PUBLIC DISCLOSURE

September 8, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Bank of Heath Springs
Certificate Number: 17459

202 North Main Street
Heath Springs, South Carolina 29058

Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
10 Tenth Street, NE, Suite 800
Atlanta, Georgia 30309

NOTE: **This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Bank of Heath Springs** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 8, 2003**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating is supported by the following.

- **Loan to Deposit Ratio –** The bank's average net loan-to-deposit ratio is considered reasonable relative to its asset size, financial condition, local competition, assessment area credit needs, and loan demand.

- **Lending in Assessment Area –** The bank has achieved a satisfactory record of lending within its assessment area. This conclusion is based on the review of residential real estate loans and a sample of business loans originated during 2001, 2002, and year-to-date (YTD) August 31, 2003.

- **Lending to Borrowers of Different Incomes and Businesses of Different Sizes –** Based on analysis of residential real estate loans, the bank has achieved a reasonable penetration among low- and moderate-income level borrowers. Based on an analysis of sample of business loans, the bank's loan penetration among small business entities is considered good.

- **Geographic Distribution of Loans –** Due to the uniformity of the assessment area and the lack of any low- and moderate-income geographies, an analysis based on geographic distribution was not conducted during the evaluation.

- **Response to Complaints –** The bank has not received any CRA-related complaints since the previous evaluation on October 28, 1998.

DESCRIPTION OF INSTITUTION

The Bank of Heath Springs, Heath Springs, South Carolina, is a commercial bank with $17,670,000 in total assets and $5,181,000 in gross loans as of September 8, 2003. The bank supports the development of economic revitalization and growth within its assessment area consistent with its size, financial capacity, and local economic conditions.

The Bank of Heath Springs operates from a single full-service office located in Heath Springs, South Carolina. The bank owns no automatic teller machines. Currently, the institution has no affiliation with a holding company. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

The institution offers a wide range of deposit and loan products to help meet the credit needs of consumers as well as businesses. The bank is reasonably assessable to all segments of its assessment area, with accommodating hours and banking services provided. The bank's major competitors within the assessment area are First-Citizens Bank and Trust Company of South Carolina, Wachovia Bank, National Association, First Palmetto Savings Bank, Branch Banking and Trust Company of South Carolina. Additionally, there are several small finance companies in the area that represent additional sources of competition. A review of the bank's portfolio reflects management's efforts to meet the credit needs of its community, as evidenced by the numerous conventional credits extended for housing, consumer, and business purposes.

Table 1 provides a breakdown of the bank's loan portfolio by loan type according to the June 30, 2003, Consolidated Report of Condition and Income (Call Report). Aside from nominal growth in each category, the bank's portfolio composition has changed little since the previous CRA evaluation dated October 28, 1998. At that evaluation, the bank received a Satisfactory rating, also.

DESCRIPTION OF INSTITUTION (continued)

Table 1 - Loan Distribution as of June 30, 2003

Loan Type	Dollar Amount (000s)	Percent of Total Loans
Construction and Land Development	$0	0%
Secured by Farmland	$257	4.9%
Revolving open-end Residential 1-4	0	0%
First Lien Residential 1-4	$1,292	24.7%
Junior Lien Residential 1-4	$24	0.4%
Multi-Family (5 or more) Residential	$280	5.4%
Nonfarm/Nonresidential	$819	15.7%
Total Real Estate Loans	$2,672	51.1%
Commercial and Industrial	$1,603	30.6%
Agricultural	$234	4.5%
Consumer	$718	13.7%
Credit Cards	0	0%
Other Revolving Credit Plans	0	0%
Obligations of states and political subdivisions in the U.S.	0	0%
Other Loans	$5	0.01%
Lease Financing Receivables	0	0%
Less: Unearned Income	0	0%
Total Loans	**$5,232**	**100.0%**

Source: Consolidated Report of Condition and Income – June 30, 2003

DESCRIPTION OF ASSESSMENT AREA

The Bank of Heath Springs' assessment area consists of a significant portion of rural Lancaster County, South Carolina. The bank's assessment area is comprised of census tracts (CTs) 102, 103, 105, 106, 110.1, and 110.2, which are all middle income tracts. Set forth below is a brief demographic narrative relative to Lancaster County, South Carolina.

Lancaster County, South Carolina

Lancaster County lies on the northern border of South Carolina, adjacent to the Charlotte-Gastonia-Rock Hill metropolitan area. The bank's sole office is located approximately in the geographic center of the assessment area. Labor market conditions in the county have deteriorated significantly over the past several months as the recent recession and 630 layoffs associated with the closure of a Springs Industries plant have adversely affected local economic conditions. In June 2003, the county's non-seasonally adjusted unemployment rate was 13.2 percent, nearly twice the state average and over 600 basic points above year ago levels in the county. Jobless rates in the county are approaching previous highs reached in 1993 through 1994.

