ANNUAL REPORT 2003

ABC BANCORP

Working hard for you.

COMPANY PROFILE

ABC Bancorp's primary business is managing our subsidiary banks. Through a focused strategy, the ABC Bancorp family of banks has grown to 11 separately chartered banks with $1.2 billion dollars in assets. These banks have a total of 35 banking locations that span southern Georgia, southeastern Alabama and northern Florida.

Our business model capitalizes on the efficiencies of a billion dollar financial services company while providing the community with the banking service expected by our customers. We manage our banks through a balance of decentralized management responsibilities and efficient centralized operating systems, products and loan underwriting standards. Our Board of Directors establishes corporate policy, strategy and certain administrative policies. Within ABC Bancorp's established guidelines and policies, each bank makes lending and community-specific decisions. This approach allows the banker closest to the customer to respond to the differing needs and demands of their unique market.

Our corporate office is located at 24 Second Avenue, S.E., Moultrie, Georgia 31768. Our telephone number is (229) 890-1111. Our Internet address is www.abcbancorp.com. ABC Bancorp's stock is publicly listed on the NASDAQ under the symbol "ABCB".

MISSION STATEMENT

- To be a major financial services provider by expanding our presence in Georgia, Alabama and north Florida through branching and acquisitions.
- To be an employer of choice by developing, energizing, retaining and rewarding our team of quality employees who pursue exceptional performance.
- To grow market share in our communities by offering superior products that benefit our customers' financial needs through exceptional customer service.
- To deliver consistent annual earnings growth achieving and maintaining a level of profitability consistent with the top quartile of financial holding companies as measured by ROA (Return on Assets).

PROUD MEMBERS OF THE ABC BANCORP TEAM

American Banking Company
www.americanbankingcompany.com

Bank of Thomas County
www.bankofthomascounty.com

Cairo Banking Company
www.cairobankingcompany.com

Central Bank & Trust
www.centralbankandtrust.com

Citizens Security Bank
www.citizenssecuritybank.com

First National Bank of South Georgia
www.first-nationalbank.com

Heritage Community Bank
www.heritage-communitybank.com

Merchants & Farmers Bank
www.merchants-farmersbank.com

Southland Bank
www.southland-bank.com

The First Bank of Brunswick
www.firstbankbrunswick.com

Tri-County Bank
www.tri-county-bank.com

Working hard for you in ...

GEORGIA

American Banking Company
Moultrie (229) 985-2222
Doerun (229) 985-2222
Quitman Hwy. (229) 985-1111
Sunset (229) 873-4444
www.americanbankingcompany.com

Bank of Thomas County
Thomasville (229) 226-5755
Coolidge (229) 346-3555
www.bankofthomascounty.com

Cairo Banking Company
Cairo (229) 377-1110
Meigs (229) 683-3411
www.cairobankingcompany.com

Central Bank & Trust
Cordele (229) 273-7700
www.centralbankandtrust.com

Citizens Security Bank
Tifton (229) 382-7311
Douglas (912) 384-2701
Ocilla (229) 468-9411
www.citizenssecuritybank.com

First National Bank of South Georgia
Albany (229) 888-5600
Leesburg (229) 434-4550
www.first-nationalbank.com

Heritage Community Bank
Quitman (229) 263-7525
Troupeville (229) 247-5376
Valdosta (229) 241-2851
www.heritage-communitybank.com

Merchants & Farmers Bank
Donalsonville (229) 524-2112
Lake Seminole (229) 861-2213
Colquitt (229) 758-3461
www.merchants-farmersbank.com

The First Bank of Brunswick
Brunswick (912) 267-9500
St. Simons Island (912) 634-1270
North Glynn (912) 264-9699
Jekyll Island (912) 635-9014
www.firstbankbrunswick.com

ALABAMA

Southland Bank
Dothan (334) 671-4000
Headland (334) 693-5411
Abbeville (334) 585-2265
Clayton (334) 775-3211
Eufaula (334) 687-3260
www.southland-bank.com

FLORIDA

Tri-County Bank
Trenton (352) 463-7171
Newberry (352) 472-2162
www.tri-county-bank.com

ABC BANCORP

Working hard for you.

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Dear fellow shareholders,

In 1971, together with the founding investors in our Company, we set out to build a bank based on the core principles of value, service and character. ABC Bancorp is a direct result of the faithful execution of this strategy. These core principles drive our Company at the most basic levels. Today, these founding core principles are shared by the exceptional individuals who comprise ABC Bancorp.

We believe companies which create value for their shareholders are those which create real value for their customers. Our Company experienced record earnings of approximately $12,000,000, an increase of 16% versus the prior year. Net income per basic share also reached a record high of $1.23. Our commitment to creating customer value remains the driving force behind our success.

I am proud of our employees. They achieved exceptional results. We improved asset quality and service levels while reducing expenses. Non-performing assets were reduced by nearly 14%. The ratio of loans charged-off (net of recoveries) was 22 basis points better than the prior year.

Our unique approach to community banking provided an environment in which our family of separately chartered banks prospered. The external expansion program remains a key growth strategy. Our Company is strong, well capitalized, skillfully managed and prepared for external growth. Our ability to continually improve the productivity of our seasoned staff will insure our future success as we exercise this growth strategy.

It is critical the next leader of our Company inspires our employees. I am excited Ed Hortman has accepted the role of President and Chief Operating Officer. As North Regional Executive and President & CEO of Citizens Security Bank, he has proven that he is guided by the same core principles on which our Company was founded. Ed is an experienced banker. His new ideas will continue to energize our Company and grow shareholder value.

