



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 10, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of The South
Charter Number: 23953

215 North Pine Street
Spartanburg, SC 29302-0000

Office of the Comptroller of the Currency

CAROLINAS (CHARLOTTE)
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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 Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Major factors supporting the institution's rating include:

- The bank originated less than a majority of residential real estate and small business loans within its four assessment areas. The bank's performance is reasonable in light of the level of competition in the assessment areas and the bank's business strategy.
- The loan-to-deposit ratio reflects a reasonable level of lending with a 91 percent ratio for the 22 quarters during the evaluation period.
- Lending to borrowers of different income levels is reasonable for HMDA loans and exceeds the standards for satisfactory performance for small business loans among businesses of different sizes. The geographic distribution of loans meets the standard for satisfactory performance.
- Community development activities demonstrate satisfactory responsiveness to the financial needs in the assessment areas. First National Bank of the South has adequately met the needs through community development loans and services, but not investments.

Scope of Examination

The evaluation covers the period from July 1, 2002 through December 31, 2007. This Performance Evaluation assesses First National Bank of the South's (FNBS) capacity to help meet the credit needs of the community in which it operates. We assessed the bank's performance under the Lending and Community Development Test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates the bank's community development lending, qualified investment, and community development service activities.

The primary loan products identified include commercial and residential real estate mortgages (home purchases and refinance). The evaluation did not include a review of consumer, agriculture, or multi-family loans as these loans products do not represent significant lending for the bank. The evaluation period for the Lending Test covers loans originated over a three year period between January 1, 2005 and December 31, 2007. We reviewed and analyzed residential real estate loans subject to filing under the Home Mortgage Disclosure Act (HMDA), except multi-family loans, for FNBS' performance under the lending test. The volume of multi-family loan originations was not enough to conduct a meaningful analysis.

For our analysis, we also randomly selected 74 commercial loans originated within the evaluation period.

The bank's lending strategy since the last Community Reinvestment Act (CRA) examination, for the time period of data reviewed, is representative of its lending throughout the evaluation period. Community development activities were evaluated from July 1, 2002 through February 29, 2008.

We contacted local community, governmental and economic development representatives in conjunction with this evaluation. We also reviewed three community contacts prepared by the OCC in the last year. These contacts assist us with our evaluation of the bank. The contacts indicated the following community development needs: affordable housing (purchase and rental); affordable housing financing; donations and operating grants to community development organizations; donation of land (home sites) for affordable housing development/construction; flexible financing for acquisition and rehabilitation of properties for low- to moderate-income families; flexible financing to community development organizations, and assistance in credit education for first time homebuyers including counseling classes.

Data Integrity

Prior to this review, we tested FNBS' loan information subject to the HMDA for accuracy. The test included an evaluation of the bank's processes to ensure the data was reliable. We found that the bank's data was reliable. We used the bank's data to perform our evaluation. We also verified community development loans, investments, and services submitted by management for consideration to ensure these items met the regulatory definition for community development. During the review, we excluded many items submitted by the bank for consideration as they did not meet the definition or purpose of community development.

Selection of Areas for Full-Scope Review

The Spartanburg County MSA (Spartanburg) assessment area received a full-scope review. We selected the Spartanburg assessment area due to its size and significance as part of the operations of the bank. The majority of the bank's lending activity (72%), branches (43%), and deposit base (87%) is in this assessment area. The Charleston MSA (Charleston) and Greenville MSA (Greenville) assessment areas received limited scope reviews. FNBS has a limited presence in these assessment areas in terms of time in operations, deposits, lending, and branches. The bank entered the Charleston market in October of 2005 and the Greenville market in March of 2006. There are two branches in the Charleston assessment area (28%) and two in the Greenville assessment area (28%). The Charleston deposit base is 9 percent of total deposits and lending activity is 12 percent. The Greenville deposit base is 4 percent and lending activity is 16 percent. Refer to the "Description of Institution" section of the disclosure for more information.

Ratings

The bank's overall rating is primarily based on the area that received a full-scope review. In evaluating the bank's lending performance, we placed more weight on small loans to businesses than on HMDA. Regarding individual HMDA products, home improvement loans received the least amount of weight. We did not consider the bank's performance in lending for home improvement products in Charleston or Greenville counties as the volume of originations was not large enough to conduct a meaningful analysis. However, an analysis of the bank's lending to businesses of different sizes for those counties is warranted as commercial lending is the bank's primary business focus and there were enough loans to sample for a meaningful analysis. The weighting is reflective of the bank's volume of various lending products during the evaluation period.