Manufacturing is by far the largest source of employment in the county. The largest employers within this sector include the Gillette Company and textile manufacturer U.S. Textile Corporation. The now closed Spring Industries facility was the county's third largest employer. Retail trade is the second largest industry with 20.9 percent of total employment. Services ranks third in total employment with 19.7 percent of total employment. According to Dun & Bradstreet, healthcare is a major provider of jobs in this sector with Lancaster Hospital employing over 600 workers. According to information received from a community contact performed during the evaluation, there is a need for financial institutions to offer programs that assist start up businesses and provide better funding for small and women-owned businesses.

The population of Lancaster County is estimated at 62,131 with a five year growth rate of 3.4 percent, which is less than the national and state five year growth rates of 4.8 percent and 5.1 percent respectively. Residential permit issuance in Lancaster County through July 31, 2003, was down 1.6 percent from the same period one year earlier. In contrast, permitting activity for the state and the adjacent Charlotte area was up during the same period. In 2002, median household income for Lancaster County was $35,630 compared to the state and national median household incomes of $40,787, and 47,065, respectively. The median home value for Lancaster County was $67,511, compared to the state median home value of $94,911. Bankruptcy filings for 2002 were 2.66 per thousand residents and have been on the rise since 1997. The state average for 2002 was 3.80, and the surrounding counties range from 4.89 in Kershaw County to 3.95 in Laurens County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon the review of residential real estate loans and business and commercial loans originated by the bank during calendar years 2001 and 2002, and YTD 2003 (through August 31, 2003). Both of these loan categories are considered primary components of the institution's lending focus and will provide an adequate foundation to support future growth and expansion. Both categories combined, account for 76.8 percent of the current dollar volume of loans outstanding. For the current CRA evaluation, the real estate loan sample consisted of all 15 residential real estate loans made during the evaluation period totaling $1,112,948. The business loan sample consisted of 31 loans totaling $1,301,227 from a universe of 72 loans totaling $3,139,758. Farms loans were not analyzed due to the limited volume of such originations relative to the bank's residential real estate and business lending activity.

Loan-to-Deposit Ratio

The Bank of Heath Springs average loan-to-deposit ratio (LTD) of 38.1 percent was calculated utilizing Call Report data for nineteen quarters dating back to the previous CRA evaluation. The bank's most recent LTD ratio was 43.5 percent as of June 30, 2003. For comparative purposes, The Bank of Heath Springs average LTD was compared to an institution considered comparable with regards to basic operations and product mix. The comparable institution is the Bank of Jefferson headquartered in Chesterfield County. As illustrated in Table 3, The Bank of Heath Springs average LTD ratio is considerably lower than the ratio for the comparable institution. There are a variety of factors that contribute to The Bank of Heath Springs low LTD ratio. However, the factors which are viewed as having the greatest influence include weak loan demand, coupled with competition from the larger institutions which offer lower rates for residential loans. Considering these factors, the bank's LTD ratio is viewed as reasonable.

Table 3 – Loan to Deposit Ratios

Name of Institution	Total Assets (000)	Avg. Loan-to-Deposit Ratio
The Bank of Heath Springs Heath Springs, South Carolina	$17,670	38.1%
Bank of Jefferson Jefferson, South Carolina	$16,508	61.8%

Lending in Assessment Area

The majority of the residential real estate loans and a reasonable amount of the business loans sampled were granted to borrowers residing within the bank's assessment area. With regard to the real estate loans originated during the analysis period, 86.7 percent by number and 88.7 percent by dollar volume were originated within the bank's assessment area. For the business loans sampled during the same time period, 71.0 percent by number and 47.4 percent by dollar volume were originated within the assessment area. Table 4 provides a summary breakdown of the sampled loans that were originated inside as well as outside of the assessment area. The bank's performance relative to this rating factor is considered reasonable and indicates

CONCLUSIONS (continued)

its responsiveness in meeting the credit needs of the individuals, families, and businesses within the assessment area.

Table 4 - Distribution of Loans Inside and Outside of the Assessment Area – 2001, 2002, YTD 2003										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		**Outside**		**Total**	**Inside**		**Outside**		**Total**
	#	**%**	**#**	**%**		**$**	**%**	**$**	**%**	
Real Estate	13	86.7%	2	13.3%	15	$986,635	88.7%	$126,313	11.3%	$1,112,948
Business	22	71.0%	9	29.0%	31	$616,479	47.4%	$684,748	52.6%	$1,301,227
Total	35	76.1%	11	23.9%	46	$1,603,114	66.4%	$811,061	33.6%	$2,414,175

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The HUD estimated statewide, non-MSA median family incomes for years 2001, 2002, and 2003 for the State of South Carolina, $41,700, $43,700, and $46,100 respectively, are utilized during the loan distribution analysis relative to borrower income level for the real estate loans sampled. A breakdown of the various income levels for the three year period is provided in Table 5.

