, our evaluation of the bank's lending performance will reflect only one loan product, business loans, as this was more representative of its lending strategy during the evaluation period. Our conclusions were based on an analysis of a sample of business loans originated during the evaluation period.

Loan Originations for the time period of 1/1/09 through 5/31/11		
Loan Type	Number of originations	Percentage (%)
Commercial/CRE	1523	78.00%
Agriculture	323	16.5%
Home Mortgages	111	5.5%
Total originations	1,957	100%

To evaluate the bank's performance under the community development test, we reviewed

qualified loans, investments and service activities during the evaluation period of August 20, 2008 through June 13, 2011.

DESCRIPTION OF INSTITUTION

FNB South is an intrastate bank wholly-owned by First Bank Shares of the South East, Inc, a \$329 million one-bank holding company headquartered in Alma, Georgia. The bank was established on May 1, 1951 under the name of Citizens State Bank and converted to a national charter on January 2, 1974. The name was changed to FNB South on January 1, 2001.

FNB South's main office is located in Alma (Bacon County), Georgia. The bank has three other offices in Georgia which are located in Baxley (Appling County), Douglas (Coffee County) and Folkston (Charlton County). The bank offers many services to its customers including drive-up facilities and onsite automated teller machines (ATM) at all locations, debit card services and free 24-hour internet and telephone banking. Customers are not charged for transactions conducted at any bank-owned ATM. FNB South also provides low-to-no cost checking to consumers and businesses. These products are considered responsive to small businesses and to low- and moderate-income individuals.

FNB South provides a variety of lending programs, but generally, its primary focus has been in commercial lending, which represents \$154 million, or 56% of the total loan portfolio. Agriculture loans are not a primary loan product for the bank due to a very large lending cooperative in the AA, who is a member of the Farm Credit System and specializes in agricultural lending. This institution has two offices located in the bank's AA and offers very competitive interest rates and terms to meet the credit needs of farmers in the area. The composition of the loan portfolio as of March 31, 2011 is charted below, and is based on total loans of \$275 million.

Composition of the Loan Portfolio as of 3/31/11		
Loan Type	Dollar Amount (000)	Percentage (%)
Consumer	\$18,652	7.0%
Commercial/CRE	\$154,163	56.0%
Home Mortgages	\$54,536	20.0%
Agriculture	\$47,208	17.0%

FNB South is also a qualified U.S. Small Business Administration (SBA) lender, which allows the bank to address the lending needs of small businesses throughout the bank's AA. During the evaluation period, the bank originated ten SBA loans totaling \$8,267,333. FNB South's business strategy for the past couple of years has been focused on expanding SBA lending in the AA, which is evidenced by the recent originations. Six of the ten SBA loans were originated in 2010 and the first quarter of 2011.

As of March 31, 2011, the bank had total assets of \$327 million, with net loans comprising 84% of total assets, or \$275 million, and the Tier 1 Leverage Ratio was 10.58%. The bank does have legal impediments that would prevent the bank from meeting the credit needs of the communities it serves. The bank's ability to lend has been impacted by the terms of a recent agreement with

our agency. In addition, as with most cities located in Georgia, the economy in the AA has been significantly impacted by the downturn in the economy. FNB South’s ability and opportunity to lend, especially to low- and moderate-income borrowers, as well as to small businesses, has been impacted by the weak economy. The bank received a “Satisfactory” rating at the last CRA examination dated August 19, 2008.

DESCRIPTION OF ASSESSMENT AREA

FULL-SCOPE ASSESSMENT AREA

FNB South has two AAs encompassing four counties located in Southeast Georgia. FNB South designates the geographic boundaries of Appling, Bacon and Coffee Counties as one AA and Charlton County as another AA. All four counties are located in a nonmetropolitan area in the State of Georgia and, therefore, designated the same median income as a comparator. As such, we combined the two AAs into one for analysis purposes.

FNB South’s AAs	
County	City/Town
Appling	Baxley, Graham and Surrency
Bacon	Alma, Rockingham and Sessoms
Charlton	Folkston, Homeland, Moniac, Race Pond, Saint George and Winokur
Coffee	Ambrose, Broxton, Bushnell, Douglas, Lax, Mora, Nicholls, Pridgen, Upton and West Green

The AA consists of 17 middle-income census tracts. In addition, the entire AA is located in agency-designated distressed nonmetropolitan middle-income census tracts. All census tracts in the AA received this designation based on the high poverty rate level. In addition to the high poverty rate, Coffee County also received this designation for a high unemployment rate as well.

The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific 2000 and 2010 demographic and economic data for the assessment area are detailed on the following page.

