

ABC BANCORP
Form S-4/A
November 03, 2005
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 2, 2005

REGISTRATION NO. 333-128269

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ABC BANCORP

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

6022
(Primary Standard Industrial
Classification Code Number)

58-1456434
(I.R.S. Employer
Identification Number)

24 2nd Avenue, S.E.

Moultrie, Georgia 31768

(229) 890-1111

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Dennis Zember, Jr.

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Executive Vice President and Chief Financial Officer

24 2nd Avenue, S.E.

Moultrie, Georgia 31768

(229) 890-1111

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Atlanta, Georgia 30309

(404) 522-4700

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Approximate date of commencement of proposed sale to the public: Upon the merger of First National Banc, Inc. with and into the Registrant.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price (2)	Amount of registration fee (3)
Common Stock, par value \$1.00 per share	1,604,441 shares	N/A	\$ 5,356,302	\$ 630

(1) This amount is based upon the estimated maximum number of shares of the registrant's common stock issuable upon the consummation of the merger described in this Registration Statement and is equal to the product of (i) the 660,644 shares of First National Banc, Inc. common

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stock which may be exchanged for shares of the registrant's common stock in connection with the merger, based upon the 1,016,376 shares of First National Banc, Inc. common stock outstanding on September 30, 2005; and (ii) an assumed share exchange ratio of 2.4286 shares of the registrant's common stock issuable in exchange for each outstanding share of First National Banc, Inc. common stock which may be exchanged for shares of the registrant's common stock in the merger.

- (2) This amount is estimated solely for purposes of calculating the registration fee. It is calculated pursuant to paragraphs (f)(2) and (f)(3) of Rule 457 under the Securities Act of 1933 and is equal to (i) the product of (a) \$17.17, the per share book value of First National Banc, Inc. common stock as of September 30, 2005, and (b) the 1,016,376 shares of First National Banc, Inc. common stock outstanding on September 30, 2005; less (ii) the minimum amount of cash to be paid by the registrant in the transaction, which is anticipated to be \$12,094,874.
- (3) A portion of the registration fee equal to \$619 was paid with the initial filing of this Registration Statement.

THIS REGISTRATION STATEMENT SHALL HEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH THE PROVISIONS OF SECTION 8(a) OF THE SECURITIES ACT OF 1933.

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The information in this Proxy Statement/Prospectus is not complete and may be changed. ABC BANCORP may not distribute or issue the shares of ABC Common Stock described herein until the registration statement of which this Proxy Statement/Prospectus is a part has been declared effective by the Securities and Exchange Commission. This Proxy Statement/Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction.

PRELIMINARY SUBJECT TO COMPLETION

DATED NOVEMBER 2, 2005

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To First National Shareholders:

I am writing to you today about our proposed merger with ABC Bancorp. The boards of directors of ABC Bancorp and First National Banc, Inc. have each agreed to a merger that will result in First National merging with and into ABC. This transaction provides First National with growth and strategic opportunities that would not be available to First National on a stand-alone basis.

You will be asked to vote on the merger at the 2005 Annual Meeting of Shareholders of First National to be held on December 12, 2005, at 6:30 p.m., local time, at the Holiday Inn at the Jacksonville International Airport, 14670 Duval Road, Jacksonville, Florida 32218. We cannot complete the merger unless the holders of a majority of the shares of First National common stock outstanding on October 28, 2005, the record date for the annual meeting, vote in favor of approval and adoption of the merger agreement, as amended. A copy of the merger agreement, including a copy of the amendment to the merger agreement, is attached as APPENDIX A to this proxy statement/prospectus. We urge you to read this proxy statement/prospectus carefully and in its entirety. Your board of directors recommends that you vote FOR the approval and adoption of the merger agreement, as amended.

Subject to certain exceptions described in this proxy statement/prospectus, if the merger is completed, then you will receive, for each First National share that you own, either \$34.00 in cash or a to-be-determined number of shares of ABC common stock with a market value, measured as of a 20-day trading period prior to the closing of the merger, equal to \$34.00. For purposes of illustration only, if the merger had occurred on October 28, 2005, the exchange ratio for each share of First National common stock would have been 1.8468 shares of ABC common stock, having a value of \$18.41 based on the average closing price of ABC common stock over the trading period.

You may elect to receive ABC common stock, cash or a combination of stock and cash for your First National shares, subject to proration in the event the aggregate stock elections exceed 65% or are less than 40%. Because elections are subject to proration, you may receive some stock, rather than cash, even though you make an all-cash election, and you may receive some cash, rather than stock, even though you make an all-stock election. We encourage you to obtain current market quotations for ABC common stock, which is quoted on The Nasdaq National Market under the ticker symbol ABCB.

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Whether or not you plan to attend the annual meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of the merger. If you fail to return your proxy card or do not vote in person at the meeting, the effect will be the same as a vote against the merger.

Under Georgia law, you are entitled to dissent from the transactions contemplated by the merger agreement. A copy of the dissenters' rights provisions under Georgia law is attached as APPENDIX B to this proxy statement/prospectus.

We very much appreciate and look forward to your support.

Sincerely,

Roscoe H. Mullis

Chairman of the Board and Chief Executive Officer,

First National Banc, Inc.

See the section entitled Risk Factors at page 15 for a discussion of certain factors that you should consider before you vote.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger or the securities to be issued in connection with the merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The shares of ABC common stock are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of any of the parties, and they are not insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund or any other governmental agency.

The date of this proxy statement/prospectus is November 2, 2005, and it is being mailed or otherwise delivered to First National shareholders on or about November 8, 2005.

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PLEASE NOTE

This document, which is sometimes referred to as a proxy statement/prospectus, constitutes a proxy statement of First National Banc, Inc. with respect to the solicitation of proxies from First National shareholders for the annual meeting described herein and a prospectus of ABC Bancorp for the shares of ABC common stock that ABC will issue to First National shareholders in connection with the merger.

We have not authorized anyone to provide you with any information other than the information included in this proxy statement/prospectus and the documents we refer to herein. If someone provides you with other information, then please do not rely on it.

This proxy statement/prospectus has been prepared as of the date on the cover page. There may be changes in the affairs of ABC or First National since that date that are not reflected in this document.

As used in this proxy statement/prospectus: (i) the terms ABC and First National refer to ABC Bancorp and First National Banc, Inc., respectively, and, where the context requires, to ABC and First National and their respective subsidiaries; and (ii) the term merger agreement refers to the merger agreement which governs the merger of First National with and into ABC, dated as of June 30, 2005, as amended by the amendment to the merger agreement, dated as of October 28, 2005.

As permitted under the rules of the Securities and Exchange Commission (the SEC), this proxy statement/prospectus incorporates important business and financial information about ABC that is contained in documents filed with the SEC and that is not included in, or delivered with, this document. See the section entitled Incorporation of Certain Documents by Reference at page 108. You may obtain copies of these documents without charge from the website maintained by the SEC at www.sec.gov as well as from other sources. You may also obtain copies of these documents, without charge, by writing or calling:

Ms. Cindi H. Lewis

ABC Bancorp

24 2nd Avenue, S.E.

Moultrie, Georgia 31768

Telephone: (229) 890-1111

In order to obtain timely copies of such information in advance of the annual meeting, you should make your request no later than December 5, 2005.

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FIRST NATIONAL BANC, INC.

2509 OSBORNE ROAD

ST. MARYS, GEORGIA 31558

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of First National Banc, Inc. will be held at the Holiday Inn at the Jacksonville International Airport, 14670 Duval Road, Jacksonville, Florida 32218 at 6:30 p.m., local time, on December 12, 2005, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt an agreement and plan of merger, dated as of June 30, 2005, as amended as of October 28, 2005, pursuant to which ABC Bancorp will acquire First National Banc, Inc. You can find a copy of the merger agreement attached as APPENDIX A to the accompanying proxy statement/prospectus.
2. To elect 15 directors to First National's board of directors to serve until the earlier of (i) the completion of the merger, (ii) the 2006 annual meeting of shareholders of First National and until their successors are duly elected and qualified, or (iii) their earlier death, resignation or removal from office.
3. To transact such other business, if any, that may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

Only shareholders of record at the close of business on October 28, 2005 are entitled to receive notice of and vote at the annual meeting or any adjournment or postponement of the annual meeting. Approval and adoption of the merger agreement requires the affirmative vote of at least a majority of all of the votes entitled to be cast at the annual meeting. The election of directors requires a plurality of the votes cast on the matter, meaning that the 15 nominees receiving the most votes will be elected as directors. A failure to vote will have the same effect as voting against the approval and adoption of the merger agreement.

Dissenters' rights are available under Georgia law to First National shareholders with respect to the merger. See the section entitled "Statutory Provisions for Dissenting Shareholders" at page 52 of the accompanying proxy statement/prospectus for a discussion of the availability of dissenters' rights and the procedures required to be followed to assert dissenters' rights in connection with the merger.

We look forward to seeing you at the annual meeting. Your vote is important. Please mark, sign and return your proxy card, whether or not you plan to attend the annual meeting.

Your board of directors has determined that the proposed merger is advisable and in the best interest of First National and its shareholders. Your board of directors recommends that you vote FOR the proposal to approve and adopt the merger agreement and

FOR each of the director nominees.

By Order of the Board of Directors,

Roscoe H. Mullis

Chairman and Chief Executive Officer

November 2, 2005

Whether or not you expect to be present at the annual meeting in person, please vote, sign, date and return the enclosed proxy promptly in the enclosed business reply envelope. If you do attend the annual meeting, then you may withdraw your proxy and vote in person.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE ANNUAL MEETING

Q: WHY ARE YOU PROPOSING THAT FIRST NATIONAL BE ACQUIRED BY ABC?

A: We believe that the proposed acquisition of First National by ABC will provide our shareholders with substantial benefits and will enable us to better serve our customers. Our products and markets generally are complementary, and the combined company should be in a better position to take advantage of opportunities within our market. The merger will enable you to hold stock in a larger and more diversified entity, whose shares are more widely held and more actively traded than are the shares of First National, or to receive cash for all or a portion of your First National shares. To review the reasons for the merger in more detail, see the section entitled "Reasons for the Merger" at page 24.

Q: WHAT DO I NEED TO DO NOW?

A: Carefully read this document, indicate on your proxy card how you want to vote, and sign, date and return the proxy card as soon as possible. First National's board of directors has voted to recommend that First National shareholders vote "FOR" the approval and adoption of the merger agreement and "FOR" the election of each of the director nominees.

Q: MY SHARES ARE HELD IN MY BROKER'S NAME. HOW DO I GO ABOUT VOTING?

A: Copies of this proxy statement/prospectus have been sent to your broker, who must forward a copy to you. The broker will request instructions from you as to how you want your shares to be voted and will vote your shares according to your instructions. Your broker cannot vote your shares with respect to the merger without your instructions. Your failure to instruct your broker how to vote your shares with respect to the merger will have the same effect as voting against the merger.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: Except in certain circumstances described under the section entitled "Terms of the Merger" Merger Consideration" at page 36, if the merger is completed, then you will receive, for each First National share that you own, either \$34.00 in cash or a to-be-determined number of shares of ABC common stock with an aggregate market value, measured as of a 20-day trading period ending two days prior to the completion of the merger (which is referred to in this proxy statement/prospectus as the "trading period"), equal to \$34.00. You may elect to receive ABC common stock, cash or a combination of stock and cash for your First National shares, subject to proration in the event the aggregate stock elections exceed 65% or are less than 40%. It is possible, therefore, that you will receive a different proportion of stock and cash than you elect. For example, if stock elections representing more than 65% of the outstanding shares of First National common stock prior to the merger are made, then ABC will prorate the number of shares of its common stock that the holders of First National common stock will receive so that no more than 65% of the First National shares are converted into ABC common stock. ABC will not issue fractional shares. First National shareholders who would otherwise be entitled to receive a fractional share of ABC common stock instead will receive cash based on the average closing price of the ABC common stock during the trading period.

Q: WHAT ARE THE TAX CONSEQUENCES TO ME OF THE MERGER?

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A: We do not expect the merger to result in the recognition of any tax by First National shareholders for federal income tax purposes, except with respect to any cash received. See the section entitled Federal Income Tax Consequences of the Merger at page 50 for a description of certain federal income tax consequences of the merger.

Q: WHAT IS THE REQUIRED VOTE TO APPROVE AND ADOPT THE MERGER AGREEMENT?

A: The holders of a majority of the outstanding shares of First National common stock as of October 28, 2005, the record date for the annual meeting, must vote to approve and adopt the merger

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agreement in order for the merger to be completed. Abstentions from voting and broker non-votes are not considered affirmative votes and, therefore, will have the same practical effect as a vote against the merger. In addition, certain First National shareholders, including all of First National's directors, which shareholders beneficially owned, in the aggregate, approximately 68.1% of the outstanding shares of First National common stock, as of the record date, entered into a voting agreement with ABC pursuant to which they granted to ABC an irrevocable proxy to vote all voting securities of First National held by such shareholders in favor of the approval and adoption of the merger agreement. As a result, the approval and adoption of the merger agreement by the First National shareholders is practically assured. No vote of ABC shareholders is required to complete the merger.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. Under separate cover from this proxy statement/prospectus, we will send all First National shareholders written instructions and transmittal materials for exchanging their share certificates. You will receive these instructions prior to the annual meeting.

Q: IF I LOST MY FIRST NATIONAL STOCK CERTIFICATE, CAN I STILL GET MY NEW STOCK?

A: Yes. However, you will have to provide a paid surety bond that will protect ABC against a loss in the event someone finds or has your lost certificate and is able to transfer it. To avoid having to pay for a surety bond, you should do everything you can to find your First National certificate before the time comes to send it in.

Q: AM I ENTITLED TO DISSENTERS RIGHTS IN CONNECTION WITH THE MERGER?

A: Yes. If you wish, you may exercise dissenters' rights arising out of the transactions contemplated by the merger agreement and obtain a cash payment for the fair value of your shares under Georgia law. To exercise dissenters' rights, you must not vote in favor of the approval and adoption of the merger agreement, and you must strictly comply with all of the applicable requirements of Georgia law summarized under the section entitled Statutory Provisions for Dissenting Shareholders at page 52. The fair value of your shares may be more or less than the consideration to be paid in the merger. We have included a copy of the applicable provisions of Georgia law as APPENDIX B to this proxy statement/prospectus.

Q: HOW DO I ELECT THE TYPE OF THE MERGER CONSIDERATION THAT I PREFER TO RECEIVE?

A: Under separate cover from this proxy statement/prospectus, we will send all First National shareholders an election form and transmittal materials prior to the annual meeting. You must properly complete and deliver to the exchange agent the election materials, together with your stock certificates (or a properly completed notice of guaranteed delivery). A return envelope will be enclosed for submitting the election form and certificates to the exchange agent. This is different from the envelope that you will use to return your completed proxy card. **Please do not send your stock certificates or form of election with your proxy card.** Election forms and stock certificates (or a properly completed notice of guaranteed delivery) must be received by the exchange agent by the election deadline, which is 5:00 p.m., Eastern time, on the day which is five days prior to the effective time of the merger. If your shares are held in a brokerage or other custodial account, you should receive instructions from the entity where your shares are held advising you of the procedures for making your election and delivering your shares. If you do not receive these instructions, you should contact the entity where your shares are held. If you do not submit a properly completed and signed election form to the exchange agent by the election deadline (or if you submit a properly completed election form indicating no election, together with the certificates representing all of your shares), then you will be deemed to have made an election to convert one-half of your First National

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shares into cash and one-half of your First National shares into shares of ABC common stock. In the event the merger agreement is terminated, any First National stock certificates that you previously sent to the exchange agent will be promptly returned to you without charge.

Q: CAN I BE SURE OF THE VALUE OF THE SHARES OF ANY ABC COMMON STOCK THAT I RECEIVE IN THE MERGER?

A: No. The value of the merger consideration composed of ABC common stock can change, although the cash portion of the merger consideration will not change. See the section entitled "Terms of the Merger" Merger Consideration at page 36.

Q: WHY AM I ELECTING DIRECTORS WHEN I AM BEING ASKED TO APPROVE AND ADOPT THE MERGER AGREEMENT?

A: Georgia law requires First National to hold a meeting of its shareholder each year. Notwithstanding the fact that we expect to complete the merger in the fourth quarter of this year, First National has determined to observe this requirement and hold an annual shareholders' meeting to elect directors. The directors elected at the annual meeting will preside over any business matters presented to First National's board of directors following the annual meeting through the completion of the merger. Effective upon the completion of the merger, these individuals will no longer be directors of First National.

Q: WHEN DO YOU EXPECT TO COMPLETE THE MERGER?

A: We are working toward completing the merger as quickly as possible. In addition to First National shareholder approval, we must also obtain regulatory approvals. We expect the merger to be completed before the end of the year.

Q: WHO SHOULD I CALL WITH QUESTIONS ABOUT THE MERGER?

A: If you have any questions about the merger, you should contact Cindi H. Lewis at ABC at (229) 890-1111.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Forward-looking statements are generally identifiable by the use of forward-looking terminology such as anticipate, believe, continue, could, endeavor, estimate, expect, forecast, goal, intend, may, objective, potential, should, will and other similar words and expressions of future intent.

The ability of ABC and First National to predict results or the actual effect of future plans or strategies is inherently uncertain. Although ABC and First National believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could cause actual results and performance to differ from those expressed in our forward-looking statements include, but are not limited to:

the costs of integrating ABC's and First National's operations, which may be greater than ABC expects;

potential customer loss and deposit attrition as a result of the merger and the failure to achieve expected gains, revenue growth and/or expense savings from such transactions;

ABC's ability to effectively manage interest rate risk and other market, credit and operational risks;

ABC's ability to manage fluctuations in the value of assets and liabilities and off-balance sheet exposure so as to maintain sufficient capital and liquidity to support ABC's business;

ABC's ability to keep pace with technological changes;

ABC's ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by our customers and potential customers;

ABC's ability to expand into new markets;

the cost and other effects of material contingencies, including litigation contingencies;

further easing of restrictions on participants in the financial services industry, such as banks, securities brokers and dealers, investment companies and finance companies, may increase competitive pressures and affect our ability to preserve our customer relationships and margins;

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possible changes in general economic and business conditions in the United States in general and in the region and communities we serve in particular may lead to a deterioration in credit quality, which could require increases in our provision for credit losses, or a reduced demand for credit, thereby reducing earning assets;

the threat or occurrence of war or acts of terrorism and the existence or exacerbation of general geopolitical instability and uncertainty; and

possible changes in trade, monetary and fiscal policies, laws, and regulations, and other activities of governments, agencies, and similar organizations, including changes in accounting standards.

The cautionary statements in the section entitled **Risk Factors** at page 15 and elsewhere in this proxy statement/prospectus also identify important factors and possible events that involve risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. ABC and First National do not intend, and undertake no obligation, to update or revise any forward-looking statements, whether as a result of differences in actual results, changes in assumptions or changes in other factors affecting such statements.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It does not contain all the information that is important to you. Each item in this summary refers to a page where that subject is discussed in more detail. To understand the merger fully, and for a more complete description of the legal terms of the merger and the merger agreement, you should read carefully this entire proxy statement/prospectus and the documents to which we have referred you. See the sections entitled "Where You Can Get More Information" at page 108 and

"Incorporation of Certain Documents by Reference" at page 108. In addition, the merger agreement is attached as APPENDIX A to this proxy statement/prospectus and is incorporated into this proxy statement/prospectus by this reference. We urge you to read the merger agreement in its entirety; it is the legal document that governs the merger. Unless the context requires otherwise, the terms "we," "our," and "us" refer to ABC and First National together.

Information About ABC (page 64) and First National (Page 64)

ABC BANCORP, 24 2nd AVENUE, S.E., MOULTRIE, GEORGIA 31768; (229) 890-1111. ABC is a Georgia bank holding company headquartered in Moultrie, Georgia that owns 12 subsidiary banks. As of June 30, 2005, ABC had consolidated total assets of approximately \$1,305.2 million, consolidated total loans of approximately \$962.4 million and consolidated shareholders' equity of approximately \$125.1 million. ABC, through its subsidiary banks, is engaged in a full range of traditional banking, mortgage banking, investment and insurance services to individual and corporate customers through its 37 locations in Georgia, Florida and Alabama.

FIRST NATIONAL BANC, INC., 2509 OSBORNE ROAD, ST. MARYS, GEORGIA 31558; (912) 882-3400. First National is a Georgia bank holding company headquartered in St. Marys, Georgia that owns two subsidiary banks. As of June 30, 2005, First National had consolidated total assets of approximately \$270.0 million, consolidated total loans of approximately \$206.0 million and consolidated shareholders' equity of approximately \$17.1 million. First National, through its subsidiary banks, is engaged in a full range of banking services at five locations in Georgia and Florida.

The Merger (Page 21)

The proposed acquisition of First National by ABC is governed by a merger agreement. The merger agreement provides that, if all of the conditions set forth in the merger agreement are satisfied or waived, First National will merge with and into ABC. ABC will be the surviving corporation after the merger, and one or both of First National Bank, St. Marys, Georgia ("St. Marys") and First National Bank, Orange Park, Florida ("Orange Park"), each a subsidiary of First National, will be merged with and into The First Bank of Brunswick or another wholly-owned subsidiary of ABC. If either St. Marys or Orange Park does not merge with and into The First Bank of Brunswick or another wholly-owned subsidiary of ABC, then the First National subsidiary bank which does not participate in such merger shall continue as a wholly-owned subsidiary of ABC.

Except in certain circumstances described under the section entitled "Terms of the Merger - Merger Consideration" at page 36, if the merger is completed, then each of the issued and outstanding shares of First National common stock will be converted into the right to receive either \$34.00 in cash or a to-be-determined number of shares of ABC common stock with a market value, measured as of the trading period, equal to \$34.00. You may elect to receive ABC common stock, cash or a combination of stock and cash for your First National shares, subject to proration in the event the aggregate stock elections exceed 65% or are less than 40%. It is possible, therefore, that you will receive a different

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proportion of stock and cash than you elect. For example, if stock elections representing more than 65% of the outstanding shares of First National common stock prior to the merger are made, then ABC will prorate the number of shares of its common stock that the holders of First National common stock will receive so that no more than 65% of the First National shares are converted into ABC common stock.

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ABC will not issue fractional shares. First National shareholders who would otherwise be entitled to receive a fractional share of ABC common stock instead will receive cash based on the average closing price of the ABC common stock during the trading period.

Depending upon what elections are made with respect to the receipt of ABC common stock in connection with the merger, existing First National shareholders will own between approximately 5.92% and 9.28% of the total outstanding shares of ABC common stock following the merger.

We urge you to read the merger agreement, which is attached as APPENDIX A to this proxy statement/prospectus, in its entirety.

Federal Income Tax Consequences of the Merger (Page 50)

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, which is referred to in this proxy statement/prospectus as the Code. It is a condition to the completion of the merger that First National and ABC receive opinions from their respective tax counsel, dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Assuming the merger qualifies as a reorganization, in general:

If you receive a combination of ABC common stock and cash in exchange for your First National common stock and your tax basis in your First National common stock is less than the sum of the cash and the fair market value, as of the effective date of the merger, of the ABC common stock received, you generally will recognize gain equal to the lesser of: (i) the sum of the cash and the fair market value of the ABC common stock you receive, minus the tax basis of your First National common stock surrendered, and (ii) the amount of cash you receive in the merger. However, if your tax basis in the First National common stock surrendered in the merger is greater than the sum of the cash and the fair market value of the ABC common stock you receive, then your loss will not be currently allowed or recognized for federal income tax purposes.

If you receive solely ABC common stock in exchange for First National common stock, then you generally will not recognize any gain or loss, except with respect to cash you receive in lieu of fractional shares of First National common stock.

If you receive solely cash in exchange for your First National common stock, then you generally will recognize gain or loss equal to the difference between the amount of cash you receive and the tax basis in your shares of First National common stock.

See the section entitled **Federal Income Tax Consequences of the Merger** at page 50 for a more complete discussion of the United States federal income tax consequences of the merger. We urge you to consult with your tax advisor for a full understanding of the tax consequences of the merger to you.

Opinion of Financial Advisor to First National (Page 25)

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Allen C. Ewing & Co. (Ewing) has given an opinion to First National s board of directors that, as of June 30, 2005, the consideration to be received in the merger was fair, from a financial point of view, to First National shareholders. This opinion is attached as APPENDIX C to this proxy statement/prospectus. You should read this opinion completely to understand the assumptions made, matters considered and limitations of the review undertaken by Ewing. This opinion does not constitute a recommendation to any First National shareholder as to how to vote on the merger agreement or as to the form of consideration that a First National shareholder should elect.

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Opinion of Financial Advisor to ABC (Page 29)

SunTrust Robinson Humphrey (SunTrust) has given an opinion dated June 29, 2005 to ABC's board of directors that, as of such date, the consideration to be paid in the merger to the First National shareholders was fair, from a financial point of view, to ABC. This opinion is attached as APPENDIX D to this proxy statement/prospectus.

Reasons for the Merger (Page 24)

First National believes that by becoming part of a larger organization with greater resources, it will be able to serve its customers and communities better and provide more competitive services. The merger will also enable First National shareholders to exchange their relatively illiquid shares of First National common stock, in a partially tax-free transaction, for cash and shares of common stock of a larger company, the stock of which is more widely held and more liquid than that of First National.

First National Annual Shareholders Meeting (Page 19)

First National will hold its annual shareholders meeting on December 12, 2005 at 6:30 p.m., local time, at the Holiday Inn at the Jacksonville International Airport, 14670 Duval Road, Jacksonville, Florida 32218. At the annual meeting, First National shareholders will be asked to consider and vote upon the approval and adoption of the merger agreement and the election of 15 directors to First National's board of directors. First National shareholders may also consider such other matters as may properly be brought before the annual meeting and may be asked to vote on a proposal to adjourn or postpone the annual meeting, which could be used to allow more time for soliciting additional votes to approve and adopt the merger agreement.

First National Record Date and Voting (Page 19)

If you owned shares of First National common stock at the close of business on October 28, 2005, the record date for the annual meeting, you are entitled to vote on the approval and adoption of the merger agreement, the election of directors and any other matters considered at the annual meeting. On the record date, there were 1,016,376 shares of First National common stock outstanding. You will have one vote at the annual meeting for each share of First National common stock you owned on the record date. The affirmative vote of shareholders owning at least a majority of the outstanding First National common stock is required to approve and adopt the merger agreement. The affirmative vote of a plurality of the votes represented and entitled to vote at the annual meeting is required to elect directors. As of the close of business on the record date for the annual meeting, directors and executive officers of First National and their respective affiliates may be deemed to be the beneficial owners of shares of First National common stock representing approximately 68.1% of the outstanding voting power of First National. Each of the directors and executive officers of First National has indicated that such person intends to vote or direct the vote of all the shares of First National common stock over which such person has voting control in favor of the merger proposal and the election of each of the director nominees. In addition, certain First National shareholders, including all of First National's directors, which shareholders beneficially owned, in the aggregate, approximately 68.1% of the outstanding shares of First National common stock, as of the record date, entered into a voting agreement with ABC pursuant to which they granted to ABC an irrevocable proxy to vote all voting securities of First National held by such shareholders in favor of the approval and adoption of the merger agreement. As a result, the approval and adoption of the merger agreement by the First National shareholders is practically assured.

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First National's Board of Directors Recommends Shareholder Approval (Page 19)

First National's board of directors has determined that the merger is advisable and in the best interests of First National and its shareholders and unanimously recommends that you vote FOR the approval and adoption of the merger agreement and FOR the election of each of the director nominees.

ABC's Dividend Policy Following the Merger (Page 42)

ABC currently pays quarterly dividends of \$0.14 per share of common stock. ABC expects that it will continue to pay quarterly dividends, but it may change that policy based on business conditions, its financial condition or other factors. First National is not currently permitted to pay dividends on the First National common stock without the approval of the Board of Governors of the Federal Reserve System (the Federal Reserve Board). Further, First National is also restricted under the merger agreement from paying dividends or making any distributions in respect of First National common stock.

Interests of First National's Directors and Executive Officers in the Merger (Page 54)

When considering the recommendation of First National's board of directors, you should be aware of potential conflicts of interest of, and the benefits available to, certain of First National's directors and executive officers. These directors and executive officers may be deemed to have interests in the merger that are different from, or in addition to, their interests as First National shareholders generally. First National's board of directors was aware of these interests and considered them before approving the merger and the merger agreement.

Comparative Rights of Shareholders (Page 96)

Both ABC and First National are incorporated under the laws of the State of Georgia and are subject to the Georgia Business Corporation Code and the Georgia Financial Institutions Code. Upon completion of the merger, the shareholders of First National will become shareholders of ABC, and the Articles of Incorporation and Bylaws of ABC will govern their rights. ABC's Articles of Incorporation and Bylaws differ somewhat from First National's Articles of Incorporation and Bylaws.

Effect of the Merger on First National Stock Options (Page 42)

On June 30, 2005, there were 21,214 outstanding options to purchase First National common stock, which options had exercise prices of between \$14.05 and \$35.00 per share. Pursuant to the terms of the merger agreement, any option that is outstanding at the effective time of the merger will be cancelled in consideration of a cash payment to the option holder.

Accounting Treatment of the Merger (Page 43)

We expect to account for the merger as a purchase transaction for accounting and financial reporting purposes under accounting principles generally accepted in the United States (GAAP).

Employee Benefits of First National Employees After the Merger (Page 42)

ABC has agreed to offer to all current employees of First National who become ABC employees substantially the same employee benefits as those offered by ABC to its employees in similar positions. ABC will also give First National employees full credit for their years of service with First National for both eligibility and vesting.

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Conditions to the Merger (Page 39)

We will complete the merger only if several conditions are satisfied, including the following:

at least a majority of First National's outstanding shares are voted in favor of the approval and adoption of the merger agreement;

the representations and warranties made by ABC and First National in the merger agreement are materially true and correct as of the effective date of the merger;

we receive all necessary regulatory approvals and any waiting periods required by law have passed; and

First National's counsel delivers an opinion that First National shareholders will not recognize gain or loss for federal income tax purposes on the receipt of shares of ABC common stock that they receive in the merger.

Termination of the Merger Agreement (Page 40)

Notwithstanding the approval and adoption of the merger agreement by First National shareholders at the annual meeting, our boards of directors can jointly agree to terminate the merger agreement at any time. In addition, either party can terminate the merger agreement if:

we do not complete the merger by December 31, 2005;

the other party materially breaches its representations, warranties or covenants it made or obligations it has under the merger agreement and fails to cure the breach;

the conditions to completing the merger are not satisfied; or

any applicable regulatory agency denies approval of the merger.

ABC Common Stock Issued in the Merger to be Listed on NASDAQ (Page 42)

The shares of ABC common stock to be issued in the merger will be listed on The Nasdaq National Market under the symbol ABCB.

Required Regulatory Approvals (Page 40)

We cannot complete the merger unless it is approved by the Federal Reserve Board and the Georgia Department of Banking and Finance. ABC has filed applications with the Federal Reserve Board and the Georgia Department of Banking and Finance for approval of the merger. Although we cannot be certain when or whether we will obtain the required regulatory approvals, we do not know of any reason why we should not obtain them in a timely manner.

Comparative Market Prices of Common Stock (Page 12)

ABC common stock is traded on The Nasdaq National Market under the symbol ABCB. First National common stock is not traded on any established market. On June 30, 2005, the last day prior to the public announcement of the merger, the last reported sale price per share of ABC common stock on The Nasdaq National Market was \$18.08. The resulting equivalent pro forma price per share of First National common stock would have been \$33.23.

To the knowledge of First National, the most recent sale of First National common stock prior to the public announcement of the merger was on March 8, 2005, which was a sale of 50 shares for a purchase price of \$46.00 per share. To the knowledge of First National, there have been no sales since the announcement of the merger. There can be no assurance as to what the market price of the ABC common stock will be if and when the merger is consummated.

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Dissenting Shareholders' Rights (Page 52)

First National shareholders may dissent from the merger and, upon following the requirements of Georgia law, receive cash in the amount of the fair value of their First National shares instead of the cash and shares of ABC stock offered pursuant to the merger agreement.

Any First National shareholder who wishes to exercise dissenters' rights:

must file a written notice of intent to dissent prior to the vote;

must not vote in favor of the merger agreement; and

must strictly comply with the procedural requirements of Georgia law.

A copy of the dissenters' rights statutes is attached as APPENDIX B to this proxy statement/prospectus. We encourage you to read the statutes carefully and to consult with legal counsel if you desire to exercise your dissenters' rights.

Selected Consolidated Financial Information

We are providing the following information to help you analyze the financial aspects of the merger. This information is based on and should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and related notes of ABC and First National for the year ended December 31, 2004 and the quarter ended June 30, 2005, which appear elsewhere in this proxy statement/prospectus. Information as of and for the quarter ended June 30, 2005 and 2004 with respect to both ABC and First National is unaudited; however, in the opinion of management of ABC and First National, respectively, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of the results for the periods presented have been included. Neither ABC's nor First National's results for the six months ended June 30, 2005 are necessarily indicative of the results of operations that may be expected for any other interim period or the year as a whole. The information has been adjusted to reflect all stock splits and stock dividends declared through the last date of each period presented. See the sections entitled "Where You Can Get More Information" at page 108, "ABC Bancorp Financial Statements" at page F-1 and "First National Banc, Inc. Financial Statements" at page F-1.

Table of Contents**Index to Financial Statements****ABC BANCORP AND SUBSIDIARIES****(In Thousands, Except Per Share Data and Ratios)**

	Six Months Ended						
	June 30,		Years Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Selected Balance Sheet Data:							
Total assets	\$ 1,305,156	\$ 1,157,156	\$ 1,267,993	\$ 1,169,111	\$ 1,193,406	\$ 1,177,953	\$ 826,197
Total loans	962,412	859,653	877,074	840,539	833,447	805,076	587,381
Total deposits	1,035,863	879,187	986,224	906,524	916,047	931,156	679,885
Investment securities	218,371	192,784	221,741	196,289	184,081	156,835	162,105
Stockholders equity	125,084	115,415	120,939	113,613	107,484	104,148	80,656
Selected Income Statement Data:							
Interest income	36,153	31,109	64,365	64,479	71,347	72,913	68,976
Interest expense	11,461	9,360	19,375	22,141	28,240	34,928	30,805
Net interest income	24,692	21,749	44,990	42,338	43,107	37,985	38,171
Provision for loan losses	905	938	1,786	3,945	5,574	4,566	1,712
Other income	7,156	6,629	13,023	14,718	15,706	11,749	8,215
Other expenses	20,290	18,159	36,505	35,147	37,807	30,843	30,233
Income before tax	10,653	9,281	19,722	17,964	15,432	14,325	14,441
Income tax expense	3,553	3,053	6,621	5,954	5,077	4,692	4,343
Net income	\$ 7,100	\$ 6,228	\$ 13,101	\$ 12,010	\$ 10,355	\$ 9,633	\$ 10,098
Per Share Data:							
Net income basic	\$ 0.60	\$ 0.53	\$ 1.12	\$ 1.03	\$ 0.87	\$ 0.87	\$ 0.99
Net income diluted	0.61	0.53	1.11	1.02	0.87	0.87	0.99
Book value	10.54	9.81	10.28	9.68	9.17	8.68	8.05
Tangible book value	8.15	7.92	7.84	7.76	7.16	6.57	7.37
Dividends	0.28	0.24	0.47	0.43	0.40	0.40	0.38
Profitability Ratios:							
Net income to average total assets	1.12%	1.07%	1.12%	1.04%	0.90%	1.00%	1.27%
Net income to average stockholders equity	11.55%	10.78%	11.19%	10.85%	9.81%	10.30%	13.19%
Net interest margin	4.23%	4.07%	4.15%	3.96%	4.07%	4.27%	5.14%
Efficiency ratio	63.71%	63.99%	62.93%	61.60%	64.28%	62.02%	65.18%
Loan Quality Ratios:							
Net charge-offs to total loans	-0.03%	0.16%	0.22%	0.46%	0.68%	0.54%	0.30%
Reserve for loan losses to total loans and OREO	1.72%	1.77%	1.77%	1.78%	1.78%	1.85%	1.67%
Non performing assets to total loans and OREO	0.53%	0.86%	0.70%	0.95%	1.11%	1.67%	0.95%
	377.50%	264.68%	274.70%	231.20%	196.64%	124.97%	202.18%

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Reserve for loan losses to
nonperforming loans

Reserve for loan losses to total nonperforming assets	323.25%	205.82%	253.32%	187.58%	160.74%	111.00%	175.38%
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Liquidity Ratios:

Loans to total deposits	92.91%	97.78%	88.93%	92.72%	90.98%	86.46%	86.39%
Loans to average earning assets	82.43%	80.42%	80.91%	78.63%	78.76%	90.56%	79.05%
Noninterest-bearing deposits to total deposits	14.59%	14.70%	15.22%	15.63%	14.38%	13.48%	13.96%

Capital Adequacy Ratios:

Common stockholders' equity to total assets	9.58%	9.97%	9.54%	9.72%	9.01%	8.84%	9.76%
Average total stockholders' equity to average total assets	9.68%	9.97%	9.98%	9.56%	9.17%	9.74%	9.59%
Dividend payout ratio	46.67%	45.28%	41.96%	41.75%	45.98%	45.98%	38.38%

Table of Contents**Index to Financial Statements****FIRST NATIONAL BANC, INC. AND SUBSIDIARIES**

	Six Months Ended June 30,		Years Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Selected Balance Sheet Data:							
Total assets	\$ 270,037,473	\$ 233,543,029	\$ 265,634,948	\$ 142,128,389	\$ 118,895,203	\$ 113,530,413	\$ 90,227,394
Total loans	206,020,080	197,295,811	220,311,351	116,879,504	96,394,707	77,531,767	58,955,269
Total deposits	233,067,414	186,319,436	229,629,221	112,806,134	90,026,216	86,071,217	68,538,790
Investment securities	18,533,225	15,834,082	17,578,770	9,045,775	11,575,682	21,225,317	17,337,856
Stockholders' equity	17,091,254	21,652,443	18,139,878	11,790,096	10,532,865	8,636,683	7,679,040
Selected Income Statement Data:							
Interest income	8,538,484	6,312,624	14,926,368	9,079,560	8,322,241	7,949,251	6,370,412
Interest expense	2,997,540	1,757,006	4,250,979	3,183,575	3,622,371	4,407,828	3,707,880
Net interest income	5,540,944	4,555,618	10,675,389	5,895,985	4,699,870	3,541,423	2,662,532
Provision for loan losses	3,597,000	265,658	7,808,877	456,519	592,347	633,328	167,141
Other income	1,066,370	938,133	2,206,593	1,469,565	2,036,229	1,950,566	1,069,137
Other expenses	4,405,668	3,366,759	8,219,458	4,697,969	4,119,453	3,210,982	2,422,332
Income before tax	(1,395,354)	1,861,334	(3,146,353)	2,211,062	2,024,299	1,647,679	1,142,196
Income tax expense	(597,579)	730,237	(1,234,000)	782,322	695,393	536,500	372,600
Net income	\$ (797,775)	\$ 1,131,097	\$ (1,912,353)	\$ 1,428,740	\$ 1,328,906	\$ 1,111,179	\$ 769,596
Per Share Data:							
Net income loss basic	\$ (0.78)	\$ 1.30	\$ (2.03)	\$ 1.99	\$ 2.74	\$ 2.56	\$ 1.73
Net income loss diluted	(0.78)	1.29	(2.03)	1.96	2.69	2.54	1.72
Book value	16.82	21.30	17.54	24.15	21.61	20.21	17.58
Tangible book value	14.46	18.77	15.15	24.15	21.61	20.21	17.58
Dividends	0.20	0.12	0.57	0.00	0.00	0.00	0.00
Profitability Ratios:							
Net income to average total assets	(0.60%)	1.20%	(0.81%)	1.10%	1.14%	1.09%	0.91%
Net income to average stockholders equity	(9.06%)	13.53%	(10.08%)	13.02%	13.86%	13.62%	10.57%
Net interest margin	4.55%	5.29%	4.95%	4.93%	4.43%	3.90%	3.61%
Efficiency ratio	66.68%	61.28%	63.81%	63.78%	61.15%	58.47%	64.91%
Loan Quality Ratios:							
Net charge-offs to total loans	2.07%	-0.03%	2.78%	0.09%	0.26%	0.22%	0.21%
Reserve for loan losses to total loans and OREO	2.71%	1.37%	1.88%	1.33%	1.27%	1.15%	0.72%
Non performing assets to total loans and OREO	2.61%	1.09%	2.74%	1.81%	1.12%	1.41%	2.81%
Reserve for loan losses to nonperforming loans	155.85%	797.17%	88.46%	575.93%	141.11%	97.62%	30.99%
Reserve for loan losses to total nonperforming assets	103.98%	126.49%	68.65%	73.36%	113.57%	81.06%	25.81%
Liquidity Ratios:							
Loans to total deposits	88.40%	105.89%	95.94%	103.61%	107.07%	90.08%	86.02%
Loans to average earning assets	84.54%	114.51%	102.25%	97.81%	90.96%	85.38%	79.83%

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Noninterest-bearing deposits to total deposits	11.55%	13.07%	10.37%	9.32%	12.06%	12.03%	12.52%
Capital Adequacy Ratios:							
Common stockholders equity to total assets	6.33%	9.27%	6.83%	8.30%	8.93%	7.61%	8.51%
Average total stockholders equity to average total assets	6.58%	8.90%	8.07%	8.42%	8.25%	8.01%	8.66%
Dividend payout ratio	(25.64%)	16.46%	(28.08%)	0.00%	0.00%	0.00%	0.00%

Table of Contents**Index to Financial Statements****Selected Unaudited Pro Forma Combined Consolidated Financial Information**

The following selected unaudited pro forma combined consolidated financial information of ABC and First National combine the consolidated financial information of ABC for the year ended December 31, 2004 and as of and for the six months ended June 30, 2005, with the consolidated financial information of First National for the year ended December 31, 2004 and as of and for the six months ended June 30, 2005, after giving effect to the merger. The information presented below is based on and should be read in conjunction with, and is qualified in its entirety by, the unaudited pro forma combined consolidated financial information, and the notes thereto, appearing elsewhere in this proxy statement/prospectus.