Description of Institution

FNBS is a \$589 million intrastate financial institution headquartered in Spartanburg, South Carolina (SC). The bank began transacting business on March 27, 2000 as First National Bank of Spartanburg. There are no operating affiliates and FNBS is owned by First National Bancshares, Inc. (FNBC), a one-bank holding company also located in Spartanburg, SC. During 2002, FNBC adopted a resolution changing the legal name of the Bank to First National Bank of the South. The Bank continues to do business in Spartanburg County as First National Bank of Spartanburg. FNBS operates seven full-service banking offices in three counties: Spartanburg, Charleston, and Greenville. Of the seven banking offices, three are located in Spartanburg County, two are in Charleston County, and two are in Greenville County. All of the branches are located in middle- or upper-income census tracts (CT).

FNBS opened its main banking office (CT 212.00) in March 2000 on North Pines Street in Spartanburg, SC, which is located in Spartanburg County. The bank opened two additional full service branches, Reidville Road (CT 219.02) and Boiling Springs Road (CT 224.02), also in Spartanburg on July 17, 2000 and August 24, 2001 (middle-income). On October 27, 2005, FNBS converted its loan production office that opened in October 2004 in Mount Pleasant, SC to its fourth full-service branch (CT 46.07), its first presence in Charleston County. On October 10, 2006, the bank opened its fifth full-service branch on 3453 Pelham Road in Greenville, SC (CT 2.00). This branch was a temporary location until the construction of the permanent branch was completed on 3401 Pelham Road in Greenville SC (CT 2.00). The permanent location opened on July 24, 2007. On April 23, 2007, FNBS opened its sixth full-service location at 140 East Bay Street in Charleston, SC (CT 46.07). The bank opened its seventh full-service branch on West Wade Hampton Blvd in Greenville, SC (CT 25.04). Each banking office has an automated teller machine (ATM) and drive-through facility. The bank also operates four remote ATM facilities, three in Spartanburg County and one in Charleston County. Two of the three remote ATMs in Spartanburg County are located in low-income CTs.

FNBS offers a variety of deposit and loan products for businesses and individuals, as

described in the CRA public file. Additional details about branch locations, products and services are available through the bank's website: <http://www.firstnational-online.com>. Primary lending focus includes commercial real estate, small business lending, and residential real estate. FNBS conducts business through three operating divisions: banking, small business lending, and wholesale mortgage lending. In addition to the seven banking offices, it operates three loan production offices that are located in Columbia, Daniel Island, and Rock Hill, SC. In addition to these services, FNBS offers trust and investment services to its customers through an alliance with Colonial Trust Company, which has offices in Spartanburg and Greenville.

FNBS operates the wholesale mortgage division and small business lending division, under the name of First National Business Capital, from the Greenville Loan Production Office. The bank opened the mortgage division on January 29, 2007, as an enhancement to its current banking operations. This division's customer base includes other community banks and mortgage brokers across the Southeast. The small business lending division, formed on March 15, 2004, originates small business loans through the Small Business Administration's (SBA) various loan programs. The SBA division makes loans to customers located throughout the Carolinas and Georgia.

As of December 31, 2007, loans totaled \$499 million and deposits equaled \$488 million.

Loans represent approximately 85 percent of total assets, consist of 33 percent commercial and commercial real estate, 37 percent construction, and land development, 27 percent 1-4 family residential, 1 percent consumer, and 1 percent other types of loans. There are no agricultural loans. There are no financial circumstances or legal impediments, other than legal lending limits, which would adversely impact the bank's ability to meet the credit needs of its assessment area. First National Bank of the South rating at its preceding CRA examination, dated November 18, 2002 was "Satisfactory".

Description of Assessment Areas

FNBS has three assessment areas that include all census tracts in Spartanburg, Charleston, and Greenville Counties (219 census tracts total). Spartanburg and Greenville are adjacent counties; Charleston County is not. Each county represent a different MSA and is not combinable for CRA analysis purposes. The bank's main office is located in the Spartanburg County assessment area. Of the 219 census tracts, 51 are located in Spartanburg County, which is in the Spartanburg, SC MSA (MSA #43900). There are 78 census tracts in the Charleston County assessment area, which is in the Charleston-North Charleston, SC MSA (MSA #16700). The remaining 90 census tracts are located in the Greenville County assessment area, which is in the Greenville, SC, MSA (MSA #24860). FNBS added Charleston and Greenville County to its assessment area in October 2005 and October 2006, respectively.

The bank's assessment areas are described in greater detail below. The assessment areas meet the legal requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. There are no natural boundaries within the assessment area that hinder accessibility.

Spartanburg County Assessment Area

Spartanburg County is located in the northwestern region of SC and it represents the Spartanburg, SC MSA. It is also part of the greater Greenville-Spartanburg-Anderson Combined Statistical Area (CSA). The city of Spartanburg is the county seat and the largest city in the assessment area. Spartanburg County is an internationally recognized business and cultural center. The city of Spartanburg has a 40-year history of attracting global firms to help diversify the economy, which is primarily rooted in agriculture and textiles. More than 100 international firms, representing around 15 countries, have moved into Spartanburg.