Demographic and Economic Characteristics of the Assessment Area			
Population			
Total Persons			
Number of Households	75,217		
Median Family Income (MFI) for the nonmetropolitan areas of Georgia	27,125 \$46,400	Geographies	
<i>Based on MFI:</i>		Number of Census Tracts	17
Low-income individuals earn:	<\$23,200	% Low-Income Census Tracts (16)	0.00%
Moderate- income individuals earn:	\$23,200- \$37,119	% Moderate-Income Census Tracts (95)	0.00%
		% Middle-Income Census Tracts (188)	100.00%
		% Upper-Income Census Tracts (135)	0.00%
Income Distribution		Businesses	
Number of Families	20,138	Number of non-farm businesses located in the AA	6,476
Families residing in the AA by income category		% of Small Businesses located in the AA	80.00%
% Low-Income Families	24.04%	% of Large Businesses	2.00%
% Moderate-Income Families	18.30%	% of Business with no revenues reported	18.00%
% Middle-Income Families	21.05%		
% Upper-Income Families	36.61%		
<i>Source: 2000 Census, 2010 HUD updated income data and 2010 Dunn and Bradstreet data</i>			

According to 2000 U.S. Census Bureau economic data, the assessment area has a total population of 75,217. Approximately 11% of the population is over the age of 65 and 20.38% of households live below the poverty level. There are 6,476 non-farm businesses located throughout the AA, which includes 1,154 businesses that did not report annual revenues. Small non-farm businesses make up 80%, or 5,166, of the total in the AA.

Description of Appling County: FNB South has one office located in the city of Baxley, the county seat of Appling County. Appling County is adjacent to, and north of, Bacon County, 42 miles east of Douglas, Georgia and 47 miles north of Waycross, Georgia. The 2010 population was estimated at 18,141, an increase of 4.21% from the 2000 census estimated population of 17,408. The county has experienced job losses, and a record number of delinquencies and foreclosures. According to the U.S. Department of Labor, Bureau of Labor Statistics, as of May 31, 2011, and the unemployment rate (not seasonally adjusted) for Appling County was 11.1%, which is well above the state's unemployment rate of 9.8% and the 9.1% national rate. The largest employer in the area is the Edwin I. Hatch nuclear plant. Rayonier (sawmill operations) is also a large employer in the area. Large industries include utilities, followed by the health care and social assistance sectors.

According to FDIC deposit market share data as of June 30, 2010, there were four other financial institutions operating in the county to include Peoples State Bank & Trust, Community Bank of Georgia, SunTrust Bank and Heritage Bank of the South. The FDIC report shows FNB South as having the largest deposit market share in the county.

Description of Bacon County: FNB South's main office is located in the city of Alma, the

county seat of Bacon County. Bacon County is located in Southeast Georgia, 30 miles north of Waycross, Georgia. The 2010 population was estimated at 10,520, an increase of 3.93% from the 2000 census estimated population of 10,122. The county has experienced job losses, and a record number of delinquencies and foreclosures. According to the U.S. Department of Labor, Bureau of Labor Statistics, as of May 31, 2011, and the unemployment rate (not seasonally adjusted) for Bacon County was 9.7%, which is in line with the state's unemployment rate of 9.8%, and slightly higher than the 9.1% national rate. The largest employers in the area are Bacon County Hospital and Health System, D.L. Lee and Sons, Fleetwood Homes of Georgia, Milliken and Company and Richmond Baking Company. Large industries in the county include the manufacturing, service and retail sectors. The county also supports a large blueberry industry.

According to FDIC deposit market share data as of June 30, 2010, there was one other financial institution operating in the county, Alma Exchange Bank & Trust. The FDIC report shows FNB South as having the largest deposit market share in the county.

Description of Charlton County: FNB South has one office located in the city of Folkston, the county seat of Charlton County. Charlton County is the most southern county in Georgia and also borders the Florida State line. It is located south of the other counties in the AA. The 2010 population was estimated at 10,028, a decrease of 2.36% from the 2000 census estimated population reported of 10,270. The county has experienced job losses, and a record number of delinquencies and foreclosures. According to the U.S. Department of Labor, Bureau of Labor Statistics, as of May 31, 2011 the unemployment rate (not seasonally adjusted) for Charlton County was 11.7%, which is much higher than the state's unemployment rate of 9.8% and the 9.1% national rate. The largest employers in the area are AJM Packaging Corporation, B.H.A./G.E. Energies, Big John Trailers, Charlton County Commissioners and Charlton County School System. Large industries include the administrative support, waste management, remediation and health care and social assistance sectors.

According to FDIC deposit market share data as of June 30, 2010, there was one other financial institution operating in the county, Southeastern Bank with 58.31% of the market share in Charlton County.