We are providing the selected unaudited pro forma combined consolidated financial information for informational purposes only. The pro forma information is not necessarily indicative of the combined results of operations or actual results of ABC that would have been reported had the merger been completed at the beginning of the periods presented and should not be taken as representative of the future combined results of operations of ABC.

We prepared the selected unaudited pro forma combined consolidated financial information using the purchase method of accounting. The selected unaudited pro forma combined consolidated financial information does not include the realization of any cost savings from operating efficiencies, synergies or other restructuring activities which might result from the merger. The information has been adjusted to reflect all stock splits and stock dividends declared through the last date of each period presented. See the section entitled "Unaudited Pro Forma Combined Consolidated Financial Information" at page 46.

ABC BANCORP AND SUBSIDIARIES**COMBINED WITH FIRST NATIONAL BANC, INC. AND SUBSIDIARIES****SELECTED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION****(In Thousands, Except Per Share Data and Ratios)**

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
	_____	_____
Selected Balance Sheet Data:		
Total assets	\$ 1,580,260	\$ 1,538,999
Total loans	1,168,433	1,097,385
Total deposits	1,268,930	1,215,853
Investment securities	236,904	239,320
Stockholders' equity	147,546	143,401
Selected Income Statement Data:		
Interest income	45,892	78,897
Interest expense	14,309	23,626
	_____	_____
Net interest income	31,583	55,271
Provision for loan losses	4,716	9,595

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Other income	8,051	15,230
Other expenses	26,362	45,306
	<u> </u>	<u> </u>
Income before tax	8,556	15,600
Income tax expense	2,790	5,055
	<u> </u>	<u> </u>
Net income	\$ 5,766	\$ 10,545
	<u> </u>	<u> </u>

Table of Contents**Index to Financial Statements****ABC BANCORP AND SUBSIDIARIES****COMBINED WITH FIRST NATIONAL BANC, INC. AND SUBSIDIARIES****SELECTED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION****(In Thousands, Except Per Share Data and Ratios)**

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
	_____	_____
Per Share Data:		
Net income basic	\$ 0.44	\$ 0.81
Net income diluted	0.44	0.81
Book value	11.28	11.05
Tangible book value	7.59	7.54
Dividends	0.27	0.47
Profitability Ratios:		
Net income to average total assets	0.75%	0.75%
Net income to average stockholders' equity	7.93%	7.56%
Net interest margin	4.51%	4.29%
Efficiency ratio	66.51%	64.26%
Loan Quality Ratios:		
Net charge-offs to total loans	0.34%	0.73%
Reserve for loan losses to total loans and OREO	1.90%	1.79%
Non performing assets to total loans and OREO	0.90%	1.11%
Reserve for loan losses to nonperforming loans	277.33%	189.89%
Reserve for loan losses to total nonperforming assets	210.52%	161.28%
Liquidity Ratios:		
Loans to total deposits	92.08%	90.26%
Loans to average earning assets	83.51%	85.24%
Noninterest-bearing deposits to total deposits	14.03%	14.30%
Capital Adequacy Ratios:		
Common shareholders' equity to total assets	9.34%	9.32%
Average total stockholders' equity to average total assets	9.42%	9.87%
Dividend payout ratio	61.36%	58.02%

Table of Contents**Index to Financial Statements****Comparison of Certain Unaudited Per Share Data**

The following tables present unaudited selected historical, pro forma combined and equivalent per share data, as if the merger had been consummated on the date indicated. The information is based on the historical financial statements of ABC and First National. The pro forma data does not purport to be indicative of the results of operations or the actual results that would have occurred had the merger been consummated at the beginning of the periods presented. The pro forma data gives effect to the merger based on numerous assumptions and estimates. If the merger is consummated as anticipated, then it will be accounted for as a purchase. The information presented below should be read in conjunction with, and is qualified in its entirety by, the separate consolidated financial statements, including applicable notes, of ABC and First National, and the Unaudited Pro Forma Combined Consolidated Financial Information, and notes thereto, appearing elsewhere in this proxy statement/prospectus.

	As of and for the Six Months Ended June 30, 2005				As of and for the Year Ended December 31, 2004			
	ABC	First National	Pro forma Combined(1)	Equivalent First National Amount Per Share(2)	ABC	First National	Pro forma Combined(1)	Equivalent First National Amount Per Share(2)
Net Income Per Common Share Basic	\$ 0.60	\$ (0.78)	\$ 0.44	\$ 0.81	\$ 1.12	\$ (2.03)	\$ 0.81	\$ 1.49
Net Income Per Common Share Diluted	0.60	(0.78)	0.44	0.81	1.11	(2.03)	0.81	1.49
Dividends Per Common Share	0.28	0.20	0.27	0.50	0.47	0.57	0.47	0.86
Book Value Per Common Share	10.54	16.82	11.28	20.73	10.28	17.85	11.05	20.30
Tangible Book Value Per Common Share	8.15	14.46	7.59	13.96	7.84	15.41	7.54	13.86

- (1) See the section entitled "Unaudited Pro Forma Combined Consolidated Financial Information" at page 46.
- (2) The equivalent share information for First National in the above table is computed in the following manner: (a) approximately 35% of the shares of First National common stock (including shares with respect to which dissenters' rights have been perfected) will be converted into cash; and (b) approximately 65% of the shares of First National common stock will be converted into shares of ABC common stock (plus cash in lieu of any fractional shares) having a market value of \$18.50 per share at an exchange ratio of 1.8378 shares of ABC common stock for each share of First National common stock.

Table of Contents**Index to Financial Statements****Comparative Stock Prices**

ABC common stock is traded on The Nasdaq National Market under the symbol ABCB. First National common stock is not publicly traded. The following table sets forth, for the indicated periods, the high and low closing sale prices for ABC common stock as reported by The Nasdaq National Market. The stock prices do not include retail mark-ups, mark-downs or commissions. On February 15, 2005, ABC's board of directors approved a six-for-five stock split of the ABC common stock payable on or about March 31, 2005 to ABC shareholders of record on March 15, 2005. The amounts below have been adjusted to reflect this stock split. ABC had a total of 1,975 shareholders of record as of October 28, 2005.

	ABC Common Stock Closing Sales Prices	
	High	Low
2005		
Fourth Quarter (through October 28, 2005)	\$ 18.96	\$ 17.90
Third Quarter	\$ 17.78	\$ 20.03
Second Quarter	\$ 18.72	\$ 16.38
First Quarter	\$ 18.52	\$ 15.08
2004		
Fourth Quarter	\$ 17.77	\$ 15.62
Third Quarter	\$ 16.38	\$ 13.54
Second Quarter	\$ 16.50	\$ 14.23
First Quarter	\$ 15.56	\$ 12.89
2003		
Fourth Quarter	\$ 13.64	\$ 12.56
Third Quarter	\$ 13.68	\$ 11.52
Second Quarter	\$ 11.36	\$ 10.50
First Quarter	\$ 11.08	\$ 10.03

On June 30, 2005, the last day prior to the public announcement of ABC's proposed acquisition of First National, the last reported sale price per share of ABC common stock on The Nasdaq National Market was \$18.08, and the resulting equivalent pro forma price per share of First National common stock was \$33.23. On October 28, 2005, the latest practicable date prior to the mailing of this proxy statement/prospectus, the last reported sale price per share of ABC common stock on The Nasdaq National Market was \$18.85, and the resulting equivalent pro forma price per share of First National common stock was \$34.81. The equivalent per share price of a share of First National common stock at each specified date represents the last reported sale price of a share of ABC common stock on such date multiplied by an assumed exchange ratio of approximately 1.8378 shares of ABC common stock with respect to June 30, 2005, and 1.8468 shares of ABC common stock with respect to October 28, 2005, plus \$12,095,000 in cash (exclusive of any withholdings). The market price of ABC common stock at the effective time of the merger may be higher or lower than the market price at the time the merger proposal was announced, at the time the merger agreement was executed, at the time the mailing of this proxy statement/prospectus or at the time of the annual meeting. First National shareholders are not assured of receiving any specific market value of ABC common stock at the effective time of the merger, and such value may be more or less than the current value of ABC common stock.

There is no established public market for the First National common stock. To the knowledge of First National, the most recent trade of First National common stock prior to June 30, 2005, the last day prior to the public announcement of ABC's proposed acquisition of First National, was the sale of 50 shares on March 8, 2005, at \$46.00 per share. To the knowledge of First National, there have been no trades of First National common stock since the announcement of the merger.

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The information regarding First National common stock is provided for informational purposes only and, due to the absence of an active market for First National common stock, you should not view it as indicative of the actual or market value of First National common stock.

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Dividends

The holders of ABC common stock are entitled to receive dividends when and if declared by ABC's board of directors out of funds legally available therefor. Although ABC currently intends to continue to pay quarterly cash dividends on ABC common stock, there is no assurance that ABC's dividend policy will remain unchanged after completion of the merger. The declaration and payment of dividends thereafter will depend upon business conditions, operating results, capital and reserve requirements, and the consideration by ABC's board of directors of other relevant factors.

ABC is a legal entity separate and distinct from its subsidiaries and its revenues depend in significant part on the payment of dividends from its subsidiary institutions. ABC's subsidiary depository institutions are subject to certain legal restrictions on the amount of dividends they are permitted to pay. See the section entitled "Supervision and Regulation - Payment of Dividends" at page 59. These restrictions may limit ABC's ability to pay dividends to its shareholders. As of November 2, 2005, ABC does not believe these restrictions will impair ABC's ability to declare and pay its routine and customary dividends.

The holders of First National common stock are entitled to receive such dividends or distributions as First National's board of directors may declare out of funds legally available for such payments. The payment of distributions by First National is subject to the restrictions of Georgia law applicable to the declaration of distributions by a business corporation. A corporation generally may not authorize and make distributions if, after giving effect thereto, it would be unable to meet its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were to be dissolved at the time of distribution, to satisfy claims upon dissolution of shareholders who have preferential rights superior to the rights of the holders of its common stock.

The ability of First National to pay distributions is affected by the ability of its subsidiary banks to pay dividends. The ability of First National's subsidiary banks, as well as of First National, to pay dividends in the future is influenced by bank regulatory requirements and capital guidelines. At the request of the Federal Reserve Board, First National has agreed not to pay any dividends on the First National common stock without the approval of the Federal Reserve Board. First National is also restricted under the merger agreement from paying dividends or making any distributions in respect of First National common stock.

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The following table sets forth cash dividends declared per share of ABC common stock, as adjusted for ABC's stock split effective March 15, 2005, and First National common stock for the periods indicated.

	ABC Quarterly Cash Dividends Declared Per Share	First National Quarterly Cash Dividends Declared Per Share
	<u> </u>	<u> </u>
YEAR ENDING DECEMBER 31, 2005		
Third Quarter	\$ 0.14	\$
Second Quarter	\$ 0.14	\$
First Quarter	\$ 0.14	\$ 0.20
	<u> </u>	<u> </u>
Total	\$ 0.28	\$ 0.20
	<u> </u>	<u> </u>
YEAR ENDED DECEMBER 31, 2004		
Fourth Quarter	\$ 0.12	\$ 0.15
Third Quarter	\$ 0.12	\$ 0.15
Second Quarter	\$ 0.12	\$ 0.15
First Quarter	\$ 0.12	\$ 0.11
	<u> </u>	<u> </u>
Total	\$ 0.48	\$ 0.56
	<u> </u>	<u> </u>
YEAR ENDED DECEMBER 31, 2003		
Fourth Quarter	\$ 0.12	\$
Third Quarter	\$ 0.12	\$
Second Quarter	\$ 0.10	\$
First Quarter	\$ 0.10	\$
	<u> </u>	<u> </u>
Total	\$ 0.44	\$
	<u> </u>	<u> </u>

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RISK FACTORS

In addition to the other information contained or incorporated by reference in this proxy statement/prospectus, we urge you to consider the following factors before deciding how to vote on the approval and adoption of the merger agreement.

Risks Associated with the Merger

You may not know the exact mix of consideration you will receive and might not be able to exchange your First National common stock without recognizing gain for federal income tax purposes.

The consideration to be received by First National shareholders in the merger is subject to proration. If you elect to receive all of the merger consideration in shares of ABC common stock and the all-stock election is oversubscribed, then you will receive a portion of the merger consideration in cash. Similarly, if you elect to receive all of the merger consideration in cash and all the all-cash election is oversubscribed, then you will receive a portion of the merger consideration in shares of ABC common stock. Accordingly, you may not receive exactly the type of consideration you elect to receive in the merger, which could result in, among other things, tax consequences that differ from those that would have resulted if you had received the form of consideration that you elected (including the potential recognition of gain for federal income tax purposes if you receive cash). A discussion of the proration mechanism can be found under the section entitled **Terms of the Merger Merger Consideration** at page 36 and a discussion of the material federal income tax consequences of the merger can be found under the section entitled **Federal Income Tax Consequences of the Merger** at page 50.

Because the market price of ABC common stock may fluctuate, you cannot be sure of the market value of the common stock that you will receive in the merger.

Upon completion of the merger, the issued and outstanding shares of First National common stock will be converted into the right to receive a combination of cash and shares of ABC common stock pursuant to the terms of the merger agreement. The value of the portion of the merger consideration that will be paid in shares of ABC common stock will be determined based on the average closing price of ABC common stock during the trading period. The market price of ABC common stock will likely be different, and may be lower, on the date you receive your shares of ABC common stock than this average. Differences in ABC's stock price may result from a variety of factors, including general market and economic conditions, changes in ABC's business, operations and prospects, and regulatory considerations. Many of these factors are beyond ABC's control. If the market price of ABC common stock declines after you vote, and you receive ABC common stock as a portion of the merger consideration, then you will be receiving less value than you expected when you voted.

The market value of the ABC common stock received by you in the merger may change based upon the average closing price of ABC common stock.

If the average closing price of ABC common stock during the trading period is between \$14.00 and \$20.00 per share, then the market value of the ABC common stock to be received by First National shareholders in the merger will equal \$34.00 per share measured as of the trading period. If the average closing price is less than \$14.00 per share, then First National will have the right to terminate the merger agreement unless

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ABC increases the merger consideration so that you receive what you would have received had the average closing price been \$14.00 per share. If the average closing price is less than \$14.00 per share and First National does not exercise its right of termination, then the value of the ABC common stock received by First National shareholders in the merger will be less than \$34.00 per share measured as of the trading period.

Combining our two companies may be more difficult, costly or time-consuming than we expect.

ABC and First National have operated and, until completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees or disruption of each company's ongoing business or inconsistencies in standards, procedures and policies that adversely affect

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our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger. If we have difficulties with the integration process, then we might not achieve the economic benefits we expect to result from the merger. As with any merger of banking institutions, there also may be business disruptions that cause us to lose customers or cause customers to take their deposits out of our banks and move their business to other financial institutions.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated.

The merger must be approved by the Federal Reserve Board and the Georgia Department of Banking and Finance. The Federal Reserve Board and the Georgia Department of Banking and Finance will consider, among other factors, the competitive impact of the merger, our financial and managerial resources and the convenience and needs of the communities to be served. As part of that consideration, we expect that the Federal Reserve Board and the Georgia Department of Banking and Finance will review capital position, safety and soundness, and legal and regulatory compliance matters and Community Reinvestment Act matters. There is no assurance as to whether these and other regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed.

The market price of ABC common stock after the merger may be affected by factors different from those affecting First National common stock currently.

The businesses of ABC and First National differ in certain respects and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock after the merger may be affected by factors different from those currently affecting the independent results of operations of each of ABC and First National. For a discussion of the businesses of ABC and First National and of certain factors to consider in connection with those businesses, see the sections entitled "Information About ABC" at page 64 and "Information About First National" at page 64 and the documents that ABC has filed with the SEC.

The merger agreement limits First National's ability to pursue alternatives to the merger.

The merger agreement contains provisions that limit First National's ability to discuss competing third-party proposals to acquire all or a significant part of First National or its subsidiary banks. In addition, First National has agreed to pay ABC a fee of \$1.5 million if the transaction is terminated because First National decides to pursue another acquisition transaction. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of First National from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger or might result in a potential competing acquiror proposing to pay a lower per share price to acquire First National than it might otherwise have proposed to pay.

Certain directors and executive officers of First National have interests in the merger other than their interests as shareholders.

Certain directors and executive officers of First National have interests in the merger other than their interests as shareholders. First National's board of directors was aware of these interests at the time it approved the merger. These interests may cause First National's directors and executive officers to view the merger proposal differently than you may view it. See the section entitled "Interests of First National's Directors and Executive Officers in the Merger" at page 54.

The trading volume in ABC common stock has been relatively low.

The trading volume in ABC common stock on The Nasdaq National Market has been relatively low when compared with larger companies listed on The Nasdaq National Market or other stock exchanges. We cannot say

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with any certainty that a more active and liquid trading market for ABC common stock will develop. Because of this, it may be more difficult for you to sell a substantial number of shares for the same price at which you could sell a smaller number of shares.

You will have less influence as a shareholder of ABC than you have as a shareholder of First National.

Based upon the amount of cash received by First National shareholders in the merger, the First National shareholders as a group will own between 5.92% (if 60% of the merger consideration is in the form of cash) and 9.28% (if 35% of the merger consideration is in the form of cash) of the common stock of the combined company. If the merger occurs, then each First National shareholder who receives ABC common stock will become a shareholder of ABC with a percentage ownership of the combined company much smaller than such shareholder's percentage interest of First National and, accordingly, will have less influence on the management and policies of ABC than such shareholder now has on the management and policies of First National.

The fairness opinion obtained by First National will not reflect changes in circumstances between the signing of the merger agreement and the effective date of the merger.

First National has not obtained an updated opinion as of the date of the amendment to the merger agreement or as of the date of this document from its financial adviser. Changes in the operations and prospects of First National, general market and economic conditions and other factors which may be beyond the control of First National, and on which the fairness opinion was based, may alter the value of First National or the prices of shares of First National common stock and shares of ABC common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. For a description of the opinion that First National received from its financial advisor, see the section entitled "Opinion of Financial Advisor to First National" at page 25.

Risks Associated with ABC

Changes in interest rates could have an adverse effect on ABC's income.

The combined company's profitability depends to a large extent upon its net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. ABC's net interest income will be adversely affected if market interest rates change such that the interest the combined company has to pay on deposits and borrowings increases faster than the interest we earn on loans and investments. See the section entitled "Supervision and Regulation-Fiscal and Monetary Policy" at page 63.

Competition in the banking industry is intense.

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Competition in the banking and financial services industry is intense. In their primary market areas, ABC's subsidiary banks compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than ABC's subsidiary banks and may offer certain services that ABC's subsidiary banks do not or cannot provide. The profitability of ABC depends upon the continued ability of its subsidiary banks to compete in their market areas.

ABC's Articles of Incorporation and Bylaws may prevent or delay a takeover by another company.

ABC's Articles of Incorporation permit ABC's board of directors to issue preferred stock without shareholder action. The ability to issue preferred stock could discourage a company from attempting to obtain control of ABC by means of a tender offer, merger, proxy contest or otherwise. Additionally, ABC's Articles of Incorporation and Bylaws divide ABC's board of directors into three classes, as nearly equal in size as possible,

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with staggered three-year terms. One class is elected each year. The classification of ABC's board of directors could make it more difficult for a company to acquire control of ABC. ABC is also subject to certain provisions of the Georgia Business Corporation Code and ABC's Articles of Incorporation which relate to business combinations with interested shareholders.

Success of ABC depends upon local economic conditions.

ABC's success is dependent to a certain extent upon the general economic conditions in the geographic markets served by ABC's subsidiary banks, primarily including south central and southwestern Georgia, southeastern Alabama, north central Florida and the immediate surrounding areas. Adverse changes in the geographic markets that ABC's subsidiary banks serve would likely impair their ability to collect loans and could otherwise have a negative effect on the financial condition of ABC. Examples of potential unfavorable changes in economic conditions which could affect south central and southwestern Georgia, southeastern Alabama and north central Florida include, among other things, the adverse effects of weather on agricultural production and a substantial decline in agricultural commodity prices.

ABC and its subsidiary banks operate in a regulated environment.

Bank holding companies and banks operate in a highly regulated environment and are subject to the supervision and examination by several federal and state regulatory agencies. ABC is subject to The Bank Holding Company Act of 1956 and to regulation and supervision by the Federal Reserve Board. ABC's subsidiary banks are also subject to the regulation and supervision of the Federal Deposit Insurance Corporation (the FDIC), the Office of the Comptroller of the Currency (the OCC), the Georgia Department of Banking and Finance, the Alabama State Banking Department and the Florida Department of Banking and Finance. Federal and state laws and regulations govern matters ranging from the regulation of certain debt obligations, changes in control of bank holding companies and the maintenance of adequate capital for the general business operations and financial condition of ABC's subsidiary banks, including permissible types, amounts and terms of loans and investments, the amount of reserves against deposits, restrictions on dividends, establishment of branch offices, and the maximum rate of interest that may be charged by law. The Federal Reserve Board also possesses cease and desist powers over bank holding companies to prevent or remedy unsafe or unsound practices or violations of law. These and other restrictions limit the manner by which ABC and its subsidiary banks may conduct their businesses and obtain financing. Furthermore, the commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve Board. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of commercial banks. Changes in monetary or legislative policies may affect the ability of ABC's subsidiary banks to attract deposits and make loans.

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FIRST NATIONAL ANNUAL SHAREHOLDERS MEETING

Date, Time and Place

The First National annual shareholders meeting will be held at the Holiday Inn at the Jacksonville International Airport, 14670 Duval Road, Jacksonville, Florida 32218 at 6:30 p.m., local time, on December 12, 2005.

Matters to be Considered at the Annual Meeting

At the annual meeting, holders of First National stock will be asked to consider and vote upon the approval and adoption of the merger agreement and the election of 15 common directors to First National's board of directors. First National shareholders may also consider such other matters as may properly be brought before the annual meeting and may be asked to vote on a proposal to adjourn or postpone the annual meeting, which could be used to allow more time for soliciting additional votes to approve and adopt the merger agreement.

First National's board of directors has approved the merger agreement and recommends a vote for approval and adoption of the merger agreement and a vote for the election of each of the director nominees.

Record Date; Shares Outstanding; Quorum

Only shareholders of record of First National common stock at the close of business on October 28, 2005 will be entitled to notice of, and to vote at, the annual meeting. On October 28, 2005, First National had outstanding 1,016,376 shares of First National common stock. There is no other class of First National common stock outstanding. Each share of First National common stock entitles the holder to one vote. The presence at the First National annual meeting, in person or by proxy, of shareholders entitled to cast a majority of all the votes entitled to be cast at the annual meeting will constitute a quorum. There must be a quorum present in order for the vote on the merger agreement and the election of directors to occur.

Vote Required

The approval and adoption of the merger agreement will require the affirmative vote of at least a majority of the outstanding shares of First National (*i.e.*, at least 508,189 shares). The election of individuals to serve on First National's board of directors will require an affirmative vote of a plurality of the votes represented and entitled to vote at the annual meeting, meaning that the 15 nominees receiving the most votes will be elected as directors. Approval of the adjournment of the annual meeting requires the affirmative vote of a majority of the shares represented at the annual meeting, whether or not a quorum is present. As of the record date for the annual meeting, certain First National shareholders, including all of its directors, which shareholders together beneficially owned approximately 692,152 shares as of the record date, or approximately 68.1% of the outstanding First National common stock, have granted to ABC an irrevocable proxy to vote their First National

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common stock in favor of the approval and adoption of the merger agreement. As a result, the approval and adoption of the merger agreement by the First National shareholders is practically assured.

Voting of Proxies

All executed proxies received at or prior to the annual meeting will be voted at the meeting in the manner specified, unless the proxy is revoked prior to the vote. Properly executed proxies that do not contain voting instructions will be voted **FOR** the approval and adoption of the merger agreement and the director nominees recommended by management.

It is not expected that any other matter will be brought before the annual meeting. If, however, other matters are properly presented, the persons named as proxies will vote in accordance with their best judgment with respect to such matters.

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If a quorum is not obtained, the annual meeting may be adjourned for the purpose of obtaining additional proxies. At any reconvening of the meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the meeting (except for any proxies which have been revoked or withdrawn).

Effect of Abstentions and Broker Non-Votes

You may abstain from voting on the approval and adoption of the merger agreement. Abstentions will be considered shares present and entitled to vote at the annual meeting but will not be counted as votes cast at the meeting. Broker non-votes with respect to the merger agreement also will not be counted as votes cast at the meeting. Abstentions and broker non-votes will not be counted in computing a plurality and thus will have no effect on the election of directors.

Because the approval and adoption of the merger agreement requires the affirmative vote of at least a majority of all shares entitled to vote at the annual meeting, abstentions by First National shareholders and broker non-votes will have the same effect as votes against the merger agreement. Accordingly, you are urged to complete, date and sign the accompanying form of proxy card and return it promptly in the enclosed postage-paid envelope.

Revocability of Proxies

The grant of a proxy on the enclosed First National form does not preclude you from voting in person or otherwise revoking a proxy. You may revoke a proxy at any time prior to its exercise by:

filing with the secretary of First National a duly executed revocation of proxy;

submitting a duly executed proxy bearing a later date; or

appearing at the annual meeting and voting in person at the meeting.

Attendance at the annual meeting will not, in and of itself, constitute a revocation of a proxy. All written notices of revocation and other communications with respect to the revocation of proxies should be addressed to: Roscoe H. Mullis, First National Banc, Inc., 2509 Osborne Road, St. Marys, Georgia 31558

Solicitation of Proxies

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First National will bear the cost of the solicitation of proxies from its shareholders, and ABC and First National will each bear one-half of the costs associated with printing and mailing of this proxy statement/prospectus. In addition to solicitation by mail, the directors, officers and employees of First National may solicit proxies from First National shareholders by telephone or telegram or in person without compensation other than reimbursements of their actual and reasonable expenses. First National will reimburse any custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in connection with forwarding proxy solicitation material to beneficial owners of the stock they hold.

You should not send stock certificates with your proxy cards. As described below under the section entitled Exchange of First National Stock Certificates at page 35, you will be sent under separate cover prior to the annual meeting materials for exchanging your shares of First National.

Independent Registered Accountants

For the year ended December 31, 2004, Elliott Davis LLC (Elliot Davis) served as First National s independent registered accountant. The engagement of Elliot Davis was approved by First National s board of directors and the audit committee of First National s board of directors. Representatives of Elliot Davis are not expected to be present at the annual meeting.

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THE MERGER

The following information summarizes information pertaining to the merger. The descriptions of the terms and conditions of the merger, the merger agreement and any related documents in this proxy statement/prospectus are not complete and are qualified in their entirety by the more detailed appendices to this proxy statement/prospectus which are incorporated by reference, including the merger agreement attached as APPENDIX A. We urge you to read the appendices in their entirety.

Overview

If the First National shareholders approve and adopt the merger agreement and the other conditions to the consummation of the merger are satisfied, ABC will acquire First National pursuant to the merger of First National with and into ABC. ABC will exchange cash and shares of its common stock, plus cash instead of any fractional share, for each outstanding share of First National common stock as to which appraisal rights have not been exercised and perfected (other than treasury shares and shares held by ABC or First National or their subsidiaries, all of which will be cancelled in the merger). Each share of ABC common stock issued and outstanding immediately prior to the effective time of the merger will remain issued and outstanding and unchanged as a result of the merger.

Background of the Merger

During the past several years, there has been a trend toward consolidation in the banking industry. This trend has enabled participants in business combinations to benefit from the economies of scale and greater efficiencies resulting from the shared services, technology and purchasing power of the combined entities. Banks have increasingly sought suitable acquisition candidates as a means of utilizing excess capital and obtaining the benefits described above.

Since 1994, ABC has been reviewing and analyzing possible acquisition opportunities in the southern Georgia, southeastern Alabama and north central Florida areas. ABC's strategic plan has been to enhance shareholder value by creating a larger organization in such areas. ABC's goal has been to provide broader and more comprehensive services to its customers, to create efficiencies in the administration and service functions and to provide a larger shareholder base with a more liquid security trading in a national market.

In exercising their fiduciary duty to shareholders, First National's management and board of directors have from time to time considered the possibility of a number of strategic options in evaluating ways to maximize the value of its common stock, to provide liquidity for shareholders, and to diversify First National's exposure to a limited market. As a result of the death of First National's chairman of the board of directors and largest shareholder in December 2004, First National's board of directors began to consider future strategic alternatives, including raising additional capital to fund continued growth, slowing company growth rather than raising capital, or pursuing a merger partner with adequate capital to fund expected growth and a possible expansion of branch locations. First National's board of directors was compelled to consider these strategic alternatives as a result of the void in its strategic vision which resulted from the death of First National's chairman and as a result of the change in the chairman's family's financial planning orientation as the administration of his estate proceeded.

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In February 2005, a representative of a Georgia-based community banking organization approached First National's board of directors to discuss the possibility of pursuing a business combination transaction. First National's board of directors authorized this potential acquiror to conduct an on-site due diligence investigation of First National to determine whether, and on what terms, a business combination might be possible. During the investigation, the potential acquirer expressed concern over problem loans identified in St. Marys loan portfolio, and the parties decided to postpone any further discussion until the regularly scheduled OCC examination of that bank was completed.

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The OCC examination began in March 2005, during the course of which the OCC discovered significant deficiencies in St. Marys' loan portfolio, which resulted primarily from the unsound lending practices of David Moffat, the then-president and chief executive officer of First National and St. Marys. Mr. Moffat resigned all positions with First National and each of its banks on March 21, 2005. Primarily as a result of the loans deficiencies, the OCC rated the overall condition of St. Marys as unsatisfactory and designated the bank as being in troubled condition as defined under Section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. Following the discovery of these loan deficiencies, the potential acquirer indicated that it was no longer interested in pursuing a business combination with First National.

The OCC's findings resulted in an increased charge to First National's provision for loan losses of approximately \$7.2 million in the consolidated financial statements for the year ended December 31, 2004 and the charge-off of additional loans against the allowance of approximately \$6.0 million in the consolidated financial statements for the year ended December 31, 2004. During the first quarter of 2005, additional loans of approximately \$2.5 million were charged-off against the allowance in the consolidated financial statements for the three months ended March 31, 2005. The significant loan losses had a negative impact on asset quality, capital adequacy, earnings and liquidity.

Following completion of the OCC examination, on April 28, 2005, First National's board of directors reviewed the possible alternatives of raising additional capital or pursuing a business combination with another financial institution. During the first week of May 2005, First National's board of directors held meetings with representatives of the following investment banking firms: Ewing, SunTrust and Stevens & Associates. Stevens & Associates brought Edwin Hortman, Chief Executive Officer of ABC, and Dennis Zember Jr., Chief Financial Officer of ABC, to the meeting with First National's board of directors. At the meeting, Messrs. Hortman and Zember discussed with First National's board of directors the potential benefits of, and synergies which may result from, a business combination between ABC and First National, including that ABC's commitment to developing a banking presence in coastal Georgia and northern Florida is compatible with First National's operations, that ABC's experienced team of bankers would be valuable in efforts to improve the quality of St. Mary's loan portfolio, and that ABC's capital position may facilitate the development of banking locations in Orange Park and greater Jacksonville. At the conclusion of the meeting, ABC indicated to First National's board of directors that ABC would be interested in further discussing an acquisition of First National.

On May 10, 2005, ABC's board of directors engaged SunTrust to act as ABC's financial advisor in connection with the proposed merger.

On May 12, 2005, First National's board of directors engaged Ewing as its exclusive agent to provide financial advisory services in connection with a sale of, or merger transaction involving, First National, and to provide a market valuation and fairness opinion in connection therewith. After considering the presentation by Messrs. Hortman and Zember, First National's board of directors also agreed to permit ABC to begin a preliminary due diligence review of First National and its business while Ewing prepared and distributed to interested parties financial and operating information relating to First National.

During the second week of May 2005, ABC began its preliminary due diligence review of First National and its business, including First National's loan portfolios, loan concentrations, credit risks, legal liabilities, staff resources, corporate structure and operational efficiencies. Concurrently with ABC's preliminary due diligence review, Ewing contacted 11 financial institutions regarding their interest in a business combination with First National. In connection with such contacts, Ewing distributed financial and operating information relating to First National to these institutions, all of which had previously executed non-disclosure agreements. In addition to the information ABC received in connection with its preliminary due diligence review of First National, ABC also received all of the information relating to First National distributed by Ewing. The information received by ABC was examined and analyzed by ABC's executive management team prior to May 17, 2005. Based upon the results of the preliminary due diligence review, Messrs. Hortman and Zember discussed with ABC's board of directors at a meeting held on May 17, 2005 a possible business combination between ABC and First National.

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First National received indications of interest from four of the 11 financial institutions, including ABC, all of which conducted on-site due diligence reviews of First National. ABC's management team conducted its on-site due diligence review of First National during the second week of May 2005. During this on-site review, ABC's management team met with Timothy O. Keefe, First National's President, Yong Kim, First National's Chief Financial Officer and other members of First National's management and discussed, among other things, First National's credit quality and the consistency and nature of First National's earnings.

From May 15, 2005 through the last week of June 2005, Messrs. Hortman and Zember met, either in person or telephonically, with Mr. O. Keefe to continue ABC's due diligence review of First National. Representatives of Ewing participated in most of these meetings.

From May 15, 2005 through June 10, 2005, Messrs. Hortman, Zember and O. Keefe negotiated a non-binding letter of intent regarding the proposed merger, which was signed on June 10, 2005. Between June 10 and June 29, 2005, Messrs. Zember, Hortman and O. Keefe negotiated the terms of a definitive merger agreement. Legal counsel for ABC and First National also participated in these negotiations. Throughout the process of negotiating the definitive merger agreement, Rogers & Hardin LLP, ABC's legal counsel, reviewed with ABC's management its legal and fiduciary duties in connection with the proposed merger and discussed the terms of the merger agreement in detail.

On June 21, 2005, Messrs. Hortman and Zember and Jon S. Edwards, ABC's Executive Vice President and Senior Credit Officer, reviewed the results of ABC's due diligence review of First National with ABC's board of directors and discussed with ABC's board of directors the proposed merger and the terms of the proposed merger agreement.

On June 30, 2005, the board of directors of First National met to consider the proposed merger with ABC. A representative of Smith, Gambrell & Russell, LLP, First National's legal counsel, reviewed the fiduciary obligations of the First National board of directors with respect to the transaction and reviewed the legal terms of the definitive agreement. Representatives of Ewing summarized certain financial information with respect to the proposed transaction and rendered an opinion that, as of June 30, 2005, the merger consideration was fair to the shareholders of First National, from a financial point of view. After a general question and discussion period among the members of the board of directors, management, and their financial and legal advisers, First National's board of directors voted to approve the merger agreement and the transactions contemplated thereby.

On July 1, 2005, SunTrust reviewed with ABC's board of directors SunTrust's financial analysis of the proposed merger and delivered its written opinion, dated June 29, 2005, to the effect that, as of that date and based upon and subject to the matters described in the opinion, the total consideration in the proposed merger was fair, from a financial point of view, to ABC. After a general discussion period, ABC's board of directors approved the merger, approved and ratified the merger agreement and related documents and determined that the merger and the merger agreement were advisable and fair to, and in the best interests of, ABC and the ABC shareholders.

In early September 2005, ABC's management determined that because of St. Marys' financial condition and related regulatory and compliance issues, it would be in the best interests of ABC from a regulatory standpoint to merge only one of St. Marys or Orange Park, instead of both, into The First Bank of Brunswick or another wholly-owned subsidiary of ABC upon completion of the merger of First National with ABC. In early October 2005, ABC's management proposed this revised structure for the subsidiary bank merger to First National's management. An amendment to the merger agreement which reflects this revised structure was approved and adopted by ABC's board of directors at a meeting held on October 18, 2005 and by First National's board of directors by unanimous written consent effective as of October 20, 2005. On October 28, 2005, all of the parties to the merger agreement executed and delivered the amendment to the merger agreement.

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REASONS FOR THE MERGER

ABC's Reasons for the Merger

In deciding whether to enter into the merger agreement, ABC's board of directors, with the assistance of outside legal and financial advisors, considered a number of factors, including the following:

the financial condition, operating results, current business and future prospects of ABC and First National;

a comparison of the terms of the proposed merger with comparable transactions, both in the southeastern United States and elsewhere;

the quality of First National's management and its extensive experience in the coastal Georgia and north central Florida markets;

the fact that the merger provides ABC with a natural extension of its presence in north central Florida and coastal Georgia;

the complementary nature of the business of ABC and First National, particularly each organization's emphasis on traditional community banking; and

the opinion rendered by SunTrust to ABC's board of directors that, as of June 29, 2005, the merger consideration to be paid by ABC in the proposed merger was fair to ABC from a financial point of view.

In approving the transaction, ABC's board of directors did not specifically identify any one factor or group of factors as being more significant than any other factor in the decision making process, although individual directors may have given one or more factors more weight than other factors.

First National's Reasons for the Merger

First National's board of directors, with the assistance of outside financial and legal advisors, evaluated the financial, legal and market considerations bearing on the decision to recommend the merger. The terms of the merger, including the aggregate merger consideration to be received for the shares of First National common stock, resulted from arm's-length negotiations between representatives of First National and ABC. In reaching its conclusion that the merger agreement is in the best interest of First National and its shareholders, First National's board of directors considered, without assigning any relative or specific values, a number of factors, including the following:

the fact that the ABC common stock is traded on The Nasdaq National Market and has enjoyed a consistent dividend payout;

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alternatives to the merger, including continuing to operate First National on a stand-alone basis, considering the breadth of its product line, economic conditions and the prospects for community banking and competition in the financial services area;

the merger consideration to be received in the proposed merger, including the fact that although the cash received generally will be taxable, the First National shareholders will not recognize any gain or loss for federal income tax purposes on the receipt of ABC common stock in the merger;

a comparison of the terms of the proposed merger with comparable transactions, both in the southeastern United States and elsewhere;

information concerning the business, financial condition, results of operations and prospects of First National and ABC;

competitive factors and trends toward consolidation in the banking industry;

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the social and economic effect of the merger on First National and its employees, depositors and other customers, creditors and other constituencies of the communities in which First National is located;

the regulatory environment for financial institutions generally; and

the opinion rendered by Ewing to First National's board of directors that, as of June 30, 2005, the merger consideration to be received in the proposed merger was fair, from a financial point of view, to the holders of First National common stock.

First National's board of directors believes that by becoming part of a larger organization with greater resources, First National will be able to serve its customers and communities better and to provide services that will be competitive in the combined company's market and elsewhere. Similarly, a larger organization will be able to provide greater career opportunities for First National's employees.

First National's board of directors also considered the separate agreements and benefits proposed for employees and management and concluded that those terms were reasonable. See the section entitled "Interests of First National's Directors and Executive Officers in the Merger" at page 54.

The foregoing discussion of the information and factors considered by First National's board of directors is not intended to be exhaustive. First National's board of directors did not assign any relative or specific weights to the foregoing factors, and individual directors may have given different weights to different factors. First National's board of directors collectively made its determination with respect to the merger based on the conclusion reached by its members, in light of the factors that each of them considered appropriate, that the merger is in the best interest of First National's shareholders.

First National's board of directors believes that the terms of the merger are in the best interest of First National and its shareholders and has approved the merger agreement. First National's board of directors recommends that the shareholders of First National approve and adopt the merger agreement.

OPINION OF FINANCIAL ADVISOR TO FIRST NATIONAL

Introduction

On May 12, 2005, First National's board of directors retained Ewing to market First National to a list of bank holding companies proposed by Ewing and approved by First National's board of directors and to act as First National's financial advisor and to render a fairness opinion in connection with any proposed sale or merger transaction because Ewing is a nationally recognized investment banking firm with substantial experiences in transactions similar to the merger. This marketing program facilitated the negotiations between First National and ABC, which resulted in the parties executing the merger agreement. On June 9, 2005, Ewing rendered its oral opinion to First National's board of directors that the merger consideration was fair, from a financial point of view, to First National shareholders, and issued its written opinion, dated June 30, 2005, to First National's board of directors to the same effect. In addition to having paid Ewing a retainer in the amount of \$15,000, First National has agreed to pay Ewing a fee of \$50,000 for the delivery of its fairness opinion. In addition, First National has agreed to pay Ewing a financial advisory fee at the closing of the proposed merger equal to 1.0% of the aggregate consideration to be paid pursuant to the proposed merger, less amounts previously received. In addition, Ewing Loan Advisors, Inc., an affiliate of Ewing, provides loan review services to St.

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Marys and has received compensation of approximately \$60,000 for such services.

No limitations were imposed by First National's board of directors on the scope of Ewing's analysis or the procedures followed by Ewing in rendering its opinion. Ewing's opinion is directed to First National's board of directors and does not constitute a recommendation to any First National shareholder as to how such shareholder should vote on the merger agreement. Ewing has not been requested to opine as to, and its opinion does not address, the underlying business decision by First National's board of directors to enter into the merger agreement.

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In arriving at its opinion, Ewing assumed and relied upon the accuracy and completeness of the financial and other information provided to Ewing by First National. Ewing made no independent verification of the assets and liabilities of First National. The opinion is based upon market and economic conditions existing on June 30, 2005. Events occurring after the date of Ewing's opinion including, but not limited to, changes in the market price of securities, First National's results of operations, or material changes in the value of the assets or liabilities of First National, could affect the assumptions underlying, and the conclusions stated in, Ewing's opinion. After June 30, 2005, the merger agreement was amended to reflect the revised structure for the bank subsidiary merger as described under "The Merger Background of the Merger." First National did not request that Ewing update, revise or reaffirm its opinion on any date subsequent to June 30, 2005 because the amendment to the merger agreement does not alter the merger consideration to be received by the First National shareholders in the merger. Accordingly, Ewing's opinion does not address the amendment to the merger agreement.

Ewing's opinion is attached as APPENDIX C to this proxy statement/prospectus and is incorporated herein by reference. The description of the opinion set forth herein is qualified in its entirety by reference to APPENDIX C. First National shareholders are urged to read Ewing's opinion in its entirety.

