



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 31, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank
Charter Number 21041**

**1020 John Sims Parkway
Niceville, FL 32588**

**Comptroller of the Currency
100 Concourse Parkway Suite 240
Birmingham, AL 35244**

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

Note: Throughout this evaluation, Peoples National Bank will be referred to as “PNB”.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- PNB’s lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The level of and trends in PNB’s loan-to-deposit (LTD) ratio are satisfactory. The bank’s LTD ratio compares favorably with national and local peer banks.
- A substantial majority of home mortgage and small business loans were extended inside the AA.
- Management demonstrates a willingness to originate loans to borrowers of all income levels and to businesses of different sizes.
- The geographic distribution of loans within the AA is reasonable, although there are no low-income census tracts in the AA.

DESCRIPTION OF INSTITUTION

Peoples National Bank (PNB) is a community bank with total assets of \$105 million, as of December 31, 2003. PNB is a wholly owned subsidiary of Bankshares Corporation of Niceville, a one-bank holding company. The bank was established in 1986 with its main office located in Niceville, Florida, which is in the Fort Walton Beach area. In 2001 the bank opened a full service branch in Freeport, approximately 20 miles from the main office, located in Walton County. Currently, construction is underway on a second branch in DeFuniak Springs, the county seat of Walton County and approximately 30 miles from the main office. The bank offers traditional loan and deposit products, including long-term residential mortgage loans. Other services include Internet banking, including Bill-Pay on-line, an automated telephone response system, ATMs and both Debit and Credit cards. It’s lending strategy focuses on commercial real estate, small business and 1-4 family residential loans. The 1-4 family residential mortgage program includes Conventional, VA, Rural Development and a First-Time Home Buyers Bond Program. These loans are typically originated by the bank and sold in the secondary market. There is intense competition in the financial services industry with over 90 banking locations, 10 credit union offices and more than 60 mortgage offices in the AA. In the immediate Niceville area, PNB’s market share of deposits is 19%, which ranks second among 12 banking locations. PNB’s market share of deposits in the Freeport area is 26%, which ranks second among 3 banking offices.

The loan portfolio at December 31, 2003 was \$77 million and consists of the following types:

| Loan Category | \$(000) | % |
|-----------------------------------|----------------|-------------|
| Construction and Land Development | 21,818 | 28.3% |
| Commercial Real Estate | 17,856 | 23.1% |
| Commercial and Industrial | 11,556 | 14.9% |
| 1-4 Family Residential | 16,821 | 21.8% |
| Consumer | 5,850 | 7.6% |
| Other | 3,231 | 4.3% |
| Total | 77,132 | 100% |

Source: December 31, Consolidated Report of Condition and Income

There are no legal or financial impediments to prevent the bank from meeting the credit needs of the AA. The bank's last CRA examination was performed as of September 21, 1998 and was rated Satisfactory.

DESCRIPTION OF PNB's ASSESSMENT AREA, OKALOOSA COUNTY AND WALTON COUNTY

PNB's assessment area (AA) includes the counties of Okaloosa and Walton and meets the requirements of the regulation. It does not arbitrarily exclude low-or moderate-income geographies. Okaloosa County is known as the Ft. Walton Beach Metropolitan Statistical Area (MSA). This section of the AA contains 4 moderate, 24 middle, and 5 upper-income census tracts (hereafter referred to as "tracts"). The Walton county section of the AA contains 5 middle and 1 upper-income tract. The overall assessment area does not contain low-income tracts. Therefore, the bank has not arbitrarily excluded low-income geographies. Because the geographies between counties are distinct, some analysis of the assessment area is done separately. A brief description of each of the areas by county is as follows:

Walton County

Walton County is adjacent to Okaloosa County and is one of the fastest growing counties in Florida, especially the south part of Walton County, which contains 26 miles of prime beach property. Between 1990 and 2000, Walton County's population increased 34%, well above the State's total population increase of 19%. Walton County has especially benefited from increased tourism and the development of thousand of acres along Florida's Gulf Coast which were not developed until the 1990's. Several planned communities have been established in south Walton County and have attracted retirees, seasonal tourists, and vacation /second homeowners to the area. This section of the county contains the communities of Grayton Beach, Seaside, and Santa Rosa Beach. Other cities in the county are DeFuniak Springs, the county seat and Freeport. Total housing units at the 2000 census was 29,083, compared to 18,728 at the 1990 census.

Five of Walton County's ten largest private employers are related to the tourism and resort industry. Sandestin Golf and Beach Resort is the largest in the county, employing approximately 1,000.

Other employers in this industry include Hilton Sandestin, Abbott Resorts, Arvida and Seaside Community Development, with these four companies employing approximately 1,500. Other

major employers in the county include Perdue Farms, a food and poultry processor, employing 400 and two health care facilities employing 438.