Spartanburg County experienced a considerable rise in population between 1990 and 2000, increasing 11.9 percent, according to the United States (U.S.) Census Bureau. The Census Bureau estimates the 2007 population at 275,534, which represents an 8.6 percent increase between 2000 and 2007. Approximately 20 percent of families reside within the low-income geography while 18 percent reside in the moderate-income tract, based on 2000 census data. FNBS offers three full-service offices in Spartanburg, which includes its main office. The main office and the Reidville branch are located in upper-income CTs while its Boiling Springs branch is in a middle-income CT.

Primary employment includes manufacturing, government, health, trade, retail, and general services. Spartanburg County's major employers include Spartanburg Regional Health Services (4,607 employees), BMW Manufacturing Corporation (4,415 employees), Spartanburg County School Districts (5,535 employees), SC State Government (2,387 employees), Cryovac Division-Sealed Air Corporation (1,152 employees), and Mary Black Health System (1,006 employees). *Source: Spartanburg County Economic Development Corporation, August 2007.*

The SC Employment Security Commission estimates unemployment for Spartanburg County at 6.4 percent for December 2007, with an annual average of 6 percent. The states unemployment rate is 6.4 percent, with an annual average of 5.9 percent. Refer to the table on the next page for further demographic and economic characteristics.

Demographic and Economic Characteristics of Spartanburg County Assessment Area	
Population	
Total Population	253,791
Number of Families	69,753
Number of Households	97,658
% Owner-occupied	65.8%
% Occupied Rentals	22.6%
% Vacant	8.7%
Geographies	
Number of Census Tracts	51
% Low-Income Census Tracts (6)	11.8%
% Moderate-Income Census Tracts (10)	19.6%
% Middle-Income Census Tracts (28)	54.9%
% Upper-Income Census Tracts (7)	13.7%
Median Family Income (MIF)	
2000 MFI for Assessment Area	\$45,339
2007 HUD Adjusted MFI for MSA	\$51,000
Economic Indicators	
Unemployment Rate	2.7%
2000 Median Housing Value	\$86,947
% Households Below Poverty Level	12.8%

Source: 2000 Census Data and HUD updated income data

Spartanburg County has a competitive financial services market. FNBS competes with community banks, national and regional banks, savings and loan associations and credit unions. It also competes with mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds. As of June 30, 2007, there were 15 other financial institutions with 76 offices in Spartanburg County. Competition includes larger financial institutions such as BB&T, Bank of America, Wachovia, SunTrust, and Carolina First Bank. As of June 30, 2007, FNBS ranks fourth in deposit market share with 11 percent of the assessment area's \$3.45 billion in deposits.

As part of the review, we got in touch with community contacts familiar with the area to assist in the examination. The contacts describe the area as currently having high unemployment coupled with lower paying jobs due to some decline in textile and manufacturing jobs. They did not consider Spartanburg as a depressed economy. The contacts identified affordable housing due to declining income levels; funding for construction or rehabilitation of houses for low-to-moderate families, volunteers to aid in the construction of Habitat for Humanity houses, flexible financing for CD organizations, and homebuyer and small business owner credit education including financing options, as needs for the county.

Charleston County Assessment Area

Charleston County is the third most populous county in South Carolina, located along the southeastern coast of the state. The county is located in the Charleston-North Charleston, SC MSA with Charleston as its county seat and the largest city in the MSA. The Charleston region is comprised of three counties (Berkeley, Charleston, and Dorchester) and twenty eight incorporated cities and towns. Berkeley, Charleston, and Dorchester counties comprise the Charleston-North Charleston SC MSA. Charleston County experienced an increase in population of 5 percent between 1990 and 2000, according to Census data. The Census Bureau estimates the 2007 population at 342,973, which is an 11 percent increase since 2000.

The Charleston-North Charleston economy continues to perform well, albeit moderately compared to the beginning of 2007. Based on 2000 census data, approximately 23 and 17 percent of families in the assessment area reside within the low- and moderate-income geographies, respectively. FNBS offers two full-service offices in the Charleston assessment area; both are located in upper-income CTs.

Primary employment includes manufacturing, government, health, trade, retail, and general services. According to the Charleston Metro Chamber of Commerce, the major employers for Charleston County include: Medical University of SC (10,000 employees), Charleston Air Force Base (5,600 employees), Charleston County School District (5,400 employees) MeadWestvaco (1,600 employees), and Verizon Wireless (1,050 employees). The SC Employment Security Commission estimates unemployment for Charleston County at 4.8 percent for December 31, 2007, with an annual average of 4.5 percent. The states unemployment rate is 6.4 percent, with an annual average of 5.9 percent. Refer to the table on the next page for further demographic and economic characteristics.