In arriving at its opinion, Ewing reviewed:

the merger agreement and the exhibits thereto;

First National's audited consolidated financial statements for the year ended December 31, 2004;

historical financial information relating to First National;

First National's internally prepared consolidated financial projections for the years ending December 31, 2005, December 31, 2006 and December 31, 2007;

ABC's audited consolidated financial statements for the year ended December 31, 2004 and unaudited consolidated financial statements for the quarter ended March 31, 2005;

historical financial information relating to ABC that Ewing deemed relevant;

the trading history of the ABC common stock from June 2003 to June 2005;

financial and market information relating to publicly traded commercial banking companies similar to ABC;

a comparison of the financial terms of recent business combinations in the commercial banking industry similar to the proposed merger with the financial terms of the proposed merger;

current market and banking environments; and

such other information, financial studies, analyses, inquiries and other matters that Ewing deemed relevant.

Ewing also held discussions with the management of First National concerning its historical and future operations and the decision of First National's board of directors to negotiate a transaction with ABC.

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In preparing fairness opinions involving business combination transactions in the banking industry, it is accepted procedure to compare the terms of the subject transaction with the terms of transactions involving similar banking companies. This methodology of determining the fairness of a transaction is accepted because the banking industry is highly regulated, the operations of individual banks tend to be similar, and banks generally have standardized accounting and reporting procedures.

Ewing reviewed selected data from business combination transactions involving banking institutions similar to First National in size, geographic location and operations. Ewing selected fourteen transactions that had occurred since January 1, 2003 involving profitable banks with assets between \$200 million and \$300 million located in Florida and Georgia. The target banking institutions in these transactions were similar in size to First National, were adequately capitalized, enjoyed moderate annual growth in assets and reflected a high quality of earning assets. The fourteen transactions Ewing selected are set forth below:

Acquiring Institution

South Georgia Bank Holding Company, Georgia
 Coastal Banking Company, Inc., South Carolina
 First Horizon National Corporation, Tennessee
 Capital City Bank Group, Inc., Florida
 Home Bancshares, Inc., Arkansas
 Security Bank Corporation, Georgia
 Seacoast Banking Corporation of Florida, Florida
 GB&T Bancshares, Inc., Georgia
 Fidelity Bankshares, Inc., Florida
 United Community Banks, Inc., Georgia
 Whitney Holding Corporation, Louisiana
 United Community Banks, Inc., Georgia
 Citizens Banking Corporation, Florida
 Capital City Bank Group, Inc., Florida

Target Institution

Community National Bancorporation, Georgia
 First Capital Bank Holding Corporation, Florida
 West Metro Financial Services, Inc., Georgia
 First Alachua Banking Corporation, Florida
 Marine Bancorp, Inc., Florida
 SouthBank, Georgia
 Century National Bank, Florida
 FNBG Bancshares, Inc., Georgia
 First Community Bancorp, Inc., Florida
 Liberty National Bancshares, Inc., Georgia
 Madison Bancshares, Inc., Florida
 Fairbanco Holding Company, Inc., Georgia
 American Banking Corporation, Florida
 Quincy State Bank, Florida

Due to First National's net losses in 2004 and 2005, which resulted from the significant loan charge-offs by St. Marys, First National's regulatory capital was diminished at the time the merger agreement was executed. As a result of these losses and diminished capital, the operations of First National were not comparable to the profitable operations of the larger banking institutions in the fourteen selected transactions, and the terms of the proposed merger were not comparable to the terms of such transactions. Ewing then selected an additional ten transactions that had occurred since January 1, 2003 involving the acquisition of Southeastern community banking institutions with operating losses. The additional ten transactions are set forth below:

Acquiring Institution

Omni Financial Services, Inc., Georgia
 Investor Group
 Firsttrust Corporation, Louisiana
 Mountain Home Bancshares, Inc., Arkansas
 GB&T Bancshares, Inc., Georgia
 Liberty Bancshares, Inc., Arkansas

Target Institution

Georgia Community Bancshares, Inc., Georgia
 BankTennessee, Tennessee
 Central Bank for Savings, Mississippi
 Pocahontas Bankstock, Inc., Arkansas
 Lumpkin County Bank, Georgia
 Peoples Bank, Arkansas

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Community Capital Bancshares, Inc., Georgia
Liberty Shares, Incorporated, Georgia
Investor Group, Florida
Crescent Financial Corp., North Carolina

First Bank of Dothan, Alabama
Cumberland National Bank, Georgia
Advantage Bankshares, Inc., Florida
Centennial Bank, North Carolina

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The reasons for the losses at these institutions varied widely, and Ewing determined that the use of these transactions as comparables would be speculative. In view of the lack of comparability between the terms of the proposed merger of First National into ABC and the terms of the selected transactions, Ewing based its opinion as to the fairness of the proposed merger consideration on the marketing process that was utilized by First National and the terms offered by ABC.

The Marketing of First National

In order to achieve optimum terms in the sale/merger of First National, Ewing utilized a controlled marketing procedure whereby it contacted multiple, qualified institutions to consider the acquisition of First National. The controlled marketing of First National was implemented in order to provide First National's board of directors with the assurance that the opportunity represented by the proposed sale/merger of First National was considered by a multiple of qualified parties and that the resulting competitive environment encouraged interested acquirers to offer their best terms.

Ewing contacted eleven bank holding companies, including ABC, of which seven expressed interest in reviewing the confidential memorandum prepared by Ewing and First National with respect to the operations of First National. Several of the bank holding companies chose not to pursue the acquisition of First National because of their concerns that the loss reserves of St. Marys were not adequate or their lack of comfort with respect to when St. Marys may return to profitability. Expressions of interest, including price ranges for First National, were received from four of the bank holding companies, and three of them, including ABC, performed various degrees of on-site due diligence.

Primary Terms of the ABC Offer

The primary terms proposed by ABC with respect to the merger consist of the following:

Amount of Consideration. ABC proposes to pay the sum of approximately \$34.5 million for 100% of the outstanding shares of First National common stock, which represents a per share price of \$34.00. In addition, ABC will pay the in-the-money value for the 21,214 options to purchase First National common stock that were outstanding as of March 31, 2005, which represents additional consideration of approximately \$258,000 and brings the total consideration to be paid by ABC in connection with the merger to approximately \$34.8 million.

Type of Consideration. First National shareholders will be given the opportunity to request payment for their First National shares in the form of 100% cash or 100% stock, or a combination thereof, but the maximum market value of the shares of ABC common stock to be issued cannot exceed 65% of the total value of the consideration, excluding the in-the-money value of the First National stock options.

Rights to Terminate. In addition to the standard provisions governing the right to terminate the merger agreement, First National will have the right to terminate the merger agreement if the average closing price of the ABC common stock during the trading period is less than \$14.00 per share.

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Closing Date. The merger must close prior to December 31, 2005, or the merger agreement can be terminated by ABC or First National.

Temporary Financing. ABC has agreed to provide temporary financing in the form of a subordinated loan to First National, if needed, prior to the completion of the merger in order to comply with regulatory capital requirements.

Net Worth Requirement. As a condition to the closing of the merger by ABC, First National and Orange Park must maintain minimum tangible capital in the amounts of \$14,239,000 and \$8,350,000, respectively, with each calculated as of two business days prior to the completion of the merger.

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Employees and Management. ABC plans to enter into employment agreements with certain senior members of First National's management, and ABC has stated that it plans to retain a substantial number of employees subsequent to the merger.

Other Considerations

Ewing observed that there appeared to be a high level of compatibility between the staff and operations of First National and ABC. Ewing also observed that the market value of ABC common stock represented a level commensurate with ABC's peers and that the projected future operations of ABC appear to be favorable. Ewing further observed that the acquisition of First National was consistent with ABC's stated objectives of extending ABC's banking markets to northeast Florida and southeastern Georgia.

Opinion

Because First National's board of directors decided to market First National aggressively to multiple institutions and based on Ewing's experience of more than thirty years in issuing fairness opinions involving business combination transactions in the banking industry, Ewing concluded that the terms offered by ABC with respect to the merger were negotiated in a competitive environment and that the proposed merger consideration offered by ABC for 100% of the shares of First National is fair, from a financial point of view, to First National shareholders.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and is not readily susceptible to summary description. In arriving at its opinion, Ewing did not attribute any particular weight to any one factor considered by Ewing, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Ewing believes that its analysis must be considered as a whole and that considering any portions of such analysis and of the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying its opinion. In its analysis, Ewing made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond First National's control. Any estimates contained in these analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth therein. As described above, Ewing's opinion was one of many factors taken into consideration by First National's board of directors in entering into the merger agreement.

OPINION OF FINANCIAL ADVISOR TO ABC

ABC has engaged SunTrust as its financial advisor in connection with the merger. At the July 1, 2005 meeting of ABC's board of directors, SunTrust reviewed with ABC's board of directors SunTrust's financial analysis of the proposed merger and delivered SunTrust's written opinion, dated June 29, 2005, to the effect that, as of that date and based upon and subject to the matters described in the opinion, the total consideration in the proposed merger was fair, from a financial point of view, to ABC. No limitations were imposed by ABC's board of directors upon SunTrust with respect to the investigation made or the procedures followed by SunTrust in rendering its opinion. The consideration to be paid by ABC in the merger was determined through arm's-length negotiations between representatives of ABC and First National.

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The full text of the opinion of SunTrust, which sets forth the assumptions made, matters considered and limitations on the review undertaken, is attached as APPENDIX D to this proxy statement prospectus and is incorporated herein by reference. The summary of the SunTrust opinion described below is qualified in its entirety by reference to the full text of the opinion.

SunTrust's opinion is directed to ABC's board of directors and relates only to the fairness from a financial point of view of the total consideration paid by ABC. SunTrust's opinion does not address any other aspect of the merger.

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Material and Information Considered with Respect to the Merger

In arriving at its opinion, SunTrust among other things:

reviewed a draft of the merger agreement;

reviewed publicly available information concerning ABC and First National which SunTrust believes to be relevant to its inquiry;

reviewed financial and operating information with respect to the business, operations and prospects of First National furnished to SunTrust by ABC and First National;

reviewed a comparison of the historical financial results and present financial condition of First National with those of publicly traded companies which SunTrust deemed relevant;

reviewed a comparison of the financial terms of the proposed merger with the publicly available financial terms of certain other recent transactions which SunTrust deemed relevant;

conducted discussions with the management of ABC and First National concerning First National's business, operations, assets, present condition and future prospects; and

undertook such other studies, analyses and investigations, and considered such information, as SunTrust deemed appropriate.

In connection with rendering its opinion, SunTrust did not consider the amendment to the merger agreement, which was entered into after the date of SunTrust's opinion. ABC did not request that SunTrust update, revise or reaffirm its opinion on any date subsequent to June 29, 2005 because the amendment to the merger agreement does not alter the merger consideration to be paid by ABC in the merger.

SunTrust assumed and relied upon, without independent verification, the accuracy and completeness of all of the financial and other information discussed with or reviewed by it in arriving at its opinion. With respect to the financial forecasts, estimates, pro forma effects and estimates of synergies and other potential benefits of the merger provided to or discussed with it, SunTrust assumed, at the direction of the management of ABC and without independent verification or investigation, that they have been reasonably prepared on bases reflecting the best currently available information, estimates and judgments of the management of ABC and First National and are otherwise reasonable. SunTrust also assumed with the approval of ABC that the future financial results of First National referred to in its opinion that were provided to it by ABC will be achieved, and that the synergies and other potential benefits of the merger will be realized, at the times and in the amounts estimated by the management of ABC.

In arriving at its opinion, SunTrust did not conduct a physical inspection of the properties and facilities of First National. SunTrust did not review individual credit files nor did it make any independent evaluation or appraisal of any of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities) of First National or any of its subsidiaries, and SunTrust was not furnished with any such

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evaluation or appraisal. SunTrust is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect to such portfolios and, accordingly, SunTrust assumed that First National's allowances for losses are in the aggregate adequate to cover those losses.

The SunTrust opinion is necessarily based upon market, economic and other conditions as they existed on and could be evaluated as of, the date of its opinion. SunTrust expressed no opinion as to the underlying valuation, future performance or long-term viability of ABC or First National. SunTrust's opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available to ABC's underlying business decision to effect the merger. SunTrust was not asked to, nor did it, offer

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any opinion as to any terms or conditions of the merger agreement or the form of the merger (other than the total consideration). For purposes of its opinion, SunTrust assumed that:

the merger agreement does not differ in any respect from the draft it examined and that ABC and First National will comply in all material respects with the terms of the reorganization agreement and the transaction will be consummated in accordance with its terms without waiver, modification or amendment of any material term, condition or agreement;

the merger will be treated as a tax-free reorganization for federal income tax purposes; and

all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on ABC or First National or on the expected benefits of the merger.

Subsequent developments may affect SunTrust's opinion and SunTrust does not have any obligation to update or revise its opinion.

In preparing its opinion, SunTrust performed a variety of financial and comparative analyses, a summary of which is described below. The summary is not a complete description of the analyses underlying SunTrust's opinion or the presentation made to ABC's board of directors, but summarizes the material analyses performed and presented in connection with its opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Accordingly, SunTrust believes that its analyses must be considered as an integrated whole and that selecting portions of its analyses and factors, without considering all analyses and factors, or focusing on information in tabular format, could create a misleading or incomplete view of the processes underlying such analyses and SunTrust's opinion.

In performing its analyses, SunTrust made numerous assumptions with respect to ABC, First National, industry performance and general business, economic, market and financial conditions, many of which are beyond the control of ABC and First National. The estimates contained in these analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty.

SunTrust's opinion and analyses were only one of many factors considered by ABC's board of directors in its evaluation of the merger and should not be viewed as determinative of the views of ABC's board of directors or management of First National with respect to the merger or the consideration to be paid by ABC in the merger. The merger consideration was determined on the basis of negotiations between ABC and First National. In arriving at its opinion, SunTrust did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative) supported or failed to support its opinion. Rather, SunTrust arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and believes that the totality of the factors considered and analysis it performed in connection with its opinion operated collectively to support its determination as to the fairness of the merger consideration from a financial point of view. ABC's decision to enter into the merger was made solely by ABC's board of directors and not as a result of a recommendation by SunTrust.

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The following is a summary of the material financial and comparative analyses presented by SunTrust in connection with its opinion to ABC's board of directors. The summary includes information presented in a tabular format. In order to understand fully the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.

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SunTrust reviewed and compared publicly available financial data, market information and trading multiples for First National with other selected publicly-traded banks and thrifts located in the Southeastern United States that SunTrust deemed relevant to First National. The selected banks and thrifts are set forth below:

Bank of South Carolina (BKSC)
 BancTrust Financial Group, Inc. (BTFG)
 Beach First National Bancshares, Inc. (BFNB)
 CenterState Banks of Florida, Inc. (CSFL)
 GB&T Bancshares, Inc. (GBTB)
 SCBT Financial Corporation (SCBT)
 TIB Financial Corp. (TIBB)
 Savannah Bancorp, Inc. (SAVB)

For the selected publicly-traded reference companies, SunTrust analyzed, among other things, stock price as a multiple of projected calendar year 2005 and 2006 earnings per share, book value per share, tangible book value per share and market capitalization to assets. All multiples were based on closing stock prices as of June 30, 2005. Projected earnings per share for the reference companies were based on First Call consensus estimates. First Call is an information provider that publishes a compilation of estimates of projected financial performance for publicly-traded companies produced by equity research analysts at leading investment banking firms. The following tables set forth the median multiples indicated by the market analysis of selected publicly-traded reference companies compared to multiples based upon the aggregate consideration set forth above:

	<u>Peer Median</u>	<u>Merger</u>
Market Price to:		
Calendar 2005E EPS	18.9x	NMx
Calendar 2006E EPS	15.9	19.5
Book Value [1]		
Per Share	2.2	2.3
Tangible Book Value Per Share [1]	2.2	2.7
Market Capitalization / Assets [1]	17.6%	13.2%

[1] As of March 31, 2005.

SunTrust noted that none of the companies used in the market analysis of selected publicly-traded companies was identical to First National and that, accordingly, the analysis necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies reviewed and other factors that would affect the market values of the selected publicly-traded companies.

Analysis of Selected Merger and Acquisition Transactions

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SunTrust reviewed and analyzed the financial terms, to the extent publicly available and deemed relevant by SunTrust, for all completed and pending mergers and acquisitions involving selling banks and thrifts that met the following criteria:

Selling banks and thrifts located in the Southeastern United States with total assets of between \$100.0 million and \$500.0 million that were announced between January 1, 2003 and June 30, 2005. The universe included 54 reference transactions.

Selling banks and thrifts located in the Southeastern United States near coastlines with total assets of between \$100.0 million and \$500.0 million that were announced between January 1, 2003 and June 30, 2005. The universe included 16 reference transactions.

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Selling banks and thrifts located in the Southeastern United States near coastlines excluding the state of Florida with total assets of between \$100.0 million and \$500.0 million that were announced between January 1, 2003 and June 30, 2005. The universe included four reference transactions.

For the selected transactions, SunTrust analyzed, among other things, acquisition price as a multiple of latest twelve months earnings per share, book value per share, tangible book value per share, total assets and premium to deposits. All multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. The following tables set forth the median multiples indicated by this analysis compared to multiples based upon the aggregate consideration set forth above:

	Southeastern U.S. Transactions Median	Merger
Market Price to:		
LTM EPS [1]	26.3x	NMx
Book Value Per Share [1]	2.6	2.2
Tangible Book Value [1] Per Share [1]	2.6	2.7
Total Assets [1]	21.9%	13.2%
Premium/Deposits [1]	20.2	10.1

	Southeastern U.S. Coastal Transactions Median	Merger
Market Price to:		
LTM EPS [1]	28.7x	NMx
Book Value Per Share [1]	3.1	2.2
Tangible Book Value [1] Per Share [1]	3.2	2.7
Total Assets [1]	24.7%	13.2%
Premium/Deposits [1]	28.0	10.1

	Southeastern U.S. Coastal Transactions Excl. Florida Median	Merger
Market Price to:		
LTM EPS [1]	27.2x	NMx
Book Value Per Share [1]	3.1	2.2
Tangible Book Value [1] Per Share [1]	3.3	2.7
Total Assets [1]	22.5%	13.2%
Premium/Deposits [1]	35.9	10.1

[1] As of March 31, 2005.

SunTrust noted that no transaction considered in the analysis of selected merger and acquisition transactions is identical to the merger and may differ significantly from the merger based on, among other things, the size of the transactions, the structure of the transactions and the dates that the transactions were announced and consummated. All multiples for the selected transactions were based on public information available at the time of announcement of such transaction, without taking into account differing market and other conditions during the period during which the

selected transactions occurred.

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Dividend Discount Analysis

SunTrust performed a dividend discount analysis based upon projections for First National provided by ABC's management for the fiscal years ending December 31, 2005 through 2009 to estimate the net present equity value per share of First National. SunTrust discounted 4.5 years of estimated cash flows for First National, assuming a dividend rate sufficient to maintain an equity capital ratio (defined as equity divided by assets) of 7.00% and using a range of discount rates from 6% to 10%. In order to derive the terminal value of First National's earnings stream beyond 2009, SunTrust assumed terminal value multiples of fiscal year 2010 net income ranging from 16.0x to 18.0x. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of First National common stock. This analysis yielded a range of stand-alone aggregate values for First National of between \$36.0 million and \$46.9 million, with a median value of \$41.1 million.

Information Regarding SunTrust

ABC's board of directors selected SunTrust to act as its financial advisor and render a fairness opinion regarding the merger because SunTrust is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and because it is familiar with ABC, its business and its industry. SunTrust is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

Pursuant to a letter agreement dated May 6, 2005, ABC paid SunTrust a fee of \$50,000 upon the delivery of its opinion. In addition, ABC has agreed to pay SunTrust a financial advisory fee at closing of the proposed merger equal to 0.50% of the aggregate consideration to be paid pursuant to the proposed merger, less amounts previously received. The fees paid or payable to SunTrust are not contingent upon the contents of the opinion delivered. In addition, ABC has agreed to reimburse SunTrust for its reasonable out of pocket expenses and to indemnify SunTrust and certain related persons against certain liabilities arising out of or in conjunction with its rendering of services under its engagement, including certain liabilities under the federal securities laws. In the ordinary course of its business, SunTrust and its affiliates may actively trade in the debt and equity securities of ABC for its own account and the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. In addition, SunTrust and its affiliates (including SunTrust Banks, Inc.) may have other financing and business relationships with ABC or First National in the ordinary course of business.

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EXCHANGE OF FIRST NATIONAL STOCK CERTIFICATES

Prior to the annual meeting, a letter of transmittal furnishing instructions for exchanging First National stock certificates (and for replacing any lost, stolen or destroyed certificates) will be mailed under separate cover to each First National shareholder of record as of the close of business on the effective date of the merger. Each First National shareholder will be urged to return this letter of transmittal, as soon as possible, together with his or her stock certificates to SunTrust Bank, Atlanta, the exchange agent for ABC. As soon as practicable after the completion of the merger and receipt by the exchange agent of your First National stock certificates, you will be mailed the cash and ABC common stock (including cash for any fractional share interest or dividends or distributions) to which you are entitled pursuant to the merger agreement.

As of the effective date of the merger, each First National stock certificate will be deemed for all corporate purposes only to evidence the right to receive cash and certificates representing shares of ABC common stock pursuant to the merger agreement. Until the merger is completed and your First National stock certificate is surrendered (or suitable arrangements made for any lost, stolen or destroyed certificate) you:

will not be issued a certificate representing the shares of ABC common stock which you are otherwise entitled to receive;

will not be paid the cash which you are otherwise entitled to receive; and

will not be paid dividends or other distributions in respect of the shares of ABC common stock which you are otherwise entitled to receive.

Any dividends or distributions or other cash payable to you will be retained, without interest, for your account until the completion of the merger and you surrender your stock certificate in accordance with the letter of transmittal.

If any certificates for shares of ABC common stock are to be issued in a name other than that for which a First National share certificate surrendered or exchanged is issued, then the First National share certificate so surrendered must be properly endorsed and otherwise in proper form for transfer, and the person requesting the exchange must affix any requisite stock transfer tax stamps to such certificate surrendered, provide funds for their purchase, or establish to the satisfaction of the exchange agent that such taxes are not payable.

To the extent permitted by law, former First National shareholders will be entitled to vote after the effective time of the merger at any meeting of ABC shareholders the number of shares of ABC common stock into which their First National stock are converted, regardless of whether they have exchanged certificates representing their First National stock for certificates representing ABC common stock.

There will be no transfers of shares of First National common stock on First National's stock transfer books after the effective time of the merger. First National common stock certificates presented for transfer after the effective time of the merger will be canceled and exchanged for cash and shares of ABC common stock certificates.

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Existing ABC shareholders will keep their existing stock certificates and should not deliver any certificates for ABC common stock.

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EFFECTIVE TIME OF THE MERGER

The merger will be consummated if it is approved by the shareholders of First National and if ABC and First National obtain all required consents and approvals, including the approvals of the Federal Reserve Board and the Georgia Department of Banking and Finance, and satisfy the other conditions to the obligations of the parties to consummate the merger. The merger will become effective on the date and at the time that a certificate of merger is issued by the Secretary of State of Georgia. We presently expect that the effective date will occur in the fourth quarter of 2005.

TERMS OF THE MERGER

General

Upon completion of the merger, the separate legal existence of First National will cease, and St. Marys and Orange Park will become wholly-owned subsidiaries of ABC. All property, rights, powers, duties, obligations, debts and liabilities of First National will automatically be transferred to ABC. ABC's Articles of Incorporation will govern the combined entity. Thereafter, St. Marys and Orange Park, or only one of them if so determined by ABC, will merge with and into The First Bank of Brunswick or another wholly-owned subsidiary bank of ABC. The separate existence of the First National subsidiary bank or banks which merge with and into The First Bank of Brunswick or another wholly-owned subsidiary of ABC will cease upon such merger. If either St. Marys or Orange Park does not merge with and into The First Bank of Brunswick or another wholly-owned subsidiary of ABC, then the First National subsidiary bank which does not participate in such merger shall continue as a wholly-owned subsidiary of ABC.

Merger Consideration

Except as described in the next paragraph, if the merger is completed, then you will receive, for each First National share that you own, either \$34.00 in cash or a to-be-determined number of shares of ABC common stock with a market value, measured as of the trading period, equal to \$34.00. You may elect to receive ABC common stock, cash or a combination of stock and cash for your First National shares, subject to proration in the event the aggregate stock elections exceed 65% or are less than 40%. It is possible, therefore, that you will receive a different proportion of stock and cash than you elect. For example, if stock elections representing more than 65% of the outstanding shares of First National common stock prior to the merger are made, ABC will prorate the number of shares of its common stock that the holders of First National common stock will receive so that no more than 65% of the First National shares are converted into ABC common stock. ABC will not issue fractional shares. See the section entitled "Terms of the Merger - Fractional Shares" at page 38.

Except as noted below, the exchange ratio in the merger is a floating rather than fixed exchange ratio. This means that the number of shares of ABC common stock to be issued in the merger for each share of First National common stock will increase or decrease based upon the average closing price of ABC common stock during the trading period in order to ensure that the value of the ABC common stock received in the merger will equal \$34.00, measured as of the trading period, so long as the average closing price of ABC common stock during the trading period is not less than \$14.00 (an exchange ratio of 2.4286) or higher than \$20.00 (an exchange ratio of 1.7000).

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If the average closing price of the ABC common stock during the trading period is less than \$14.00 per share, then First National will have the right to terminate the merger agreement unless ABC increases the merger consideration so that you will receive cash and/or shares of ABC common stock having a value equal to what you would have received had the average closing price been \$14.00 per share. If the average closing price of the ABC common stock during the trading period is less than \$14.00 per share and First National does not exercise its right of termination, then the value of the ABC common stock you will receive for each share of First National common stock will be less than \$34.00 per share measured as of the trading period. If the average closing price of ABC common stock during the trading period is higher than \$20.00 per share, then the exchange ratio will be fixed at 1.7000, and the value of the ABC common stock you will receive for each share of First National common stock will be more than \$34.00 per share measured as of the trading period.

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The following table shows examples of the number of shares of ABC common stock and cash into which 100 shares of First National common stock would be converted in the merger assuming that the average closing price for ABC stock during the trading period is as specified below and that the mix of merger consideration is 65% stock and 35% cash. The table also assumes no dissenters' rights are exercised and ignores the payment of cash in lieu of fractional shares. Each share of First National common stock held in the treasury of First National and each share of First National common stock owned by ABC or any subsidiary of ABC or First National, other than in a fiduciary capacity, immediately prior to the effective time of the merger will be canceled and extinguished. No payment will be made with respect to such shares.

ASSUMED AVERAGE CLOSING PRICE OF ABC COMMON STOCK	RESULTING EXCHANGE RATIO	MERGER CONSIDERATION EXCHANGED FOR 100 SHARES OF FIRST NATIONAL COMMON STOCK	
		CASH	NUMBER OF SHARES OF ABC COMMON STOCK
\$ 20.00	1.7000	\$ 1,190	110
\$ 18.50	1.8378	\$ 1,190	119
\$ 16.50	2.0606	\$ 1,190	134
\$ 14.00	2.4286	\$ 1,190	158

We cannot assure you that the current fair market value of ABC or First National common stock will be equivalent to the fair market value of ABC or First National common stock on the effective date of the merger.

Proration Procedures

If the aggregate number of shares of First National common stock in respect of which cash elections have been made exceeds 60% of the number of shares of First National common stock outstanding immediately prior to the effective time of the merger, then the number of shares of First National common stock for which each holder has made an election to receive cash and otherwise would have been entitled to receive cash will be reduced proportionately for each such holder (based on the number of shares as to which an election was made by such holder as compared to the number of shares as to which an election was made by all holders) to the extent necessary so that the aggregate number of shares entitled to receive cash shall equal 60% of the number of shares of First National common stock outstanding immediately prior to the effective time of the merger. Each share of First National common stock that is not converted into cash will be converted into the right to receive shares of ABC common stock.

If the aggregate number of shares of First National common stock in respect of which stock elections have been made exceeds 65% of the number of shares of First National common stock outstanding immediately prior to the effective time of the merger, then the number of shares of First National common stock for which each holder has made an election to receive stock and otherwise would have been entitled to receive stock will be reduced proportionately for each such holder (based on the number of shares as to which an election was made by such holder as compared to the number of shares as to which an election was made by all holders) to the extent necessary so that the aggregate number of shares entitled to receive stock shall equal 65% of the number of shares of First National common stock outstanding immediately prior to the effective time of the merger. Each share of First National common stock that is not converted into stock will be converted into the right to receive \$34.00 in cash.

Dissenters' Rights

Holders of shares of First National common stock who properly elect to exercise the dissenters' rights provided for in Article 13 of the Georgia Business Corporation Code will not have their shares converted into the right to receive merger consideration. If a holder's appraisal rights are lost or withdrawn, then such holder will receive the same consideration as all other holders of First National common stock. For more information, see the section entitled Statutory Provisions for Dissenting Shareholders at page 52.

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Fractional Shares

ABC will not issue any fractional shares of its common stock to First National shareholders. First National shareholders who would otherwise be entitled to receive a fractional share of ABC common stock instead will receive cash, without interest, for such fractional share in an amount equal to the product of the fraction multiplied by the average closing price of the ABC common stock during the trading period. You will not be entitled to dividends, voting rights or any other shareholder rights with respect to any fractional share interest.

Representations and Warranties

The merger agreement contains customary representations and warranties relating to, among other things:

the organization and capital structures of ABC and First National;

the contracts, employees, employee benefits, labor relations, litigation, real property, intangible assets and environmental compliance of First National;

the due authorization, execution, delivery, performance and enforceability of the merger agreement;

consents or approvals of regulatory authorities and third parties necessary to complete the merger;

certain financial statements through the period ended December 31, 2004 fairly presenting the financial condition and results of operations of the respective parties in conformity with GAAP; and

the absence of material adverse changes, since December 31, 2004, in the consolidated assets, business, liabilities, financial condition and results of operations of ABC (and its subsidiaries) and First National (and its subsidiaries) or in any of their respective relationships with customers, employees, lessors or others.

Conduct of Business Pending the Merger

Pursuant to the merger agreement, ABC and First National have each agreed to use reasonable efforts to preserve their business organizations intact and to maintain satisfactory relationships with their customers, suppliers, regulators and employees. In addition, ABC and First National agreed to conduct their businesses and to engage in transactions only in the ordinary course of business as conducted at the date of the merger agreement and in compliance in all material respects with all applicable laws and regulations and all contracts to which either is a party.

Among other things, without ABC's prior written consent (which will not be unreasonably withheld or delayed), First National has agreed not to:

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amend its Articles of Incorporation, Bylaws or other governing instruments;

repurchase, redeem or otherwise acquire or declare or pay any dividend or make any other distribution in respect of its capital stock;

engage in certain activities such as selling, leasing, mortgaging or otherwise disposing of property having a book value exceeding \$50,000 or incur indebtedness (except in the ordinary course of business for reasonable and adequate consideration);

enter into any compensation agreements or increase salaries, employee benefits, directors' fees or bonuses, except to the extent consistent with past practices;

increase any compensation or benefits payable to its officers and employees, pay any bonuses, enter into or amend any severance protection agreements or pay or grant bonuses to any of its directors;

adopt or change employee benefit plans unless required by law, regulation or judicial interpretation or as deemed necessary or advisable, in the opinion of counsel, to maintain its tax status;

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acquire direct control of any other person or entity except under certain circumstances;

modify or amend any material contracts;

adjust, split, combine or reclassify any of its capital stock or sell, lease, dispose of or otherwise encumber any shares of its capital stock or any asset with a book value in excess of \$50,000; or

commence or settle any litigation with a potential liability to First National in excess of \$50,000.

First National has also agreed, among other things:

subject to the terms of the merger agreement, to take all actions necessary to complete the transactions contemplated by the merger agreement;

to maintain accurate books and records;

to file all reports required to be filed with regulatory agencies; and

to operate its business in the usual, regular and ordinary course and to preserve intact its business organization and assets.

Cooperation

The merger agreement requires First National to consult with ABC on all strategic and operational matters and to permit a representative of ABC to attend all meeting of First National's board of directors and its subsidiary banks. The purpose of these provisions is to facilitate the full exchange of information concerning the business, operations, capital spending, budgets and financial results of ABC and First National until the completion of the merger and to facilitate the efficient transition and combination of the two businesses.

Conditions to the Merger

The obligations of First National and ABC to consummate the merger are subject to various conditions, including following:

the merger agreement shall have been duly approved by the First National shareholders;

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all necessary governmental approvals for the merger shall have been obtained, and all waiting periods required by law or imposed by any governmental authority with respect to the merger shall have expired (see the section entitled "Terms of the Merger-Required Regulatory Approvals" at page 40);

no action, suit, proceeding or claim shall have been instituted, made or threatened relating to the merger;

First National shall have received an opinion of its counsel dated as of the effective date of the merger to the effect that, among other things, the merger will be treated for federal income tax purposes as a tax-free reorganization within the meaning of Section 368(a) of the Code (see the section entitled "Federal Income Tax Consequences of the Merger" at page 50);

the accuracy in all material respects as of June 30, 2005 and as of the effective date of the merger of the representations and warranties made, except as otherwise contemplated by the merger agreement;

the performance by ABC and First National in all material respects of all covenants and obligations required to be performed by each at or prior to the effective date of the merger;

the registration statement registering the shares of ABC common stock to be received by First National shareholders, of which this proxy statement/prospectus is a part, shall have been declared effective by the SEC, no stop order suspending the effectiveness of the registration statement shall have been issued, no action, suit, proceeding or investigation by the SEC to suspend the effectiveness of the registration statement shall have been initiated and be continuing, and all necessary approvals under federal and state securities laws relating to the issuance or trading of shares of ABC common stock issuable pursuant to the merger shall have been received; and

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other conditions which are customary for transactions of the type contemplated by the merger agreement.

See the sections entitled "Terms of the Merger-Representations and Warranties" at page 38 and "Terms of the Merger-Conduct of Business Pending the Merger" at page 38.

Required Regulatory Approvals

The merger may not proceed unless we receive the required regulatory approvals. We know of no reason why such approvals will not be obtained, but we cannot assure you that such regulatory approvals will be obtained or when we will obtain them. The Federal Reserve Board and the Georgia Department of Banking and Finance must approve the merger, and applications for the approvals described in this section were filed with the Federal Reserve Board and with the Georgia Department of Banking and Finance on August 18, 2005. We are not aware of any other regulatory approvals or actions that are required for consummation of the merger. Should any other approval or action be required, we presently contemplate that such approval or action would be sought.

In evaluating the merger, the Federal Reserve Board must consider, among other factors, the financial and managerial resources and future prospects of the institutions and the convenience and needs of the communities to be served. The relevant statutes prohibit the Federal Reserve Board from approving the merger if:

it would result in a monopoly or be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any part of the United States; or

its effect in any section of the country could be to lessen substantially competition or to tend to create a monopoly, or if it would result in a restraint of trade in any other manner, unless the Federal Reserve Board should find that any anti-competitive effects are outweighed clearly by the public interest and the probable effect of the transaction in meeting the convenience and needs of the communities to be served.

The merger may not be consummated until the fifteenth day following the date of approval by the Federal Reserve Board, during which time the United States Department of Justice will be afforded the opportunity to challenge the transaction on antitrust grounds. The commencement of any antitrust action will stay the effectiveness of the approval of the agencies, unless a court of competent jurisdiction should specifically order otherwise.

The Georgia Department of Banking and Finance and the FDIC must approve the merger of St. Marys and Orange Park, or either of them, with and into The First Bank of Brunswick or another wholly-owned subsidiary of ABC. In their evaluation of each of these transactions, the Georgia Department of Banking and Finance and the FDIC will take into account considerations similar to those taken into account by the Federal Reserve Board.

Waiver, Amendment and Termination

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We may agree to further amend the merger agreement. However, after approval and adoption of the merger agreement by the First National shareholders, we cannot enter into any amendment that decreases the merger consideration payable in exchange for the First National shares without the approval of the First National shareholders. One party may waive any breach of the merger agreement by the other party or the failure of the other party to meet any conditions or terms of the merger agreement.

The merger agreement may be terminated and the merger abandoned at any time prior to the effective date, even though we have received the approval of First National shareholders:

by our mutual consent;

by either one of us if, without the fault of the terminating party, the closing of the merger does not occur on or before December 31, 2005;

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by either of us (if the terminating party is not in material breach) if regulatory approval is denied;

by either of us if: (i) the other party materially breaches its representations, warranties or covenants under the merger agreement and the breach is not corrected within 30 days after notice, (ii) an event or circumstance arises as a result of which the other party will be unable to satisfy certain conditions of the merger agreement, or (iii) if, at the closing of the merger, any condition to the obligations of such party is not met;

by First National if it has entered into a definitive agreement to be acquired by another party, so long as First National complies with the terms of the merger agreement and pays ABC the fee described in the section entitled Terms of the Merger- Expenses and Fees in Connection with the Merger at page 41; or

by First National, under certain circumstances, if the average closing price of the ABC common stock during the trading period is less than \$14.00 per share.

If the merger is terminated as described above, the merger agreement will have no effect, except for certain of its provisions, including those relating to the obligations to maintain the confidentiality of certain information and to return all documents obtained from the other party under the merger agreement.

Expenses and Fees in Connection with the Merger

First National and ABC each will bear its respective costs and expenses incurred in connection with the merger, including the fees, expenses and disbursements of its respective counsel and auditors and one-half of the costs incurred in connection with printing and mailing this proxy statement/prospectus, whether or not the merger is consummated. However, in the event that the merger agreement is terminated by First National upon execution of a definitive agreement with a third party or in the event that, prior the termination of the merger agreement, First National receives a takeover proposal and, within one year of such termination, enters into, approves, recommends or takes action with respect to a merger, consolidation or other business combination with any other person, then First National will have to pay to ABC the sum of \$1.5 million. Also, if the merger agreement is terminated because either ABC or First National materially breaches its representations, warranties or covenants thereunder, the non-breaching party will be entitled to immediate reimbursement of its merger-related expenses up to \$250,000 from the breaching party and will be free to pursue all other remedies available to it by reason of such breach.

Management and Operations After the Merger

ABC intends to undertake a comprehensive review of the business operations, capitalization and management of First National after the merger and, based on the results of such review, intends to develop and implement a business plan aimed at maximizing the financial condition, operating results and future prospects of the combined company.

Non-competition and Non-disclosure Agreements

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It is a condition to the consummation of the merger that each director of First National (other than Timothy M. O Keefe) enter into a non-competition and non-disclosure agreement with ABC. The agreement will provide that such director will not engage or participate in any business or enterprise that competes with the business activities of ABC or First National. The agreement will be effective for two years following the completion of the merger. The scope of the agreement will be limited to a geographic area within a 50-mile radius of Orange Park, Florida and St. Marys, Georgia.

In addition, the agreement will provide that for the two years following the completion of the merger, such director will not recruit certain employees of First National or ABC or any of their respective subsidiaries unless the employee has ceased to be employed by First National or ABC (or any of their respective affiliated companies) for

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at least six months. The agreement will also provide that for the two years following the completion of the merger, such director will be prohibited from influencing certain persons to discontinue or reduce their business relationship with ABC or First National or their respective subsidiaries.

The agreement will further provide that such director will not disclose any confidential information of ABC or First National for two years following the closing of the merger or reveal any trade secrets of ABC or First National for so long as they remain trade secrets.

The description of the non-competition and non-disclosure agreement is qualified by reference to the complete text of such agreement, which is an exhibit to the merger agreement which is attached as APPENDIX A to this proxy statement/prospectus.

First National Stock Options

Prior to June 30, 2005, First National's directors and executive officers held options to purchase an aggregate of 21,214 shares of First National common stock with exercise prices between \$20.40 and \$35.00 per share. All of these options will be exercised in accordance with their terms, with payment of the full cash exercise price to First National.

Employee Benefits of First National Employees After the Merger

ABC has agreed that all persons employed by First National and its subsidiaries at the effective time of the merger will be eligible for such employee benefits as are generally available to employees of ABC having like tenure, officer status and compensation levels.

Indemnification and Insurance

ABC has agreed that all rights to indemnification and all limitations of liability existing in favor of indemnified parties under First National's Articles of Incorporation and Bylaws as in effect on June 30, 2005 with respect to matters occurring prior to or at the effective time of the merger will survive the merger. In addition, ABC has agreed to cause the officers and directors of First National to be covered by directors' and officers' liability insurance for three years following the effective time of the merger, subject to certain conditions.

No director or executive officer of First National owns any ABC common stock. No director or executive officer of ABC has any personal interest in the merger other than as an ABC shareholder. No ABC director or executive officer owns any shares of First National common stock.

Nasdaq Listing and Public Trading Market

ABC common stock is traded on The Nasdaq National Market under the trading symbol ABCB. The shares of ABC common stock issuable pursuant to the merger will be traded on the same market under the same symbol. The shares of ABC common stock to be issued in the merger will be freely transferable under applicable securities laws, except to the extent of any limitations or restrictions applicable to any shares received by any shareholder who may be deemed an affiliate of First National on the date of the annual meeting or an affiliate of ABC following completion of the merger. See the section entitled Restrictions on Resales by Affiliates at page 54.

ABC Dividends

The holders of ABC common stock receive dividends if and when declared by ABC's board of directors out of legally available funds. ABC declared a dividend of \$0.12 per share of common stock for the fourth quarter of 2004. ABC paid a cash dividend of \$0.14 per share of common stock for each of the first three quarters of 2005. Following the completion of the merger, ABC expects to continue paying quarterly cash dividends on a basis

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consistent with past practice. However, the declaration and payment of dividends will depend upon business conditions, operating results, capital and reserve requirements and consideration by ABC's board of directors of other relevant factors.

No Solicitation of Alternative Transactions

First National was required to immediately cease any negotiations with any person regarding any acquisition transaction existing at the time the merger agreement was executed. In addition, neither First National nor any of its subsidiaries may solicit, directly or indirectly, inquiries or proposals with respect to, or, except to the extent determined by First National's board of directors in good faith, after consultation with its financial advisors and legal counsel, to be required to discharge properly the board's fiduciary duties, furnish any information relating to, or participate in any negotiations or discussions concerning, any sale of all or substantially all of First National's assets, any purchase of a substantial equity interest in it or any merger or other combination with it. Subject to the same fiduciary duties, First National's board of directors may not withdraw its recommendation to you of the merger or recommend to you any such other transaction.

First National and its subsidiaries were also required to instruct their respective officers, directors, agents, and affiliates to refrain from taking action prohibited of First National and its subsidiaries and is required to notify ABC immediately if it receives any inquires from third parties. However, no director or officer of First National is prohibited from taking any action that First National's board of directors determines in good faith, after consultation with counsel and receipt of a written opinion, is required by law or is required to discharge such director's or officer's fiduciary duties.

Accounting Treatment of the Merger

ABC is required to account for the merger as a purchase transaction under GAAP. Under the purchase method of accounting, the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of First National will be recorded, as of completion of the merger, at their respective fair values and added to those of ABC. Any excess of purchase price over the net fair value of First National's assets and liabilities is recorded as goodwill (excess purchase price). Financial statements and reported results of operations of ABC issued after completion of the merger will reflect these values but will not be restated retroactively to reflect the historical financial position or results of operations of First National. The results of operations of First National will be included in the results of operations of ABC following the effective time of the merger.

ADDITIONAL AGREEMENTS RELATED TO THE MERGER

On June 30, 2005, ABC and certain First National shareholders entered into a voting agreement, and ABC and First National entered into an agreement regarding capital loan. The material terms of these agreements are summarized below.

Voting Agreement

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The voting agreement is among ABC and certain First National shareholders, including each member of First National's board of directors, who beneficially owned, in the aggregate, approximately 68.1% of the outstanding shares of First National common stock as of the record date. Pursuant to the voting agreement, each First National shareholder who is a party to the voting agreement agreed that such shareholder would vote, and granted ABC an irrevocable proxy to vote, all shares of First National common stock which such shareholder beneficially owns and is entitled to vote (or direct the voting of):

in favor of approval and adoption of the merger agreement, the merger, the other transactions contemplated by the merger agreement and any other actions required in furtherance of the merger agreement;

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against any action, proposal, transaction or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement by First National under the merger agreement or by any First National shareholder under the voting agreement; and

except with the written consent of ABC, against any action or proposal (other than as contemplated by the merger agreement) involving First National or its subsidiary banks that is intended, or could reasonably be expected, to adversely affect or delay the merger or the transactions contemplated by the merger agreement, including, but not limited to:

a competing third-party proposal to acquire all or a significant portion of First National or its subsidiary banks;

any change in the persons who constitute First National's board of directors that is not approved in advance by at least a majority of the persons who were directors of First National as of June 30, 2005 or their successors who were so approved;

any material change in First National's capitalization or any amendment to First National's Articles of Incorporation or Bylaws; or

any other material change in First National's corporate structure or business.

Each First National shareholder who is a party to the voting agreement also agreed that, until the voting agreement is terminated, such shareholder will not:

sell, transfer, tender, pledge, encumber, assign or otherwise dispose of (which actions are collectively referred to herein as a "Transfer"), or enter into any contract, option or agreement with respect to the Transfer of, any shares of First National common stock beneficially owned by such shareholder (except for any Transfer between First National shareholders who are both parties to the voting agreement and except for any pledge or encumbrance which does not impair any such shareholder's ability to perform its obligations under the voting agreement);

take any action that would have the effect of preventing, impeding or adversely affecting such shareholder's ability to perform its obligations under the voting agreement; or

solicit, initiate, conduct or continue any discussions or negotiations, or knowingly respond to or encourage any inquires or proposals, or provide any information to any person, relating to any competing third-party proposal to acquire all or a significant part of First National or its subsidiary banks.

The voting agreement will terminate and have no further effect upon the earlier to occur of:

the mutual consent of ABC and the First National shareholders who are parties to the voting agreement;

the date on which the merger is completed;

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the date on which the merger agreement is terminated in accordance with its terms; or

the date on which the merger agreement is amended or modified, or any provision therein is waived, in a manner which reduces either the number of shares of ABC common stock issuable or the amount of cash payable to the First National shareholders pursuant to the merger agreement.

The affirmative vote of shareholders owning at least a majority of the outstanding First National common stock is required to approve and adopt the merger agreement. Pursuant to the voting agreement, certain First National shareholders, including all of its directors, which shareholders together beneficially owned approximately 692,152 shares as of the record date, or approximately 68.1%, of the outstanding First National common stock, have granted to ABC an irrevocable proxy to vote their First National common stock in favor of the approval and adoption of the merger agreement. As a result, the approval and adoption of the merger agreement is practically assured.

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The description of the voting agreement is qualified by reference to the complete text of the voting agreement, which is an exhibit to the merger agreement which is attached as APPENDIX A to this proxy statement/prospectus.

Agreement Regarding Capital Loan

Pursuant to the agreement regarding capital loan between ABC and First National, ABC agrees that, upon written request by First National after First National, St. Marys or Orange Park receives a written notification from a regulatory authority requiring First National, St. Marys or Orange Park to increase its capital, ABC will extend a loan to First National in principal amount necessary to satisfy the request for such capital increase, up to \$6.0 million. The entire principal amount of any loan made by ABC pursuant to the agreement would be payable on the second anniversary of the loan and would accrue interest at a rate per annum equal to the prime rate, with all accrued interest being payable on the first and second anniversaries of the loan. First National's payment obligations under the loan would be secured by a pledge to ABC of the capital stock of Orange Park.

ABC's obligation to make the loan to First National will terminate on the date of the termination of the merger agreement in the event the merger agreement is terminated:

by either First National or ABC, if the merger agreement is not duly approved by the First National shareholders;

by ABC, if First National withdraws, modifies or changes its recommendation with respect to the merger agreement or the merger;

by First National, if it has entered into a definitive agreement to be acquired by another party, so long as First National complies with the terms of the merger agreement and pays ABC the fee described in Terms of the Merger Expenses and Fees in Connection with the Merger ; or

by ABC, if First National willful breaches any of its representations, warranties, agreements or covenants set forth in the merger agreement.

ABC's obligation to make the loan to First National will otherwise terminate 60 days after the date of the termination of the merger agreement for any other reason than set forth above.

The description of the agreement regarding capital loan is qualified by reference to the complete text of such agreement, which is filed as an exhibit to the registration statement of which this proxy statement/prospectus is a part and incorporated herein by reference.

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UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION

The following tables present financial information as of and for the six months ended June 30, 2005 and for the year ended December 31, 2004 for ABC after giving effect to the completion of the proposed merger.

The pro forma financial information gives effect to the merger under the purchase accounting method in accordance with GAAP. The unaudited pro forma combined consolidated financial statements combine the historical consolidated financial statements of ABC and First National giving effect to the merger as if it had been effective on June 30, 2005 with respect to the applicable unaudited pro forma combined consolidated balance sheet and as of the beginning of the period indicated with respect to the unaudited pro forma combined consolidated statements of income.

The information for the year ended December 31, 2004 is derived from ABC's audited consolidated financial statements, including the related notes, and from First National's audited financial statements, including the related notes, all included elsewhere in this proxy statement/prospectus. See the section entitled "Index to Financial Statements" at page F-1.

ABC expects to incur reorganization and restructuring expenses as a result of the proposed merger. The effect of the estimated reorganization and restructuring costs expected to be incurred in connection with the proposed merger has not been reflected in the unaudited pro forma combined condensed consolidated balance sheet. ABC also anticipates that the merger will provide the combined company with some future financial benefits that include reduced operating expenses and opportunities to earn more revenue. However, ABC does not reflect any of these anticipated cost savings or benefits in the pro forma financial information. Therefore, the pro forma financial information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not attempt to predict or suggest future results. The pro forma financial information also does not attempt to show how the combined company would actually have performed had the companies been combined throughout the periods presented. ABC has included in the pro forma financial information all the adjustments necessary for a fair statement of results of the historical periods.

Given the information regarding the proposed merger, the actual consolidated financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because, among other reasons, (i) assumptions used in preparing the pro forma financial information may be revised in the future due to changes in values of assets or liabilities, including finalization of the calculation of a core deposit intangible, and changes in operating results between the dates of the unaudited pro forma financial data and the date on which the merger is completed; and (ii) adjustments may need to be made to the unaudited historical financial data upon which such pro forma data are based.

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ABC BANCORP AND SUBSIDIARIES
COMBINED WITH FIRST NATIONAL BANC, INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEET

JUNE 30, 2005

(Unaudited)

(Dollars in Thousands)

	<u>ABC Historical</u>	<u>First National Banc Historical</u>	<u>Pro Forma Adjustments (Notes A and B)</u>	<u>Pro Forma Combined</u>
Assets:				
Cash and due from banks	\$ 37,795	\$ 7,889	\$	\$ 45,684
Interest bearing deposits in banks	20,223	541	(12,095)(1)	8,669
Federal funds sold		22,562		22,562
Investment securities	218,371	18,533		236,904
Loans, net	945,855	200,383		1,146,238
Premises and equipment	28,954	8,094		37,048
Investment in First National			34,557(1)	
			(34,557)(2)	
Intangible assets	3,296	2,390	8,733(2)	14,419
Goodwill	25,054		8,733(2)	33,787
Other assets	25,304	9,645		34,949
	<u>\$ 1,304,852</u>	<u>\$ 270,037</u>	<u>\$ 5,371</u>	<u>\$ 1,580,260</u>
Liabilities and Equity:				
Deposits	\$ 1,035,863	\$ 233,067	\$	\$ 1,268,930
Federal funds purchased and securities sold under agreements to repurchase	6,387			6,387
Other borrowings	95,236	12,700		107,936
Subordinated debentures	35,567	5,155		40,722
Other liabilities	6,715	2,024		8,739
Total liabilities	<u>1,179,768</u>	<u>252,946</u>		<u>1,432,714</u>
Equity:				
Common stock	13,182		1,214(1)	14,396
Capital surplus	46,172		21,248(1)	67,420
Retained earnings	77,549			77,549
Other comprehensive income	(736)			(736)
Unearned compensation	(681)			(681)
Treasury stock	(10,402)			(10,402)
Equity of First National Banc		17,091	(17,091)(2)	
Total equity	<u>125,084</u>	<u>17,091</u>	<u>5,371</u>	<u>147,546</u>

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	<u>\$ 1,304,852</u>	<u>\$ 270,037</u>	<u>\$ 5,371</u>	<u>\$ 1,580,260</u>
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ABC BANCORP AND SUBSIDIARIES
COMBINED WITH FIRST NATIONAL BANC, INC. AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Dollars in Thousands, Except Per Share Data)

	Six Months Ended June 30, 2005			
	ABC Historical	First National Banc Historical	Pro Forma Adjustments (Note B)	Pro Forma Combined
Interest income	\$ 37,551	\$ 8,538	\$ (197)(4)	\$ 45,892
Interest expense	11,312	2,997		14,309
Net interest income	26,239	5,541	(197)	31,583
Provision for loan loss	1,119	3,597		4,716
Net interest income after provision for loan losses	25,120	1,944	(197)	26,867
Other income	6,985	1,066		8,051
Other expense	21,666	4,405	291(3)	26,362
Income from continuing operations before income taxes	10,439	(1,395)	(488)	8,556
Income taxes	3,553	(597)	(166)(5)	2,790
Income from continuing operations	<u>\$ 6,886</u>	<u>\$ (798)</u>	<u>\$ (322)</u>	<u>\$ 5,766</u>
Income per share from continuing operations basic				<u>\$ 0.44</u>
Income per share from continuing operations diluted				<u>\$ 0.44</u>

	Year Ended December 31, 2004			
	ABC Historical	First National Banc Historical	Pro Forma Adjustments (Note B)	Pro Forma Combined
Interest income	\$ 64,365	\$ 14,926	\$ (394)(4)	\$ 78,897
Interest expense	19,375	4,251		23,626
Net interest income	44,990	10,675	(394)	55,271
Provision for loan loss	1,786	7,809		9,595
Net interest income after provision for loan losses	<u>43,204</u>	<u>2,866</u>	<u>(394)</u>	<u>45,676</u>

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Other income	13,023	2,207		15,230
Other expense	36,505	8,219	582(3)	45,306
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income from continuing operations before income taxes	19,722	(3,146)	(976)	15,600
Income taxes	6,621	(1,234)	(332)(5)	5,055
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income from continuing operations	\$ 13,101	\$ (1,912)	\$ (644)	\$ 10,545
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income per share from continuing operations basic				\$ 0.81
				<u> </u>
Income per share from continuing operations diluted				\$ 0.81
				<u> </u>

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ABC BANCORP AND SUBSIDIARIES

COMBINED WITH FIRST NATIONAL BANC, INC. AND SUBSIDIARIES

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- A. The pro forma condensed balance sheet has been prepared assuming the merger was consummated on June 30, 2005. The pro forma condensed statement of income has been prepared assuming the merger was consummated at the beginning of each period presented.
- B. The following pro forma adjustments have been applied to give effect to the proposed merger described in this proxy statement/prospectus.

Balance Sheet:

- (1) Payment of \$12,095,000 in cash (representing approximately 35% of total consideration) and issuance of 1,214,157 shares of ABC common stock (with an assumed market value of \$18.50 per share) in exchange for 100% of the equity of First National for a total consideration of \$34,557,000.
- (2) The excess of purchase price over the fair value of net assets acquired amounting to \$17,466,000 has been allocated as follows: 50% to intangible assets and 50% to goodwill. Upon completion of the merger, portions of the excess of the purchase price over the fair value of net assets acquired will be allocated to specific assets based on the fair value of these assets on the day the merger is completed.

Statement of Income:

- (3) Pro forma adjustments to income resulting from the allocation of the purchase price of First National as follows:
Amortization of intangible assets using the straight-line method over an average period of 15 years.
- (4) Loss of interest on interest bearing deposits used to fund the merger using an average rate of 3.25%.
- (5) Tax effect of pro forma adjustment for reduction in interest income and the amortization of intangible assets using a tax rate of 34%.
- C. Based on the assumption that the excess purchase price over the fair value of the net assets acquired will be allocated 50% to amortizable intangible or tangible assets, the effect of the purchase adjustments described in Note B (3) above will result in a decrease in net income of \$582,000 for each of the next five years.

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FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following is a summary of the material anticipated federal income tax consequences of the merger. This summary is based on the federal income tax laws now in effect and as currently interpreted. This summary does not take into account possible changes in these laws or interpretations, including amendments to applicable statutes or regulations or changes in judicial or administrative rulings, some of which may have retroactive effect. This summary does not address all aspects of the possible federal income tax consequences of the merger and is not intended as tax advice to any person.

In particular, this summary does not address the federal income tax consequences of the merger to First National shareholders in light of their particular circumstances or status. For example, this summary does not address the federal income taxation of the merger to First National shareholders: (i) who hold their shares of First National common stock as part of a hedge, straddle, constructive sale or conversion transaction, as those terms are used in the Code, or (ii) who are foreign persons, tax-exempt entities, dealers in securities, insurance companies or corporations, among others. Nor does this summary address any consequences of the merger under any state, local or foreign laws or the tax treatment of shares of First National or options or other rights to purchase shares of First National stock that are or have been received as compensation. **YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES OF THE MERGER TO YOU, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICATION AND EFFECT OF FEDERAL, FOREIGN, STATE, LOCAL AND OTHER TAX LAWS, AND THE IMPLICATIONS OF ANY PROPOSED CHANGES IN THE TAX LAWS.**

In connection with the filing of the registration statement of which this proxy statement/prospectus is a part, Smith, Gambrell & Russell, LLP, counsel to First National, delivered a tax opinion to First National to the effect that the merger will qualify as a tax-free reorganization under Section 368(a) of the Code and that a First National shareholder will not recognize gain on the exchange of shares of First National common stock in the merger in excess of the amount of cash received by the shareholder in the merger. That opinion was rendered (i) in reliance on certain representations provided by management of First National and ABC, (ii) based upon a specific assumption that First National shareholders will receive as merger consideration ABC common stock with a value equal to at least 40% of the total value of all First National common stock as of the effective time of the merger, and (iii) subject to certain other assumptions and limitations as stated therein. It is a condition to First National's and ABC's obligations to effect the merger that such tax opinion shall have been reissued in substantially the same form as of the effective time of the merger. Although the condition to receive the tax opinion at the closing of the merger is waivable, if such condition is waived by both First National and ABC, then the First National shareholders shall be re-solicited with respect to the merger.

The tax opinion of Smith, Gambrell & Russell, LLP is based upon the Code, the applicable regulations promulgated or proposed thereunder, current rulings of the Internal Revenue Service and judicial decisions as in effect on the date of such opinion, all of which are subject to modification or challenge at any time and perhaps with retroactive effect.

Consequences to First National Shareholders

Each First National shareholder who receives a combination of ABC common stock and cash pursuant to the merger will realize gain or loss equal to the difference between: (i) the sum of the cash plus the fair market value of the ABC common stock received and (ii) such shareholder's adjusted tax basis in the shares of First National common stock surrendered. Any such gain will only be recognized to the extent of the cash received. However, any such loss will not be recognized, but will be reflected in the tax basis of the ABC common stock received. Accordingly, a First National shareholder generally will be able to recognize any such loss as an offset to the amount realized upon a subsequent sale or exchange of such ABC common stock. For this purpose, gain or loss must be calculated separately for each identifiable block of shares

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surrendered in the exchange, and a loss recognized on one block of shares of First National common stock cannot be used to offset a gain recognized on another block of shares of First National common stock.

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Any gain recognized by a First National shareholder in the merger will be eligible for capital gain treatment (assuming the First National shareholder's shares of First National common stock are held as a capital asset by the shareholder) unless the receipt of cash has the effect of a distribution of a dividend (within the meaning of Section 356 of the Code taking into account the constructive ownership rules of Section 318 of the Code), in which case such gain will be taxable as ordinary income to the extent of the shareholder's ratable share of First National's undistributed earnings and profits. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the shareholder's deemed percentage stock ownership of ABC. For purposes of this determination, the shareholder is treated as if the shareholder first exchanged all of the shareholder's shares of First National common stock solely for ABC common stock and then ABC immediately redeemed (which we refer to in this proxy statement/prospectus as a deemed redemption) a portion of the ABC common stock in exchange for the cash the shareholder actually received. The gain recognized in the deemed redemption will be treated as capital gain if the deemed redemption is substantially disproportionate with respect to the shareholder or not essentially equivalent to a dividend.

The deemed redemption will generally be substantially disproportionate with respect to a shareholder if the percentage described in clause (ii) below is less than 80% of the percentage described in clause (i) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a shareholder will depend upon the shareholder's particular circumstances. At a minimum, however, in order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in the shareholder's deemed percentage stock ownership of ABC. In general, that determination requires a comparison of (i) the percentage of the outstanding stock of ABC that the shareholder is deemed actually and constructively to have owned immediately before the deemed redemption and (ii) the percentage of the outstanding stock of ABC that is actually and constructively owned by the shareholder immediately after the deemed redemption. In applying the above tests, a shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or stock underlying a shareholder's option to purchase such stock in addition to the stock actually owned by the shareholder.

The Internal Revenue Service has ruled that a shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is generally considered to have a meaningful reduction if that shareholder has a relatively minor reduction in that shareholder's percentage stock ownership under the above analysis; accordingly, the gain recognized in the exchange by such a shareholder would be treated as capital gain.

These rules are complex and dependent upon the specific factual circumstances particular to each First National shareholder. Consequently, each First National shareholder that may be subject to these rules should consult such shareholder's tax advisor as to the application of these rules to the particular facts relevant to such shareholder.

A First National shareholder who receives ABC common stock and cash will receive a basis in the ABC common stock equal to the basis of the First National stock surrendered in the exchange, decreased by the amount of cash received, and increased by the amount of any gain recognized on the exchange. The holding period of the ABC common stock received by such a shareholder will include the holding period of the shares of First National stock surrendered in the exchange, provided the surrendered shares were held as a capital asset as of the effective time of the merger.

The payment of cash to First National shareholders in lieu of fractional shares of ABC common stock will be treated as if such fractional shares were distributed as part of the exchange and then redeemed for cash. That means that, in general, gain or loss will be recognized, measured by the difference between the amount of cash received for such fractional shares and the basis of the First National stock allocable to such fractional shares. In general, such gain or loss will constitute capital gain or loss if the shares of First National stock were held as capital assets immediately prior to the effective time of the merger, which gain or loss will be long-term in nature if the shares of First National stock exchanged therefor have been held (or are deemed to have been held) for more than one year.

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Consequences to First National and ABC

If the merger is treated as a reorganization within the meaning of Section 368(a) of the Code, then no gain or loss will be recognized by ABC or First National in the merger.

Dissenting Shareholders

Any First National shareholder who dissents from the merger and receives solely cash in exchange for such shareholder's First National common stock will realize gain or loss equal to the difference between the cash received (other than amounts, if any, which are or are deemed to be interest for U.S. federal income tax purposes, which amounts will be taxed as ordinary income) and the shareholder's adjusted tax basis in the First National common stock surrendered. Any such gain or loss generally should be capital in nature, although any dissenting shareholder who will directly or constructively (under the attribution rules of Section 318 of the Code) own any shares of ABC common stock immediately after the merger should consult his own tax advisor to determine whether any such gain could constitute dividend income in whole or in part.

Backup Withholding

Absent an applicable exemption, ABC's exchange agent must withhold 28% of the cash consideration to which any First National shareholder is entitled in the merger, unless the shareholder provides his or her tax identification number and certifies, under penalties of perjury, that such number is correct. Accordingly, if requested by the exchange agent, each First National shareholder should complete an IRS Form W-9 or substitute form to provide the information and certification necessary to avoid this backup withholding. This information will be distributed to the First National shareholders with the letter of transmittal.

STATUTORY PROVISIONS FOR DISSENTING SHAREHOLDERS

The following discussion is not a complete description of the law relating to appraisal rights available under Georgia law and is qualified by the full text of Article 13 of the Georgia Business Corporation Code. Article 13 is attached as APPENDIX B to this proxy statement/prospectus. If you desire to exercise appraisal rights, you should review carefully Article 13 and are urged to consult a legal advisor before electing or attempting to exercise these rights.

Any holder of record of First National common stock who objects to the merger, and who fully complies with all of the provisions of Article 13 of the Georgia Business Corporation Code (but not otherwise), will be entitled to demand and receive payment for all (but not less than all) of his or her shares of First National common stock if the proposed merger is consummated.

A shareholder of First National who objects to the merger and desires to receive payment of the fair value of his or her First National common stock:

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must file a written objection to the merger with First National either prior to the annual meeting or at the meeting but before the vote is taken, and the written objection must contain a statement that the shareholder intends to demand payment for his or her shares if the merger agreement is approved and adopted; AND

must not vote his or her shares in favor of the merger agreement; AND

must demand payment and deposit his or her certificate(s) in accordance with the terms of the dissenters' notice sent to the dissenting shareholder by First National following approval and adoption of the merger agreement.

A vote against the merger agreement alone will not constitute the separate written notice and demand for payment referred to immediately above. Dissenting shareholders must separately comply with all three conditions.

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Any notice required to be given to First National must be forwarded to First National Banc, Inc., 2309 Osborne Road, St. Marys, Georgia 31558, Attention: Chief Executive Officer.

If the merger agreement is approved and adopted, First National will mail, no later than 10 days thereafter, by certified mail to each shareholder who has complied with the three conditions above, written notice of such approval and adoption, addressed to the shareholder at such address as the shareholder has furnished First National in writing or, if none, at the shareholder's address as it appears on the records of First National. First National will set a date by which it must receive the payment demand, which date may not be fewer than 30 nor more than 60 days after the date the dissenters' notice is delivered. The shareholder must make the written election to dissent and demand for payment described in the third condition above by the payment demand date as set by First National.

If all three conditions above are satisfied in full, First National is required to make a written offer within 10 days of receiving the payment demand, or within 10 days after the completion of the merger, whichever is later, to each dissenting shareholder to purchase all of such shareholder's shares of First National stock at a specific price. If First National and any dissenting shareholder are unable to agree on the fair value of the shares within 60 days, then First National will commence a proceeding in superior court of the county where its main office is located to determine the rights of the dissenting shareholders and the fair value of his or her shares. If First National does not commence the proceeding within the 60-day period, then it must pay each dissenter whose demand remains unsettled the amount demanded.

In the event of a court proceeding, the court will determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court, but not including fees and expenses of attorneys and experts for the respective parties. The court will assess these costs against First National, except that the court may assess these costs against all or some of the dissenters in amounts the court finds equitable to the extent the court finds the dissenters acted arbitrarily or not in good faith in demanding payment under the dissenters' provisions. The court may also assess the fees and expenses of attorneys and experts for the respective parties in amounts the court finds equitable: (i) against First National and in favor of any or all dissenters if the court finds First National did not substantially comply with the dissenters' provisions; or (ii) against First National or a dissenter in favor of any other party if the court finds that the party against whom fees and expenses are assessed acted arbitrarily or not in good faith with respect to the rights provided by the dissenters' provisions. If the court finds that the services of attorneys for any dissenter were of substantial benefit to other dissenters similarly situated and that the fees for those services should not be assessed against First National, the court may award these attorneys reasonable fees to be paid out of the amounts awarded the dissenters who were benefited.

One of the conditions to the merger is that the aggregate number of shares of First National common stock dissenting from the merger not exceed five percent of the outstanding First National common stock. If this condition is not satisfied, then ABC will not be required to complete the merger, in which event the dissenters' rights described in this section would also terminate.

Upon compliance with the statutory procedures, dissenting shareholders will not have any rights as shareholders of First National or of ABC, including, among other things, the right to receive dividends and the right to vote on matters submitted for shareholder consideration.

First National shareholders should note that cash paid to dissenting shareholders in satisfaction of the fair value of their shares will be recognized as gain or loss for federal income tax purposes.

Failure by a First National shareholder to follow the steps required by the Georgia Business Corporation Code for perfecting appraisal rights may result in the loss of such rights. In view of the complexity of these provisions and the requirement that they be strictly complied with, if you hold First National common stock and are considering dissenting from the approval and adoption of the merger agreement and exercising your appraisal rights under the Georgia Business Corporation Code, you should consult your legal advisors.

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RESTRICTIONS ON REALES BY AFFILIATES

This proxy statement/prospectus does not cover any resales of ABC common stock to be received by the First National shareholders upon the completion of the merger, and no person is authorized to make any use of this proxy statement/prospectus in connection with any such resale.

The shares of ABC common stock to be issued in the merger will be freely transferable under the Securities Act. However, this will not be the case for shares issued to any shareholder who may be deemed to be an affiliate of First National for purposes of Rule 145 under the Securities Act as of the date of the annual meeting. Affiliates may resell their ABC common stock only in transactions registered under the Securities Act or permitted by the resale provisions of Rule 145 under the Securities Act or as otherwise permitted thereby. These rules also apply to ABC common stock owned by affiliates of ABC. Affiliates generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by or are under common control with ABC or First National and include directors, certain executive officers and principal shareholders. The restrictions on resales by an affiliate extend also to certain related parties of the affiliate, including spouses, relatives and spouse's relatives who in each case have the same home as the affiliate.

The merger agreement requires First National to use its best efforts to cause each of its affiliates to deliver a written affiliate agreement to ABC to the effect generally that the affiliate will not offer or otherwise dispose of any shares of ABC stock owned by the affiliate, except in compliance with the Securities Act and the rules and regulations issued thereunder. The description of the affiliate agreement is qualified by reference to the complete text of the affiliate agreement, which is an exhibit to the merger agreement which is attached as APPENDIX A to this proxy statement/prospectus.

INTERESTS OF FIRST NATIONAL'S DIRECTORS AND EXECUTIVE OFFICERS IN THE MERGER

General

You should be aware of potential conflicts of interest of, and the benefits available to, certain First National directors and executive officers. These directors and executive officers may be deemed to have interests in the merger that are different from, or in addition to, their interests as First National shareholders generally. These interests include, among others, employment agreements with certain employees of First National, proposed employee benefits for those persons who become employees of an ABC subsidiary after the merger and indemnification and insurance coverage. First National's board of directors was aware of these interests and considered them, in addition to other matters, in approving the merger agreement.

Employment Agreements

On or about June 30, ABC extended offers of employment to Timothy W. O'Keefe, First National's President and Chief Operating Officer, and certain other employees of First National contingent upon the completion of the merger. Mr. O'Keefe and the other offerees accepted these offers and agreed to become employed by The First Bank of Brunswick or, if the merger agreement is restructured pursuant to its terms, another ABC subsidiary, pursuant to the terms of an employment agreement to be executed upon the completion of the merger.

The employment agreement to be entered into by Mr. O Keefe and the ABC subsidiary upon completion of the merger provides that Mr. O Keefe will agree to serve as City President of the ABC subsidiary for a two-year period and that Mr. O Keefe will be entitled to receive a minimum annual salary of \$140,000 and an annual bonus equal to be determined in the discretion of the ABC subsidiary and to participate in all present and future employee benefit, retirement, compensation plans and other perquisites generally available to employees of the ABC subsidiary, consistent with Mr. O Keefe's salary and his position as the City President of the ABC

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subsidiary. The employment agreement further provides that, in the event of termination of Mr. O Keefe's employment with the ABC subsidiary, it will pay to Mr. O Keefe: (i) his base salary and annual bonus through the date of termination if he is terminated by the ABC subsidiary's board of directors for cause (as defined) or if he terminates his employment without good reason (as defined); and (ii) his base salary and annual bonus through the date of termination if he terminates his employment for good reason and, if such termination occurs within twelve months after a change of control of the ABC subsidiary, then, for two additional 12-month periods, his base salary and a bonus in an amount determined pursuant to the terms of the employment agreement. The employment agreement also includes certain restrictive covenants which limit Mr. O Keefe's ability to compete with the ABC subsidiary or divulge certain confidential information concerning the ABC subsidiary.

ABC has also agreed to pay to Mr. O Keefe a bonus of \$220,000 no later than 15 days after the completion of the merger, provided Mr. O Keefe remains employed by the ABC subsidiary pursuant to his employment agreement at such time.

The above description of Mr. O Keefe's employment agreement is qualified by reference to the complete text of the form of this agreement, which is incorporated by reference into this proxy statement/prospectus and is an exhibit to the merger agreement which attached as APPENDIX A to this proxy statement/prospectus.

Indemnification and Insurance

ABC has agreed that all rights to indemnification and all limitations of liability existing in favor of officers and directors of First National, St. Mary's and Orange Park as provided in their respective Articles of Incorporation and Bylaws as in effect on June 30, 2005 with respect to matters occurring prior to or at the effective time of the merger will survive the merger. In addition, ABC has agreed to cause, for a period of three years following the effective time of the merger, the officers and directors of First National to be covered by directors' and officers' liability insurance comparable to that maintained by First National prior to the merger with carriers comparable to First National's existing carrier and containing terms and conditions no less advantageous in any material respect to the officers and directors of First National. ABC is not, however, required to expend in any one year an amount in excess of 125% of the current annual premiums paid by First National for its directors' and officers' liability insurance.

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DESCRIPTION OF ABC CAPITAL STOCK

General

ABC's authorized capital stock consists of 30,000,000 shares of common stock, \$1.00 par value per share, of which 11,865,600 shares were issued and outstanding as of the record date for the First National annual shareholders' meeting, and 5,000,000 shares of preferred stock, none of which are issued and outstanding. ABC has reserved 1,020,000 shares of ABC common stock for issuance pursuant to outstanding options to purchase such shares.

Common Stock

The holders of ABC common stock are entitled to receive dividends when, as and if declared by ABC's board of directors and paid by ABC out of funds legally available therefor and to share ratably in the assets of ABC available for distribution after the payment of all prior claims in the event of any liquidation, dissolution or winding-up of ABC. All outstanding shares of ABC common stock are duly authorized and validly issued, fully paid and nonassessable.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such bank. Consistent with this policy, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends, unless the available net income of the bank holding company is sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with its capital needs, asset quality and overall financial condition.

The ability of ABC to pay cash dividends is currently influenced, and in the future could be further influenced, by bank regulatory policies or agreements and by capital guidelines. Accordingly, the actual amount and timing of future dividends, if any, will depend on, among other things, future earnings, the financial condition of ABC and each of its subsidiary banks, the amount of cash on hand at the holding company level, outstanding debt obligations, if any, and the requirements imposed by regulatory authorities.

Holders of ABC common stock are entitled to one vote per share on all matters requiring a vote of shareholders. The ABC common stock does not have cumulative voting rights, which means that the holders of more than 50% of the outstanding ABC common stock voting for the election of directors can elect 100% of the directors if they choose to do so. In such event, the holders of the remaining ABC common stock will not be able to elect any of the directors.

Preferred Stock

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No shares of ABC preferred stock have been issued. ABC's board of directors is authorized to issue the ABC preferred stock, without shareholder approval, in one or more series and to fix and determine, among other things: the dividend payable with respect to such shares of ABC preferred stock, including whether and in what manner such dividend shall be accumulated; whether such shares shall be redeemable and, if so, the prices, terms and conditions of such redemption; the amount payable on such shares in the event of voluntary or involuntary liquidation; the nature of any purchase, retirement or sinking fund provisions; the nature of any conversion rights with respect to such shares; and the extent of the voting rights, if any, of such shares. Certain of such rights may, under certain circumstances, adversely affect the rights or interests of holders of ABC common stock. In addition, the ABC preferred stock may be issued as a defensive device to thwart an attempted hostile takeover of ABC.

Limitation of Directors' Liability

ABC's Articles of Incorporation provide that no director of ABC shall be liable to ABC or its shareholders for monetary damages for breach of the duty of care or other duty as a director, except for liability:

for any appropriation, in violation of the director's duties, of any business opportunity of ABC;

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for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

in respect of certain unlawful dividend payments or stock redemptions or repurchases; or

for any transaction from which the director derived an improper personal benefit.

The effect of these provisions is to eliminate the rights of ABC and its shareholders (through shareholders' derivative suits on behalf of ABC) to recover monetary damages against a director for breach of fiduciary duty as a director (including breaches resulting from grossly negligent behavior), except in the situations described above. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of ABC pursuant to the foregoing, ABC has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Certain Antitakeover Provisions

The issuance of shares of ABC common stock or ABC preferred stock may place ABC in a position to deter a future takeover attempt that some shareholders may favor. In the event of a proposed merger, tender offer or other attempt to gain control of ABC, it will be possible for ABC's board of directors to authorize the issuance of ABC preferred stock to impede completion of the proposed merger, tender offer or other attempt to gain control. ABC's board of directors, however, did not consider the potential deterrent as a reason for establishing the number of its authorized shares.

ABC's Articles of Incorporation provide that ABC's board of directors be divided into three classes of directors as nearly equal in number as possible. At each annual meeting of shareholders, one class of directors is elected for a three-year term. Classification of directors has the effect of making it more difficult for shareholders to change the composition of ABC's board of directors. At least two annual meetings of shareholders, instead of one, will generally be required to effect a change in the majority of ABC's board of directors. Such classification provisions, therefore, could also have the effect of discouraging a third party from initiating a proxy contest, making a tender offer or otherwise attempting to obtain control of ABC.

On February 23, 1998, ABC's board of directors declared a dividend distribution of one preferred share purchase right on each outstanding share of its common stock. The purchase rights are designed to assure that all ABC shareholders receive fair and equal treatment in the event of any proposed takeover of ABC and to guard against partial tender offers, squeeze-outs, open market accumulations and other abusive tactics to gain control of ABC without paying all ABC shareholders the full value of their investment. The purchase rights will not prevent a takeover; however, they should encourage anyone seeking to acquire ABC to negotiate with ABC's board of directors prior to attempting a takeover.

Transfer Agent

SunTrust Bank, Atlanta currently acts as the transfer agent for the ABC common stock.

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SUPERVISION AND REGULATION

The following discussion sets forth certain of the material elements of the regulatory framework applicable to banks and bank holding companies and provides certain specific information relevant to ABC and First National. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of ABC.

General

ABC and First National are both bank holding companies registered with the Federal Reserve Board and the Georgia Department of Banking and Finance under The Bank Holding Company Act and The Georgia Bank Holding Company Act, respectively. As a result, our companies are subject to the supervision, examination and reporting requirements of these acts and the regulations of the Federal Reserve Board and the Georgia Department of Banking and Finance issued under these acts. ABC's subsidiary banks are Georgia, Alabama, Florida and Federally-chartered commercial banks, and First National's subsidiary banks are national banks. Each of our bank subsidiaries is insured by the FDIC to the full extent permitted by law. As a result, our banks are subject to the supervision, examination and reporting requirements of the Georgia Department of Banking and Finance, the Alabama State Banking Department, the Florida Department of Banking and Finance, the FDIC and the OCC.

The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before:

it may acquire direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% percent of the voting shares of the bank;

it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or

it may merge or consolidate with any other bank holding company.

The Bank Holding Company Act further provides that the Federal Reserve Board may not approve any transaction that would result in a monopoly or that would substantially lessen competition in the banking business, unless the public interest in meeting the needs of the communities to be served outweighs the anti-competitive effects. The Federal Reserve Board is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved and the convenience and needs of the communities to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues focuses, in part, on the performance under The Community Reinvestment Act of 1977, both of which are discussed in more detail below.

The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than:

banking;

managing or controlling banks or other permissible subsidiaries; and

acquiring or retaining direct or indirect control of any company engaged in any activities other than activities closely related to banking or managing or controlling banks.

The activities in which holding companies and their affiliates are permitted to engage were substantially expanded by The Gramm-Leach-Bliley Act, which was enacted into law in 1999. The Gramm-Leach-Bliley Act repeals the anti-affiliation provisions of The Glass-Steagall Act to permit the common ownership of commercial banks, investment banks and insurance companies. The Gramm-Leach-Bliley Act also amends The Bank

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Holding Company Act to permit a financial holding company to, among other things, engage in any activity that the Federal Reserve Board determines to be (i) financial in nature or incidental to such financial activity or (ii) complementary to a financial activity and not a substantial risk to the safety and soundness of depository institutions or the financial system generally. The Federal Reserve Board must consult with the Secretary of the Treasury in determining whether an activity is financial in nature or incidental to a financial activity. Holding companies may continue to own companies conducting activities which had been approved by federal order or regulation on the day before The Gramm-Leach-Bliley Act was enacted. Effective August 24, 2000, ABC became a financial holding company.

In determining whether a particular activity is permissible, the Federal Reserve Board considers whether performing the activity can be expected to produce benefits to the public that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The Federal Reserve Board has the power to order a bank holding company or its subsidiaries to terminate any activity or control of any subsidiary when the continuation of the activity or control constitutes a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company.

Our banks are also subject to numerous state and federal statutes and regulations that affect their business, activities and operations, and each is supervised and examined by one or more state or federal bank regulatory agencies. Our subsidiary banks are subject to regulation, supervision and examination by the FDIC, the OCC, the Georgia Department of Banking and Finance, the Alabama State Banking Department and the Florida Department of Banking and Finance. These regulatory agencies regularly examine the operations of our banks and are given the authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. These regulatory agencies also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law.

Payment of Dividends

ABC and First National are legal entities separate and distinct from their bank subsidiaries. Substantially all of ABC's and First National's revenues result from amounts paid as dividends to ABC and First National by their subsidiary banks. Our banking subsidiaries are subject to statutory and regulatory limitations on the payment of dividends to ABC and First National. ABC and First National are also subject to statutory and regulatory limitations on dividend payments to their shareholders.

If, in the opinion of the federal banking regulators, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, the regulatory authority may require, after notice and hearing, that the institution cease and desist from the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. The federal agencies have also issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See the section entitled "Supervision and Regulation Prompt Corrective Action" at page 61.

The Georgia Financial Institutions Code and the Georgia Department of Banking and Finance's regulations provide:

that dividends of cash or property may be paid only out of the bank's retained earnings;

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that dividends may not be paid if the bank's paid-in capital and retained earnings which are set aside for dividend payment and other distributions do not, in combination, equal at least 20% of the bank's capital stock; and

that dividends may not be paid without prior approval of the Georgia Department of Banking and Finance if

the bank's total classified assets at its most recent examination exceed 80% of its equity capital;

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the aggregate amount of dividends to be declared exceeds 50% of the bank's net profits after taxes but before dividends for the previous calendar year; or

the ratio of equity capital to total adjusted assets is less than 6%.

The payment of dividends by our bank holding companies and our subsidiaries may also be affected or limited by other factors, such as a requirement by a regulatory agency to maintain adequate capital above regulatory guidelines.

Financial Relationship Between ABC and First National and their Subsidiaries

There are also various legal restrictions on the extent to which ABC or First National can borrow or otherwise obtain credit from their banking subsidiaries. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and are limited to 10% of any banking subsidiary's capital stock and surplus.

Under Federal Reserve Board policy, ABC and First National are expected to act as a source of financial strength to their banking subsidiaries and to commit resources to support each banking subsidiary. This support may be required at times when, absent such Federal Reserve Board policy, ABC or First National may not find itself willing or able to provide it.

Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Capital Adequacy

ABC and First National must comply with the Federal Reserve Board's established capital adequacy standards, and our subsidiary banks are required to comply with the capital adequacy standards established by the FDIC and the OCC. The Federal Reserve Board has promulgated two basic measures of capital adequacy for bank holding companies: a risk-based measure and a leverage measure. A bank holding company must satisfy all applicable capital standards to be considered in compliance.

The risk-based capital standards are designed to:

make regulatory capital requirements more sensitive to differences in risk profile among banks and bank holding companies;

account for off-balance-sheet exposure; and

minimize disincentives for holding liquid assets.

Assets and off-balance-sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8.0%. At least half of total capital must be comprised of Tier 1 Capital, which is common stock, undivided profits, minority interests in the equity accounts of consolidated subsidiaries and noncumulative perpetual preferred stock, less goodwill and certain other intangible assets. The remainder may consist of Tier 2 Capital, which is subordinated debt, other preferred stock and a limited amount of loan loss reserves. At June 30, 2005, ABC's total risk-based capital ratio and its Tier 1 risk-based capital ratio were 14.87% and 13.41%, respectively. On an ABC and First National combined basis such ratios at June 30, 2005, would have been approximately 14.53% and 12.87%, respectively.

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In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3.0% for bank holding companies that meet specified criteria. All other bank holding companies generally are required to maintain a minimum leverage ratio of 4.00%. ABC's ratio at June 30, 2005 was 10.40%. On an ABC and First National combined basis, such ratio at June 30, 2005 would have been 10.14%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve Board has indicated that it will consider a tangible Tier 1 Capital leverage ratio and other indicia of capital strength in evaluating proposals for expansion or new activities. The Federal Reserve Board has not advised ABC of any specific minimum leverage ratio or tangible Tier 1 Capital leverage ratio applicable to it.