Description of Coffee County: FNB South has an office located in the city of Douglas, the county seat of Coffee County. Coffee County is located in south-central Georgia, and is adjacent to and west of Bacon County. The 2010 population was estimated at 41,165, an increase of 9.58% from the 2000 census estimated population of 37,566. The county has experienced job losses, and a record number of delinquencies and foreclosures. According to the U.S. Department of Labor, Bureau of Labor Statistics, as of May 31, 2011, the unemployment rate (not seasonally adjusted) for Coffee County was 14.9%, which is significantly higher than the State of Georgia's unemployment rate of 9.8% and the national rate of 9.1%. The largest employers in the area are Wal-Mart (distribution center, logistics and the local retail store), American Insulated Wire and Fleetwood Mobile Homes Corporation. Large industries include the health care and social assistance and manufacturing sectors.

According to FDIC deposit market share data as of June 30, 2010, there were nine other financial institutions operating 17 offices in Coffee County. The FDIC report shows FNB South as having

the largest deposit market share in the county.

Competition for financial services within the bank's AA is intense. According to the FDIC deposit market share data as of June 30, 2010, there were a combined 14 financial institutions operating in 27 offices within the four counties in the AA. Major bank competitors include SunTrust Bank, Douglas National Bank, First National Bank of Coffee County, Colony Bank, Southeastern Bank and Alma Exchange Bank & Trust.

Our office recently met with a locally-based community organization to gain a better understanding of the most pressing credit needs within the bank's AA. The primary community credit need in communities located within the AA centers on providing loans to businesses with the purpose of improving the economic and environmental climate in rural communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is rated "Outstanding".

Loan-to-Deposit Ratio

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

FNB South's quarterly average loan-to-deposit (LTD) ratio is more than reasonable and exceeds peer group averages. The average LTD was calculated and averaged for each quarter since the last CRA examination in August 2008. The peer group used for this analysis consists of all community banks located in bank's AA with total assets less than \$500 million. FNB South's quarterly average LTD ratio for the past 12 quarters was 94.52%, which exceeds the six peer banks' quarterly average LTD ratio of 84.38% for the same time period. The peer group includes only one bank that is considered somewhat similarly situated due to its asset size and an office is located in one of the bank's AAs. As such, a comparison based on the peer group is considered more meaningful. Further, a comparison of the two bank's quarterly LTD ratio for the past 12 quarters, FNB South's LTD ratio of 94.52% far exceeds the similarly situated bank's LTD ratio of 72.05%.

Lending in Assessment Area

- **Lending in Assessment Area - Meets the Standard for Satisfactory Performance**

A majority of business loans originated by FNB South over the evaluation period was within its AA. This conclusion is based on an analysis of a sample of 52 business loans for the period of January 1, 2009 through May 31, 2011. As detailed in the table below, approximately 77% by number, and 86% by dollar amount, of sampled loans were within FNB South's assessment area.

Lending in the Assessment Area

Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Commercial Loans	40	77.00%	12	23.00%	52	\$5,721	86.00%	\$913	14.00%	\$6,634

Source: Loan sample for business loans for the time of January 1, 2009 through May 31, 2011.

Lending to Borrowers of Different Incomes

- **Lending to Borrowers of Different Incomes - Exceeds the Standard for Satisfactory Performance**

FNB South's lending activities show excellent penetration among businesses of different sizes given its performance context. Our sample as noted above was based on the business loans made in the assessment area during the evaluation period.

The following charts depict a breakdown of these loans according to business and loan size.

Borrower Distribution to Businesses in the Assessment Area				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Revenue Unavailable	Total
% of AA Non-farm Businesses	80.00%	2.00%	18.00%	100.00%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100.00%
% of Bank Loans in AA by \$	89.00%	11.00%	0.00%	100.00%

Source: Loan sample for business loans for the time period of January 1, 2009 through May 31, 2011, and 2010 Dunn and Bradstreet data

As depicted in the table above, the percentage of loans to small businesses exceeds the percent of such businesses operating in the AA. Based on our sample, FNB South originated 90% of the total number of loans and 89% of the total dollar volume of loans to small businesses (those with total revenues of \$1 million or less). In comparison, businesses in the assessment area that reported revenues, 80%, or 5,166, are considered small businesses. A substantial majority of the loans originated in the AA had original amounts of \$100 thousand or less. During the evaluation period, FNB South originated 32 loans, or 80% of all AA business loans sampled originated with dollar amounts of \$100 thousand or less, an indicator the bank is meeting the needs of smaller businesses.

As discussed in the *Description of Institution*, FNB South is also a qualified SBA lender, thus allowing the bank to address the lending needs of small businesses in its AA. During the evaluation period, the bank originated a total of 10 SBA loans totaling \$8,267,333, which has been included in the lending and community development activity analysis as appropriate.

Geographic Distribution of Loans

There are no conspicuous gaps, and the AA does not arbitrarily exclude any low- or moderate-

income geographies. FNB South has no low-, moderate- and upper-income census tracts in the AA. All 17 tracts are middle-income. Therefore, an analysis of the geographic distribution of loans originated within its AA would not provide meaningful information. Further, all 17 census tracts in the AA have been designated as “distressed” nonmetropolitan middle-income geographies by the regulatory banking agencies mainly due to high rate of poverty identified in the counties comprising the AA.

Responses to Complaints

There were no CRA-related complaints received by the bank or our office during the period of review.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development Test is rated “Outstanding”.

The bank’s community development (CD) performance demonstrates excellent responsiveness to the needs of its AA through community development loans, qualified investments (QI) and community development services, considering the bank’s capacity and the need and availability of such opportunities for community development in the bank’s AA.

We reviewed information provided by FNB South for community development activities within the AA during the evaluation period. The information was reviewed to validate that the activities supported community development and were responsive to community needs.

Community Development Loans

Number of Loans	\$ Volume of Loans
8	\$12,633,175

FNB South has an excellent level of CD lending that showed responsiveness to community needs. CD lending for FNB South in the AA consists of three loans totaling \$7,516, 008, made to three businesses located in the AA, mainly to finance the building and necessary equipment and inventory for business operations. One of the three loans totaling \$953 thousand is also a SBA 504 loan made to a business that moved operations from another state and provided much needed skilled jobs in the AA. FNB South also made a loan in the amount of \$1,994,897 to provide funds for the start up of a new business that will service the local hospitals in the AA. As a result, more than 35 employees were hired to support operations. These three businesses are all located in agency-designated distressed middle-income nonmetropolitan tracts and have provided much needed jobs (102 in total) to Appling, Bacon and Charlton counties. Making loans to businesses with the purpose of improving the economic climate in rural communities

has been identified as a community credit need in the AA.

The bank originated five other CD loans to businesses located in counties adjacent to, or near the bank's AA; however, also benefit the bank's AA due to the close proximity of these counties to FNB South's offices. These 5 CD loans qualify as regional CD opportunities due to the limited lending opportunities in the AA. Regional CD lending for FNB South consists of financing affordable housing projects and the start-up of a new business. FNB South made four loans totaling \$4,079,666 to a builder to finance the development of 1-4 single family affordable homes in Glynn County, which is located a county away from the bank's Charlton County AA. These homes are also affiliated with the Federal Government's United States Department of Agriculture (USDA) Rural Development Home Loan Guarantee Program, an affordable housing program. The other CD loan (SBA 504) totaling \$1,037,500, was to finance a restaurant located in Wayne County, a distressed middle-income nonmetropolitan tract adjacent to the bank's AA. The newly opened restaurant provided 30 much needed jobs for the immediate and surrounding counties.

This level of loans equates to 36.57% of Tier 1 capital as of March 31, 2011.

Community Development Investments

Number of QI	\$ Volume of QI
4	\$6,193,028
5	\$5,600

FNB South has an excellent level of qualified investments given its size, capacity to provide such investments and investment opportunities in the AA. At this examination, FNB South made 5 grants totaling \$5,600 to organizations whose primary focus meets one of definitions of community development. These grants were made to community development organizations that provided services targeted to low- or moderate-income persons in the AA including food pantries, children homes and senior citizens nursing homes.

FNB South had four qualified state-wide investments totaling \$6,193,028. Of total investment dollars, 11 percent, or \$693 thousand, represent LIHTCs from the prior period. Due to the lack of opportunities for the rural communities in the bank's AA for these types of investments, the bank's current and prior period investments in Low Income Housing Tax Credits (LIHTCs) throughout the State of Georgia will be afforded positive consideration as investments in the AA. The housing provided through the LIHTC continues to provide affordable rental housing to low- and moderate-income residents mainly in counties north of the bank's AA.

These investments equate to 17.95 % of the bank's Tier 1 capital as of March 31, 2011.

Community Development Services

The extent to which the bank provides banking services and community development services is adequate given its size and capacity to provide such services. The bank has for the examination period served organizations that meet the definition of community development through the involvement of three officers. Two officers have served as Board members for three organizations. Each organization has a primary purpose of community development. These

organizations serve all of the counties in the AA with the exception of Appling County. One officer has provided financial education to two schools located in Bacon County that primarily provides education to low- and moderate- income students.

FNB South provides bank products that are considered responsive to low- and moderate-income individuals and small businesses. For example, the bank offers a no monthly service charge, \$100 minimum balance to open, personal checking account to those customers age 50 or older and to students until the age of 18 or full-time college students. Additionally, the bank offers a business checking account with a minimum opening deposit of \$100 and no monthly service charge if a \$2,500 balance is maintained. Otherwise a \$6 monthly maintenance fee + \$.25 /check are assessed if the balance falls below the minimum requirement. In addition, FNB South offers a deposit account with certain restrictions to those individuals who otherwise would have difficulty in opening such an account due to a poor credit rating. All bank offices are located in agency-designated distressed nonmetropolitan middle-income census tracts.