Demographic and Economic Characteristics of Charleston County Assessment Area	
Population	
Total Population	309,969
Number of Families	77,744
Number of Households	123,260
% Owner-occupied	53.4%
% Occupied Rentals	34.0%
% Vacant	12.6%
Geographies	
Number of Census Tracts	78
% Low-Income Census Tracts (6)	14.1%
% Moderate-Income Census Tracts (10)	26.9%
% Middle-Income Census Tracts (28)	29.5%
% Upper-Income Census Tracts (7)	29.5%
Median Family Income (MIF)	
2000 MFI for Assessment Area	\$46,784
2006 HUD Adjusted MFI for MSA	\$55,400
Economic Indicators	
Unemployment Rate	2.9%
2000 Median Housing Value	\$145,947
% Households Below Poverty Level	15.5%

Source: 2000 Census Data and HUD updated income data

Charleston County has a highly competitive financial services market. FNBS competes with community banks, national and regional banks, savings and loan associations and credit unions. It also competes with mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds. As of June 30, 2007, there were 24 other financial institutions with 128 offices in Charleston County. Competition includes larger financial institutions such as Wachovia, Bank of America, Branch Banking & Trust, Carolina First, and Regions Bank. As of June 30, 2007, FNBS ranks seventeenth in deposit market share with approximately 0.55 percent of the assessment area's \$7.1 billion in deposits.

According to community contacts, there continues to be a need for more affordable housing, but a major drawback in the Charleston market is the lack of available land to build affordable housing units. Habitat for Humanity has a need for land for construction of affordable housing and home sites for rehabilitation. There is also a need for flexible financing to acquire and rehabilitate properties as well as lines of credit so that community development organizations can execute various projects.

Greenville County Assessment Area

Greenville County is the largest county in South Carolina and located in the northwestern region of the state. The county is located in the Greenville, SC MSA with Greenville as its county seat and the largest city in the MSA. The Greenville SC MSA also includes Laurens and Pickens Counties. Greenville County includes the cities of Greer, Fountain Inn, Mauldin, and Simpsonville. FNBS offers two full-service offices in Greenville County. The Pelham Road office is located in an upper-income CT and the Greer office is in a middle-income CT.

Greenville County experienced strong population growth between 1990 and 2000, rising approximately 19 percent, according to Census data. The U.S. Census Bureau estimates the 2007 population at 482,243, which represents a 27 percent increase from the 2000 census. Based on 2000 census data, approximately 19 and 17 percent of families in the assessment area reside within the low and moderate income geographies, respectively. An interview was conducted with a community contact familiar with the area who described the economic condition as good.

Primary employment includes manufacturing, government, health, retail, and general services. Major employers include: Greenville Hospital System (7,792 employees), School District of Greenville County (7,207 employees), Michelin North America (4,085 employees), General Electric (2,600 employees), SC State Government (2,584 employees), Fluor Corporation (2,400 employees), and Bon Secours St. Francis Health System (2,132 employees) [*Source: GADC and SC Appalachian COG, November 2007*].

The SC Employment Security Commission estimates unemployment for Greenville County at 5.1 percent for December 2007, with an annual average of 4.9 percent. The states unemployment rate is 6.4 percent, with an annual average of 5.9 percent. Refer to the table on the next page for further demographic and economic characteristics.

Demographic and Economic Characteristics of Greenville County	
Population	
Total Population	379,616
Number of Families	102,676
Number of Households	149,681
% Owner-occupied	62.6%
% Occupied Rentals	29.2%
% Vacant	8.1%

Geographies	
Number of Census Tracts	90
% Low-Income Census Tracts (6)	5.6%
% Moderate-Income Census Tracts (10)	26.7%
% Middle-Income Census Tracts (28)	42.2%
% Upper-Income Census Tracts (7)	25.6%
Median Family Income (MIF)	
2000 MFI for Assessment Area	\$47,387
2006 HUD Adjusted MFI for MSA	\$52,900
Economic Indicators	
Unemployment Rate	2.4%
2000 Median Housing Value	\$108,078
% Households Below Poverty Level	10.6%

Source: 2000 Census Data and HUD updated income data

Greenville County has a highly competitive financial services market. FNBS competes with community and large national/regional banks, savings and loan associations, credit unions, finance companies, and mortgage banking firms. As of June 30, 2007, there were 28 other financial institutions with 155 offices in Greenville County. Competition includes Wachovia, Bank of America, Branch Banking & Trust, Carolina First, SunTrust, National Bank of SC, and Regions Bank. As of June 30, 2007, FNBS ranks twenty fifth in deposit market share with approximately 0.19 percent of the assessment area's \$11.7 billion in deposits. A community contact characterized the business environment as strong and in a period of growth, but also one that is in need of affordable housing for low-to-moderate income individuals and families. Financial needs include affordable housing, funding for the development of affordable housing, and funding for small start-up businesses. Housing needs include financial education and down payment of subsidies to help people qualify for home mortgages.