Table 5 – Statewide Non-MSA Median Family Income – South Carolina: Years 2001, 2002, and 2003

Income Level	Percent of Median Family Income	Income Range: 2001 $41,700	Income Range: 2002 $43,700	Income Range: 2003 $46,100
Low	Less than 50%	< $20,850	< $21,850	< $23,050
Moderate	50% to less than 80%	$20,850 < $33,360	$21,850 < $34,960	$23,050 < $36,880
Middle	80% to less than 120%	$33,360 < $50,040	$34,960 < $52,440	$36,880 < $55,320
Upper	120% and over	$50,040 and greater	$52,440 and greater	$55,320 and greater

Table 6 reflects the bank's lending distribution for the residential real estate loans reviewed, according to income level of the borrower for loans originated during the analysis period. Please note that the table includes loans only made within the bank's assessment area. In terms of the actual number of residential real estate loans originated by the bank during this period, the loan penetration among low-income borrowers at 7.7 percent of origination is reasonable, though slightly below assessment area demographics regarding the percentage of families at the low-income level residing within the assessment area. For moderate-income level borrowers, the bank's penetration at 23.1 percent was slightly higher than area demographics regarding the percentage of families within the assessment area at this income level.

Based on dollar volume, the percentage of residential real estate origination for low-income level borrowers at 1.6 percent was again below the demographic data. The percentage for moderate-income borrowers compares favorably to the demographic data. When considering the bank's

CONCLUSIONS (continued)

loan penetration to borrower income level, particularly with regard to low-income level borrowers, it should be recognized that approximately 8.2 percent (according to the 2000 U. S. Census Bureau data) of the families residing within the assessment area are considered below the poverty level with regard to income. Though this is not an excessive percentage, it is nonetheless recognized that individual and/or families at such low income levels often have a difficult time qualifying for bank credit. This, in turn, can translate into limited lending opportunities for the bank and can likewise adversely influence lending penetration according to borrower income level. Considering that factor, loan penetration regarding borrower income is viewed as reasonable.

Table 6 – Real Estate Loans – Lending Distribution by Income Level of Borrower -2001, 2002, and YTD 2003

Income Level of Borrower	Percent of Families In Assessment Area	Number of Loans	Percent	Dollar Amount of Loans	Percent
Low	17.8%	1	7.7%	$15,619	1.6%
Moderate	18.7%	3	23.1%	$185,515	18.8%
Middle	23.8%	3	23.1%	$194,000	19.7%
Upper	39.7%	6	46.1%	$591,501	59.9%
Totals	100.0%	13	100.0%	$986,635	100.0%

Tables 7 and 8 illustrate the bank's distribution of business loans sampled, according to gross annual revenue of the business as well as loan size. The tables include only those loans originated within the assessment area. Based on the loans sampled, the bank has achieved a good penetration to small business entities. For the purposes of the business loan analysis, a small business is defined as a business entity having annual revenues (or sales) in an amount not greater than 1 million dollars.

Based on the sample, 86.4 percent of the business loans originated by the bank were to small business entities. This penetration exceeds to an extent, area geo-demographic data which indicates that approximately 82.2 percent of the assessment area businesses are small business entities. Based on dollar volume, the bank's percentage of loans originated to small business entities is comparable, though slightly higher, to the business demographic regarding the number of small businesses operating within the assessment area. This information is presented in Table 7.

Additionally, Table 8 provides a breakdown (number and dollar volume) of business loans originated during the sample period according to loan size. The largest concentration of loans sampled (41.0 percent) were to small business entities with an original loan size of $75,000 but less than $150,000. The next largest concentration of loans sampled (31.8 percent) were to small business entities with an original loan size of less than $75,000. This validates the bank's responsiveness to the credit needs of small business entities located within the assessment area and equates to a good penetration according to loan size.

CONCLUSIONS (continued)

Table 7 - Distribution of Business Loans by Gross Annual Revenue of Business – 2001, 2002, and YTD 2003

Gross Annual Revenues (000s)		<=$1,000	>$1,000	Revenues Not Reported	Total
Business Distribution	**Number**	957	1	205	1,163
	Percent	82.2%	.1%	17.6%	100.0%
Business Loans	**Number**	19	3	N/A	22
	Percent	86.4%	13.6%	N/A	100%
	Dollar (000s)	$526,182	$90,279	N/A	$616,479
	Percent	85.4%	14.6%	N/A	100%

Source of Business Distribution: 2002 Business Geo-demographic Data

Table 8 – Distribution of Small Business Loans by Loan Size – 2001, 2002, and YTD 2003

Loan Size (000s)	Number of Loans	Percentage	Dollar Volume (000s)	Percent of Loans
<= $75	7	31.8%	$113,054	18.3%
> $75 but <=$150	9	41.0%	$331,210	53.8%
> $150 but <=$250	2	9.1%	$56,918	9.2%
> $250	4	18.1%	$115,297	18.7%
Total	22	100.0%	$616,479	100.0%

Geographic Distribution of Loans

The bank's assessment area is comprised solely of six middle-income geographies. Due to the uniformity of the assessment area and the lack of any low- and moderate-income geographies an analysis based on geographic distribution was not conducted during the evaluation.

Response to Complaints

The bank has not received any CRA-related complaints since the last evaluation.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the examination.

DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Group: Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

GEOGRAPHY TERMS (continued)

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, it a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

OTHER TERMS (continued)

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts

of $1 million or less and are either secured by non-farm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers