

Management of the Company presently believes that its allowance for loan losses was adequate at December 31, 2002, based on facts and circumstances available, to cover any potential losses in the Company's loan portfolio. However, future adjustments to this allowance may be necessary, and the Company's results of operations could be adversely affected if circumstances differ substantially from the assumptions used by management in making its determinations in this regard. The following table presents the allocation of the allowance for loan losses to the total amount of loans in each category listed as of the dates indicated.

TABLE 4 - ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	December 31,									
	2002		2001		2000		1999		1998	
Commercial, financial and agricultural	\$ 6,243	40%	\$ 5,066	36%	\$ 4,152	29%	\$3,484	29%	\$2,714	26%
Real estate - mortgage	569	20	555	21	763	30	773	31	1,303	39
Real estate - construction	45	1	17	1	21	1	18	1	32	1
Loans to individuals	4,992	39	5,000	42	4,616	40	3,828	39	2,412	34
Unallocated	1,252	N/A	479	N/A	687	N/A	646	N/A	674	N/A
Total allowance for loan losses	\$13,101	100%	\$11,117	100%	\$10,239	100%	\$8,749	100%	\$7,135	100%

The allowance for loan losses amounted to \$13.1 million, or 1.25% and 301.6% of total loans and total nonperforming loans, respectively, at December 31, 2002 compared to 1.16% and 159.9%, respectively, at December 31, 2001. The allowance for loan losses increased \$2.0 million, or 17.8%, from \$11.1 million at December 31, 2001. The increase included a \$6.2 million provision for loan losses. On a percentage basis, net charge-offs for 2002 were 0.43% of total average loans, down from 0.44% in 2001. The Company believes this level of net charge-offs was more favorable than that of peer institutions with assets in the \$1 to \$10 billion range based on data published by the FFIEC. The following table sets forth the activity in the Company's allowance for loan losses during the periods indicated.

TABLE 5 - SUMMARY OF ACTIVITY IN THE ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	Years Ended December 31,				
	2002	2001	2000	1999	1998
Allowance at beginning of period	\$11,117	\$10,239	\$ 8,749	\$7,135	\$5,258
Allowance from acquisition	—	—	—	—	1,392
Provisions	6,197	5,046	3,861	2,836	903
Charge-offs:					
Commercial, financial and agricultural	1,331	1,861	1,174	140	43
Mortgage	60	15	37	71	2
Loans to individuals	3,391	2,797	1,654	1,460	818
Total charge-offs	4,782	4,673	2,865	1,671	863
Recoveries:					
Commercial, financial and agricultural	68	110	52	86	175
Mortgage	35	17	22	37	36
Loans to individuals	466	378	420	326	234
Total recoveries	569	505	494	449	445
Net charge-offs	(4,213)	(4,168)	(2,371)	(1,222)	(418)
Allowance at end of period	\$13,101	\$11,117	\$10,239	\$8,749	\$7,135
Allowance for loan losses to total loans at end of period	1.25%	1.16%	1.09%	1.04%	0.93%
Net charge-offs to average loans	0.43%	0.44%	0.26%	0.15%	0.06%