ABC's and First National's subsidiary banks are subject to risk-based and leverage capital requirements adopted by the FDIC and the OCC which are substantially similar to those adopted by the Federal Reserve Board for bank holding companies. Our banks were in compliance with applicable minimum capital requirements as of June 30, 2005.

Neither of our bank holding companies nor any of our bank subsidiaries has been advised by any federal banking agency of any specific minimum capital ratio requirement applicable to it.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on taking brokered deposits, and certain other restrictions on its business. As described below, the FDIC can impose substantial additional restrictions upon FDIC-insured depository institutions that fail to meet applicable capital requirements. See the section entitled "Supervision and Regulation - Prompt Corrective Action" at page 61.

As a result of the Federal Reserve Board's assessment of First National as of June 1, 2005, the Federal Reserve Board rated the overall condition of First National as less than satisfactory due to inadequate capitalization, declining consolidated capital ratios and unsatisfactory earnings, among other things, and required First National's board of directors to adopt resolutions restricting First National's activities without the Federal Reserve Board's approval. These activities include payment of dividends, repurchase of common stock, and the incurrence of any additional indebtedness. In addition, First National submitted to the Federal Reserve Board in June 2005 a consolidated capital and debt service plan which addresses how First National will service its outstanding debt, conserve or raise cash, manage expenses and the sale of capital. Further, First National is required to provide to the Federal Reserve Board within 30 days after each quarter certain financial statements and a written progress report on its financial condition.

Prompt Corrective Action

The Federal Deposit Insurance Act, among other things, requires the federal regulatory agencies to take prompt corrective action if a depository institution does not meet minimum capital requirements. The FDI Act establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution's capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation.

The federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels applicable to FDIC-insured banks. The relevant capital measures are the Total Capital ratio, Tier 1 Capital ratio and the leverage ratio. Under the regulations,

a FDIC-insured bank will be:

well capitalized if it has a Total Capital ratio of 10% or greater, a Tier 1 Capital ratio of 6% or greater and a leverage ratio of 5% or greater and is not subject to any order or written directive by the appropriate regulatory authority to meet and maintain a specific capital level for any capital measure;

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adequately capitalized if it has a Total Capital ratio of 8% or greater, a Tier 1 Capital ratio of 4% or greater and a leverage ratio of 4% or greater (3% in certain circumstances) and is not well capitalized ;

undercapitalized if it has a Total Capital ratio of less than 8%, a Tier 1 Capital ratio of less than 4% or a leverage ratio of less than 4% (3% in certain circumstances);

significantly undercapitalized if it has a Total Capital ratio of less than 6%, a Tier 1 Capital ratio of less than 3% or a leverage ratio of less than 3%; and

critically undercapitalized if its tangible equity is equal to or less than 2% of average quarterly tangible assets.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. As of June 30, 2005, ABC's subsidiary banks had capital levels that qualify each as being well capitalized , and First National's subsidiary banks had capital levels that qualify each as being adequately capitalized.

An FDIC-insured bank is generally prohibited from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the bank would thereafter be undercapitalized . Undercapitalized banks are subject to growth limitations and are required to submit a capital restoration plan. The federal regulators may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the bank's capital. In addition, for a capital restoration plan to be acceptable, the bank's parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of: (i) an amount equal to 5% of the bank's total assets at the time it became undercapitalized ; and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized .

Significantly undercapitalized insured banks may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized , requirements to reduce total assets and cessation of receipt of deposits from correspondent banks.

Critically undercapitalized institutions are subject to the appointment of a receiver or conservator. A bank that is not well capitalized is subject to certain limitations relating to so-called brokered deposits.

Community Reinvestment Act

The Community Reinvestment Act requires federal bank regulatory agencies to encourage financial institutions to meet the credit needs of low- and moderate-income borrowers in their local communities. An institution's size and business strategy determines the type of examination that it will receive. Large, retail-oriented institutions are examined using a performance-based lending, investment and service test. Small institutions are examined using a streamlined approach. All institutions may opt to be evaluated under a strategic plan formulated with community input and pre-approved by the bank regulatory agency.

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The Community Reinvestment Act regulations provide for certain disclosure obligations. Each institution must post a notice advising the public of its right to comment to the institution and its regulator on the institution's Community Reinvestment Act performance and to review the institution's Community Reinvestment Act public file. Each lending institution must maintain for public inspection a public file that includes a listing of branch locations and services, a summary of lending activity, a map of its communities and any written comments from the public on its performance in meeting community credit needs. The Community Reinvestment Act requires public disclosure of a financial institution's written Community Reinvestment Act evaluations. This promotes enforcement of Community Reinvestment Act requirements by providing the public with the status of a particular institution's community reinvestment record.

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The Gramm-Leach-Bliley Act makes various changes to The Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual Community Reinvestment Act reports must be made to a bank's primary federal regulator. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the Gramm-Leach-Bliley Act may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory Community Reinvestment Act rating in its latest Community Reinvestment Act examination.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties which market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

Fiscal and Monetary Policy

Banking is a business which depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank's earnings. Thus, the earnings and growth of ABC will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve Board. The Federal Reserve Board regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve Board and the reserve requirements on deposits. The nature and timing of any changes in such policies and their effect on ABC cannot be predicted.

Current and future legislation and the policies established by federal and state regulatory authorities will affect ABC's future operations. Banking legislation and regulations may limit our growth and the return to our investors by restricting certain of our activities.

In addition, capital requirements could be changed and have the effect of restricting our activities or requiring additional capital to be maintained. We cannot predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on ABC's business.

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INFORMATION ABOUT ABC

Financial and other information relating to ABC, including information relating to ABC's current directors and executive officers, are set forth in ABC's 2004 Annual Report on Form 10-K, ABC's Definitive Proxy Statement for the 2005 Annual Meeting of Shareholders filed with the SEC on April 18, 2005, ABC's 2005 Quarterly Reports on Form 10-Q and ABC's 2005 Current Reports on Form 8-K, which are incorporated by reference herein and copies of which may be obtained from ABC as indicated in the section entitled "Where You Can Get More Information" at page 108. See the section entitled "Incorporation of Certain Documents by Reference" at page 108.

ABC is a 12-bank holding company that engages, through its subsidiaries, in providing full banking services to customers of the subsidiary banks. ABC is engaged in a full range of traditional banking, mortgage banking, investment and insurance services to individual and corporate customers through its 37 banking locations.

INFORMATION ABOUT FIRST NATIONAL

General

First National was formed in 1996 to act as a holding company for St. Marys, a national association that was organized in 1988, in order to broaden St. Marys' ability to serve its customers' needs for financial services. The holding company structure was adopted to enable St. Marys to expand its business through the acquisition of other financial institutions and to respond to new or additional banking-related services or opportunities to which a bank might not be permitted to respond.

In June 1999, First National formed First National Insurance Agency, Inc., a full service insurance agency (First National Insurance Agency). First National Insurance Agency operates out of St. Marys' branch office located in Kingsland, Georgia.

In March 2004, First National acquired Orange Park, a national banking association that was organized in 1999.

Some of the major services that St. Marys and Orange Park (together, the banks) provide include a full range of interest bearing and non-interest bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest bearing statement savings accounts, certificates of deposit, commercial loans, real estate loans and consumer/installment loans. In addition, the banks provide such consumer services as wire transfer, Visa and MasterCard credit cards, access to automatic teller services, travelers checks, cashiers checks, safe deposit boxes, bank by mail services and direct deposit services. St. Marys operates two branches in Kingsland, Georgia in addition to its main office in St. Marys, Georgia. Orange Park operates one branch in Orange Park, Florida in addition to its main office in Orange Park, Florida.

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First National Insurance Agency offers both personal and commercial insurance products through major insurance carriers and operates out of the Kingsland, Georgia office of St. Marys.

Market Area and Competition

The primary service area for St. Marys presently encompasses approximately 14.7 square miles in and around St. Marys, Georgia, and approximately 689 square miles in and around Kingsland, Georgia, as well as the surrounding area of Camden County. St. Marys also services customers outside St. Marys primary service area, but within other parts of Camden County, Georgia. In addition to Camden County, St. Marys also solicits deposits and loan business in nearby Glynn County, Georgia, and Nassau and Duval Counties, Florida.

Orange Park's primary service area is bordered on the North by the Clay County line, the East by the St. John's River, the South by Green Cove Spring and US Highway 16, and the West by US Highway 218, including

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the residential area of Lake Asbury and Highway 220 to Live Oak Lane. The primary service area includes residential communities such as Eagle Harbor, Pace Island, Orange Park South, Orange Park Golf and Country Club, and the Ravines. The major cities located in the primary service area are Orange Park and Green Cove Springs. The primary service area represents a diverse market with a stable growing population and economy. Duval County and the remaining parts of Clay County represent a secondary market for Orange Park.

Each of the banks operates independently and is responsible for developing and maintaining its own customers and accounts.

Competition among financial institutions in the banks' service areas is intense. There are currently nine banking offices within St. Marys' primary service area. Five of the offices are branches of, or affiliated with, regional and national bank holding companies. In Orange Park's primary service area, there are currently 15 banking or credit union offices, of which seven are branches of, or affiliated with, regional and national bank holding companies.

Many competitor institutions have substantially greater resources and higher lending limits than the banks, and they perform certain functions for their customers, including trust services and investment banking services, which neither of the banks is equipped to offer. In addition to commercial banks, savings institutions and credit unions, the banks compete for deposits and loans with other financial intermediaries and investment alternatives, including, but not limited to, mortgage companies, captive finance companies, money market mutual funds, brokerage firms, insurance companies, governmental and corporation bonds and other securities. Several of these non-bank competitors are not subject to the same regulatory restrictions as First National and its subsidiary banks and many have substantially greater resources.

The banks also compete with area financial institutions other than commercial banks and savings and loan associations, including insurance agencies, consumer finance companies, brokerage houses, and other business entities which have recently been invading the traditional banking markets. The extent to which other types of financial institutions compete with commercial banks has increased significantly within the past few years as a result of federal and state legislation, which has, in several respects, deregulated financial institutions. The full impact of existing legislation and subsequent laws that deregulate the financial services industry cannot be fully assessed or predicted.

Deposits

The banks offer a full range of interest bearing and non-interest bearing accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest bearing statement savings accounts and certificates of deposit with fixed rates and a range of maturity date options. The sources of deposits are residents, businesses and employees of businesses within the banks' market areas, and brokered deposits. The banks pay competitive interest rates on time and savings deposits. In addition, the banks have implemented a service charge fee schedule competitive with other financial institutions in their market areas, covering such matters as maintenance fees on checking accounts, per item processing fees on checking accounts, returned check charges and the like.

No material portion of the banks' deposits has been obtained from any one customer or group of customers with the exception of a member of First National's board of directors and his related family who had approximately \$11 million in deposits at St. Marys as of June 30, 2005. There are no material seasonal factors that would have an adverse impact on the banks' deposits. Brokered deposits represented 37.2% of total deposits as of June 30, 2005.

Loan Portfolio

The banks engage in a full complement of lending activities, including commercial, consumer/installment and real estate loans.

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Lending is directed principally towards individuals and businesses whose demands for funds fall within each bank's legal lending limits and which are potential deposit customers of the banks. This category of loans includes loans made to individual, partnership or corporate borrowers, and obtained for a variety of business purposes. Particular emphasis is placed on small and middle market commercial loans and owner occupied commercial and residential real estate loans. The banks have no foreign loans outstanding.

The banks may originate loans and participate with other banks with respect to loans which exceed their lending limits. Management does not believe that loan participations necessarily pose any greater risk of loss than loans which the banks originate.

At June 30, 2005, no material portion of the banks' loans was concentrated within a single industry or group of related industries, with the exception of loans to the hotel and motel industry, which constituted 14.6% and 10.4% of the outstanding loans of St. Marys and Orange Park, respectively, at June 30, 2005. There are no material seasonal factors that would have an adverse impact on the banks' outstanding loans. However, because the banks derive a substantial portion of their business from mortgage loans, to the extent that fluctuations and changes occur in the housing industry, the banks' business could fluctuate as well.

The following is a description of each of the major categories of loans in the banks' loan portfolios:

Commercial, Financial and Agricultural. These loans represented 8.5% of outstanding loans at June 30, 2005 and are customarily granted to local business customers on a fully collateralized basis to meet local credit needs. The loans can be extended for periods of between one year and five years and are usually structured to fully amortize over the term of the loan or balloon after the third year or fifth year of the loan with an amortization up to 20 years. The terms and loan structure are dependent on the collateral and strength of the borrower. The loan-to-value ratios range from 50% to 80%. The risks of these types of loans depend on the general business conditions of the local economy and the local business borrower's ability to sell its products and services in order to generate sufficient business profits to repay the banks under the agreed upon terms and conditions. The value of the collateral held by the banks as a measure of safety against loss is most volatile in this loan category. Agricultural loans represented less than 1.0% of the banks' loan portfolio at June 30, 2005.

Commercial Real Estate. These loans represented 50.7% of outstanding loans at June 30, 2005. The banks offer commercial real estate loans to developers of both commercial and residential properties. In making these loans, the banks manage their credit risk by actively monitoring such measures as advance rate, cash flow, collateral value and other appropriate credit factors.

Residential Mortgage. These loans represented 35.7% of outstanding loans at June 30, 2005. The banks' real estate loans consist of residential first and second mortgage loans, and home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for home improvements, education and other personal expenditures. Both fixed and variable rate loans are offered with competitive terms and fees. At June 30, 2005, 22.1% of residential mortgages were at a fixed interest rate. The banks retain loans for their portfolios when they have sufficient liquidity to fund the needs of their established customers and when rates are favorable to retain the loans. The loans that the banks retain for their portfolios are usually structured to balloon after the third year or fifth year with an amortization up to 30 years. No loans carry a prepayment penalty clause and therefore can be paid out or refinanced at a fixed rate, thus reducing the default risk. These loans are priced according to proper index and margin, and should not lag behind funding costs.

The banks also originate conventional as well as Veterans Administration and Federal Home Administration mortgages to pre-determined mortgage investors and retain the origination fees. The loan underwriting standards and policies are generally the same for both loans sold in the

secondary market and those retained in each banks portfolio.

Installment Loans. Installment loans represented 5.1% of outstanding loans at June 30, 2005 and are granted to individuals for the purchase of personal goods such as automobiles, boats, or recreational vehicles. The

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lending bank obtains a lien against the item purchased by the consumer and holds title until the loan is repaid in full. These loans are generally granted for periods ranging between one and five years at fixed rates of interest 1% to 5% above prime interest rate quoted in The Wall Street Journal. The loan-to-value ratios range from 60% to 90%. Loss or decline of income by the borrower due to layoff, divorce or unexpected medical expenses represent unplanned occurrences that may increase risk of default. In the event of default, a shortfall in the value of the collateral may result in a loss to the banks in this loan category.

Loan Loss Allowance

It is the goal of management to build the loan loss allowance in proportion to loan growth and maintain a reserve sufficient to absorb credit losses inherent in the banks' loan portfolio. As of June 30, 2005, the loan loss allowance was 2.74% of outstanding loans. The analysis takes into consideration historical loan losses, loan concentrations including geographic and industry concentrations, policy and staff considerations, collateral values, economic factors including current and anticipated conditions, volume of the loan portfolio, delinquency trends, and peer comparison.

The allowance provides for probable losses that have been identified with individual loan relationships and for probable losses that are believed to be inherent in the loan portfolio that have yet not been specifically identified. The specific component of the allowance is determined on an individual basis as part of the regular review of classified loans, impaired loans, or any commercial purpose loan relationship over \$250,000. These loans are examined internally and through external third-party and regulatory loan review. As a group, the loan portfolio is reviewed by call code and by industry or collateral concentrations.

In order to determine the historical loss factor, actual net loan losses by call category for the previous three years are calculated as a percentage of annual average annual loans. These percentages are averaged over three years, with the average applied to outstanding total loans in each call report category to reach the total required reserve amount.

When management identifies a loan with specific problems, an allocation will be made to the loan loss reserve to cover potential specific identifiable losses. As described below in the section entitled "Information About First National Current Regulatory Proceedings," at page 69, the most recent examination of St. Marys resulted in an increased charge to the provision for loan losses of approximately \$7.2 million in First National's consolidated financial statements for the year ended December 31, 2004 and the charge-off of additional loans against the allowance of approximately \$6.0 million in such consolidated financial statements at December 31, 2004. During the first quarter of 2005, additional loans of approximately \$2.1 million were charged-off against the allowance in the consolidated financial statements. These charges and charge-offs were primarily the result of unsound lending practices of the former President of First National and St. Marys. An additional \$100,000 in loans were charged-off during the second quarter of 2005.

Loans with risk classifications of Special Mention, Substandard, Doubtful, and Loss have been assigned percentages by the regulatory agencies used in calculating a required reserve in this category. Presently, 100% of Loss, 50% of Doubtful, 15% of Substandard, and 2.5% of Special Mention loans must be allocated in the loan loss reserve.

Management considers restructured loans to be assets that are renewed as a workout situation under specific circumstances with the main purpose of improving the bank's overall position, or collectibility in the long run of the loan, when the customer has shown the renewed ability to pay. Presently, management does not have the management information system capabilities to monitor restructured loans. In addition, any new

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restructured loan would at least be graded Special Mention, and allocated in the risk classification category. Management feels that a large majority of renewed loans are not workout situations, but re-pricing opportunities. Because of the present monitoring capability of renewed loans, management assigns an inherent risk factor to total loans in this category.

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First National properly adheres to the Financial Accounting Standard No. 114, relating to proper timing and level of impaired loan write-downs.

Management feels that it has a concentration of real estate loans in the loan portfolio. Management is comfortable with a concentration base secured in real estate, as losses have been historically close to zero. Overall real estate values have also appreciated both locally and nationally over the years. Therefore, management feels that a minimal inherent risk factor should be applied to the reserve balance.

Policy, procedures, and staff considerations address the inherent risk associated with changes in bank lending policies, procedures, and underwriting standards, along with the experience, ability, and depth of lending management. It also considers the quality of each bank's loan review. Management has assigned a risk factor in this area based on the need for continued improvement in the policy and staff area.

Management continues to monitor both the local and national economies in order to identify overall economic trends.

Management reviews major statistics that capture the overall trends in the loan portfolio including loan growth, past due loans to the loan loss reserve and equity, net losses to total loans, consumer, commercial, and residential loans to total loans, and non-performing loans to the loan loss reserve. Management compares its loan statistics to peer banks per the FDIC Uniform Bank Performance Report as of the last available call report and assigns a risk factor dependent upon the results of the comparison. The peer comparison is also considered in order to determine the appropriate level of the loan loss reserve.

Any unallocated portion of the reserve for loan loss is based on management's review of other factors affecting the determination of probable losses inherent in the loan portfolio, which are not necessarily captured by the application of the loan classification system. This portion of the reserve analysis involves the exercise of judgment and reflects considerations such as management's view that the reserve should have a margin that recognizes the imprecision inherent in the process of estimating expected credit losses.

Investments

As of June 30, 2005, investment securities comprised approximately 6.9% of First National's assets and net loans comprised approximately 74.2% of First National's assets. The banks invest primarily in obligations of agencies of the United States, and securities issued by states and political subdivisions in the United States, and mortgage-backed securities. Investment securities are also pledged to secure deposits of public funds. At June 30, 2005, First National pledged securities with a value of approximately \$13.2 million in order to secure public funds. In addition, the banks enter into federal funds transactions with their principal correspondent banks, and primarily act as a net seller of such funds. The sale of federal funds amounts to a short-term loan from one bank to another bank. A national bank's lending and investment limits are separate and distinct requirements.

Asset/Liability Management

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It is management's objective to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing and capital policies. Certain of the officers of the banks are responsible for monitoring policies and procedures that are designed to ensure an acceptable composition of asset/liability mix, stability, and leverage of all sources of funds while adhering to prudent banking practices. Management seeks to invest the largest portion of the bank's assets in commercial, consumer and real estate loans.

First National regards brokered certificates of deposits and certificates of deposits of \$100,000 or more as volatile deposits. First National's subsidiary banks have historically maintained sufficient liquidity to repay these deposits on maturity. The banks have utilized these types of deposits at times when it is profitable to do so and this option is exercised when deemed prudent by management. This accounts for the volatility in this liability category.

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The banks utilize repurchase agreements and borrowings from the Federal Home Loan Bank when deemed prudent by management. As of June 30, 2005, the banks had no balances in repurchase agreements and \$12.7 million in Federal Home Loan Bank borrowings outstanding. The banks have available overnight Federal Funds purchased lines totaling \$10.0 million, which may be used to meet liquidity needs. At December 31, 2004, the banks had no balances outstanding under these lines.

Each bank's asset/liability mix is monitored on a daily basis with a monthly report reflecting interest sensitive assets and interest sensitive liabilities being prepared and presented to each bank's Asset/Liability Committee which is comprised of four directors, the senior lending officer, and cashier. The objective of this policy is to control interest sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on First National's earnings.

Correspondent Banking

Correspondent banking involves the providing of services by one bank to another bank, which cannot provide that service for itself from an economic or practical standpoint. First National's subsidiary banks are required to purchase correspondent services offered by larger banks, including check collections, purchase of Federal Funds, security safekeeping, investment services, coin and currency supplies, overline and liquidity loan participations and sales of loans to or participations with correspondent banks.

Each bank may sell loan participations to correspondent banks with respect to loans which exceed its lending limit. As of June 30, 2005, 44 loans with balances of \$17.3 million were sold to other banks.

Data Processing

Both banks' data processing is provided by Intercept, a provider of banking technology products and services for community financial institutions. Intercept performs a full range of data processing services, including an automated general ledger, deposit accounting, commercial, real estate and installment lending data processing, and central information file. Intercept is a subsidiary of Fidelity National Financial, Inc., a Fortune 500 provider of products, services, and solutions for the real estate and financial services industry.

Employees

At June 30, 2005, St. Marys employed 38 full-time equivalent persons, including 13 officers, Orange Park employed 24 full-time equivalent persons, including nine officers, and First National Insurance Agency employed two full-time equivalent persons. Management believes that its employee relations are good. There are no collective bargaining agreements covering any of the employees of First National.

Monetary Policies

The results of operations of First National are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, changes in reserve requirements against member bank deposits and limitations on the types of transaction accounts that member banks may offer the general public. In view of changing conditions in the national economy and in the money markets, as well as the effect of action by monetary and fiscal authorities, including the Federal Reserve Board, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of First National.

Current Regulatory Proceedings

During the most recent examination of St. Marys, performed in early 2005 by the OCC, the bank's primary regulator, the overall condition of the bank was rated unsatisfactory and the bank was designated as being in

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troubled condition as defined under Section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. This rating and designation are primarily the result of unsound lending practices of David Moffat, the former President of First National and St. Marys. Mr. Moffat resigned all positions with First National and its affiliates on March 21, 2005.

The examination findings resulted in an increased charge to First National's provision for loan losses of approximately \$7.2 million in the consolidated financial statements for the year ended December 31, 2004 and the charge-off of additional loans against the allowance of approximately \$6.0 million in the consolidated financial statements for the year ended December 31, 2004. During the first quarter of 2005, additional loans of approximately \$2.1 million were charged-off against the allowance in the consolidated financial statements for the three months ended March 31, 2005. The significant loan losses had a negative impact on asset quality, capital adequacy, earnings and liquidity. As a result of the negative impact to capital adequacy and earnings, the bank no longer met the requirement to be well capitalized and is now considered adequately capitalized. Management believes that First National's consolidated financial statements included in this proxy statement/prospectus reflect the financial impact of the unsound lending practices. Decisions by the OCC could, however, result in additional charges to First National's consolidated financial statements.

St. Marys expects the OCC to take formal administrative action with respect to these matters during the fourth quarter of 2005, which could result in regulatory sanctions against St. Marys and its directors, including the assessment of civil money penalties.

The FDIC has also limited the ability of St. Marys to solicit new brokered deposits. The FDIC has granted St. Marys a waiver which allows the renewal or rollover of brokered deposits in an amount not to exceed \$62.1 million. The waiver will expire in October of 2005. Upon expiration, St. Marys will be required to request an extension for an additional six-month period. In addition, the Federal Home Loan Bank has disallowed any additional advances by St. Marys.

Primarily as a result of the reduction in capital resulting from the charges to the loan loss allowance described above, the Federal Reserve Board has rated the overall condition of First National as less than satisfactory, and required First National's board of directors to adopt resolutions restricting First National's activities without the Federal Reserve Board's approval. These activities include payment of dividends, repurchase of common stock, and the incurrence of any additional indebtedness. In addition, on August 16, 2005, First National entered into an agreement with the Federal Reserve Board committing First National to correct St. Marys' capital and management deficiencies by November 9, 2005, unless extended by the Federal Reserve Board. The Federal Reserve Board has granted First National until December 9, 2005, to correct these deficiencies. If these deficiencies are not corrected, the Federal Reserve Board may impose additional limitations or conditions on the activities or conduct of First National or any of its subsidiaries or order First National to divest ownership or control of St. Marys or Orange Park.

All of the restrictions described above have limited the growth of St. Marys, and growth could continue to be restricted in the future.

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FIRST NATIONAL S MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following is First National s discussion and analysis of certain significant factors that have affected its financial position and operating results and those of its two banking subsidiaries, St. Marys and Orange Park, and its insurance agency subsidiary, First National Insurance Agency, during the periods included in the accompanying financial statements. This commentary should be read in conjunction with the consolidated financial statements of First National and the related notes and the other statistical information about First National appearing elsewhere in this proxy statement/prospectus.

Critical Accounting Policies

First National has adopted various accounting policies that govern the application of accounting principles generally accepted in the United States in the preparation of its financial statements. First National s significant accounting policies are described in the footnotes to its consolidated financial statements as of December 31, 2004 included in this proxy statement/prospectus.

Certain accounting policies involve significant judgments and assumptions that have a material impact on the carrying value of certain assets and liabilities. First National considers these accounting policies to be critical accounting policies. The judgment and assumptions First National uses are based on historical experience and other factors, which First National believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions First National makes, actual results could differ from these judgments and estimates that could have a material impact on First National s carrying values of assets and liabilities and its results of operations.

First National believes the allowance for loan losses is a critical accounting policy that requires the most significant judgment and estimates used in preparation of its consolidated financial statements. Refer to the information elsewhere in this report under the captions Allowance for Loan Losses, and Current Regulatory Proceedings, and a portion of the discussion under Provision and Allowance for Loan Losses that address First National s allowance for loan losses, for a description of its processes and methodology for determining the allowance for loan losses.

Results of Operations

Income Statement Review

Overview

Years Ended December 31, 2004 and 2003

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For the year ended December 31, 2004, First National reported a net loss of \$1.9 million, as compared to net income of \$1.4 million in 2003. Diluted earnings (loss) per share in 2004 was (\$2.03), compared to \$1.96 in 2003. The significant decline in earnings was primarily the result of a \$7.2 million provision to the loan loss reserve due to management's assessment of the ultimate collectibility of certain loans in the portfolio resulting primarily from unsound lending practices by the former president of St. Marys. This assessment was made in connection with the most recent examination of St. Marys, performed in early 2005 by the OCC, St. Marys' primary regulator, which rated the overall condition of St. Marys as unsatisfactory and designated St. Marys as troubled condition as defined under Section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. This rating and designation are primarily the result of unsound lending practices of David Moffat, the former president of First National and St. Marys. Mr. Moffat resigned all positions with First National and its affiliates on March 21, 2005.

The examination findings resulted in an increased charge to First National's provision for loan losses of approximately \$7.2 million in the consolidated financial statements for the year ended December 31, 2004 and the charge-off of additional loans against the allowance of approximately \$6.0 million in the consolidated

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financial statements for December 31, 2004. The significant loan losses had a negative impact on asset quality, capital adequacy, earnings and liquidity. Management believes the consolidated financial statements at and for the year ended December 31, 2004 reflect the financial impact of the unsound lending practices. Decisions by the OCC could, however, result in additional charges to the consolidated financial statements. The OCC has restricted St. Marys from paying dividends and obtaining additional brokered deposits. The Federal Home Loan Bank of Atlanta also has disallowed further advances by St. Marys. St. Marys expects the OCC to take formal administrative action with respect to these matters during the third quarter of 2005, which could result in regulatory sanctions against the bank and its directors, including the assessment of civil money penalties.

Six Months Ended June 30, 2005 and 2004

For the first six months of 2005, First National reported a net loss of \$798,000 compared to net income of \$1.1 million for the same period in 2004. The decrease in net income for the six-month period ended June 30, 2005 as compared to the same period in 2004 was primarily due to loan losses charged-off against the allowance during the first quarter of 2005. During the first quarter of 2005 additional loans of approximately \$2.5 million were charged-off against the allowance in the consolidated financial statements for the three months ended March 31, 2005. An additional \$100,000 in loans were charged off during the second quarter of 2005.

Net Interest Income

Years Ended December 31, 2004 and 2003

Net interest income, the largest component of First National's income, was \$10.7 million in 2004 compared to \$5.9 million in 2003, an increase of 81.4%. The increase in net interest income was primarily the result of the acquisition of Orange Park. The level of net interest income is also determined by the level of earning assets and the successful management of the net interest margin. Changes in interest rates paid on assets and liabilities, the rate of growth of the asset and liability base, the ratio of interest-earning assets to interest-bearing liabilities, and management of the balance sheet's interest rate sensitivity all factor into changes in net interest income.

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The following table sets forth, for the years ended December 31, 2004 and 2003, information related to First National's average balance sheet and average yields on assets and average costs of liabilities. These yields were derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances were derived from the daily balances throughout the periods indicated.

	Average Balances, Income and Expenses, and Rates					
	For the Years Ended December 31,					
	2004			2003		
Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	
(dollars in thousands)						
Earning Assets						
Federal funds sold	\$ 1,633	\$ 22	1.35%	\$ 2,402	\$ 24	1.00%
Interest-bearing deposits in other banks	693	31	4.47%	1,475	130	8.81%
Investment securities	16,514	421	2.55%	10,951	291	2.66%
Gross loans	199,379	14,452	7.25%	106,080	8,635	8.14%
Less: Loan loss reserve	(2,750)			(1,411)		
Net loans	196,630			104,669		
Total earning-assets	215,469	14,926	6.93%	119,497	9,080	7.60%
Non-earning assets	19,725			10,935		
Total assets	\$ 235,194			\$ 130,432		
Interest-Bearing Liabilities						
NOW accounts	\$ 20,375	\$ 202	0.99%	\$ 16,044	\$ 220	1.34%
Savings & money market	35,343	539	1.53%	5,465	48	0.88%
Time deposits	112,493	2,710	2.41%	67,468	2,156	3.20%
FHLB advances	14,249	573	4.02%	13,000	699	5.38%
Other borrowings	4,286	66	1.54%	4,286	61	1.54%
Subordinated debentures	3,686	161	4.37%			
Total interest-bearing liabilities	190,432	4,251	2.23%	106,263	3,184	3.00%
Noninterest-bearing liabilities	25,792			13,193		
Shareholders' equity	18,970			10,976		
Total liabilities and shareholders' equity	\$ 235,194			\$ 130,432		
Net interest spread			4.69%			4.60%
Net interest income/margin		\$ 10,675	4.95%		\$ 5,896	4.93%

First National's net interest spread was 4.69% for the year ended December 31, 2004 as compared to 4.60% for the year ended December 31, 2003. Although the yield on total earning assets declined during 2004, First National was able to offset the effect on net interest income by reducing the rate on interest-bearing liabilities due to the favorable level of interest rates during the year. The net interest spread is the difference between the yield earned on interest-earning assets and the rate paid on interest-bearing liabilities.

First National's net interest margin for the year ended December 31, 2004 was 4.95% as compared to 4.93% for the year ended December 31, 2003. During 2004, earning assets averaged \$215.5 million as compared to \$119.5 million in 2003. The net interest margin is calculated as net interest income divided by average earning assets.

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The following table sets forth, for the years ended December 31, 2003 and 2002, information related to First National's average balance sheet and average yields on assets and average costs of liabilities. These yields were derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances were derived from the daily balances throughout the periods indicated.

Average Balances, Income and Expenses, and Rates						
For the Years Ended December 31,						
	2003			2002		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
(dollars in thousands)						
Earning Assets						
Federal funds sold	\$ 2,402	\$ 24	1.00%	\$ 1,078	\$ 18	1.67%
Interest-bearing deposits in other banks	1,475	130	8.81%	2,390	102	4.27%
Investment securities	10,951	291	2.66%	16,220	704	4.34%
Gross loans	106,080	8,635	8.14%	89,728	7,498	8.36%
Less: Loan loss reserve	(1,411)			(1,053)		
Net loans	104,669			88,675		
Total earning-assets	119,497	9,080	7.60%	108,363	8,322	7.68%
Non-earning assets	10,935			9,074		
Total assets	\$ 130,432			\$ 117,437		
Interest-Bearing Liabilities						
NOW accounts	\$ 16,044	\$ 220	1.37%	\$ 14,066	\$ 286	2.03%
Savings & money market	5,465	48	0.88%	4,483	27	0.60%
Time deposits	67,468	2,156	3.20%	55,109	2,452	4.45%
FHLB advances	13,000	699	5.38%	12,999	715	5.50%
Other borrowings	4,286	61	1.42%	6,507	142	2.18%
Subordinated debentures			0.00%			0.00%
Total interest-bearing liabilities	106,263	3,184	3.00%	93,164	3,622	3.89%
Noninterest-bearing liabilities	13,193			15,033		
Shareholders' equity	10,976			9,240		
Total liabilities and shareholders' equity	\$ 130,432			\$ 117,437		
Net interest spread			4.60%			3.79%
Net interest income/margin		\$ 5,896	4.93%		\$ 4,700	4.34%

First National's net interest spread was 4.60% for the year ended December 31, 2003 as compared to 3.79% for the year ended December 31, 2002.

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First National's net interest margin for the year ended December 31, 2003 was 4.93% as compared to 4.34% for the year ended December 31, 2002. During 2003, earning assets averaged \$119.5 million as compared to \$108.4 million in 2002.

Six Months Ended June 30, 2005 and 2004.

Net interest income was \$5.5 million for the six months ended June 30, 2005 compared to \$4.6 million for the six months ended June 30, 2004, or an increase of 21.6%. The increase in net interest income was primarily the result of the acquisition of Orange Park at the end of the first quarter of 2004. As a result, net interest income for the six months ended June 30, 2004 did not include Orange Park's first quarter net interest income.

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The following table sets forth, for the six months ended June 30, 2005 and 2004, information related to First National's average balance sheet and average yields on assets and average costs of liabilities.

Average Balances, Income and Expenses, and Rates For the Six Months Ended June 30,						
2005			2004			
Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	
(dollars in thousands)						
Earning Assets						
Federal funds sold	\$ 5,430	\$ 74	2.75%	\$ 2,089	\$ 6	1.15%
Interest-bearing deposits in other banks	533	14	5.30%	788	17	4.35%
Investment securities	17,722	257	2.92%	14,783	159	2.17%
Gross loans	222,585	8,193	7.42%	187,509	6,131	6.59%
Less: Loan loss reserve	(4,418)			(2,775)		
Net loans	218,167			184,734		
Total earning-assets	241,852	8,538	7.12%	202,394	6,313	6.29%
Non-earning assets	21,242			20,593		
Total assets	\$ 263,094			\$ 222,987		
Interest-Bearing Liabilities						
NOW accounts	\$ 20,468	\$ 107	1.05%	\$ 21,673	\$ 99	0.93%
Savings & money market	61,782	733	2.39%	26,008	127	0.99%
Time deposits	120,277	1,743	2.92%	108,498	1,184	2.21%
FHLB advances	9,246	250	5.45%	12,989	278	4.34%
Other borrowings	677	8	2.38%	4,142	24	1.17%
Subordinated debentures	5,155	156	6.10%	2,193	45	4.16%
Total interest-bearing liabilities	217,605	2,997	2.78%	175,503	1,757	2.03%
Noninterest-bearing liabilities	28,181			29,272		
Shareholders' equity	17,308			18,212		
Total liabilities and shareholders' equity	\$ 263,094			\$ 222,987		
Net interest spread			4.34%			4.26%
Net interest income/margin		\$ 5,541	4.62%		\$ 4,556	4.54%

First National's net interest spread was 4.34% for the six months ended June 30, 2005 as compared to 4.26% for the six months ended June 30, 2004. The yield on total earning assets improved during the six months ended June 30, 2005 due to First National's asset sensitive balance sheet and the rising interest rate environment.

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First National's net interest margin for the six months ended June 30, 2005 was 4.62% as compared to 4.54% for the six months ended June 30, 2004. During the six months ended June 30, 2005, earning assets averaged \$241.9 million as compared to \$202.4 million during the six months ended June 30, 2004.

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Net interest income can be analyzed in terms of the impact of changing rates and changing volume. The following table sets forth the effect which the varying levels of earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

	December 31, 2004 vs 2003			December 31, 2003 vs 2002		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Change in Volume	Change in Rate	Total Change	Change in Volume	Change in Rate	Total Change
(dollars in thousands)						
Interest earned on:						
Federal funds sold	\$ (8)	\$ 6	\$ (2)	\$ 22	\$ (16)	\$ 6
Interest-bearing deposits in other banks	(69)	(30)	(99)	(39)	67	28
Investment securities	148	(18)	130	(229)	(184)	(413)
Loans	7,595	(1,778)	5,817	1,367	(230)	1,137
Total interest income	7,666	(1,820)	5,846	1,121	(363)	758
Interest paid on:						
Interest checking	59	(77)	(18)	40	(106)	(66)
Savings & money market	262	229	491	6	15	21
Time deposits	1,440	(886)	554	550	(846)	(296)
FHLB advances	67	(193)	(126)	0	(16)	(16)
Other borrowings	0	5	5	(48)	(33)	(81)
Subordinated debentures	161		161			
Total interest expense	1,989	(922)	1,067	548	(986)	(438)
Net interest income	\$ 5,677	\$ (898)	\$ 4,779	\$ 573	\$ 623	\$ 1,196

Provision for Loan Losses

First National has established an allowance for loan losses through a provision for loan losses charged as an expense on First National's statement of income. First National reviews its portfolio periodically to evaluate First National's outstanding loans and to measure both the performance of the portfolio and the adequacy of the allowance for loan losses. First National's provision for loan losses for the periods ended December 31, 2004 and 2003 was \$7.8 million and \$456,000 respectively.

During 2004 and 2003, St. Marys made provisions for loan losses of \$7.2 million and \$456,000, respectively. The provision for loan losses and the amount of charge-offs were significantly increased as of the end of the fourth quarter of 2004 due to management's assessment of the ultimate

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collectibility of certain loans in the portfolio resulting from the individual circumstances of the borrowers involved. The loans were identified during St. Marys' regularly scheduled bank examination conducted by the OCC which began on March 7, 2005. During 2004 and 2003, St. Marys recorded net charge-offs of \$5.8 million and \$109,000, respectively. The increase in charge-offs and the subsequent provision for loan losses were due to documentation and collateral deficiencies, and other weaknesses in the loans identified during the examination.

During 2004, Orange Park made provisions for loan losses of \$585,000 compared to \$316,000 in 2003. During 2004 and 2003, Orange Park recorded net charge-offs of \$372,000 and \$2,000, respectively. The increase in net charge-offs was primarily due to management's assessment of the collectibility of a certain commercial loan.

For the six months ended June 30, 2005 and 2004, First National's provision for loan losses was \$3.6 million and \$266,000 respectively. The provision for loan losses and the amount of charge-offs were significantly increased as of the end of the first quarter of 2005 due to loans that were identified during St. Marys' regularly

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scheduled OCC examination. St. Marys recorded net charge-offs of \$2.2 million for the six months ended June 30, 2005 compared to net recoveries of \$71,000 for the six months ended June 30, 2005. The increase in charge-offs and the subsequent provision for loan losses were due to documentation and collateral deficiencies, and other weaknesses in the loans identified during the examination. Orange Park made provisions for loan losses of \$17,000 for the six months ended June 30, 2005, and it did not make any provisions for loan losses for the six months ended June 30, 2004. Orange Park did not record any net charge-offs for the six months ended June 30, 2005, and the bank recorded net charge-offs of \$1,000 for the six months ended June 30, 2004.

Please see the discussion below under *Allowance for Loan Losses* for a description of the factors First National considered in determining the amount of the provisions First National expenses each period to maintain this allowance.

Noninterest Income

Years Ended December 31, 2004 and 2003

Noninterest income in 2004 was \$2.2 million, an increase of \$737,000 compared to noninterest income of \$1.5 million in 2003. The increase was primarily the result of additional volume of service charges and fees on deposits as a result of the acquisition of Orange Park. Mortgage origination fees in 2004 were \$651,000, an increase of \$301,000 compared to mortgage origination fees of \$350,000 in 2003. The additional mortgage origination fees were primarily the result of a new mortgage origination office that St. Marys opened in Fort Lauderdale, Florida during the first quarter of 2004.

Six Months Ended June 30, 2005 and 2004

For the first six months of 2005, noninterest income was \$1.1 million, compared to \$938,000 for the same period in 2004. The increase in noninterest income is primarily the inclusion of Orange Park's first and second quarter of 2005 noninterest income. Since the acquisition of Orange Park did not occur until the end of the first quarter of 2004, noninterest income through June 30, 2004 reflected the second quarter noninterest income of the acquired bank. In addition, an increase in mortgage origination fees for and noninterest income from Orange Park served to offset decreases in St. Marys' service charges and deposit accounts and other service charges and fees. Mortgage origination fees for the six months ended June 30, 2005 were \$451,000, an increase of \$206,000 (83.9%) from \$245,000 for the six months ended June 30, 2004. Orange Park generated \$49,000 in mortgage origination fees and \$154,000 in noninterest income through June 30, 2005. St. Marys' service charges on deposit accounts and other service charges and fees through June 30, 2005 were \$242,000, a decrease of \$254,000 (51.2%) from \$497,000 for the six months ended June 30, 2004. The decrease was primarily due to a lower level of overdraft and administrative fees.

Noninterest Expense

Years Ended December 31, 2004 and 2003

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Noninterest expense totaled \$8.2 million during 2004 compared to \$4.7 million in 2003. The \$3.5 million increase in noninterest expense resulted primarily from additional costs generated by Orange Park. Contributions in 2004 were \$428,000, an increase of \$422,000 compared to contributions of \$6,000 in 2003. Contributions reflect a one-time charge of \$419,000, which represents a donation of 14 acres of property to Camden County, Georgia. The donation served to decrease other real estate owned and generated positive publicity and tax benefits for First National. Salaries and benefits for 2004 were \$3.8 million, an increase of \$1.3 million from 2003. Salaries and benefits represented 46.7% of the total noninterest expense. Salaries and benefits in 2003 were \$2.5 million. Professional fees were \$396,000 during 2004, an increase of \$242,000 compared to \$154,000 in 2003. The increase in professional fees was primarily the result of additional legal and accounting fees incurred as a result of the acquisition of Orange Park.

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First National's income tax benefit as a result of the operating loss was \$1.2 million, as compared to income tax expense of \$782,000 in 2003.

Six Months Ended June 30, 2005 and 2004

Noninterest expense increased to \$4.4 million for the six months ended June 30, 2005, an increase of \$1.0 (30.9%) million from \$3.4 million for the six months ended June 30, 2004. As a percent of total average assets, noninterest expense decreased from 1.67% to 1.65%. The increase in noninterest expense is primarily the inclusion of Orange Park's first and second quarter of 2005 noninterest expense. Since the acquisition of Orange Park did not occur until the end of the first quarter of 2004, noninterest expense through June 30, 2004 reflected the second quarter noninterest expense of the acquired bank. Salary and employee benefit costs were \$1.9 million for the six months ended June 30, 2005, an increase of \$285,000 (17.8%) from \$1.6 million for the six months ended June 30, 2004. Occupancy expenses were \$272,000 for the six months ended June 30, 2005, an increase of \$66,000 (32.0%) from \$206,000 for the six months ended June 30, 2004. In addition to the additional occupancy expenses of Orange Park, the increase in occupancy expenses was also the result of increased expense on leased office space.

Balance Sheet Review

General

At December 31, 2004, First National had total assets of \$265.6 million, an increase of \$123.5 million, or 86.9%, from December 31, 2003. Total assets consisted principally of \$216.1 million in net loans, \$17.6 million in investments, \$2.4 million in federal funds sold and \$10.7 million in cash and due from banks. This increase in assets was due primarily to First National's acquisition of Orange Park. First National's liabilities at December 31, 2004 totaled \$247.5 million, consisting principally of \$229.6 million in deposits, \$10.8 million in Federal Home Loan Bank advances, and \$5.2 million of subordinated debentures. At December 31, 2004, shareholders' equity was \$18.1 million.

Total assets at June 30, 2005 were \$270.0 million, a 1.7% increase in comparison to total assets of \$265.6 million as of December 31, 2004. Total loans decreased during the first six months of 2005 by \$14.3 million, or 6.5%, to \$206.0 million, while deposits grew \$3.4 million, or 1.5%, to \$233.1 million during the same period. Federal funds sold increased during the first six months of 2005 to \$22.6 million in comparison to Federal funds sold of \$2.4 million at December 31, 2004 as a result of First National's efforts to increase liquidity. The reduction in assets from December 31, 2004 to June 30, 2005 was primarily the result of a decrease in loans as a result of management's efforts to increase the liquidity of St. Marys. First National's liabilities at June 30, 2005 totaled \$252.9 million, consisting principally of \$233.1 million in deposits, \$12.7 million in Federal Home Loan Bank advances, and \$5.2 million of subordinated debentures. At June 30, 2005, shareholders' equity was \$17.9 million.

Investment Securities

At December 31, 2004, First National's \$17.6 million of investment securities represented approximately 6.6% of its total assets. These investments consisted of mortgage-backed securities obligations of agencies of the U.S. government, and certain obligations of states and municipalities with a fair value of \$17.6 million and an amortized cost of \$17.7 million for an unrealized loss of \$85,000.

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The amortized costs and the fair value of investments at December 31, 2004, 2003, and 2002 are shown in the following table.

Securities Portfolio Composition						
	2004		2003		2002	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
(dollars in thousands)						
Available for Sale						
Obligations of U.S. government agencies	\$ 8,495	\$ 8,403	\$ 4,000	\$ 3,984	\$ 472	\$ 455
Mortgage-backed securities and collateralized mortgage obligations	8,354	8,350	4,202	4,206	8,813	8,903
State and political subdivisions	814	826	827	856	2,159	2,218
Total available for sale	17,663	17,579	9,029	9,046	11,444	11,576

At June 30, 2005, investment securities comprised approximately 6.9% of First National's assets and net loans comprised approximately 74.2% of First National's assets. The following table presents the estimated fair value of First National's investments as of June 30, 2005. All securities held at each date were categorized as available for sale.

	At June 30, 2005	
	Cost	Value
(dollars in thousands)		
Available for Sale		
Obligations of U.S. Treasury and other U.S. agencies	\$ 10,965	\$ 6,908
Mortgage-backed securities and Collateralized Mortgage Obligations	7,011	10,913
State, County and Municipal	709	712
Total	\$ 18,685	\$ 18,533

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Contractual maturities and yields on investments at December 31, 2004 are presented in the following tables, excluding the effects of prepayments:

	Securities Maturity Schedule	
	Amortized Cost	Weighted Average Yield**
(dollars in thousands)		
Available for Sale		
Obligations of U.S. government agencies		
0-1 year	\$ 501	2.81%
1-5 years	7,994	2.37%
5-10 years		
Greater than 10 years		
	<u>8,495</u>	<u>2.40%</u>
Mortgage-backed securities and collateralized mortgage obligations		
0-1 year		
1-5 years	1,238	3.46%
5-10 years	700	3.46%
Greater than 10 years	6,416	3.36%
	<u>8,354</u>	<u>3.38%</u>
State and political subdivisions		
0-1 year	101	4.16%*
1-5 years	713	5.16%*
5-10 years		
Greater than 10 years		
	<u>814</u>	<u>5.04%*</u>
Total	\$ 17,663	

* Calculated on a fully taxable equivalent basis using a federal tax rate of 34%.

** Weighted average yields on available for sale securities are based on amortized cost.

The maturities and weighted average yields of the investment securities portfolio at June 30, 2005 are presented in the following table, excluding the effects of prepayments:

Securities Maturity Schedule

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	Amortized Cost	Weighted Average Yield**
(dollars in thousands)		
Available for Sale		
Obligations of U.S. Treasury and other U.S. agencies		
0-1 year	6,470	2.37%
Over 1 through 5 years	4,495	2.88%
Over 5 years		
Over 10 years		
Mortgage-backed securities and Collateralized		
Mortgage Obligations		
0-1 year		
Over 1 through 5 years	1,320	5.37%
Over 5 years	1,197	4.32%
Over 10 years	4,494	4.14%
State, County and Municipal		
0-1 year	471	5.27%*
Over 1 through 5 years	238	4.39%*
Over 5 years		
Over 10 years		

* Calculated on a fully taxable equivalent basis using a federal tax rate of 34%

** Weighted average yields on available for sale securities are based on amortized cost.

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Other investment securities totaled \$1.5 million, \$776,000, and \$764,000 at December 31, 2004, 2003, and 2002, respectively. Other investments at December 31, 2004, consisted of Federal Reserve Bank stock with a cost of \$426,000, Federal Home Loan Bank stock with a cost of \$909,000, and First National Banc Statutory Trust stock with a cost of \$155,000. At December 31, 2003, First National owned Federal Reserve Bank stock with a cost of \$126,000 and Federal Home Loan Bank stock with a cost of \$650,000. At December 31, 2002, First National owned Federal Reserve Bank stock with a cost of \$114,000 and Federal Home Loan Bank stock with a cost of \$650,000. At June 30, 2005, other investments totaled \$1.9 million compared to \$1.5 million at June 30, 2004.

Loans

Since loans typically provide higher interest yields than do other types of interest earning assets, a substantial percentage of First National's earning assets are invested in First National's loan portfolio. Average loans for the years ended December 31, 2004 and 2003 were \$199.4 million and \$106.1 million, respectively. Total loans outstanding at December 31, 2004 and 2003 were \$220.3 million and \$116.9 million, respectively, before allowance for loan losses.

Average loans for the six months ended June 30, 2005 were \$222.6 million as compared with \$187.6 million for the period ended June 30, 2004. Total loans outstanding at June 30, 2005 and 2004 were \$206.0 million and \$220.3 million, respectively, before allowance for loan losses. The decrease in the loan portfolio was due to management's efforts to increase the liquidity due to the regulatory issues arising from the examination of St. Marys during the first quarter of 2005.

The principal component of First National's loan portfolio are loans secured by real estate mortgages. Management attempts to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration of collateral.

The following tables summarize the composition of the loan portfolio at December 31, 2004, 2003, 2002, 2001 and 2000.

Loans held for investment	\$ 220,311	\$ 116,879	\$ 96,395	\$ 77,532	\$ 58,955
Less: Allowance for loan losses	4,172	1,578	1,231	891	429
Net loans	\$ 216,139	\$ 115,301	\$ 95,164	\$ 76,641	\$ 58,526

Percentage of Loans Held for Investment

	2004	2003	2002	2001	2000
Commercial and industrial not secured by real estate	6.8%	7.4%	10.0%	12.9%	16.7%
Commercial and industrial secured by real estate	36.9%	27.9%	25.6%	25.0%	25.8%
Real estate mortgage	33.9%	44.2%	40.8%	36.7%	37.7%
Real estate construction	16.8%	13.3%	16.5%	17.5%	4.5%
Consumer loans	5.6%	7.2%	7.1%	7.9%	15.3%

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Total	100.0%	100.0%	100.0%	100.0%	100.0%
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The following table presents various categories of First National's loan portfolio at the dates indicated:

Loan Portfolio Composition

(dollars in thousands)

Type of Loan	At June 30, 2005	Percent of loans in each category to total loans	At December 31, 2004	Percent of loans in each category to total loans
(dollars in thousands)				
Real Estate				
Construction	40,038	19.4%	36,933	16.8%
Mortgage	138,061	67.0%	156,088	70.8%
Total	178,099	86.4%	193,021	87.6%
Commercial	17,495	8.5%	15,017	6.8%
Consumer	10,426	5.1%	12,273	5.6%
Total	206,020	100.0%	220,311	100.0%

The information in the following table is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Actual repayments of loans may differ from maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following table summarizes the loan maturity distribution, by type, and related interest rate characteristics at December 31, 2004:

Type of loans	Loan Maturity and Interest Sensitivity			
	Due in 1 Year or less	Due After 1 Year up to 5 years	Due after 5 years	Total
(dollars in thousands)				
Commercial and industrial	\$ 3,458	\$ 10,409	\$ 1,150	\$ 15,017
Real estate	82,610	77,620	32,791	193,021
Consumer loans	4,552	6,903	818	12,273
Total	\$ 90,620	\$ 94,932	\$ 34,759	\$ 220,311

Loans maturing after one year with:

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Fixed interest rates	\$ 72,872
Floating interest rates	\$ 56,819

The following table summarizes the loan maturity distribution, by type, and related interest rate characteristics at June 30, 2005:

Type of loans	Loan Maturity and Interest Sensitivity			Total
	Due in 1 Year or less	Due After 1 Year up to 5 years	Due after 5 years	
	(dollars in thousands)			
Commercial and industrial	\$ 5,915	\$ 9,913	\$ 1,667	\$ 17,495
Real estate	72,188	69,737	36,174	178,099
Consumer loans	1,208	7,526	1,692	10,426
Total	\$ 79,311	\$ 87,176	\$ 39,533	\$ 206,020
Loans maturing after one year with:				
Fixed interest rates				\$ 70,526
Floating interest rates				\$ 56,183

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Allowance for Loan Losses

First National has established an allowance for loan losses through a provision for loan losses charged to expense on its statement of income. The allowance represents an amount which First National believes will be adequate to absorb probable losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans, including consideration of factors such as the balance of impaired loans; the quality, mix and size of First National's overall loan portfolio; economic conditions that may affect the borrower's ability to repay; the amount and quality of collateral securing the loans; First National's historical loan loss experience and a review of specific problem loans. First National adjusts the amount of the allowance periodically based on changing circumstances as a component of the provision for loan losses. First National charges recognized losses to the allowance and add subsequent recoveries back to the allowance.

In addition, First National has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential credit problems. Management's judgment as to the adequacy of the allowance is based on a number of assumptions about future events, which it believes to be reasonable, but which may or may not be valid. Based on management's judgments, evaluation, and analysis of the loan portfolio, management considers the allowance for loan losses to be adequate. However, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses may be significant to a particular accounting period.

Additions to the allowance for loan losses are made periodically to maintain the allowance at an appropriate level based upon management's analysis of potential risk in the loan portfolio. The amount of the loan loss allowance and related provision is determined by an evaluation of historical loan losses, loan concentrations, including geographic and industry concentrations, policy and staff considerations, collateral values, economic factors including current and anticipated conditions, volume of the loan portfolio, delinquency trends and peer comparisons.

At December 31, 2004 and 2003, the allowance for loan losses was \$4.2 million and \$1.6 million, respectively, or 1.89% of outstanding loans at December 31, 2004 and 1.35% at December 31, 2003. During 2004 and 2003, St. Marys recorded net charge-offs of \$5.8 million and \$109,000, respectively. The increase in St. Marys' charge-offs was due to documentation and collateral deficiencies, and other weaknesses in the loans identified during the OCC examination that occurred in the first quarter of 2005. During 2004 and 2003, Orange Park recorded net charge-offs of \$372,000 and \$2,000, respectively. The increase in Orange Park's net charge-offs was primarily due to management's assessment of the collectibility of a certain commercial loan.

During the periods indicated below, First National evaluated the adequacy on an overall portfolio basis utilizing First National's credit grading system which was applied to each loan. An independent consultant reviewed the loan files on a test basis, to verify that the lenders have properly graded each loan. First National's analysis of the adequacy of the allowance also considers subjective issues such as changes in the lending policies and procedures, changes in the local/national economy, changes in volume or type of credits, changes in volume/severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons.

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The following table summarizes the activity related to First National's allowance for loan losses for the periods indicated:

	Analysis of the Allowance for Loan Losses				
	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(dollars in thousands)				
Balance at beginning of year	\$ 1,578	\$ 1,231	\$ 891	\$ 429	\$ 389
Acquired bank's balance at purchase date	916				
Charge-offs:					
Commercial and industrial - not secured by real estate	4,496		39	21	33
Commercial and industrial - secured by real estate	27				
Real estate - mortgage	1,552	27	17		
Real estate - construction			8		
Consumer loans	172	127	216	171	116
	<u>6,247</u>	<u>154</u>	<u>280</u>	<u>192</u>	<u>149</u>
Recoveries:					
Commercial and industrial - not secured by real estate			4		
Commercial and industrial - secured by real estate					
Real estate - mortgage		6	4		15
Real estate - construction	2		1		
Consumer loans	114	39	18	21	7
	<u>116</u>	<u>45</u>	<u>27</u>	<u>21</u>	<u>22</u>
Net charge-offs	6,131	109	253	171	127
Provision for loan losses	7,809	456	593	633	167
Balance at end of year	<u>\$ 4,172</u>	<u>\$ 1,578</u>	<u>\$ 1,231</u>	<u>\$ 891</u>	<u>\$ 429</u>
Allowance for loan losses to total loans	1.89%	1.35%	1.28%	1.15%	0.73%
Net charge-offs to average loans	3.08%	0.10%	0.28%	0.26%	0.24%

The allowance was allocated as follows on the indicated dates.

Allocation of the Allowance for Loan Losses

(dollars in thousands)

At December 31,

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	2004		2003		2002		2001		2000	
	Percent of loans in each category		Percent of loans in each category		Percent of loans in each category		Percent of loans in each category		Percent of loans in each category	
	Amount	to total loans	Amount	to total loans	Amount	to total loans	Amount	to total loans	Amount	to total loans
Real Estate	\$ 192	87.60%	\$ 50	85.40%	\$ 21	80.20%	\$ 167	76.30%	N/A	N/A
Commercial	480	6.80%	28	7.40%	48	11.90%	85	14.80%	N/A	N/A
Consumer	175	5.60%	218	7.20%	191	7.90%	235	8.90%	N/A	N/A
Other	2,584		731		615		217		N/A	N/A
Unallocated	741		551		356		187		N/A	N/A
Total	\$ 4,172	100.00%	\$ 1,578	100.00%	\$ 1,231	100.00%	\$ 891	100.00%	\$ 0	0.00%

The allowance for loan losses was \$5.6 million and \$4.2 million as of June 30, 2005 and December 31, 2004, respectively. The allowance for loan losses as a percentage of gross loans was 2.74% June 30, 2005 and 1.89% at December 31, 2004. During St. Marys' regularly scheduled examination by the OCC which began on March 7, 2005, the OCC recommended, and management agreed, that several loans with documentation and collateral deficiencies, and other weaknesses, be charged-off in 2004 and 2005. Through June 30, 2005, St. Marys and Orange Park recorded net charge-offs of \$2.1 million and \$0, respectively and provisions to the loan loss reserve of \$3.6 million and \$17,000, respectively. The additional net charge-offs recorded by St. Marys are primarily the result of unsound lending practices by the former president of bank. The additional provisions to the loan loss reserve were based on continued concern for unknown risk due to the unsound lending practices by the former president of the bank.

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From the previously described analysis, management determined that the allowance for loan losses should be increased through a provision for loan losses of \$3.6 million during the six months ended June 30, 2005. The ratio of allowance for loan losses to total gross loans was 2.74% at June 30, 2005. Management considers the current allowance for loan losses appropriate based upon its analysis of the potential risk in the portfolio; however, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional provisions will not be required.

An analysis of First National's loan loss experience for the period indicated is furnished in the following table, as well as a breakdown of the allowance for possible loan losses:

	Analysis of the Allowance for Loan Losses June 30, 2005
	(dollars in thousands)
Beginning balance of allowance	\$ 4,172
Acquired bank's balance at purchase date	
Charge-offs:	
Commercial and industrial not secured by real estate	761
Commercial and industrial secured by real estate	
Real Estate mortgage	1,120
Real estate construction Consumer loans	327
	<u>2,208</u>
Recoveries:	
Commercial and industrial not secured by real estate	18
Commercial and industrial secured by real estate	
Real Estate mortgage	27
Real estate construction Consumer loans	32
	<u>77</u>
Net charge-offs	2,131
Provision for loan losses	3,597
Balance at end of year	<u>\$ 5,638</u>
Allowance for loan losses to total loans	2.74%
Net charge-offs to average loans	0.99%

The allowance was allocated as follows at the indicated dates:

**Allocation of the Allowance
for Loan Losses**

	At June 30, 2005		At December 31, 2004	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
(dollars in thousands)				
Real Estate	\$ 434	86.4%	\$ 192	87.60%
Commercial	519	8.5%	480	6.80%
Consumer	113	5.1%	175	5.60%
Other	3,844		2,584	
Unallocated	728		741	
Total	\$ 5,638	100.00%	\$ 4,172	100.00%

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The following table shows First National's nonperforming loans as well as the total nonperforming assets to total assets, the total nonperforming assets to loans and other nonperforming assets, and allowance for loan loss as a percentage of loans:

Non-Performing Assets	December 31,				
	2004	2003	2002	2001	2000
	(dollars in thousands)				
Nonperforming loans:					
Nonaccrual loans	\$ 4,296	\$ 196	\$ 708	\$ 706	\$ 1,222
Past due 90 days or more	420	78	164	207	163
Total nonperforming loans	4,716	274	872	913	1,385
Other nonperforming assets	1,361	1,877	211	186	279
Total nonperforming assets	\$ 6,077	\$ 2,151	\$ 1,083	\$ 1,099	\$ 1,664
Nonperforming assets as a percentage of total assets	2.29%	1.51%	0.91%	0.97%	1.84%
Nonperforming assets as a percentage of loans and other nonperforming assets	2.74%	1.81%	1.12%	1.41%	2.81%
Allowance for loan losses as a percentage of nonperforming loans	88.46%	574.98%	141.17%	97.59%	30.97%

At December 31, 2004, nonaccrual loans represented 1.95% of total loans. At December 31, 2004 and 2003, First National's subsidiary banks had \$4.3 million and \$196,000, respectively, on nonaccrual status. Generally, a loan is placed on nonaccrual status when it becomes 90 days past due as to principal or interest, or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of the loan is doubtful. A payment of interest on a loan that is classified as nonaccrual is recognized as income when received.

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As of June 30, 2005, no loans were contractually past due 90 days or more as to principal and interest payments and 41 loans with principal balances of \$3.6 million were impaired or defined as troubled debt restructurings. As of June 30, 2005, 124 loans, in an aggregate principal amount of \$18.5 million, were classified for regulatory purposes as doubtful, substandard or special mention, which (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. As of June 30, 2005, there were two loans, in an aggregate principal amount of \$63,000, with respect to which known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. Accrual of interest is discontinued on a loan when management determines upon consideration of economic and business factors affecting collection efforts that collection of interest is doubtful. Interest accrual was discontinued on 41 loans, in an aggregate principal amount of \$3.6 million, during the six months ended June 30, 2005. Of the foregoing loans, \$96,000 is the amount of gross income that would have been recorded in the six months ended June 30, 2005 if the loans had been current in accordance with their original terms and had been current. None of the interest on those loans was included in net income as of June 30, 2005. The following table shows First National's nonperforming loans as well as the total nonperforming assets to total assets, the total nonperforming assets to loans and other nonperforming assets, and allowance for loan loss as a percentage of loans at June 30, 2005:

<u>Non-Performing Assets</u>	<u>June 30, 2005</u>
	<u>(dollars in thousands)</u>
Nonperforming loans Non-accrual loans Past due 90 days or more	\$ 3,617
Total nonperforming loans	3,617
Other nonperforming assets	1,804
Total nonperforming assets	\$ 5,421
Nonperforming assets as a percentage of total assets	2.01%
Nonperforming assets as a percentage of loans and other nonperforming assets	2.63%
Allowance for loan losses as a percentage of nonperforming loans	155.88%

Deposits and Other Interest-Bearing Liabilities

First National's primary source of funds for loans and investments is deposits, advances from the Federal Home Loan Bank, and short-term repurchase agreements. National and local market trends over the past several years suggest that consumers have moved an increasing percentage of discretionary savings funds into investments such as annuities and stock and fixed income mutual funds.

The following is a table of deposits by category at the dates indicated:

	<u>December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>

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<u>Deposit Categories</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
(dollars in thousands)						
Demand deposit	\$ 23,811	10.4%	\$ 10,518	9.3%	\$ 10,861	12.1%
NOW	27,571	12.0%	20,089	17.8%	13,416	14.9%
Money market	53,581	23.3%	2,410	2.1%	1,549	1.6%
Savings	5,978	2.6%	4,169	3.8%	2,695	3.0%
Certificates of deposit, \$100,000 or more	75,521	32.9%	35,765	31.7%	30,934	34.4%
Other time deposits	43,167	18.8%	39,855	35.3%	30,571	34.0%
Total deposits	\$ 229,629	100.0%	\$ 112,806	100.0%	\$ 90,026	100.0%

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Core deposits, which exclude time deposits of \$100,000 or more and brokered deposits, provide a relatively stable funding source for First National's subsidiary banks' loan portfolio and other earning assets. First National's subsidiary banks' core deposits were \$123.8 million, \$48.1 million and \$36.1 million at December 31, 2004, 2003 and 2002, respectively. The increase in time deposits of \$100,000 or more primarily resulted from the additional volume of deposits resulting from the acquisition of Orange Park. First National closely monitors its reliance on certificates of deposits greater than \$100,000 and deposits from sources outside its normal trade areas through the use of brokers, which are generally considered less stable and less reliable than core deposits. Brokered deposits represented approximately 78.3% of all certificates of deposit greater than \$100,000 at December 31, 2004. There were approximately \$89.4 million, \$59.3 and \$48.9 in brokered deposits at December 31, 2004, 2003 and 2002, respectively. First National's level of brokered deposits increased in 2004 primarily due to the addition of the brokered deposits of Orange Park. The FDIC has also limited the ability of St. Marys to solicit new brokered deposits. The FDIC has granted St. Marys a waiver which allows the renewal or rollover of brokered deposits in an amount not to exceed \$62.1 million. The waiver will expire in October of 2005. Upon expiration, St. Marys will be required to request an extension for an additional 6-month period. First National anticipates being able to either renew or replace these deposits when they mature, although, no assurance can be given that First National will be able to replace these deposits with the same terms or rates. As of June 30, 2005, First National had \$86.7 million in brokered deposits in its portfolio. The restrictions described above have limited the growth of St. Marys, and growth could continue to be restricted in the future.

First National's loan-to-deposit ratios were 96.0%, 103.6%, and 107.1% at December 31, 2004, 2003, and 2002, respectively. At June 30, 2005, First National's loan-to-deposit ratio was 86.0%.

The maturity distribution of First National's time deposits of \$100,000 or more at December 31, 2004 is as follows:

<u>Time Certificates of Deposit</u>	<u>(dollars in thousands)</u>
3 months or less	\$ 7,102
4-6 months	5,649
7-12 months	14,735
Over 12 months	48,035
Total	\$ 75,521

At June 30, 2005, First National's deposits were \$233.1 million, an increase of \$3.4 (1.5%) million compared to \$229.6 at December 31, 2004. The increase in total deposits was primarily the result of an increase in the volume of noninterest-bearing deposits. First National's noninterest-bearing deposits at June 30, 2005 were \$26.9 million, an increase of \$3.1 million (13.0%) from \$23.8 million at December 31, 2004. The following table presents First National's various categories of deposits at the dates indicated:

<u>Deposit Category</u>	<u>At June 30, 2005</u>	<u>Percent of deposits in each category to total deposits</u>	<u>At December 31, 2004</u>	<u>Percent of Deposits in each category to total deposits</u>
	(dollars in thousands)			
Noninterest-bearing demand deposits	26,909	11.5%	23,811	10.4%
NOW	18,454	7.9%	27,571	12.0%

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Money market	56,899	24.4%	53,581	23.3%
Savings	5,079	2.2%	5,978	2.6%
Certificates of deposit, \$100,000 or more	80,184	34.5%	75,521	32.9%
Other time deposits	45,542	19.5%	43,167	18.8%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	233,067	100.0%	229,629	100.0%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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The following table indicates amounts outstanding of time certificates of deposit of \$100,000 or more and respective maturities at the dates indicated:

<u>Time Certificates of Deposit</u>	<u>At June 30, 2005</u>		<u>At December 31, 2004</u>	
	<u>Amount</u>	<u>Average rate</u>	<u>Amount</u>	<u>Average rate</u>
	(dollars in thousands)			
3 months or less	\$ 8,368	2.47%	\$ 7,102	1.90%
3-6 months	13,383	3.11%	5,650	1.53%
6-12 months	13,939	2.99%	14,728	2.51%
over 12 months	44,494	3.32%	48,041	3.13%
Total	\$ 80,184	3.13%	\$ 75,521	2.82%

Borrowings

At December 31, 2004, First National's subsidiary banks did not have any securities under agreements to repurchase with brokers. These agreements are normally secured with investment securities. The securities under agreement to repurchase averaged \$2.9 million during 2004, with \$3.6 million being the maximum amount outstanding at any month end.

At December 31, 2003 St. Marys had sold \$3.6 million of securities under agreements to repurchase with brokers with a weighted rate of 1.24% that mature in less than 90 days. These agreements were secured with approximately \$3.6 million of investment securities. The securities under agreement to repurchase averaged \$4.0 million during 2003, with \$4.5 million being the maximum amount outstanding at any month end.

At December 31, 2002 St. Marys had sold \$4.5 million of securities under agreements to repurchase with brokers with a weighted rate of 1.49% that mature in less than 90 days. These agreements were secured with approximately \$4.5 million of investment securities. The securities under agreement to repurchase averaged \$6.0 million during 2002, with \$7.2 million being the maximum amount outstanding at any month end.

At December 31, 2004, First National's subsidiary banks had six unused federal funds purchased lines of credit totaling \$11.5 million. At December 31, 2003, St. Marys had four unused Federal funds purchased lines of credit totaling \$7.1 million. At December 31, 2002, St. Marys had five unused Federal funds purchased lines of credit totaling \$8.9 million. These lines of credit are unsecured and bear interest at the daily rate of federal funds plus 25 basis points (2.70% at December 31, 2004).

At December 31, 2004, First National's subsidiary banks had \$10.8 million of advances from the Federal Home Loan Bank. These advances were secured by a blanket floating lien agreement, which provides a security interest in all unencumbered first mortgage residential loans, and by investments in Federal Home Loan Bank stock. The following table summarizes the terms and maturities of the advances at December 31, 2004, 2003 and 2002:

Federal Home Loan Bank Advances	December 31,		
	2004	2003	2002
	(dollars in thousands)		
Advance payable interest payable quarterly at 5.44%, principal due February 13, 2008	\$ 3,000	\$ 3,000	\$ 3,000
Advance payable interest payable quarterly at 4.96%, principal due November 16, 2006	3,000	3,000	3,000
Advance payable interest payable quarterly at 5.35%, principal due March 1, 2004		5,000	5,000
Advance payable interest payable monthly at variable rate, principal due January 18, 2005	1,550		
Advance payable interest payable quarterly at 5.90%, principal due November 10, 2005	2,000	2,000	2,000
Advance payable interest payable monthly at variable rate, principal due September 12, 2005	1,200		
	<u>\$ 10,750</u>	<u>\$ 13,000</u>	<u>\$ 13,000</u>
Weighted-average interest rates	<u>5.37%</u>	<u>5.38%</u>	<u>5.50%</u>

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At June 30, 2005, First National's subsidiary banks had six unused Federal funds purchased lines of credit totaling \$11.5 million. A \$3.6 million line is collateralized by investment securities and five lines of credit are unsecured. These lines bear interest at the daily rate of federal funds plus 25 basis points (3.80% at June 30, 2005).

At June 30, 2005, First National had \$12.7 million in advances from the Federal Home Loan Bank as described in the table below. These advances were secured by a blanket floating lien agreement, which provides a security interest in all unencumbered first mortgage residential loans, and by investments in Federal Home Loan Bank stock.

Subordinated Debentures

During 2004, First National formed First National Banc Statutory Trust I (the Trust), a subsidiary whose sole purpose was to issue \$5,000,000 principal amount of Trust Preferred Securities at a rate per annum equal to the 3-Month LIBOR plus 2.80% through a pool sponsored by a national brokerage firm. The Trust Preferred Securities have a maturity of 30 years and are redeemable at First National's option on any quarterly interest payment date after five years. There are certain circumstances (as described in the Trust agreement) in which the securities may be redeemed within the first five years at First National's option. First National's liability to the nonconsolidated Trust is recorded as a liability of \$5,155,000 and an investment of \$155,000 on the consolidated balance sheet. The proceeds from the offering were used to fund the expected capital needs of First National's bank subsidiaries.

The debentures qualify as Tier 1, or core capital of First National, subject to a 25% of capital limitation under risk-based capital guidelines developed by the Federal Reserve Board. Under the regulatory capital guidelines, the portion that exceeds the 25% of capital limitation qualifies as Tier 2, or supplementary capital of First National. At June 30, 2005, \$5.0 million of the debentures qualified as Tier 1 capital of First National.

Capital Resources

Total shareholders' equity amounted to \$18.1 million at December 31, 2004 and \$11.8 million at December 31, 2003. The increase between 2004 and 2003 primarily resulted from the additional equity resulting from the acquisition of Orange Park.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), equity to assets ratio (average equity divided by average total assets) and dividend payout ratio for 2004, 2003 and 2002. First National initiated the payment of cash dividends during 2004.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Return on average assets	-0.81%	1.10%	1.13%
Return on average equity	-10.08%	13.02%	14.38%
Average equity to average assets ratio	8.07%	8.42%	7.87%

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Dividend payout ratio -30.18% 0.00% 0.00%

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), equity to assets ratio (average equity divided by average total assets) and dividend payout ratio for the six months ended June 30, 2005.

	Six months ended June 30, 2005
Return on average assets	-0.60%
Return on average equity	-9.30%
Average equity to average assets ratio	6.49%
Dividend payout ratio	-25.44%

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The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and offbalance sheet exposures, adjusted for risk weights ranging from 0% to 100%.

Under the capital adequacy guidelines, capital is classified into two tiers. These guidelines require an institution to maintain a certain level of Tier 1 and Tier 2 capital to risk-weighted assets. Tier 1 capital consists of common stockholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% based on the risks believed inherent in the type of asset. Tier 2 capital consists of Tier 1 capital plus the general reserve for loan losses subject to certain limitations. The subsidiary banks are each also required to maintain capital at a minimum level based on total average assets, which is known as the Tier 1 leverage ratio.

First National is subject to various regulatory capital requirements administered by the federal banking agencies. Under these capital guidelines, First National must maintain a minimum total risk-based capital of 8%, with at least 4% being Tier 1 capital. In addition, First National must maintain a minimum Tier 1 leverage ratio of at least 4%. To be considered well-capitalized, First National must maintain total risk-based capital of at least 10%, Tier 1 capital of at least 6%, and a leverage ratio of at least 5%.

The following table sets forth First National's and First National's subsidiary banks' various capital ratios at December 31, 2004 and 2003. At December 31, 2004 and 2003, First National and First National's subsidiary banks were in compliance with each of the applicable regulatory capital requirements. First National and Orange Park were considered to be well capitalized. St. Marys was considered to be adequately capitalized at December 31, 2004. As a result of failing to be well capitalized, St. Marys is limited in its ability to obtain brokered deposits and in the payment of dividends.

	December 31,		Minimum regulatory requirement
	2004	2003	
First National Banc, Inc. Consolidated			
Total risk-based capital ratio	10.53%	11.67%	8.00%
Tier 1 risk-based capital ratio	9.27%	10.41%	4.00%
Tier 1 leverage ratio	8.13%	9.02%	4.00%
First National Bank of St. Marys			
Total risk-based capital ratio	9.54%	11.45%	8.00%
Tier 1 risk-based capital ratio	8.28%	10.20%	4.00%
Tier 1 leverage ratio	6.82%	8.31%	4.00%
First National Bank of Orange Park*			
Total risk-based capital ratio	11.10%		8.00%
Tier 1 risk-based capital ratio	9.85%		4.00%
Tier 1 leverage ratio	9.61%		4.00%

* First National Bank of Orange Park was acquired during 2004.

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The following table sets forth First National's and First National's subsidiary banks' various capital ratios at June 30, 2005 and December 31, 2004. At June 30, 2005 and December 31, 2004, First National and First National's subsidiary banks were in compliance with each of the applicable regulatory capital requirements. At June 30, 2005, First National and Orange Park were considered to be well capitalized. St. Marys was considered to be adequately capitalized at June 30, 2005. As a result of being adequately capitalized, the St. Marys is limited in its ability to obtain brokered deposits and in the payment of dividends.

	<u>June 30, 2005</u>	<u>December 31, 2004</u>	<u>Minimum regulatory requirement</u>
First National Banc, Inc. Consolidated			
Total risk-based capital ratio	10.26%	10.53%	8.00%
Tier 1 risk-based capital ratio	8.99%	9.27%	4.00%
Tier 1 leverage ratio	7.38%	8.13%	4.00%
First National Bank of St. Marys			
Total risk-based capital ratio	8.90%	9.54%	8.00%
Tier 1 risk-based capital ratio	7.62%	8.28%	4.00%
Tier 1 leverage ratio	5.74%	6.82%	4.00%
First National Bank of Orange Park			
Total risk-based capital ratio	11.22%	11.10%	8.00%
Tier 1 risk-based capital ratio	9.97%	9.85%	4.00%
Tier 1 leverage ratio	9.63%	9.61%	4.00%

First National is currently evaluating various alternatives for increasing capital. It is management's objective to maintain the capital levels such that each of First National's subsidiary banks will be considered well capitalized. However, no assurance can be given that this objective will be achieved. First National anticipates that capital levels will be maintained at levels that will allow First National and First National's subsidiary banks to qualify as being adequately capitalized as defined by OCC regulations. Depending on the timing of when additional capital is obtained, First National may be required to limit the level of growth that it has experienced in the past three years. As of December 31, 2004, there were no significant firm commitments outstanding for capital expenditures.

Primarily as a result of the reduction in capital resulting from the charges to the loan loss allowance described elsewhere in this report, the Federal Reserve Bank of Atlanta has rated the overall condition of First National as less than satisfactory, and required First National's board of directors to adopt resolutions restricting First National's activities without the Federal Reserve Bank's approval. These activities include payment of dividends, repurchase of common stock, and the incurrence of any additional indebtedness.

Pursuant to an agreement between First National and ABC Bancorp entered into in connection with the Merger Agreement with ABC, ABC has agreed to loan to First National up to \$6,000,000 in the event any banking regulatory authority requires that either Bank increase its capital.

Interest Rate Sensitivity

A significant portion of First National's assets and liabilities are monetary in nature, and consequently they are very sensitive to changes in interest rates. This interest rate risk is First National's primary market risk exposure, and it can have significant effect on First National's net

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interest income and cash flows. First National reviews its exposure to market risk on a regular basis, and manages the pricing and maturity of its assets and liabilities to diminish the potential adverse impact that changes in interest rates can have on its net interest income.

The principal interest rate risk monitoring technique that First National employs is the measurement of its interest sensitivity gap, which is the positive or negative dollar difference between assets and liabilities that are

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subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. First National generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when First National is liability-sensitive.

The following table presents First National's rate sensitivity at each of the time intervals indicated as of June 30, 2005. The table may not be indicative of First National's rate sensitivity position at other points in time. In addition, the table's maturity distribution may differ from the contractual maturities of the earning assets and interest bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios in the application of the interest rate sensitivity methods described above.

Interest Sensitivity Analysis					
	Within 3 Months	4-12 Months	1-5 Years	Over 5 Years	Total
(dollars in thousands)					
INTEREST-EARNING ASSETS:					
Federal funds sold	\$ 22,562				\$ 22,562
Investment securities	2,613	6,666	7,856	1,398	18,533
Interest bearing deposits in other banks			541		541
Total loans	98,977	42,218	64,825		206,020
Total interest-earnings assets	\$ 124,152	\$ 48,884	\$ 73,222	\$ 1,398	\$ 247,656
INTEREST-BEARING LIABILITIES:					
Interest checking	\$ 2,443	\$ 6,397	\$ 6,574	\$ 3,039	\$ 18,453
Savings deposits	420	1,260	2,598	799	5,077
Money market	4,506	14,170	28,891	9,335	56,902
Time deposits	18,266	44,859	62,601		125,726
Federal Home Loan Bank advances	4,700	2,000	6,000		12,700
Subordinated debentures	5,155				5,155
Total interest-bearing liabilities	\$ 35,490	\$ 68,686	\$ 106,664	\$ 13,173	\$ 224,013
Period gap	\$ 88,662	\$ (19,802)	\$ (33,442)	\$ (11,775)	
Cumulative gap	\$ 88,662	\$ 68,860	\$ 35,418	\$ 23,643	
Ratio of cumulative gap to total earning assets	35.80%	27.80%	14.30%	9.55%	

As evidenced by the table above, at June 30, 2005, First National is cumulatively asset sensitive across all categories. In an increasing interest rate environment, an asset sensitive position (a gap ratio of greater than 1.0) is generally more advantageous since assets are repriced sooner than liabilities. Conversely, in a declining interest rate environment, a liability sensitive position (a gap of less than 1.0) is generally more advantageous as liabilities are repriced sooner than assets. With respect to First National, an increase in interest rates in the short term would result in higher earnings while a decrease in interest rates will reduce earnings in the short term. This assumes, however, that all other factors affecting income remain constant.

Net interest income is also affected by other significant factors, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities. Asset/liability management is the process by which First National monitors and controls the mix and maturities of its assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities to minimize potentially adverse impacts on earnings from changes in market interest

rates. First National's asset/liability management committee (ALCO) monitors and considers methods

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of managing exposure to interest rate risk. The ALCO consists of members of the board of directors and senior management of each of First National's subsidiary banks and meets monthly. The ALCO is charged with the responsibility to maintain the level of interest rate sensitivity of First National's interest sensitive assets and liabilities within Board-approved limits. As First National continues to grow, management will continuously structure its rate sensitivity position to best hedge against rapidly rising or falling interest rates. Each subsidiary bank's Asset/Liability Committees meet on a monthly basis and develop management's strategy for the upcoming period. Such strategy includes anticipations of future interest rate movements.

Liquidity

Liquidity management involves monitoring the sources and uses of funds in order to meet First National's day-to-day cash flow requirements while maximizing profits. Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of the investment portfolio is fairly predictable and subject to a high degree of control at the time the investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to nearly the same degree of control.

Cash and cash equivalents are the primary source of liquidity. At December 31, 2004 and 2003, First National's liquid assets, consisting of cash and due from banks and federal funds sold, amounted to \$13.6 million and \$10.7 million, representing 5.1% and 7.5% of total assets, respectively. Investment securities at December 31, 2004 and 2003 amounted to \$17.6 million and \$9.0 million, representing 6.6% and 6.4% of total assets, respectively; these securities provide a secondary source of liquidity since they can be converted into cash in a timely manner. First National's ability to maintain and expand its deposit base and borrowing capabilities also serves as a source of liquidity.

At June 30, 2005, cash and cash equivalents amounted to \$30.5 million, representing 11.3% of total assets. Securities available for sale provide a secondary source of liquidity. Investment securities at June 30, 2005 were \$18.5 million, of which amount \$8.3 million were scheduled to mature prior to June 30, 2006. At June 30, 2005, large denomination certificates of deposits accounted for 34.4% of total deposits. Large denomination CDs are generally more volatile than other deposits. As a result, management continually monitors the competitiveness of the rates it pays on its large denomination CDs and periodically adjusts its rates in accordance with market demands. Significant withdrawals of large denomination CDs may have a material adverse effect on First National's liquidity.

First National has agreements for advances with the Federal Home Loan Bank. These advances are secured by a blanket floating lien agreement, which provides a security interest in all unencumbered first mortgage residential loans, and by investments in Federal Home Loan Bank stock. The unused borrowing capacity available from the Federal Home Loan Bank at December 31, 2004 was \$42.3 million and assumed that First National's \$909,000 investment in Federal Home Loan Bank stock as well as qualifying mortgages would be pledged to secure any future borrowings. As a result of the regulatory exam of St. Marys during early 2005, the Federal Home Loan Bank discontinued the ability of St. Marys to utilize its unused borrowing capacity of \$23.6 million due to the significant negative impact that the loan losses, described under the caption Provision for Loan Losses and Allowance for Loan Losses. Orange Park's unused borrowing capacity available from the Federal Home Loan Bank at June 30, 2005 was \$16.8 million. At June 30, 2005, First National had \$12.7 million in advances from the Federal Home Loan Bank compared to \$10.8 million at December 31, 2004.

Return on Equity and Assets

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The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), equity to assets ratio (average equity divided by

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average total assets) and dividend payout ratio for the six months ended June 30, 2005 and the year ended December 31, 2004. First National initiated the payment of cash dividends during 2004.

	Six Months Ended June 30, 2005	Year Ended December 31, 2004
Return on average assets	-0.60%	-0.81%
Return on average equity	-9.30%	-10.08%
Average equity to average assets ratio	6.49%	8.07%
Dividend payout ratio	-25.44%	-30.18%

Off-Balance-Sheet Risk

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. At December 31, 2004, unfunded commitments to extend credit were \$33.1 million, of which \$23.6 million were at variable rates and \$9.5 million were at fixed rates. At June 30, 2005, unfunded commitments to extend credit were \$28.8 million, of which \$21.9 million were at variable rates and \$6.9 million were at fixed rates. The significant portion of the unfunded commitments related to construction mortgage loans. First National anticipates, based on historical experience, that the significant portion of these lines of credit will not be funded. First National evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral varies but may include accounts receivable, inventory, property, plant and equipment, and commercial and residential real estate.

At December 31, 2004, First National's subsidiary banks had \$430,000 in credit card commitments. At June 30, 2005, First National's subsidiary banks had \$499,000 in credit card commitments. Credit card commitments are unsecured.

At December 31, 2004, First National's subsidiary banks had \$1.4 million in commitments under letters of credit. At June 30, 2005, First National's subsidiary banks had \$1.2 million in commitments under letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral varies but may include accounts receivable, inventory, equipment, marketable securities and property. Since most of the letters of credit are expected to expire without being drawn upon, they do not necessarily represent future cash requirements.

Except as disclosed in this report, First National is not involved in off-balance-sheet contractual relationships, unconsolidated related entities that have off-balance-sheet arrangements or transactions that could result in liquidity needs or other commitments or significantly impact earnings.

Effect of Inflation and Changing Prices

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The effect of relative purchasing power over time due to inflation has not been taken into effect in First National's financial statements. Rather, the statements have been prepared on an historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, the assets and liabilities of financial institutions such as First National are primarily monetary in nature. Therefore, the effect of changes in interest rates will have a more significant impact on First National's performance than will the effect of changing prices and inflation in general. In addition, interest rates may generally increase as the rate of inflation increases, although not necessarily in the same magnitude. As discussed previously, First National seeks to manage the relationships between interest sensitive assets and liabilities in order to protect against wide rate fluctuations, including those resulting from inflation.

Recently Issued Accounting Standards

No recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by First National have occurred during the six month period ended June 30, 2005.

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COMPARATIVE RIGHTS OF SHAREHOLDERS

Upon consummation of the merger, shareholders of First National (other than those shareholders exercising dissenters' rights) will automatically become shareholders of ABC. The shareholders of ABC will be governed by and subject to the Articles of Incorporation and Bylaws of ABC rather than the Articles of Incorporation and Bylaws of First National.

ABC and First National are both Georgia corporations organized and existing under the Georgia Business Corporation Code. The following is a summary of the material differences in the rights of holders of ABC and First National common stock. The summary is necessarily general, and it is not intended to be a complete statement of all differences affecting the rights of shareholders and respective entities. It is qualified in its entirety by reference to the Georgia Business Corporation Code, as well as the Articles of Incorporation and Bylaws of each corporation. First National shareholders should consult with their own legal counsel with respect to specific differences and changes in their rights as shareholders which will result from the proposed merger.

Liquidity and Marketability

All of the 11,865,600 issued and outstanding shares of ABC common stock are freely tradeable, except for approximately 866,685 shares held by affiliates of ABC, as such term is defined in Rule 144 under the Securities Act, which shares may only be sold pursuant to an effective registration statement under the Securities Act or in compliance with Rule 144 or another applicable exemption from the registration requirements of the Securities Act. ABC common stock is traded on the Nasdaq National Market under the symbol ABCB.

All of the 1,016,376 issued and outstanding shares of First National common stock are freely tradeable, except for approximately 692,188 shares held by affiliates of First National, which shares may only be sold pursuant to an effective registration statement under the Securities Act or in compliance with Rule 144 or another applicable exemption from the registration requirements of the Securities Act. There is no established trading market for First National's common stock.

Reporting Requirements

ABC is a reporting company under the Exchange Act and files annual and quarterly financial reports with the SEC. First National deregistered under the Exchange Act on August 4, 2005 and is no longer required to file reports with the SEC. ABC and First National also file certain reports with the Federal Reserve Board and the Georgia Department of Banking and Finance.

Preemptive, Voting and Liquidation Rights

Neither the ABC common stock nor the First National common stock has preemptive rights. Each share of ABC common stock and First National common stock has the right to cast one vote on all matters voted upon by the ABC shareholders and the First National shareholders,

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respectively. Under the Georgia Business Corporation Code, a majority of the outstanding shares entitled to vote must approve any dissolution or liquidation of a corporation, unless the articles of incorporation or bylaws require a greater vote. Neither ABC's Articles of Incorporation or its Bylaws nor First National's Articles of Incorporation or its Bylaws imposes any such requirement.

Mergers, Consolidations and Sales of Assets

Under the Georgia Business Corporation Code, a merger (other than a merger of a subsidiary in which the parent owns at least 90% of each class of outstanding stock), a disposition of all or substantially all of a corporation's property and a share exchange generally must be approved by a majority of the outstanding shares entitled to vote, unless the articles of incorporation or bylaws requires otherwise.

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Neither ABC's Articles of Incorporation or its Bylaws nor First National's Articles of Incorporation or its Bylaws imposes any such requirement.

Dissenters' Rights

Under the Georgia Business Corporation Code, a shareholder of a corporation participating in certain transactions may, under certain circumstances, receive the fair value of his or her shares in cash, in lieu of the consideration he or she would otherwise have received in the transaction. The Georgia Business Corporation Code recognizes dissenters' rights in connection with mergers, share exchanges, sales of all or substantially all of the corporation's property and certain amendments to the articles of incorporation that materially and adversely affect a shareholder's rights. Appraisal rights are not available (unless otherwise provided in the corporation's articles of incorporation): (i) if the shares of the corporation are listed on a national securities exchange or held of record by more than 2,000 shareholders, and shareholders by the terms of the merger or consolidation are not required to accept in exchange for their shares anything other than shares of stock of the surviving or resulting corporation, or shares of stock of any other corporation listed on a national securities exchange or held of record by more than 2,000 stockholders, other than cash in lieu of fractional shares of stock; or (ii) in a merger if the corporation is the surviving corporation and no vote of its shareholders thereon is required.

Under the Georgia Business Corporation Code, the ABC shareholders are not entitled to dissenters' rights with respect to the proposed merger.

Holders of First National common stock have dissenters' rights with respect to the proposed merger. See the section entitled "Statutory Provisions for Dissenting Shareholders" at page 52.

Taxation

ABC and First National are both taxable entities under the Code and are taxed on their respective income and entitled to the deductions allowed under the Internal Revenue Code. A sale of ABC common stock or First National common stock will normally result in a capital gain or loss for federal income tax purposes. Shareholders of ABC or First National who receive dividends are expected to receive a copy of Form 1099 filed with the Internal Revenue Service prior to January 31 of the following year.

Distributions

The holders of ABC common stock and First National common stock are entitled to receive dividends when, as and if declared by ABC's board of directors and First National's board of directors, respectively, and paid by ABC and First National, respectively, out of funds legally available therefor. Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to each of its subsidiary banks and to commit resources to support each such bank. Consistent with this policy, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless the available net income of the bank holding company is sufficient to fully fund the dividends, and the prospective rate of earnings retention appears to be consistent with its capital needs, asset quality, and overall financial condition. The ability of ABC and First National to pay cash dividends is currently influenced, and in the future could be further influenced, by bank regulatory policies or agreements and by capital guidelines. Accordingly, the actual amount and timing of future dividends, if any, will depend on, among other things, future earnings, the financial condition of ABC and First

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National and each of their respective subsidiary banks, the amount of cash on hand at the holding company level, outstanding debt obligations, if any, and the requirements imposed by regulatory authorities.

Liability

Neither the ABC shareholders nor the First National shareholders are personally liable for the obligations of ABC and First National, respectively.

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Assessments

All issued and outstanding shares of ABC common stock and First National common stock are fully paid and nonassessable.

Fiduciary Duties

ABC's Articles of Incorporation and First National's Articles of Incorporation provide that, with certain exceptions mandated by the Georgia Business Corporation Code, officers and directors are not liable to ABC or First National, respectively, or their respective shareholders for monetary damages for breach of their fiduciary duty of care.

Indemnification

The Georgia Business Corporation Code permits a corporation to indemnify a director if the director seeking indemnification acted in a manner he or she believed in good faith to be in or not opposed to the best interest of the corporation and, in the case of any criminal proceedings, that he or she had no reasonable cause to believe his conduct was unlawful, provided that indemnification in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

ABC's Articles of Incorporation and First National's Articles of Incorporation provide that no director shall be personally liable to ABC or First National, respectively, or their respective shareholders for monetary damages for any breach of the duty of care or other duty as a director, except that such liability shall not be eliminated: (i) for any appropriation, in violation of a director's duties, of any business opportunity of the corporation, (ii) for acts or omissions which involve intentional misconduct or a knowing violation of law, (iii) for certain unlawful distributions, or (iv) for any transaction from which the director derived an improper personal benefit.

Management

The business and affairs of ABC are managed by or under the direction of its board of directors. ABC has a provision in its Articles of Incorporation for a staggered board, and each director is elected every third year at the annual meeting of the ABC shareholders and may be removed and replaced, with or without cause, by a majority vote of ABC shareholders at any meeting of such holders.

The business and affairs of First National are managed by or under the direction of its board of directors. First National's Articles of Incorporation provide for First National's board of directors to consist of not less than five nor more than 25 directors, with the exact number to be determined from time to time by the board of directors or the shareholders of First National. First National's Articles of Incorporation provide that directors may be removed with or without cause by the holders of at least 75% of the outstanding stock entitled to vote in the election of directors.

Special Meetings

Special meetings of the ABC shareholders may be called at any time by ABC's Chairman of the Board, Vice Chairman of the Board, President, Secretary or a majority of the directors of ABC. Special meetings of the ABC shareholders also shall be called upon the written request of the holders of 50% or more of all shares of capital stock of ABC entitled to vote in an election of directors.

Under First National's Articles of Incorporation and Bylaws, special meetings of First National shareholders may be called for any purpose or purposes by First National's Chief Executive Officer or by any presiding officer of First National's board of directors. In addition, the Chief Executive Officer or Secretary is required to call a special meeting upon the written request of two or more directors or shareholder owning at least 25% of all shares entitled to vote on any issue to be presented at the meeting.

Right to Compel Dissolution

Under the Georgia Business Corporation Code, neither the ABC shareholders nor the First National shareholders may compel the dissolution of ABC or First National, respectively, without prior action by their respective boards of directors proposing such dissolution.

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Continuity of Existence

ABC's Articles of Incorporation and First National's Articles of Incorporation each provide for perpetual existence, subject to termination or dissolution as provided by the Georgia Business Corporation Code.

Certain Legal Rights

The Georgia Business Corporation Code affords ABC shareholders the right to bring a legal action on behalf of ABC (a shareholder derivative action) to recover damages from a third party or an officer or director of ABC if the ABC shareholder was a shareholder of ABC at the time of the act or omission complained of or became a shareholder through transfer by operation of law from one who was a shareholder at that time and fairly and adequately represents the interest of ABC in enforcing its rights. In addition, a shareholder may not commence a derivative proceeding until a written demand has been made upon the corporation to take suitable action and 90 days have expired from the date the demand was made (unless the demand has been rejected by the corporation or irreparable injury to the corporation would result by waiting for the expiration of that 90-day period). In addition, ABC shareholders may bring class actions to recover damages from directors for violations of their fiduciary duties.

The First National shareholders have the same legal rights as the ABC shareholders described immediately above.

Right to List of Holders and Inspection of Books and Records

Under the Georgia Business Corporation Code, ABC shareholders and First National shareholders are generally entitled to inspect and copy ABC's and First National's respective Articles of Incorporation, Bylaws, shareholder resolutions, board of directors resolutions, lists of names and addresses of board members, all written communications to shareholders, lists of names and business addresses of current directors and officers, and the Annual Registration filed with the Secretary of State of the State of Georgia. An ABC shareholder or a First National shareholder must make a written request at least five business days in advance of such inspection, which must occur during regular business hours at ABC's or First National's (as the case may be) principal office. Other ABC and First National records are generally available to an ABC shareholder or a First National shareholder for inspection and copying during regular business hours at a reasonable location specified by ABC or First National (as the case may be) upon written demand at least five business days in advance if the shareholder makes a demand in good faith and for a proper purpose that is reasonably relevant to his or her legitimate interests as a shareholder, describes with reasonable particularity the purpose and the records desired to be inspected, and the records requested are directly connected with a stated purpose and are to be used only for that stated purpose. A Georgia corporation may limit these latter inspection rights to shareholders owning more than 2% of the outstanding stock of the corporation. ABC's Articles of Incorporation do not contain any such limitation, while First National's Articles of Incorporation do contain such a limitation.

Table of ContentsIndex to Financial Statements**FIRST NATIONAL BANC, INC. ELECTION OF DIRECTORS****Directors**

First National's board of directors, pursuant to First National's Bylaws, has set the number of directors to serve for the next year at 15, all of whom are to be elected at the annual meeting. Each current director is presently standing for re-election to First National's board of directors and, if elected, will serve until the earlier of: (i) the completion of the merger, (ii) the 2006 annual meeting of shareholders of First National and until their successors are duly elected and qualified, or (iii) their earlier death, resignation or removal from office.

In the event that any nominee withdraws or for any reason is not able to serve as director, the proxy will be voted for such other person as may be designated by First National's board of directors, but in no event will the proxy be voted for more than 15 nominees. First National's board of directors recommends the election of the 15 nominees listed below. Management of First National has no reason to believe that any nominee will not serve if elected.

The following persons have been nominated for re-election to First National's board of directors as directors:

<u>Name</u>	<u>Director</u>		<u>Occupation</u>
	<u>Age</u>	<u>Since</u>	
Timothy M. O'Keefe	56	2004	President and Chief Operating Officer of First National (since March 2005) and President and Chief Executive Officer of Orange Park
Michael A. Akel	79	1989	Retired, self-employed real estate developer; presently Managing Partner, Kings Bay Village Shopping Center
Michael L. Davis	33	2002	Missile Systems Engineer, Lockheed Martin since February 2002; President, Davis Investment Company Ltd. since May 2002; Project Engineer, Smurfit Stone Container from May 1996 to July 2000
William H. Gross	44	2000	Self-employed general contractor
Kenneth L. Harrison	77	1989	Retired real estate broker
Joseph P. Helow	46	1989	Vice President, Marian Services, Inc. (real estate investment)
J. Grover Henderson	62	1989	Retired, Attorney
Roscoe H. Mullis	69	1989	President, Roscoe Mullis, CPA, PC; Senior Partner, Mullis, Crews & Konrad (accounting) since 1999
Thomas I. Stafford, Jr.	62	1989	Retired, Executive Vice President and General Manager of Manufacturing Operations, Gilman Paper Co. from April 1990 to December 1999; Executive Vice President and General Manager of Converting Operations, Durango Georgia Paper Co. from December 1999 to August 2000
Vasant P. Bhide	63	2004	President, Bhide & Hall Architects; President, Corinthian, Inc. (general contractor)
Benny L. Cleghorn	63	2004	President, Summit Erectors, Inc.
Phillip H. Cury	43	2004	Self-employed real estate developer
Thomas I. Stafford, III	37	2004	Manager of Supply Chain Operations, Georgia Pacific

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Kenneth W. Suggs	53	2004	Chief Executive Officer, Allstate Steel Company
Vernon W. Williford	45	2004	Vice president, JB Coxwell Contracting, Inc. (road construction)

First National s board of directors recommends that First National s shareholders vote FOR the election of the nominees listed above.

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Corporate Governance and Board Matters

Meetings of First National's Board of Directors. First National's board of directors presently consists of 15 members. During 2004, First National's board of directors met one time. Each director attended at least 75% or more of the aggregate number of meetings held by First National's board of directors and any committees on which such director served. First National holds a meeting of First National's board of directors each year on the same day as First National's annual meeting of shareholders, and it is the policy of First National's board of directors that directors are expected to attend the annual meeting of shareholders. All of the directors serving on First National's board of the directors at the time of the 2004 annual meeting of shareholders attended such meeting.

Committees of First National's Board of Directors. First National's board of directors has a standing audit committee. First National's board of directors does not have a compensation committee or a nominating committee.

Audit Committee. During the fiscal year ended December 31, 2004, the audit committee of First National's board of directors consisted of Roscoe H. Mullis, Thomas I. Stafford, Jr., Phillip H. Cury, Robert L. Mathews and Kenneth W. Suggs. The audit committee met four times during 2004. The audit committee reviews and makes recommendations to First National's board of directors on First National's audit procedures and independent auditors' report to management and recommends to First National's board of directors the appointment of independent auditors for First National. The audit committee reviews and pre-approves all audit and non-audit services performed by First National's auditing accountants, or other accounting firms, other than as may be allowed by applicable law. All members of the audit committee are independent as the term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. First National's board of directors has determined that First National does not have an audit committee financial expert, as that term is defined by Item 401(h) of Regulation S-K promulgated by the SEC, serving on its audit committee. First National's board of directors believes that the current audit committee, as a whole, possesses the necessary financial sophistication, expertise, and understanding of First National's business and industry to effectively oversee First National's audit process and financial reporting. First National's board of directors also believes that, given the size, industry, and financial resources of First National, recruiting an individual who qualifies as an audit committee financial expert would be prohibitively expensive, if such an individual could be successfully recruited at all. First National's board of directors and the audit committee will continue to monitor the audit committee's performance and continue to assess the desirability of recruiting an audit committee financial expert. First National's board of directors has not adopted a written charter for the audit committee.

Nomination of Directors. First National does not have a nominating committee. Director selection and review is conducted by First National's board of directors in its entirety. First National has no formal process for identifying director nominees. First National's board of directors does this on an as-needed basis. First National believes that this is adequate for a small community financial institution. First National believes that the directors acting as a group are capable of evaluating the performance of the current board, the qualifications of proposed director nominees and of determining the need for additional directors. As First National grows, however, First National may reconsider this and establish a nominating committee. First National's board of directors will consider director nominees recommended by shareholders. Generally, candidates should be highly qualified by business, professional or comparable experience, affirmatively desirous of serving on First National's board of directors, and able to represent the interests of all shareholders and not merely those of any special interest group. If the merger is not completed, then shareholders wishing to suggest candidate(s) for consideration at the 2006 annual meeting should submit their proposals in accordance with the timeframe and procedures set forth in the section entitled "Shareholder Proposals and Other Matters" at page 108.

Shareholder Communications with First National's Board of Directors. First National's board of directors has implemented a process for shareholders to send communications to First National's board of directors. Any shareholder desiring to communicate with First National's board of directors, or with specific individual directors, may do so by writing to First National's Secretary at the address of First National's principal executive offices, who has been instructed by First National's board of directors to promptly forward all such communications to the board or such individual directors.

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Certain Relationships and Related Transactions. St. Marys and/or Orange Park extend loans from time to time to certain of the directors of First National, their associates and members of their immediate families. These loans are made in the ordinary course of business on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the time for comparable transactions with persons not affiliated with First National, and do not involve more than the normal risk of collectibility or present other unfavorable features.

Executive Officers

The following table sets forth the name and position of each of the executive officers of First National:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Roscoe H. Mullis	69	Chairman and Chief Executive Officer of First National
Timothy M. O Keefe	56	President and Chief Operating Officer of First National and President and Chief Executive Officer of Orange Park
T. Michael White	57	President and Chief Executive Officer of St. Marys
Yong Kim	35	Chief Financial Officer of First National and of St. Marys

Information regarding Messrs. Mullis and O Keefe appears in the section entitled First National Banc, Inc. Election of Directors Directors at page 100.

Mr. White has served as President and Chief Executive Officer of First National Bank of St. Marys since June 2005. He served as President of AMC, a mortgage company headquartered in Jacksonville, Florida, from 1994 until May 2005. Prior to joining AMC, Mr. White served as President of 1st Performance National Bank in Jacksonville, Florida.

Yong Kim has served as the Chief Financial Officer of First National since March 2005, and has served as the Chief Financial Officer of First National Bank of St. Marys since 2002. Mr. Kim previously served as Vice President of Operations of St. Marys since 2001, and prior to accepting that position served as Vice President and Loan Officer of St. Marys.

Table of Contents**Index to Financial Statements****Executive Compensation**

The following tables provide certain summary information for the year ended December 31, 2004 concerning compensation paid or accrued by the each of First National's executive officers who earned salary and bonus in excess of \$100,000 during 2004 (the Named Executive Officers). Roscoe H. Mullis, First National's Chairman and Chief Executive Officer, does not receive any compensation other than as a board member, as described below in the section entitled First National Banc, Inc. Election of Directors Compensation of Directors at page 103.

Summary Compensation Table

Name	Year	Annual Compensation			Long Term Compensation
		Salary	Bonus	Other Annual Compensation	Securities Underlying Options
Timothy M. O'Keefe President and COO of First National and President and CEO of Orange Park	2004	\$ 107,848	\$ 30,000	\$ 17,768(1)	
	2003	97,888	20,000	14,748(2)	1,000
	2002	85,000	11,000	12,750(3)	1,000
David G. Moffat (4)	2004	\$ 149,702	\$ 65,000	\$ 19,883(5)	
	2003	140,000	50,000	18,217(6)	
	2002	125,000	35,000	16,473(7)	1,000

- (1) Represents \$11,768 of healthcare insurance premiums and a \$6,000 automobile allowance.
(2) Represents \$8,748 of healthcare insurance premiums and a \$6,000 automobile allowance.
(3) Represents \$6,750 of healthcare insurance premiums and a \$6,000 automobile allowance.
(4) On March 21, 2005, Mr. Moffat resigned from all positions held with First National and its subsidiaries.
(5) Represents \$13,883 of healthcare insurance premiums and a \$6,000 automobile allowance.
(6) Represents \$12,217 of healthcare insurance premiums and a \$6,000 automobile allowance.
(7) Represents \$10,473 of healthcare insurance premiums and a \$6,000 automobile allowance.

The following table provides information regarding the value of options exercised during 2004 and the number and value of options held by the Named Executive Officers at December 31, 2004:

Aggregated Option Exercises in 2004 and 2004 Year-End Option Values

Options Exercised During 2004	Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End Exercisable/Unexercisable(1)
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<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized</u>	_____	_____
Timothy M. O Keefe			3,000 / 2,000	\$ 59,000 / \$26,000
David G. Moffat	10,016	265,298	4,956 / 5,087(2)	\$ 202,106 / \$84,948(2)

- (1) Dollar values calculated by determining the difference between the estimated fair market value of First National common stock at December 31, 2004 (\$42.00) and the exercise price of such options.
- (2) All of Mr. Moffat's options expired upon his resignation in March 2005.

Employment Agreement with Timothy M. O Keefe

Mr. O Keefe serves as President and Chief Executive Officer of Orange Park pursuant to an employment agreement entered into between Mr. O Keefe and Orange Park on October 1, 2004. Under the agreement, Mr. O Keefe receives a salary at an annual rate of \$112,000, which may be increased by Orange Park's board of

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directors in its sole discretion. Mr. O Keefe may also receive a cash bonus, to be paid in the sole discretion of Orange Park's board of directors. In the event of a change in control of First National, Mr. O Keefe may be entitled to a cash payment equal to one hundred ninety-nine percent (199%) of his minimum annual base salary. In the event that Orange Park terminates Mr. O Keefe's employment at any time prior to the end of the agreement's two-year term, Mr. O Keefe will be entitled to the payment of the number of months remaining on the contract at 125% of the present base salary. The agreement contains employee and customer non-solicitation provisions which will remain in effect for a period of one year and six months from the date of the termination of Mr. O Keefe's employment.

Employment Agreement with T. Michael White

Mr. White serves as President and Chief Executive Officer of St. Marys pursuant to an employment agreement entered into between Mr. White and St. Marys on June 6, 2005. Under the agreement, Mr. White receives a salary at an annual rate of \$125,000, which may be increased by St. Marys' board of directors in its sole discretion. Mr. White may also receive a cash bonus of up to 20% of the amount of his annual salary, to be paid in the sole discretion of St. Marys' board of directors. Mr. White also receives car and housing allowances in the aggregate amount of \$1,800 per month. In the event that the bank terminates Mr. White's employment at any time prior to the end of the agreement's one-year term, St. Marys will be obligated to pay Mr. White an amount equal to \$150,000 less the aggregate amount of all salary and bonus payments previously received by Mr. White under the agreement. The agreement contains employee and customer non-solicitation provisions which will remain in effect for a period of one year and two years, respectively, from the date of the termination of Mr. White's employment for any reason.

Compensation of Directors

First National's directors receive directors' fees of \$650 per month and \$300 for each committee meeting attended.

Equity Compensation Plan Information

The following table provides information as of December 31, 2004 regarding equity compensation plans and arrangements of First National.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	31,257	22.00	7,934,941
Equity compensation plans not approved by security holders			
Total	31,257	22.00	7,934,941

Principal Accountants Fees and Services

The audit committee has approved the selection of Elliott Davis, which served as First National's independent public accountants for the year ended December 31, 2004, as First National's independent public accountants to audit the books of First National for the current fiscal year, to report on the consolidated balance sheets and related statements of income, changes in shareholders' equity and cash flows of First National and to perform such other appropriate accounting services as may be required by First National.

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A representative of Elliott Davis is not expected to be present at the annual meeting of the shareholders of First National.

Audit Fees. The aggregate fees billed for professional services rendered by Elliott Davis for the audit of First National's annual financial statements and review of financial statements included in First National's quarterly reports on Form 10-QSB were \$92,012 for 2004.

Audit-Related Fees. Elliott Davis did not bill any fees for audit-related services for 2004.

Tax Fees. Elliott Davis did not bill any fees for tax compliance, tax advice or tax planning for 2004.

All Other Fees. Elliott Davis did not bill any fees for 2004 other than those described above.

All services described above were pre-approved by the audit committee.

Audit Committee Pre-Approval Policy

The audit committee is responsible for the pre-approval of all non-audit services provided by the independent auditors. Non-audit services are only provided by First National's auditors to the extent permitted by law. Pre-approval is required unless a de minimus exception is met. To qualify for the de minimus exception, the aggregate amount of all such non-audit services provided to First National must constitute no more than five percent of the total amount of revenues paid by First National to its independent auditors during the fiscal year in which the non-audit services are provided; such services were not recognized by First National at the time of the engagement to be non-audit services; and the non-audit services are promptly brought to the attention of the audit committee and approved prior to the completion of the audit by the audit committee or by one or more members of the audit committee to whom authority to grant such approval has been delegated by the audit committee.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On May 14, 2004, First National dismissed its independent auditors, Moore Stephens Tiller LLC (Moore Stephens Tiller), and on the same date authorized the engagement of Elliott Davis as its independent auditors for the fiscal year ending December 31, 2004. Each of these actions was approved by First National's board of directors and the audit committee thereof.

Moore Stephens Tiller audited the financial statements for First National for the years ended December 31, 2003 and 2002. The audit reports of Moore Stephens Tiller for the years ended December 31, 2003 and 2002 did not contain any adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

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In connection with the audit for the fiscal year ended December 31, 2003, there were no disagreements with Moore Stephens Tiller on any matter of accounting principle or practice, financial statement disclosure, or audit procedure or scope which disagreement, if not resolved to the satisfaction of Moore Stephens Tiller, would have caused it to make reference to the subject matter of the disagreement in its report.

Further, prior to the engagement of Elliott Davis, neither First National nor any of its representatives sought the advice of Elliott Davis regarding the application of accounting principles to a specific completed or contemplated transaction or the type of audit opinion that might be rendered on First National's financial statements, which advice was an important factor considered by First National in reaching a decision as to the accounting, auditing or financial reporting issue.

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In connection with the audit of the fiscal year ended December 31, 2003, Moore Stephens Tiller did not advise First National that:

- (i) internal controls necessary for First National to develop reliable financial statements did not exist;
- (ii) information had come to its attention that led it to no longer be able to rely on management's representations, or that made it unwilling to be associated with the financial statements prepared by management; or
- (iii) there existed a need to expand significantly the scope of its audit, or that information had come to its attention that if further investigated may materially impact the fairness or reliability of either: a previously issued audit report or the underlying financial statements, or the financial statements issued or to be issued covering the fiscal period subsequent to the date of the most recent financial statements covered by an audit report (including information that may prevent it from rendering an unqualified audit report on those financial statements).

Audit Committee Report

The audit committee has reviewed and discussed First National's 2004 audited consolidated financial statements with management. The audit committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with audit committees). The audit committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with audit committees), and has discussed with the independent accountant the independent accountant's independence. Based on the review and discussions referred to above, the audit committee recommended to First National's board of directors that the audited financial statements be included in First National's Annual Report on Form 10-KSB for 2004 for filing with the SEC.

Respectfully submitted,

The Audit Committee

Roscoe H. Mullis,

Thomas I. Stafford, Jr.

Phillip H. Cury

Robert L. Mathews

Kenneth W. Suggs

Security Ownership of Certain Beneficial Owners and Management

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The following table sets forth certain information as of November 2, 2005 with respect to ownership of First National's common stock by each of First National's directors, all of its executive officers and directors, as a group, and each person who beneficially owns in excess of 5% of the outstanding shares of First National's common stock. Unless otherwise indicated, each person has sole voting and investment power with respect to shares shown as beneficially owned by such person.

<u>Name of Owner</u>	<u>Number of Shares</u>	<u>Percentage</u>
Michael A. Akel	63,721	6.3%
Michael L. Davis	1,485	*
Ruth J. Davis**	407,715	40.1%
William H. Gross	147	*
Kenneth L. Harrison	2,839	*
Joseph P. Helow	119,938	11.8%
J. Grover Henderson	770	*
Yong M. Kim**	463(1)	*
Roscoe H. Mullis	24,097	2.4%
Thomas I. Stafford, Jr.	26,068	2.6%

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Name of Owner	Number of Shares	Percentage
Timothy M. O Keefe	4,200(2)	*
Vasant P. Bhide	5,000	*
Benny L. Cleghorn	16,672	1.6%
Philip H. Cury	2,500	*
Thomas I. Stafford, III	700	*
Kenneth W. Suggs	5,000	*
Vernon W. Williford	10,000	1.0%
All directors and executive officers as a group (16 persons)	288,600(3)	28.4%

* Less than 1%.

** Not a director of the Company.

- (1) Includes 427 shares subject to exercisable options.
(2) Includes 3,700 shares subject to exercisable options.
(3) Includes 4,127 shares subject to exercisable options.

Compliance with Section 16(a) of the Exchange Act

First National is not subject to the requirements of Section 16 of the Securities Exchange Act.

Other Business

First National's board of directors knows of no other matters to be brought before the annual meeting. However, if other matters should come before the annual meeting it is the intention of the persons named in the enclosed form of proxy to vote the proxy in accordance with their judgment of what is in the best interest of First National.

LEGAL MATTERS

Certain federal income tax consequences of the proposed merger and the legality of the authorization and issuance under Georgia law of the ABC common stock to be issued in the proposed merger have been passed upon by counsel to ABC, Rogers & Hardin LLP, 2700 International Tower, 229 Peachtree Street, N.E., Atlanta, Georgia 30303.

Certain federal income tax consequences of the proposed merger have been passed upon by counsel to First National by Smith, Gambrell & Russell, LLP, Promenade II, Suite 3106, 1230 Peachtree Street, N.E., Atlanta, Georgia 30309.

EXPERTS

The consolidated financial statements of ABC as of December 31, 2004 appearing elsewhere in this proxy statement/prospectus have been audited by Mauldin & Jenkins, Certified Public Accountants, LLC, independent auditors, as set forth in their report thereon appearing elsewhere herein. Such financial statements are included in reliance upon such report given on its authority as an expert in accounting and auditing.

The consolidated financial statements of First National as of December 31, 2004 appearing elsewhere in this proxy statement/prospectus have been audited by Elliott Davis, LLC, independent auditors, as set forth in its report thereon, appearing elsewhere herein. Such financial statements are included in reliance upon such report given on its authority as an expert in accounting and auditing.

The consolidated financial statements of First National as of December 31, 2003 appearing elsewhere in this proxy statement/prospectus have been audited by Moore Stephens Tiller, LLC, independent auditors, as set forth in its report thereon, appearing elsewhere herein. Such financial statements are included in reliance upon such report given on its authority as an expert in accounting and auditing.

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SHAREHOLDER PROPOSALS AND OTHER MATTERS

Pursuant to Rule 14a-8 under the Exchange Act, shareholders must present proper proposals for inclusion in a company's proxy statement and for consideration at the next annual meeting of its shareholders by submitting their proposals to the company in a timely manner.

First National will hold an annual meeting in the year 2006 only if the merger is not consummated. In order to be eligible for inclusion in First National's proxy materials for next year's annual meeting of shareholders, any shareholder proposal to take action at the meeting must be received at First National's main office at 2509 Osborne Road, St. Marys, Georgia 31558.

WHERE YOU CAN GET MORE INFORMATION

ABC files, and, until August 4, 2005, First National filed, annual, quarterly and special reports, proxy statements and other information with the SEC. The reports, proxy statements and other information filed by ABC and First National with the SEC can be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 580, Washington, D.C. 20549, at prescribed rates, and from the web site that the SEC maintains at <http://www.sec.gov>. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. ABC common stock is quoted on The Nasdaq National Market. The reports, proxy statements and other information concerning ABC can be inspected at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

ABC has filed a registration statement on Form S-4 to register with the SEC the ABC common stock to be issued to shareholders of First National in the merger. This proxy statement/prospectus is a part of the registration statement and constitutes a prospectus of ABC in addition to being a proxy statement of First National for its annual shareholders' meeting. As allowed by SEC rules, this proxy statement/prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement. Copies of the registration statement and the exhibits and schedules thereto may be inspected, without charge, at the offices of the SEC, or obtained at prescribed rates from the Public Reference Section of the SEC at Room 580, 100 F Street, N.E., Washington, D.C. 20549, or obtained from the SEC web site.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows ABC to incorporate by reference information into this proxy statement/prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this proxy statement/prospectus, except for any information superseded by information in this proxy statement/prospectus. This proxy statement/prospectus incorporates by reference the documents set forth below that ABC has previously filed with the SEC:

Annual Report on Form 10-K for the year ended December 31, 2004;

Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2005;

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Current Reports on Form 8-K, and amendments thereto, filed on January 21, 2005, February 1, 2005, March 15, 2005, April 21, 2005, May 11, 2005, May 16, 2005, May 23, 2005, July 7, 2005, July 20, 2005, August 31, 2005 and October 19, 2005; and

The description of ABC's securities contained under the caption "Description of Capital Stock" found on pages 51-52 of the Preliminary Prospectus dated as of April 21, 1994 filed as part of ABC's Registration Statement on Form SB-2 (Registration No. 33-77930) filed with the SEC on April 21, 1994, and ABC's Registration Statement on Form 8-A12B (File No. 001-13901) filed with the SEC on February 25, 1998.

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All documents filed by ABC with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this proxy statement/prospectus and prior to the First National annual shareholders meeting shall be deemed to be incorporated by reference into this proxy statement/prospectus from the date of filing of such documents.

Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this proxy statement/prospectus to the extent that a statement contained in this proxy statement/prospectus, or in any other subsequently filed document which is also incorporated herein by reference, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed to constitute a part of this proxy statement/prospectus except as so modified or superseded. The information relating to ABC contained in this proxy statement/prospectus should be read together with the information in the documents incorporated herein by reference.

Documents incorporated by reference are available from ABC without charge, excluding all exhibits unless we have specifically incorporated by reference an exhibit in this proxy statement/prospectus. First National shareholders may obtain documents incorporated by reference by ABC in this proxy statement/prospectus by requesting them in writing or by telephone from Cindi H. Lewis, ABC Bancorp, 24 2nd Avenue, S.E., Moultrie, Georgia 31768 (229-890-1111). If you would like to request documents, please do so by December 5, 2005 to receive them before the annual shareholders meeting.

All information concerning ABC and its subsidiaries has been furnished by ABC, and all information concerning First National and its subsidiaries has been furnished by First National.

You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus to vote on the merger. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement/prospectus. This proxy statement/prospectus is dated November 2, 2005. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this proxy statement/prospectus to shareholders nor the issuance of ABC stock in the merger shall create any implication to the contrary. This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make any such offer or solicitation in such jurisdiction. Neither the delivery of this proxy statement/prospectus nor any distribution of securities made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of ABC or First National since the date hereof or that the information herein is correct as of any time subsequent to its date.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

ABC Bancorp

Moultrie, Georgia

We have audited the accompanying consolidated balance sheets of **ABC Bancorp and Subsidiaries** as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Bancorp and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mauldin & Jenkins, LLC

Albany, Georgia

January 27, 2005, except for Note 20 as to which the date is February 15, 2005

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	<u>2004</u>	<u>2003</u>
Assets		
Cash and due from banks	\$ 40,339	\$ 44,854
Interest-bearing deposits in banks	57,331	35,626
Federal funds sold	12,285	
Securities available for sale, at fair value	213,948	190,595
Restricted equity securities, at cost	7,793	5,694
Loans, net of unearned income	877,074	840,539
Less allowance for loan losses	15,493	14,963
	<u>861,581</u>	<u>825,576</u>
Loans, net		825,576
Premises and equipment, net	27,772	25,537
Intangible assets	3,706	3,286
Goodwill	24,325	19,231
Other assets	18,913	18,712
	<u>\$ 1,267,993</u>	<u>\$ 1,169,111</u>
Liabilities and Stockholders Equity		
Deposits		
Noninterest-bearing	\$ 150,090	\$ 141,715
Interest-bearing	836,134	764,809
	<u>986,224</u>	<u>906,524</u>
Total deposits		906,524
Federal funds purchased and securities sold under agreements to repurchase	7,530	8,211
Other borrowings	110,366	97,545
Other liabilities	7,367	7,651
Subordinated deferrable interest debentures	35,567	35,567
	<u>1,147,054</u>	<u>1,055,498</u>
Total liabilities		1,055,498
Commitments and contingencies		
Stockholders equity		
Common stock, par value \$1; 30,000,000 shares authorized; 13,070,578 and 10,849,922 shares issued	13,071	10,850
Capital surplus	45,073	46,446
Retained earnings	73,768	66,145

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Accumulated other comprehensive income (loss)	(230)	522
Unearned compensation	(523)	(491)
	<u>131,159</u>	<u>123,472</u>
Less cost of 1,304,430 and 1,066,068 shares acquired for the treasury	(10,220)	(9,859)
	<u>120,939</u>	<u>113,613</u>
Total stockholders' equity	<u>\$ 1,267,993</u>	<u>\$ 1,169,111</u>

See Notes to Consolidated Financial Statements.

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ABC BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in Thousands)

	2004	2003	2002
	<u> </u>	<u> </u>	<u> </u>
Interest income			
Interest and fees on loans	\$ 56,433	\$ 57,707	\$ 61,864
Interest on taxable securities	7,216	6,079	8,275
Interest on nontaxable securities	169	156	187
Interest on deposits in other banks	542	537	1,020
Interest on federal funds sold	5		1
	<u> </u>	<u> </u>	<u> </u>
	64,365	64,479	71,347
	<u> </u>	<u> </u>	<u> </u>
Interest expense			
Interest on deposits	11,306	14,183	20,286
Interest on other borrowings	8,069	7,958	7,954
	<u> </u>	<u> </u>	<u> </u>
	19,375	22,141	28,240
	<u> </u>	<u> </u>	<u> </u>
Net interest income	44,990	42,338	43,107
Provision for loan losses	1,786	3,945	5,574
	<u> </u>	<u> </u>	<u> </u>
Net interest income after provision for loan losses	43,204	38,393	37,533
	<u> </u>	<u> </u>	<u> </u>
Other income			
Service charges on deposit accounts	10,210	10,638	10,550
Other service charges, commissions and fees	737	917	806
Mortgage origination fees	1,427	1,637	1,365
Gain (loss) on sale of securities		(5)	1,643
Other	649	1,531	1,342
	<u> </u>	<u> </u>	<u> </u>
	13,023	14,718	15,706
	<u> </u>	<u> </u>	<u> </u>
Other expenses			
Salaries and employee benefits	20,893	19,599	18,192
Equipment expense	2,144	2,112	2,451
Occupancy expense	2,626	2,613	2,588
Amortization of intangible assets	789	1,032	1,765
Data processing fees	1,680	1,587	1,546
Other operating expenses	8,373	8,204	11,265
	<u> </u>	<u> </u>	<u> </u>
	36,505	35,147	37,807
	<u> </u>	<u> </u>	<u> </u>

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Income before income taxes	19,722	17,964	15,432
Applicable income taxes	6,621	5,954	5,077
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Basic earnings per share	\$ 1.12	\$ 1.03	\$ 0.87
Diluted earnings per share	\$ 1.11	\$ 1.02	\$ 0.87

See Notes to Consolidated Financial Statements.

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ABC BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Other comprehensive income (loss):			
Net unrealized holding gains (losses) arising during period, net of tax (benefits) of \$(387), \$(575) and \$869	(752)	(1,117)	1,687
Reclassification adjustment for (gains) losses included in net income, net of (tax) benefits of \$2 and \$(558)		3	(1,085)
Total other comprehensive income (loss)	(752)	(1,114)	602
Comprehensive income	\$ 12,349	\$ 10,896	\$ 10,957

See Notes to Consolidated Financial Statements.