Conclusions with Respect to Performance Tests

FNBS' overall CRA performance is satisfactory. The Lending and Community Development Test is rated satisfactory. The LTD ratio and lending in the assessment area is reasonable, and the geographic distribution is satisfactory. Lending to businesses of different sizes is good and residential real estate lending to borrowers of different incomes is reasonable. Community development activities demonstrate adequate responsiveness to assessment area needs. FNBS has adequately met the needs through community development loans, and services. However, the bank's level of CD investments showed poor responsiveness to the CD needs of the assessment area (Qualified Investments).

LENDING TEST

Loan-to-Deposit Ratio

FNBS' loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. The bank's LTD ratio indicates a reasonable responsiveness to area credit needs, given its asset size, financial condition, local competition, and needs of its assessment areas.

The bank's average LTD ratio from September 30, 2002 to December 31, 2007 is 91.44 percent. The calculation incorporated 22 quarters, representing the period since the prior examination.

FNBS' LTD ratio has fluctuated since the prior examination from a high of 101.06 percent as of September 30, 2007 to a low of 75.72 percent as of December 31, 2002. The bank has experienced significant growth in both loans and deposits since the previous evaluation. The level of growth is reasonable given the bank opened for business in 2000. For comparison, the average and most recent LTD ratios of local competitors were also determined for the same time period. The following table shows these results.

Institution	Assets (000's) As of 12/31/07	Average LTD Ratio**	Recent LTD Ratio*
First National Bank of The South	\$589	91.44%	100.23%
Arthur State Bank	\$588	97.72%	101.93%
Community Firstbank of Charleston	\$509	111.12%	107.38%
First Reliance Bank	\$591	96.11%	107.21%
Southcoast Community Bank	\$480	106.33%	108.91%
Southern First Bank, N.A.	\$628	122.06%	121.33%
Tidelands Bank	\$511	96.21%	100.06%

*As of 12/31/2007 Call Report **From 9/30/2002 through 12/31/2007 from UBPR data

Lending in Assessment Area

FNBS' record of lending in its assessment area is reasonable in view of the bank's business strategy and strong level of competition in its markets. Less than a majority of home mortgage and commercial loans originated during the evaluation period were in the bank's three assessment areas. By count for HMDA loans, 46 percent are within the boundaries. The percentage is 44 percent by dollar amount. The bank's performance meets the standards for satisfactory performance.

The bank's expansion into secondary market lending activities, in January 2007, through its wholesale mortgage lending has impacted its performance within its assessment area. The bank's origination of these loans is primarily outside its traditional geographic market and results in a larger pool of loans outside its assessment area. Although this has an impact on the percentage of loans originated inside the assessment areas, it does not adversely impact the resources available for lending inside the bank's assessment area. We also recognize that the level of local competition is an important performance context factor that can often influence performance criteria including the inside/outside lending analysis.

Based on our loan sample, by count for business loans, 70 percent are within the boundaries. The percentage is 66 percent by dollar amount. Though the dollar volume of originations is lower in comparison to volume based on the number of loans, the distribution of business loans within the assessment area is reasonable. FNBS' performance is reasonable given the level of competition. Moreover, the majority of loans being granted are in the assessment area.

For this analysis, more weight was placed on the percentage of business loans given the bank's primary business focus, which is commercial lending as well as commercial loans, represents the largest portion of its portfolio. Please refer to the table on the next page for a recap of the bank's lending distribution for each loan category.

Distribution of Loans Inside/Outside Assessment Areas										
Loan Category or Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<i>Home Mortgage</i>										
2005	116	85	20	15	136	17,438	79	4,739	21	22,177
2006	150	90	17	10	167	28,161	89	3,478	11	31,639
2007	394	35	739	65	1,133	62,627	32	130,985	68	193,612
Subtotal	660	46	776	54	1,436	108,226	44	139,202	56	247,428
<i>Home Purchase</i>										
2005	75	85	13	15	88	11,619	77	3,557	23	15,176
2006	75	96	3	4	78	11,741	98	234	2	11,975
2007	<u>210</u>	<u>38</u>	<u>341</u>	<u>62</u>	<u>551</u>	<u>32,395</u>	<u>25</u>	<u>59,162</u>	<u>72</u>	<u>91,557</u>
<i>Subtotal</i>	360	50	357	50	717	55,755	47	62,953	53	118,708
<i>Home Refinance</i>										
2005	33	85	6	15	39	5,640	83	1,142	17	6,782
2006	60	82	13	18	73	15,779	85	2,764	15	18,543
2007	<u>167</u>	<u>30</u>	<u>395</u>	<u>70</u>	<u>562</u>	<u>29,557</u>	<u>29</u>	<u>71,337</u>	<u>71</u>	<u>100,894</u>
<i>Subtotal</i>	260	39	414	61	674	50,976	40	75,243	60	126,219
<i>Home Improvement</i>										
2005	8	89	1	11	9	179	82	40	18	219
2006	15	94	1	6	16	641	57	480	43	1,121
2007	<u>17</u>	<u>85</u>	<u>3</u>	<u>15</u>	<u>20</u>	<u>675</u>	<u>58</u>	<u>486</u>	<u>42</u>	<u>1,161</u>
<i>Subtotal</i>	40	89	5	11	45	1,495	60	1,006	40	2,501
Business Loans	51	70	22	30	73	25,668	66	13,302	34	38,970
Total	711	47	798	53	1,509	133,894	47	152,504	53	286,398

Source: Data reported under 2005, 2006, and 2007 HMDA and Sample of Commercial loans

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNBS' lending to borrowers of different income levels is reasonable for HMDA loans and exceeds the standards for satisfactory performance for small business loans among businesses of different sizes. We based the bank's analysis for business loans on a random sample of commercial loans originated between 2005 and 2007.

Borrower Distribution to Businesses in Spartanburg County

The bank's performance exceeds the standards for satisfactory performance in view of the small business credit needs of the community and number of small businesses in the assessment area. Approximately 64 percent of businesses in the assessment area report annual revenues of less than \$1 million. Based on our sample of 33 loans within Spartanburg County, 79 percent are to business with revenues less than \$1 million, thus exceeding demographic information. Our sample also noted very few loans with original amounts in excess of \$1 million. In addition, 79 percent of the sampled loans originated

were in an amount less than \$250 thousand. This indicates that the bank is responsive to providing small business lending. Refer to the following tables for supporting data.

Borrower Distribution of Loans to Businesses in Spartanburg County				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	64	6	30	100
% of Bank Loans in AA by #	79	21	0	100
% of Bank Loans in AA by \$	46	54	0	100

Source: Sample of Business Loans; Dunn and Bradstreet data

Borrower Distribution of Loans to Businesses by Loan Size in Spartanburg County				
Loan Size (000s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	22	67	885,169	12
\$100,001 - \$250,000	4	12	667,000	9
\$250,001 - \$500,000	3	9	1,063,500	15
\$500,001 - \$1,000,000	2	6	1,350,000	19
Over \$1,000,000	2	6	3,142,981	44

Source: Sample of Business Loans

Borrower Distribution to Different Incomes in Spartanburg County

FNBS' distribution of loans to borrower of different income levels is satisfactory. The bank's lending performance by number among low-income borrowers is significantly below the percentage of low-income families in the assessment area. The bank's low level of penetration is reasonable considering approximately 13 percent of households live below the poverty level and its corresponding impact on lending opportunities.

Overall, the institution has achieved a reasonable lending penetration among moderate-income level borrowers for HMDA originations. However, for home purchase and home improvement loans, the bank's performance is stronger as it exceeds and is near to the percentage of families in the assessment area, respectively. Refer to the following table for supporting data.

Borrower Distribution of Residential Real Estate Loans in Spartanburg County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.05	5.88	18.24	18.63	22.52	16.67	39.19	58.82
Home Refinance	20.05	11.43	18.24	14.29	22.52	28.57	39.19	45.71
Home Improvement	20.05	12.22	18.24	16.67	22.52	17.78	39.19	53.33

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Conclusion for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, FNBS' performance under the lending test for the Charleston and Greenville assessment areas is not inconsistent with the bank's overall "Satisfactory" performance under the lending test in Spartanburg County.

The bank's performance is reasonable in light of the banks time in operation, as well as level of competition in its markets. This evaluation did not consider the bank's lending performance for home improvement loans in the limited scope areas, as the volume of originations would not produce a meaningful analysis. Refer to the following tables for supporting data.

Borrower Distribution of Loans to Businesses in Charleston AA				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	68	6	26	100
% of Bank Loans in AA by #	62	19	19	100
% of Bank Loans in AA by \$	72	21	8	100

Source: Sample of Business Loans; Dunn and Bradstreet data

Borrower Distribution of Loans to Businesses by Loan Size in Charleston AA				
Loan Size (000s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	1	5	50,000	0
\$100,001 - \$250,000	8	38	1,445,350	6
\$250,001 - \$500,000	3	14	852,421	3
\$500,001 - \$1,000,000	1	5	800,000	3
Over \$1,000,000	8	38	21,800,000	87

Source: Sample of Business Loans

Borrower Distribution of Residential Real Estate Loans in Charleston AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	23.14	0.00	16.61	1.79	18.74	8.93	41.50	89.29
Home Refinance	23.14	0.00	16.61	21.74	18.74	13.04	41.50	65.22
Home Improvement	23.14	50.00	16.61	0.00	18.74	0.00	41.50	50.00

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Borrower Distribution of Loans to Businesses in Greenville AA				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	64	6	30	100
% of Bank Loans in AA by #	45	40	15	100
% of Bank Loans in AA by \$	42	47	11	100

Source: Sample of Business Loans; Dunn and Bradstreet data

Borrower Distribution of Loans to Businesses by Loan Size in Greenville AA				
Loan Size (000s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	4	20	237,000	1
\$100,001 - \$250,000	3	15	597,000	3
\$250,001 - \$500,000	2	10	605,000	3
\$500,001 - \$1,000,000	4	20	3,263,538	19
Over \$1,000,000	7	35	12,754,910	73

Source: Sample of Business Loans

Borrower Distribution of Residential Real Estate Loans in Greenville AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18.64	9.80	17.31	12.75	20.74	18.63	43.31	58.82
Home Refinance	18.64	3.09	17.31	20.62	20.74	15.46	43.31	60.82
Home Improvement	18.64	0.00	17.31	0.00	20.74	0.00	43.31	0.00

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Geographic Distribution of Loans

FNBS' overall geographic distribution of loans is adequate and meets the standards for satisfactory performance.

Overall, the geographic distribution of small loans needs is reasonable. Performance is adequate in the Spartanburg assessment area as the bank's penetration of small loans in the low-income census tracts is significantly below the percentage of assessment area businesses located in these tracts. Although the bank's percentage is lower than the percent of businesses in the assessment area, consideration is given to the highly competitive market. The penetration of small business loans in the moderate-income census tract is reasonable as it is lower than the percentage of assessment area businesses located in these tracts. We recognize that the level of local competition is an important performance context factor that can often influence performance criteria.

Overall, the geographic distribution of residential real estate loans is good. The level of home purchase lending in low- and moderate-income geographies exceeds the percentage of owner-occupied housing in these geographies. The level of home improvement lending in low- and moderate-income geographies exceeds and is significantly below the level of owner-occupied housing in these areas, respectively. Although the bank’s percentage is well below the percentage of moderate-income families living in the Spartanburg assessment area, consideration is given to the fact that 9 to 20 percent of the families in those geographies live below the poverty level and competition.

In contrast, FNBS’ level of refinance lending in low- and moderate-income geographies is significantly lower and exceeds the percentage of owner-occupied housing in these geographies, respectively. Although the bank’s percentage is well below the percentage of low-income families living in the Spartanburg assessment area, consideration is given to the fact that only 2 percent of all owner occupied housing units within this assessment area are in low-income tracts. Refer to the following tables for supporting data.

Geographic Distribution of Loans to Businesses in Spartanburg AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	6.33	3.03	16.73	12.12	56.36	42.42	20.58	42.42

Source: Sample of loans; Dunn and Bradstreet data

Geographic Distribution of Residential Real Estate Loans in Spartanburg AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.89	2.09	12.54	14.14	69.00	60.73	16.57	23.04
Home Improvement	1.89	2.70	12.54	2.70	69.00	81.08	16.57	13.51
House Refinance	1.89	0.00	12.54	15.08	69.00	69.05	16.57	15.87

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Conclusion for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, FNBS’ performance under the lending test for the Charleston and Greenville assessment areas is not inconsistent with the bank’s overall “Satisfactory” performance under the lending test in Spartanburg County. The bank’s performance is reasonable in light of competition and its limited time in operation in those markets. Refer to the following tables for supporting data.

Geographic Distribution of Loans to Businesses in Charleston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	8.08	0.00	20.72	9.52	32.45	9.52	38.75	80.95

Source: Sample of loans; Dunn and Bradstreet data

Geographic Distribution of Residential Real Estate Loans in Charleston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	4.44	7.58	17.10	7.58	34.41	10.61	44.04	74.24
Home Improvement	4.44	0.00	17.10	66.67	34.41	0.00	44.04	33.33
House Refinance	4.44	3.45	17.10	3.45	34.41	31.03	44.04	62.07

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Geographic Distribution of Loans to Businesses in Greenville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	4.78	5.00	15.81	0.00	46.50	55.00	32.91	40.00

Source: Sample of loans; Dunn and Bradstreet data

Geographic Distribution of Residential Real Estate Loans in Greenville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.62	0.93	16.25	11.25	47.22	36.45	34.91	51.40
Home Improvement	1.62	0.00	16.25	0.00	47.22	0.00	34.91	0.00
House Refinance	1.62	1.90	16.25	3.81	47.22	67.62	34.91	26.67

Source: Data reported under 2005, 2006, and 2007 HMDA; 2000 U.S. Census data

Responses to Complaints

FNBS has not received any CRA-related complaints during the evaluation period. This had a neutral impact on CRA performance.

COMMUNITY DEVELOPMENT TEST

FNBS' community development performance demonstrates adequate responsiveness to community development needs in its assessment areas through community development loans, qualified investments, and community development services given its resources and capacity. The community development test considers both quantitative and qualitative aspects.

Opportunities for CD lending, investments, and services are available based upon an analysis of demographic information, the CRA public evaluations of area institutions, and community contact information. The need for community development activities within the assessment areas is evident from the concentration of low- or moderate-income families at 20 and 18 percent in Spartanburg County; 23 and 17 percent in Charleston County, 19 and 17 percent in Greenville County, respectively.