Okaloosa County

Okaloosa County contains, 4 moderate, 24 middle, and 5 upper-income census tracts. The bank's main office in Niceville is located in a middle-income tract. Other cities in Okaloosa County are Crestview, Valparaiso, Ft. Walton Beach and Destin. Owner occupied housing represents 53% of the assessment area housing stock. Although the housing stock is primarily owner-occupied housing units, opportunities to extend home mortgages and business loans in portions of the assessment area are limited because the area contains military housing facilities or the area is used for military operations.

The local economy is service, government, and retail/tourism oriented, especially in the Destin area. The military forms the backbone of Okaloosa County's economy, and together with defense contractors account for several of the area's largest employers. Eglin Air Force Base is one of the largest Air Force bases in the world, covering 724 square miles and employing approximately 10,000 military and 10,000 civilian employees. Another 7,000 military personnel are stationed at nearby Hurlbut Field, home of the Air Force Special Operations Command. These bases are expected to benefit from proposed increases in national defense spending in future years. Growth in high-tech employment in Ft. Walton Beach is outpacing state and national trends. Most of these jobs involve research and testing services at defense contractors. Boeing, Lockheed-Martin, and Raytheon are among several technology-based firms which have located in Okaloosa County. The unemployment rate of the assessment area is low at 2.5% and compares favorably to both the national rate of 6% and the state rate of 4.8%.

As part of our examination, we met with a representative from the community regarding local economic conditions and community credit needs. This individual's organization focuses on assisting low-income individuals with housing needs. He indicated there was a need for affordable housing in the northern portion of the county. Our contact indicates that area financial institutions are positively perceived for their involvement in the local community and that the area's banking needs are being adequately met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB's LTD ratio meets the standard for satisfactory performance given the bank's size, financial condition, and considering the credit needs of the assessment area. Since the September 21, 1998 Performance Evaluation, the bank's LTD ratio averaged 70.49%. Although slightly below peer, this ratio has improved, as the LTD ratio at December 31, 2003 was 85%, with an average of 82% over the past four quarters. Banks of similar size in the state of Florida averaged 74% over the same most recent four-quarter period.

Lending in Assessment Area

A substantial majority of PNB's loans were originated within the AA. Our sample was

comprised of residential real estate and small business loans. Based on our sample, approximately 90% of the total number of loans reviewed and 93% of the dollar amount of loans reviewed were originated within the AA.

| Total Loans Reviewed (Evaluation Period 1/1/00-12/31/02) | | | | | | | | |
|---|--------------------|-------|----------|-------|------------------------|-------|----------|------|
| | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| LOAN TYPE | # | % | \$(000s) | % | # | % | \$(000s) | % |
| Business | 38 | 95% | 3,689 | 98.6% | 2 | 5% | 53 | 1.4% |
| Residential Estate | 322 | 89.4% | 30,742 | 92.3% | 38 | 10.6% | 2,584 | 7.7% |
| Total | 360 | 90% | 34,431 | 92.9% | 40 | 11.1% | 2,637 | 7.1% |

Source: Bank HMDA-LAR and Bank Loan Files

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

Although the percentage of residential real estate loans to low income families are less than the corresponding percentage makeup within the AA, these percentages appear reasonable. Approximately 31% of the bank's loans were made to individuals of low and moderate-income levels. There are numerous financial institutions competing for the market share of residential home purchase, home refinancing, and home improvement loan products.

| Residential Real Estate Okaloosa and Walton Counties (Evaluation Period 1/1/00-12/31/02) | | | | |
|---|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | MODERATE | MIDDLE | UPPER |
| % of AA Families | 17.48% | 20.50% | 23.27% | 38.75% |
| Residential Real Estate | % of Number | % of Number | % of Number | % of Number |
| | 10.24 % | 21.10% | 21.48% | 38.95% |

Note: Bank did not obtain income information on 33 applicants.

Source: Bank HMDA-LAR and U.S. Census data

Our sample of small business loans revealed that the bank demonstrates satisfactory performance in lending to businesses with less than \$1 million in annual revenues. Eighty five percent of the loans sampled were made to small businesses with less than \$1 million in revenues. In addition, the majority (73%) of business loans we sampled were originated in amounts of \$100 thousand or less. We also determined that of the total business loans (258) originated during the evaluation period, that 80% (207) of the loans were originated in amounts of less than \$100 thousand. This further demonstrates the bank's commitment to lend to small businesses.

| Distribution of Loans To Small Businesses | | |
|--|--------------|--------------|
| Business Revenues | <\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 90.2% | 9.8% |

| | | |
|-------------------------------------|-----|-----|
| % of Bank Loans to Small Businesses | 85% | 15% |
|-------------------------------------|-----|-----|

Source: Bank Loan Files and U.S. Census data

Geographic Distribution of Loans

We determined a geographic distribution analysis of the bank’s loans would not be meaningful, as the AA has no low-income census tracts and only four moderate-income tracts that are distantly located from the bank’s current locations.

Responses to Complaints

PNB received no complaints or public comments regarding its performance in helping to meet the assessment area credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

A review of public file comments and consumer complaint information was performed in accordance with the OCC’s risk based fair lending approach. We found no evidence of illegal discrimination or other illegal credit practices.