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ABC BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in Thousands)

	Common Stock		Capital Surplus	Retained Earnings
	Shares	Par Value		
Balance, December 31, 2001	10,790,369	\$ 10,790	\$ 45,616	\$ 53,584
Net income				10,355
Cash dividends declared, \$.40 per share				(4,729)
Issuance of restricted shares of common stock under employee incentive plan	15,300	16	215	
Amortization of unearned compensation, net of forfeitures				
Proceeds from exercise of stock options	18,588	18	115	
Repurchase of shares for treasury				
Other comprehensive income				
Balance, December 31, 2002	10,824,257	10,824	45,946	59,210
Net income				12,010
Cash dividends declared, \$.43 per share				(5,075)
Issuance of restricted shares of common stock under employee incentive plan	24,800	25	386	
Amortization of unearned compensation, net of forfeitures				
Proceeds from exercise of stock options	865	1	8	
Reduction in income taxes payable resulting from vesting of restricted shares			106	
Repurchase of shares for treasury				
Other comprehensive loss				
Balance, December 31, 2003	10,849,922	10,850	46,446	66,145
Net income				13,101
Cash dividends declared, \$.47 per share				(5,478)
Issuance of restricted shares of common stock under employee incentive plan	14,900	15	279	
Amortization of unearned compensation, net of forfeitures				
Proceeds from exercise of stock options	27,326	27	293	
Reduction in income taxes payable resulting from vesting of restricted shares			234	
Repurchase of shares for treasury				
Six-for-five common stock split	2,178,430	2,179	(2,179)	
Other comprehensive loss				
Balance, December 31, 2004	13,070,578	\$ 13,071	\$ 45,073	\$ 73,768

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ABC BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in Thousands)

	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Treasury Stock		Total
			Shares	Cost	
Balance, December 31, 2001	\$ 1,034	\$ (656)	790,982	\$ (6,220)	\$ 104,148
Net income					10,355
Cash dividends declared, \$.40 per share					(4,729)
Issuance of restricted shares of common stock under employee incentive plan		(231)			
Amortization of unearned compensation, net of forfeitures		444			444
Proceeds from exercise of stock options					133
Repurchase of shares for treasury			262,339	(3,469)	(3,469)
Other comprehensive income	602				602
Balance, December 31, 2002	1,636	(443)	1,053,321	(9,689)	107,484
Net income					12,010
Cash dividends declared, \$.43 per share					(5,075)
Issuance of restricted shares of common stock under employee incentive plan		(411)			
Amortization of unearned compensation, net of forfeitures		363			363
Proceeds from exercise of stock options					9
Reduction in income taxes payable resulting from vesting of restricted shares					106
Repurchase of shares for treasury			12,747	(170)	(170)
Other comprehensive loss	(1,114)				(1,114)
Balance, December 31, 2003	522	(491)	1,066,068	(9,859)	113,613
Net income					13,101
Cash dividends declared, \$.47 per share					(5,478)
Issuance of restricted shares of common stock under employee incentive plan		(294)			
Amortization of unearned compensation, net of forfeitures		262			262
Proceeds from exercise of stock options					320
Reduction in income taxes payable resulting from vesting of restricted shares					234
Repurchase of shares for treasury			20,957	(361)	(361)
Six-for-five common stock split			217,405		
Other comprehensive loss	(752)				(752)

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Balance, December 31, 2004	<u>\$</u>	<u>(230)</u>	<u>\$</u>	<u>(523)</u>	<u>1,304,430</u>	<u>\$</u>	<u>(10,220)</u>	<u>\$</u>	<u>120,939</u>
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ABC BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Dollars in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
OPERATING ACTIVITIES			
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,880	1,858	2,241
Amortization of intangible assets	789	1,032	1,765
Amortization of unearned compensation	262	363	444
Net (gains) losses on sale of securities available for sale		5	(1,643)
Net (gains) losses on sale or disposal of premises and equipment	(50)	3	320
Provision for loan losses	1,786	3,945	5,574
Provision for deferred taxes	243	(157)	(65)
Decrease in interest receivable	438	944	1,120
Increase (decrease) in interest payable	81	(667)	(1,216)
Increase (decrease) in taxes payable	(284)	(284)	588
Net other operating activities	2,419	(533)	2,964
Total adjustments	7,564	6,509	12,092
Net cash provided by operating activities	20,665	18,519	22,447
INVESTING ACTIVITIES			
(Increase) decrease in interest-bearing deposits in banks	(21,705)	42,353	28,193
Purchases of securities available for sale	(67,681)	(129,998)	(140,148)
Proceeds from maturities of securities available for sale	68,130	89,533	78,632
Proceeds from sale of securities available for sale		26,479	37,903
(Increase) decrease in restricted equity securities, net	(1,957)	84	(1,077)
(Increase) decrease in federal funds sold	(10,430)		44
Increase in loans, net	(17,302)	(10,942)	(34,021)
Purchase of premises and equipment	(2,816)	(2,071)	(1,726)
Proceeds from sale of premises and equipment	583		
Net cash paid for acquisition	(9,416)		
Net cash provided by (used in) investing activities	(62,594)	15,438	(32,200)
FINANCING ACTIVITIES			
Increase (decrease) in deposits	31,056	(9,523)	(14,971)
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(681)	7	4,412
Proceeds from other borrowings	32,000	15,000	25,100

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Repayment of other borrowings	(19,679)	(34,745)	(2,908)
Dividends paid	(5,475)	(4,885)	(4,749)
Proceeds from exercise of stock options	320	9	133
Reduction in income taxes payable resulting from vesting of restricted shares	234	106	
Purchase of treasury shares	(361)	(170)	(3,469)
	<u>37,414</u>	<u>(34,201)</u>	<u>3,548</u>
Net cash provided by (used in) financing activities			
Net decrease in cash and due from banks	(4,515)	(244)	(6,205)
Cash and due from banks at beginning of year	44,854	45,098	51,303
	<u>\$ 40,339</u>	<u>\$ 44,854</u>	<u>\$ 45,098</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	\$ 19,184	\$ 22,706	\$ 29,331
Income taxes	\$ 6,662	\$ 6,395	\$ 4,554
NONCASH TRANSACTION			
Principal balances of loans transferred to other real estate owned	\$ 2,239	\$ 2,096	\$ 3,930

See Notes to Consolidated Financial Statements.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Nature of Business

ABC Bancorp (the Company) is a multi-bank holding company whose business is presently conducted by its subsidiary banks (the Banks). Through the Banks, the Company operates a full service banking business and offers a broad range of retail and commercial banking services to its customers located in a market area which includes South and Southeast Georgia, North Florida and Southeast Alabama. The Company and the Banks are subject to the regulations of certain federal and state agencies and are periodically examined by those regulatory agencies.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, contingent assets and liabilities, impairment of intangible assets, goodwill and deferred tax assets. The determination of the adequacy of the allowance for loan losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral. Management also tests intangible assets and goodwill for impairment on an annual basis.

Cash, Due from Banks and Cash Flows

For purposes of reporting cash flows, cash and due from banks includes cash on hand, cash items in process of collection and amounts due from banks. Cash flows from loans, federal funds sold, deposits, interest-bearing deposits in banks, federal funds purchased and securities sold under

agreements to repurchase are reported net.

The Banks are required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. The total of those reserve balances was approximately \$9,602,000 and \$7,845,000 at December 31, 2004 and 2003, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Management has not classified any of its debt securities as held to maturity. Securities, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income, net of the related deferred tax effect. Equity securities, including restricted equity securities, without a readily determinable fair value are classified as available for sale and recorded at cost.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are reported at their outstanding principal balances less unearned income, net deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield over the life of the loan using a method which approximates a level yield.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is subsequently recognized only to the extent cash payments are received until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely. Subsequent recoveries are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan

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portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Banks' allowance for loan losses and may require the Banks to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives:

	<u>Years</u>
Buildings	39
Furniture and equipment	3-7

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Company performed its annual

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test of impairment in the fourth quarter and determined that there was no impairment in the carrying value of goodwill assigned to any of its subsidiary banks as of October 1, 2004.

Intangible assets consist of core deposit premiums acquired in connection with the business combinations. The core deposit premium is initially recognized based on a valuation performed as of the consummation date. The core deposit premium is amortized over the average remaining life of the acquired customer deposits, or five to eight years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Included in the consolidated statements of income for December 31, 2004, 2003 and 2002 were charges for amortization of identifiable intangible assets in the amounts of \$789,000, \$1,023,000 and \$1,765,000, respectively.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are expensed. The carrying amount of foreclosed assets at December 31, 2004 and 2003 was \$476,140 and \$1,505,118, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans whereby compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. The Company has elected to continue with the accounting methodology of Opinion No. 25. No stock-based employee compensation cost is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123 to stock-based employee compensation.

Years Ended December 31,

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in Thousands)		
Net income, as reported	\$ 13,101	\$ 12,010	\$ 10,355
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(59)	(70)	(54)
Pro forma net income	\$ 13,042	\$ 11,940	\$ 10,301
Earnings per share:			
Basic as reported	\$ 1.12	\$ 1.03	\$ 0.87
Basic pro forma	\$ 1.11	\$ 1.02	\$ 0.86
Diluted as reported	\$ 1.11	\$ 1.02	\$ 0.87
Diluted pro forma	\$ 1.10	\$ 1.01	\$ 0.86

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Treasury Stock

The Company's repurchases of shares of its common stock are recorded at cost as Treasury Stock and result in a reduction of Stockholders Equity. When treasury shares are reissued, the Company uses a first-in, first-out method and any difference in repurchase cost and reissuance price is recorded as an increase or reduction in Capital Surplus.

Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income, by the effect of the issuance of potential common shares that are dilutive, by the sum of the weighted-average number of shares of common stock outstanding and dilutive potential common shares. Potential common shares consist of only stock options for the years ended December 31, 2004, 2003 and 2002, and are determined using the treasury stock method.

Presented below is a summary of the components used to calculate basic and diluted earnings per share:

	Years Ended December 31,		
	2004	2003	2002
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Weighted average number of common shares outstanding	11,736	11,727	11,830
Effect of dilutive options	125	80	60
Weighted average number of common shares outstanding used to calculate dilutive earnings per share	11,861	11,807	11,890

At December 31, 2003 and 2002, potential common shares of 75,092 and 107,933, respectively, were not included in the calculation of diluted earnings per share because the exercise of such shares would be anti-dilutive. There were no anti-dilutive potential common shares at December 31, 2004.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Recent Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 and, on December 24, 2003, the FASB issued FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities which replaced FIN 46. The interpretation addresses consolidation by business enterprises of variable interest entities. A variable interest entity is defined as an entity subject to consolidation according to the provisions of the interpretation. The revised interpretation provided for special effective dates for entities that had fully or partially applied the original interpretation as of December 24, 2003. Otherwise, application of the interpretation is required in financial statements of public entities that have interests in special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

variable interest entities (i.e., non-SPEs) is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to variable interest entities other than SPEs and by nonpublic entities to all types of variable interest entities is required at various dates in 2004 and 2005. The Company has determined that the provisions of FIN 46 require deconsolidation of the subsidiary trust which issued subordinated debentures. The Company has adopted the provisions under the revised interpretation and has restated each of the years presented in the Company's consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, *Share-Based Payment*, a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. This Statement supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This Statement establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions such as the issuance of stock options in exchange for employee services. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). This Statement is effective for public entities that do not file as small business issuers - as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. This Statement applies to all awards granted or vesting after the required effective date and to awards modified, repurchased, or cancelled after that date.

Reclassification of Certain Items

Certain items in the consolidated financial statements as of and for the years ended December 31, 2003 and 2002 have been reclassified, with no effect on net income, to be consistent with the classifications adopted for the year ended December 31, 2004.

Note 2 Business Combination

On November 30, 2004, ABC acquired all the issued and outstanding common shares of Citizens Bancshares, Inc., the parent company of Citizens Bank Wakulla, in Crawfordville, Florida. The acquisition was accounted for using the purchase method of accounting and accordingly, the results from Citizens Bancshares, Inc.'s operations have been included in the consolidated financial statements beginning December 1, 2004.

The aggregate purchase price was \$11,515 thousand, consisting of all cash.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ABC has not completed the purchase price allocation relating to the acquisition. The preliminary purchase price allocation has been determined as shown in the table below.

Citizens Bancshares, Inc.	As of
(In Thousands)	November 30,
	2004
Cash and due from banks	\$ 2,099
Investments	25,083
Federal funds sold	1,855
Loans, net	22,728
Premises and equipment	1,720
Intangible asset	1,209
Goodwill	5,094
Other assets	1,255
Total assets acquired	61,043
Deposits	48,644
Other borrowings	500
Other liabilities	384
Total liabilities assumed	49,528
Net assets acquired	\$ 11,515

Of the \$6,303 thousand of acquired intangible assets, \$5,094 thousand has been temporarily allocated to goodwill. The goodwill will not be deductible for tax purposes. The remaining \$1,209 has been allocated to core deposit premiums which will be amortized over a period of 10 years. Amortization of the core deposit premiums will not be deductible for tax purposes. ABC is in the process of obtaining third-party valuations of the core deposit intangibles and other assets; thus, the allocation of the purchase price is subject to refinement.

Proforma information relating to the impact of the acquisition on ABC's consolidated financial statements, assuming such acquisition had occurred at the beginning of the periods reported, is not presented as such impact is not significant.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Securities

The amortized cost and fair value of securities available for sale with gross unrealized gains and losses are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)				
December 31, 2004:				
U. S. Government and federal agencies	\$ 78,143	\$ 235	\$ (151)	\$ 78,227
State and municipal securities	4,113	99		4,212
Corporate debt securities	18,032	112	(13)	18,131
Mortgage-backed securities	113,221	173	(754)	112,640
Total debt securities	213,509	619	(918)	213,210
Equity securities	788		(50)	738
Total securities	\$ 214,297	\$ 619	\$ (968)	\$ 213,948
December 31, 2003:				
U. S. Government and federal agencies	\$ 78,826	\$ 727	\$ (8)	\$ 79,545
State and municipal securities	3,584	149		3,733
Corporate debt securities	23,057	418	(7)	23,468
Mortgage-backed securities	83,550	131	(573)	83,108
Total debt securities	189,017	1,425	(588)	189,854
Equity securities	788		(47)	741
Total securities	\$ 189,805	\$ 1,425	\$ (635)	\$ 190,595

The amortized cost and fair value of debt securities available for sale as of December 31, 2004 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following maturity summary.

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	Amortized	Fair
	Cost	Value
	<u> </u>	<u> </u>
	(Dollars in Thousands)	
Due in one year or less	\$ 18,685	\$ 18,758
Due from one year to five years	64,162	64,257
Due from five to ten years	13,199	13,232
Due after ten years	4,242	4,323
Mortgage-backed securities	113,221	112,640
	<u> </u>	<u> </u>
	<u>\$ 213,509</u>	<u>\$ 213,210</u>

Securities with a carrying value of \$144,573,626 and \$125,547,653 at December 31, 2004 and 2003, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gains and losses on sales of securities available for sale consist of the following:

	December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Gross gains on sales of securities	\$	\$ 87	\$ 1,643
Gross losses on sales of securities		(92)	
Net realized gains (losses) on sales of securities available for sale	\$	\$ (5)	\$ 1,643

The following table shows the gross unrealized losses and fair value of securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2004 and 2003.

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in Thousands)					
December 31, 2004:						
U. S. Government and federal agencies	\$ 33,929	\$ 118	\$ 6,178	\$ 33	\$ 40,107	\$ 151
Corporate debt securities			1,001	13	1,001	13
Mortgage-backed securities	44,349	386	39,427	368	83,776	754
Subtotal, debt securities	78,278	504	46,606	414	124,884	918
Equity securities			216	50	216	50
Total temporarily impaired securities	\$ 78,278	\$ 504	\$ 46,822	\$ 464	\$ 125,100	\$ 968
December 31, 2003:						
U. S. Government and federal agencies	\$ 1,912	\$ 8	\$	\$	\$ 1,912	\$ 8
Corporate debt securities	1,012	7			1,012	7
Mortgage-backed securities	59,838	572	982	1	60,820	573

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Subtotal, debt securities	62,762	587	982	1	63,744	588
Equity securities			221	47	221	47
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total temporarily impaired securities	\$ 62,762	\$ 587	\$ 1,203	\$ 48	\$ 63,965	\$ 635
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The majority of debt securities containing unrealized losses at December 31, 2004 represent mortgage-backed securities. Eight (8) debt securities contained unrealized losses greater than two percent (2%) of their costs. None of the debt securities contained an unrealized loss greater than 3.0% of its cost. One equity security representing an investment in a mutual fund reflected an unrealized loss of 19% of its cost. The unrealized loss in this security represented 5.2% of the total unrealized losses in the Company's investment portfolio. The unrealized losses are considered temporary because each security carries an acceptable investment grade and the repayment sources of principal and interest are government backed.

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Loans and Allowance for Loan Losses

The composition of loans is summarized as follows:

	December 31,	
	2004	2003
	(Dollars in Thousands)	
Commercial and financial	\$ 136,229	\$ 157,594
Agricultural	28,198	22,051
Real estate construction	94,043	60,978
Real estate mortgage, farmland	64,245	65,433
Real estate mortgage, commercial	253,001	250,247
Real estate mortgage, residential	235,431	209,172
Consumer installment loans	60,884	68,230
Other	5,043	6,834
	877,074	840,539
Allowance for loan losses	15,493	14,963
	\$ 861,581	\$ 825,576

The following is a summary of information pertaining to impaired loans:

	As of and For the Years Ended December 31,		
	2004	2003	2002
Impaired loans without a valuation allowance	\$	\$	\$
Impaired loans with a valuation allowance	5,640	6,472	7,561
Total impaired loans	\$ 5,640	\$ 6,472	\$ 7,561

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Valuation allowance related to impaired loans	\$ 1,001	\$ 1,105	\$ 1,358
Average investment in impaired loans	\$ 6,229	\$ 8,619	\$ 8,966
Interest income recognized on impaired loans	\$ 2	\$ 27	\$ 26
Forgone interest income on impaired loans	\$ 557	\$ 842	\$ 792

Loans on nonaccrual status amounted to approximately \$5,640,000, \$6,472,000 and \$7,561,000 at December 31, 2004, 2003 and 2002, respectively. There were \$44,000, \$25,000 and \$171,000 of loans past due ninety days or more and still accruing interest at December 31, 2004, 2003 and 2002, respectively.

Changes in the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002 are as follows:

	December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Balance, beginning of year	\$ 14,963	\$ 14,868	\$ 14,944
Provision for loan losses	1,786	3,945	5,574
Loans charged off	(3,576)	(5,226)	(7,159)
Recoveries of loans previously charged off	1,665	1,376	1,509
Acquired loan loss reserve	655		
Balance, end of year	\$ 15,493	\$ 14,963	\$ 14,868

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the ordinary course of business, the Company has granted loans to certain directors, executive officers and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans are summarized as follows:

	December 31,	
	2004	2003
	(Dollars in Thousands)	
Balance, beginning of year	\$ 35,242	\$ 42,807
Advances	63,109	19,467
Repayments	(60,297)	(29,966)
Transactions due to changes in related parties	259	2,934
Balance, end of year	\$ 38,313	\$ 35,242

Note 5 Premises and Equipment

Premises and equipment are summarized as follows:

	December 31,	
	2004	2003
	(Dollars in Thousands)	
Land	\$ 7,168	\$ 6,694
Buildings	24,898	23,030
Furniture and equipment	19,193	17,275
Construction in progress; estimated cost to complete, \$388,000	1,004	1,026
	52,263	48,025
Accumulated depreciation	(24,491)	(22,488)
	\$ 27,772	\$ 25,537

Note 6 Intangible Assets

Following is a summary of information related to acquired intangible assets:

	As of December 31, 2004		As of December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in Thousands)			
Amortized intangible assets Core deposit premiums	\$ 10,105	\$ 6,399	\$ 8,896	\$ 5,610

The aggregate amortization expense for intangible assets was \$789,000, \$1,023,000 and \$1,765,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

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The estimated amortization expense for each of the next five years is as follows:

2005	\$ 817,000
2006	686,000
2007	592,000
2008	403,000
2009	323,000

Changes in the carrying amount of goodwill are as follows:

	For the Year Ended December 31,	
	2004	2003
	(Dollars in Thousands)	
Beginning balance	\$ 19,231	\$ 19,240
Goodwill written off at a subsidiary Bank		(9)
Goodwill acquired through purchase of subsidiary Bank	5,094	
Ending balance	\$ 24,325	\$ 19,231

Note 7 Deposits

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2004 and 2003 was \$180,787,000 and \$149,991,000, respectively. The scheduled maturities of time deposits at December 31, 2004 are as follows:

	(Dollars in Thousands)
2005	\$ 372,787
2006	39,985
2007	13,473

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2008	5,674
2009	4,424
Later years	94
	<hr/>
	\$ 436,437
	<hr/>

At December 31, 2004 and 2003, overdraft demand deposits reclassified to loans totaled \$972,000 and \$1,402,000, respectively.

Note 8 Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements, which are secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis. Securities sold under repurchase agreements at December 31, 2004 and 2003 were \$7,530,000 and \$8,211,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Employee Benefit Plans

The Company has established a retirement plan for eligible employees. The ABC Bancorp 401(k) Profit Sharing Plan allows a participant to defer a portion of his compensation and provides that the Company will match a portion of the deferred compensation. The plan also provides for nonelective and discretionary contributions. All full-time and part-time employees are eligible to participate in the 401(k) Profit Sharing Plan provided they have met the eligibility requirements. Generally, a participant must have completed twelve months of employment with a minimum of 1,000 hours.

In 2002, the Company terminated the ABC Bancorp Money Purchase Pension Plan. All fully funded employee benefits under the plan were transferred to the 401(k) profit sharing plan.

Aggregate expense under the two plans charged to operations during 2004, 2003 and 2002 amounted to \$1,099,000, \$1,149,000 and \$877,000, respectively.

Note 10 Deferred Compensation Plans

The Company and three subsidiary banks have entered into separate deferred compensation arrangements with certain executive officers and directors. The plans call for certain amounts payable at retirement, death or disability. The estimated present value of the deferred compensation is being accrued over the expected service period. The Company and Banks have purchased life insurance policies which they intend to use to finance this liability. Cash surrender value of life insurance of \$2,119,000 and \$1,231,000 at December 31, 2004 and 2003, respectively, is included in other assets. Accrued deferred compensation of \$1,349,000 and \$1,105,000 at December 31, 2004 and 2003, respectively, is included in other liabilities. Aggregate compensation expense under the plans were \$92,000, \$94,000 and \$93,000 for 2004, 2003 and 2002, respectively, and is included in other operating expenses.

Note 11 Other Borrowings

Other borrowings consist of the following:

December 31,

	<u>2004</u>	<u>2003</u>
	(Dollars in Thousands)	
Advances under revolving credit agreement with SunTrust Bank with interest at LIBOR plus 1.15% (3.32% at December 31, 2004) due on June 30, 2005, secured by subsidiary bank stock	\$ 100	\$ 100
Advances from SunTrust Bank with 5 quarterly principal payments at sixty-day LIBOR rate plus .9% (3.57% at December 31, 2004), maturing March 31, 2005	119	1,581
Advances from Federal Home Loan Bank with interest at adjustable rate (3.28% at December 31, 2004), due February 10, 2005	15,000	15,000
Advances from Federal Home Loan Bank with interest at a fixed rate of 6.72%, due in annual installments due November 1, 2006	44	65
Advances from Federal Home Loan Bank with interest at a fixed rate (ranging from 2.96% to 6.12%) convertible to a variable rate at option of Federal Home Loan Bank, due at various dates from December 22, 2006 through June 18, 2014	95,103	80,799
	<u>\$ 110,366</u>	<u>\$ 97,545</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The advances from Federal Home Loan Bank are collateralized by the pledging of a blanket lien on all first mortgage loans and other specific loans, as well as FLHB stock.

Other borrowings at December 31, 2004 have maturities in future years as follows:

	(Dollars in Thousands)
2005	\$ 15,241
2006	522
2007	
2008	2,500
2009	
Later years	92,103
	<u>\$ 110,366</u>

The Company and subsidiaries have available unused lines of credit with various financial institutions totaling approximately \$86,300,000 at December 31, 2004. There were no other advances outstanding at December 31, 2004 or 2003.

Note 12 Income Taxes

The income tax expense in the consolidated statements of income consists of the following:

	Years Ended December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Current	\$ 6,378	\$ 6,111	\$ 5,142
Deferred	243	(157)	(65)

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<u>\$ 6,621</u>	<u>\$ 5,954</u>	<u>\$ 5,077</u>
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The Company's income tax expense differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	<u>Years Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in Thousands)		
Tax at federal income tax rate	\$ 6,705	\$ 6,108	\$ 5,247
Increase (decrease) resulting from:			
Tax-exempt interest	(209)	(201)	(224)
Amortization of intangible assets	79	13	33
Other	46	34	21
	<u>\$ 6,621</u>	<u>\$ 5,954</u>	<u>\$ 5,077</u>
Provision for income taxes	<u>\$ 6,621</u>	<u>\$ 5,954</u>	<u>\$ 5,077</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net deferred income tax assets of \$4,657,000 and \$4,363,000 at December 31, 2004 and 2003, respectively, are included in other assets. The components of deferred income taxes are as follows:

	December 31,	
	2004	2003
	(Dollars in Thousands)	
Deferred tax assets:		
Loan loss reserves	\$ 5,217	\$ 5,022
Deferred compensation	459	376
Unearned compensation related to restricted stock	147	287
Nonaccrual interest	131	134
Net operating loss tax carryforward	67	91
Unrealized loss on securities available for sale	119	
Other	302	232
	<u>6,442</u>	<u>6,142</u>
Deferred tax liabilities:		
Depreciation and amortization	860	419
Unrealized gain on securities available for sale		269
Intangible assets	925	1,091
	<u>1,785</u>	<u>1,779</u>
Net deferred tax assets	<u>\$ 4,657</u>	<u>\$ 4,363</u>

Note 13 Subordinated Deferrable Interest Debentures

In 2001, the Company formed a wholly-owned grantor trust to issue cumulative trust preferred securities to the public. The grantor trust invested the proceeds of the trust preferred securities in junior subordinated debentures of the Company. The trust preferred securities can be redeemed prior to maturity at the option of the Company on or after September 30, 2006. The sole assets of the guarantor trust are the Junior Subordinated Deferrable Interest Debentures of the Company (the Debentures) held by the grantor trust. The Debentures have the same interest rate (9%) as the trust preferred securities. The Company has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

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The trust preferred securities are subject to mandatory redemption upon repayment of the related Debentures at their stated maturity date or their earlier redemption at a redemption price equal to their stated maturity date or their earlier redemption at a redemption price equal to their liquidation amount plus accrued distributions to the date fixed for the redemption upon concurrent repayment of the related Debentures. The trust preferred securities may be redeemed in whole or part at any time on or after September 30, 2006.

Payment of periodic cash distributions and payment upon liquidation or redemption with respect to the trust preferred securities are guaranteed by the Company to the extent of funds held by the grantor trust (the Preferred Securities Guarantee). The Preferred Securities Guarantee, when taken together with the Company's other obligations under the Debentures, constitute a full and unconditional guarantee, on a subordinated basis, by the Company of payments due on the trust preferred securities.

The Company is required by the Federal Reserve Board to maintain certain levels of capital for bank regulatory purposes. The Federal Reserve Board has determined that certain cumulative preferred securities

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

having the characteristics of trust preferred securities qualify as minority interest, which is included in Tier 1 capital for bank and financial holding companies. In calculating the amount of Tier 1 qualifying capital, the trust preferred securities can only be included up to the amount constituting 25% of total Tier 1 capital elements (including trust preferred securities). Such Tier 1 capital treatment provides the Company with a more cost-effective means of obtaining capital for bank regulatory purposes than if the Company were to issue preferred stock.

The trust preferred securities and the related Debentures were issued on November 8, 2001. Both financial instruments bear an identical annual rate of interest of 9%. Distributions on the trust preferred securities are paid quarterly on March 31, June 30, September 30 and December 31 of each year. Interest on the Debentures is paid on the corresponding dates. The aggregate principal amount of trust preferred certificates outstanding at December 31, 2004 was \$34,500,000. The aggregate principal amount of Debentures outstanding at those dates was \$35,567,000.

Note 14 Stock Option Plans

The Company has two fixed stock option plans under which it has granted options to its former Chief Executive Officer to purchase common stock at the fair market price on the date of grant. All of the options are intended to be incentive stock options qualifying under Section 422 of the Internal Revenue Code for favorable tax treatment. Under the 1992 Plan, options to purchase 12,000 shares were granted. All of these options were exercised during 2002. Under the 1997 Plan, options to purchase 81,000 shares were granted. Options under the 1997 Plan are fully vested and are exercisable over a period of ten years subject to certain limitations as to aggregate fair market value (determined as of the date of the grant) of all options exercisable for the first time by the optionee during any calendar year (the \$100,000 Per-Year Limitation). Under the 1997 Plan, options to purchase 81,000 shares were exercisable as of December 31, 2004.

At the annual meeting on April 15, 1997, the shareholders approved the ABC Bancorp Omnibus Stock Ownership and Long-Term Incentive Plan (the Omnibus Plan). Awards granted under the Omnibus Plan may be in the form of Qualified or Nonqualified Stock Options, Restricted Stock, Stock Appreciation Rights (SARS), Long-Term Incentive Compensation Units consisting of a combination of cash and Common Stock, or any combination thereof within the limitations set forth in the Omnibus Plan. The Omnibus Plan provides that the aggregate number of shares of the Company's Common Stock which may be subject to award may not exceed 765,000 subject to adjustment in certain circumstances to prevent dilution. As of December 31, 2004, the Company has issued a total of 271,795 restricted shares under the Omnibus Plan as compensation for certain employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is three years from the date of the grant. Shares issued under this plan were recorded at their fair market value on the date of their grant with a corresponding charge to equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was \$262,000, \$363,000 and \$444,000 for 2004, 2003 and 2002, respectively. In addition to the granting of restricted shares, options to purchase 309,042 shares of the Company's common stock have been granted under the Omnibus Plan as of December 31, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other pertinent information related to the options is as follows:

	December 31,					
	2004		2003		2002	
	Weighted -		Weighted -		Weighted -	
	Average		Average		Average	
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Under option, beginning of the year	412,247	\$ 10.38	376,786	\$ 9.96	343,132	\$ 9.12
Granted	36,000	15.67	48,300	13.75	98,340	12.02
Exercised	(32,791)	9.75	(1,038)	8.25	(22,307)	5.97
Forfeited	(25,414)	11.02	(11,801)	10.97	(42,379)	10.05
Under option, end of year	390,042	10.87	412,247	10.38	376,786	9.96
Exercisable at end of year	252,366	\$ 9.92	219,308	\$ 9.79	156,422	\$ 9.72
Weighted-average fair value per option of options granted during year		\$ 3.28		\$ 2.61		\$ 2.47

Information pertaining to options outstanding at December 31, 2004 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted -	Weighted -	Number Outstanding	Weighted -	
		Average Contractual Life in Years	Average Exercise Price		Average Exercise Price	
\$ 9.44	81,000	2.3	9.44	81,000	9.44	
13.28	24,078	3.0	13.28	24,078	13.28	

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11.81	7,200	3.3	11.81	7,200	11.81
8.25	23,040	4.1	8.25	23,040	8.25
8.42	7,200	4.3	8.42	7,200	8.42
9.02	2,304	4.9	9.02	2,304	9.02
8.65	51,600	5.1	8.65	41,280	8.65
8.28	3,600	5.5	8.28	2,880	8.28
8.75	37,980	6.1	8.75	22,788	8.75
9.33	12,000	6.5	9.33	7,200	9.33
11.04	9,600	7.2	11.04	3,840	11.04
12.12	51,540	7.7	12.12	20,616	12.12
13.75	44,700	8.3	13.75	8,940	13.75
15.16	3,000	9.3	15.16		
15.72	31,200	9.4	15.72		
	<u>390,042</u>	5.56	10.87	<u>252,366</u>	9.92

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

	Years Ended December 31,		
	2004	2003	2002
Dividend yield	3.40%	3.60%	3.60%
Expected life	7 years	7 years	7 years
Expected volatility	22.57%	22.30%	22.80%
Risk-free interest rate	4.52%	4.03%	4.60%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15 Commitments and Contingent Liabilities

Loan Commitments

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

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

	December 31,	
	2004	2003
	(Dollars in Thousands)	
Commitments to extend credit	\$ 114,942	\$ 104,573
Financial standby letters of credit	3,172	2,536
	\$ 118,114	\$ 107,109

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral is required in instances which the Company deems necessary.

At December 31, 2004 and 2003, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant. The Company has not been required to perform on any financial standby letters of credit and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2004 and 2003.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

Note 16 Concentrations of Credit

The Banks make commercial, residential, construction, agricultural, agribusiness and consumer loans to customers primarily in counties in South and Southeast Georgia, North Florida and Southeast Alabama. A substantial portion of the Company's customers' abilities to honor their contracts is dependent on the business economy in the geographical area served by the Banks.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A substantial portion of the Company's loans are secured by real estate in the Company's primary market area. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in real estate conditions in the Company's primary market area.

Although the Company's loan portfolio is diversified, there is a relationship in this region between the agricultural economy and the economic performance of loans made to nonagricultural customers. The Company's lending policies for agricultural and nonagricultural customers require loans to be well-collateralized and supported by cash flows. Collateral for agricultural loans include equipment, crops, livestock and land. Credit losses from loans related to the agricultural economy is taken into consideration by management in determining the allowance for loan losses.

The Company has a concentration of funds on deposit at its two primary correspondent banks at December 31, 2004 as follows:

Noninterest-bearing accounts	\$ 23,237,000
Interest-bearing accounts	\$ 55,897,000

Note 17 Regulatory Matters

The Banks are subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2004, approximately \$7,566,000 of retained earnings were available for dividend declaration without regulatory approval.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital, as defined by the regulations, to risk-weighted assets, as defined, and of Tier I capital to average assets, as defined. Management believes, as of December 31, 2004 and 2003, the Company and the Banks met all capital adequacy requirements to which

they are subject.

As of December 31, 2004, the most recent notification from the regulatory authorities categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Banks' category. Prompt corrective action provisions are not applicable to bank holding companies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company and Banks' actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2004						
Total Capital to Risk Weighted Assets						
Consolidated	\$ 138,603	14.95%	\$ 74,148	8.00%	N/A	
American Banking Company	\$ 16,709	12.11%	\$ 11,041	8.00%	\$ 13,802	10.00%
Heritage Community Bank	\$ 8,801	11.99%	\$ 5,871	8.00%	\$ 7,339	10.00%
Bank of Thomas County	\$ 4,779	15.44%	\$ 2,476	8.00%	\$ 3,095	10.00%
Citizens Security Bank	\$ 15,930	12.27%	\$ 10,386	8.00%	\$ 12,983	10.00%
Cairo Banking Company	\$ 7,255	14.21%	\$ 4,084	8.00%	\$ 5,105	10.00%
Southland Bank	\$ 19,598	12.83%	\$ 12,218	8.00%	\$ 15,273	10.00%
Central Bank and Trust	\$ 5,657	14.45%	\$ 3,132	8.00%	\$ 3,915	10.00%
First National Bank of South Georgia	\$ 7,271	10.55%	\$ 5,511	8.00%	\$ 6,889	10.00%
Merchants and Farmers Bank	\$ 8,573	14.98%	\$ 4,579	8.00%	\$ 5,724	10.00%
Tri-County Bank	\$ 7,426	17.92%	\$ 3,314	8.00%	\$ 4,143	10.00%
First Bank of Brunswick	\$ 16,589	14.13%	\$ 9,392	8.00%	\$ 11,740	10.00%
Citizens Bank of Wakulla	\$ 4,483	13.92%	\$ 2,577	8.00%	\$ 3,221	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	\$ 123,293	13.30%	\$ 37,074	4.00%	N/A	
American Banking Company	\$ 14,979	10.85%	\$ 5,521	4.00%	\$ 8,281	6.00%
Heritage Community Bank	\$ 7,883	10.74%	\$ 2,935	4.00%	\$ 4,403	6.00%
Bank of Thomas County	\$ 4,386	14.17%	\$ 1,238	4.00%	\$ 1,857	6.00%
Citizens Security Bank	\$ 14,301	11.02%	\$ 5,193	4.00%	\$ 7,790	6.00%
Cairo Banking Company	\$ 6,613	12.95%	\$ 2,042	4.00%	\$ 3,063	6.00%
Southland Bank	\$ 17,677	11.57%	\$ 6,109	4.00%	\$ 9,164	6.00%
Central Bank and Trust	\$ 5,163	13.19%	\$ 1,566	4.00%	\$ 2,349	6.00%
First National Bank of South Georgia	\$ 6,407	9.30%	\$ 2,756	4.00%	\$ 4,134	6.00%
Merchants and Farmers Bank	\$ 7,857	13.73%	\$ 2,289	4.00%	\$ 3,434	6.00%
Tri-County Bank	\$ 6,907	16.67%	\$ 1,657	4.00%	\$ 2,486	6.00%
First Bank of Brunswick	\$ 15,120	12.88%	\$ 4,696	4.00%	\$ 7,044	6.00%
Citizens Bank of Wakulla	\$ 4,076	12.66%	\$ 1,288	4.00%	\$ 1,933	6.00%
Tier I Capital to Average Assets:						
Consolidated	\$ 123,293	10.43%	\$ 47,284	4.00%	N/A	
American Banking Company	\$ 14,979	8.46%	\$ 7,082	4.00%	\$ 8,853	5.00%
Heritage Community Bank	\$ 7,883	8.25%	\$ 3,822	4.00%	\$ 4,778	5.00%
Bank of Thomas County	\$ 4,386	10.88%	\$ 1,613	4.00%	\$ 2,016	5.00%

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Citizens Security Bank	\$ 14,301	8.61%	\$ 6,644	4.00%	\$ 8,305	5.00%
Cairo Banking Company	\$ 6,613	7.86%	\$ 3,365	4.00%	\$ 4,207	5.00%
Southland Bank	\$ 17,677	7.42%	\$ 9,529	4.00%	\$ 11,912	5.00%
Central Bank and Trust	\$ 5,163	9.07%	\$ 2,277	4.00%	\$ 2,846	5.00%
First National Bank of South Georgia	\$ 6,407	7.69%	\$ 3,333	4.00%	\$ 4,166	5.00%
Merchants and Farmers Bank	\$ 7,857	8.76%	\$ 3,588	4.00%	\$ 4,485	5.00%
Tri-County Bank	\$ 6,907	10.43%	\$ 2,649	4.00%	\$ 3,311	5.00%
First Bank of Brunswick	\$ 15,120	11.37%	\$ 5,319	4.00%	\$ 6,649	5.00%
Citizens Bank of Wakulla	\$ 4,076	8.18%	\$ 1,993	4.00%	\$ 2,491	5.00%

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ABC BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2003						
Total Capital to Risk Weighted Assets						
Consolidated	\$ 136,022	15.60%	\$ 69,748	8.00%	N/A	
American Banking Company	\$ 16,812	13.06%	\$ 10,295	8.00%	\$ 12,869	10.00%
Heritage Community Bank	\$ 7,865	11.11%	\$ 5,663	8.00%	\$ 7,078	10.00%
Bank of Thomas County	\$ 4,521	13.22%	\$ 2,737	8.00%	\$ 3,421	10.00%
Citizens Security Bank	\$ 15,697	12.02%	\$ 10,445	8.00%	\$ 13,056	10.00%
Cairo Banking Company	\$ 6,885	13.50%	\$ 4,080	8.00%	\$ 5,100	10.00%
Southland Bank	\$ 18,285	12.58%	\$ 11,627	8.00%	\$ 14,534	10.00%
Central Bank and Trust	\$ 5,012	11.33%	\$ 3,538	8.00%	\$ 4,423	10.00%
First National Bank of South Georgia	\$ 7,077	11.08%	\$ 5,111	8.00%	\$ 6,389	10.00%
Merchants and Farmers Bank	\$ 8,402	14.00%	\$ 4,802	8.00%	\$ 6,002	10.00%
Tri-County Bank	\$ 7,093	16.93%	\$ 3,351	8.00%	\$ 4,189	10.00%
First Bank of Brunswick	\$ 15,963	13.36%	\$ 9,560	8.00%	\$ 11,950	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	\$ 120,765	13.85%	\$ 34,874	4.00%	N/A	
American Banking Company	\$ 15,200	11.81%	\$ 5,148	4.00%	\$ 7,722	6.00%
Heritage Community Bank	\$ 6,979	9.86%	\$ 2,831	4.00%	\$ 4,247	6.00%
Bank of Thomas County	\$ 4,085	11.94%	\$ 1,368	4.00%	\$ 2,052	6.00%
Citizens Security Bank	\$ 14,059	10.77%	\$ 5,222	4.00%	\$ 7,833	6.00%
Cairo Banking Company	\$ 6,244	12.24%	\$ 2,040	4.00%	\$ 3,060	6.00%
Southland Bank	\$ 16,460	11.33%	\$ 5,814	4.00%	\$ 8,720	6.00%
Central Bank and Trust	\$ 4,456	10.08%	\$ 1,769	4.00%	\$ 2,654	6.00%
First National Bank of South Georgia	\$ 6,275	9.82%	\$ 2,556	4.00%	\$ 3,834	6.00%
Merchants and Farmers Bank	\$ 7,648	12.74%	\$ 2,401	4.00%	\$ 3,601	6.00%
Tri-County Bank	\$ 6,568	15.68%	\$ 1,675	4.00%	\$ 2,513	6.00%
First Bank of Brunswick	\$ 14,464	12.10%	\$ 4,780	4.00%	\$ 7,170	6.00%
Tier I Capital to Average Assets:						
Consolidated	\$ 120,765	10.77%	\$ 44,852	4.00%	N/A	
American Banking Company	\$ 15,200	8.47%	\$ 7,178	4.00%	\$ 8,973	5.00%
Heritage Community Bank	\$ 6,979	8.04%	\$ 3,472	4.00%		