Community Development Loans

FNBS' level of community development lending demonstrates adequate responsiveness to the community development needs of the assessment areas considering the institution's capacity. Since its previous evaluation in November 2002, the bank originated four community development loans totaling \$600.7 thousand. Three of the originated loans totaling \$100.7 thousand were in the Spartanburg assessment area while one loan for \$500 thousand was originated in the Charleston assessment area. There were no CD loans in the Greenville assessment area.

Three of the loans were for affordable housing and the last one related to a community service targeted to low-to-moderate income individuals and families. The bank's volume represents 0.25 percent of the net loans in the bank's portfolio as of December 31, 2007. The bank's volume of activity is very low relative to the opportunities in the communities within the assessment areas. The institution's qualified transactions by assessment area are as described below.

Charleston Assessment Area

- In 2005, FNB made a \$500 thousand residential real estate secured loan to a for-profit entity to finance construction of two residential buildings under contract with SC State Housing. The units would provide housing opportunities for low-to-moderate income families and individuals.

Spartanburg Assessment Area

- In 2006, FNB made a \$25 thousand unsecured loan to a nonprofit entity for economic development. FNBS is a participant in the business loan program offered by this development corporation. As a participant, the bank provides funds to the corporation to finance small business loans.

- In 2006, FNB made a \$75 thousand unsecured line of credit to a nonprofit entity that provides affordable housing to low-and-moderate income families. The line of credit was for operating capital.
- In 2007, FNB made a \$700 letter of credit to a nonprofit entity that provides community services targeted to low-to-moderate income individuals and families.

Qualified Investments

FNBS' level of CD investments demonstrates poor responsiveness to the CD needs of the assessment area based on the ample opportunities for such investments. Overall, the bank made twenty-seven qualified monetary and in-kind donations totaling \$20 thousand to qualified organizations during the evaluation period. Twenty-one of these donations, \$16,675, went to local organizations in the Spartanburg assessment area; five donations of \$3.2 thousand went to organizations in the Greenville assessment area; and one donation of \$125 went to an organization in the Charleston assessment area.

The qualified investments were to fifteen local organizations that primarily deliver community services and affordable housing to low- and moderate-income individuals and families. On average, the bank has made \$3.3 thousand in grants/donations per year. This annual volume of community development grants and donations represent 0.12 percent of the bank's average (\$2.7 million) year-end net income. FNBS' net income during the evaluation was from \$610 thousand at December 31, 2002 to \$4.7 million at December 31, 2007.

The overall level of CD investments is not commensurate with the institution's financial resources or the opportunities for community development investment in the community.

Notable investments include the following:

- A phone system contribution to Mobile Meals, valued at \$5,025, and a \$4 thousand donation;
- A \$2.5 thousand donation to the Urban League of the Upstate,
- A \$1.5 thousand donation to Habitat for Humanity of Spartanburg, and
- A \$2 thousand donation to Boys and Girls of the Upstate.

Community Development Services

FNBS' level of community development services demonstrates adequate responsiveness to the community development needs of its assessment area considering the institution's capacity and the available opportunities for providing community development services within its assessment area.

FNBS' branch network system provides reasonable accessibility to banking services including for low- and moderate-income individuals.

Although none of the branches are located in low- or moderate-income geographies, some are reasonably accessible for individuals living in those areas. In addition, there are other banks in the assessment areas that could serve those individuals needs that are not accessible given the bank's branch network system.

The bank has developed a free checking account, Signature Checking, with no monthly maintenance fee and unlimited check writing. They offer access to their accounts with a free automated teller machine (ATM/Debit Card). All of the bank's checking accounts offer the following services for free: check imaging, electronic statements, direct deposit, access their accounts, ATM card, 24 hour telephone banking access, and Internet banking. We did not consider any of the bank's activities as innovative or complex in nature.

A total of nine bank employees provided various qualified CD services to nine non-profit organizations during the evaluation period. The organizations provide community services that benefit low- and moderate-income individuals and families. FNBS' employees provided financial related services to various community organizations within its assessment areas during the review period as described below.

- Six bank employees serve as Board of Directors for various charities targeting low- and moderate-income geographies and distressed individuals. One employee serves as Chairman of the Board and chief fund raiser for the Spartanburg Children's Shelter.
- One employee serves as a Board member, speaker, and advocate working to raise funds for Child's Haven; an organization that treats children from low-income families with developmental delays and behavior problems.
- One bank employee serves as a Board member of the Urban League of the Upstate, which is a development agency that uses education to create economic opportunities for low- and moderate-income individuals. The employee also participates on a sub-committee for the organization that prepares tax returns for low- and moderate-income individuals.
- One bank employee serves on a subcommittee, Neighbors Helping Neighbors, for the United Way, a nationally recognized charity. This committee reviews applications and allocates funds to charities geared towards providing a safety-net of support to low- and moderate individuals.

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.