During my banking career, optimism has been my source of energy. For the past 33 years, positive leadership has driven ABC Bancorp's growth and profitability. I have been told to be an effective leader you must surround yourself with great people. Having done that, I am honored to be a part of ABC Bancorp. I am confident greater results can and will be achieved.

Sincerely,

Kenneth J. Hunnicutt
Chairman and Chief Executive Officer

A renewed commitment to the basics

As your President and Chief Operating Officer, I am proud of our 2003 results and look forward to continued improvements in performance and increased shareholder value.

My banking career during the past 28 years has afforded me an appreciation of community based banking. This approach has also served ABC Bancorp's shareholders, customers and employees well. With pride in our heritage, it will continue to be our trademark of the future.

It is my desire that our Company has a focused strategic plan to achieve success in these areas:

- Shareholder Value – capitalizing on profitable and growth oriented opportunities.
- Quality Customer Service – resulting from a sincere effort to meet customer needs in the communities we serve.
- Asset Quality – continuing to enhance profitability and shareholder value.
- Operational Efficiencies – working smarter in concert with our dedicated work ethic.
- Great Execution – engaging our team of talented employees with an intense business focus that creates exceptional performance.

In summary, a return to the "basics", for these are the foundations that give strength to our actions and add value to our franchise. These actions are the habits that become our character. We remain committed to delivering a solid performance and are appreciative of your support.

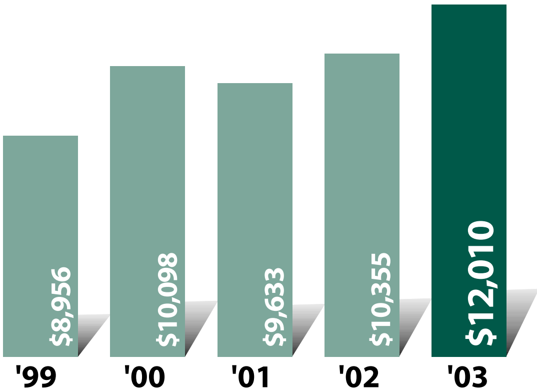
Respectfully,

Edwin W. Hortman, Jr.

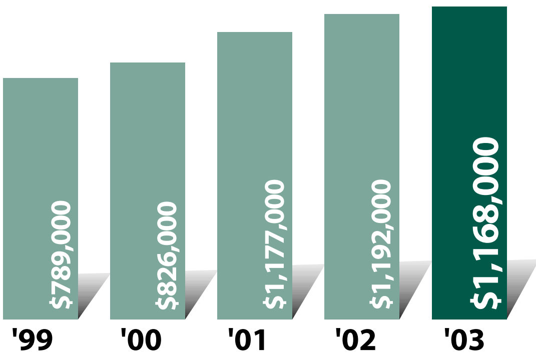
Edwin W. Hortman, Jr.
President & Chief Operating Officer

5 Year Comparative Charts

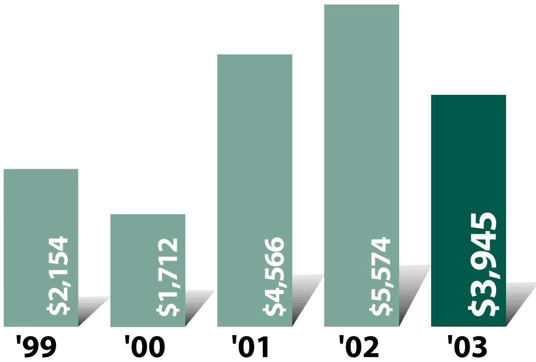
(Dollars in thousands)



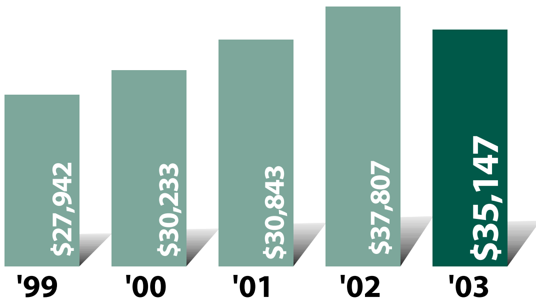
NET INCOME



TOTAL ASSETS



PROVISION FOR LOAN LOSSES



NON-INTEREST EXPENSE

Selected Financial Highlights

(Dollars in thousands except per share data)

	2003	2002	2001
EARNINGS SUMMARY			
Net interest income	$ 42,434	$ 43,203	$ 38,009
Provision for loan losses	3,945	5,574	4,566
Non-interest income	14,622	15,610	11,725
Non-interest expense	35,147	37,807	30,843
Income taxes	5,954	5,077	4,692
Net income	$ 12,010	$ 10,355	$ 9,633
PER SHARE SUMMARY			
Common shares outstanding	9,783,854	9,770,936	9,999,387
Weighted average shares	9,772,166	9,858,463	9,214,276
Income per weighted average share - basic	$ 1.23	$ 1.05	$ 1.05
Dividends declared per share	$ 0.52	$ 0.48	$ 0.48
ASSET QUALITY			
Non-performing assets	$ 7,977	$ 9,250	$ 13,463
Net loan charge-offs (recoveries)	$ 3,850	$ 5,650	$ 4,378
Reserve for loan loss to loans	1.78 %	1.78 %	1.86 %
Net loan charge-offs (recoveries) to average loans	0.47 %	0.68 %	0.63 %
Non-performing assets to reserve for loan loss	53.31 %	62.21 %	90.09 %
Non-performing assets to total assets	0.68 %	0.78 %	1.14 %
OTHER KEY DATA			
Net interest rate spread (a)	3.63 %	3.69 %	3.67 %
Net interest margin (a)	3.98 %	4.09 %	4.33 %
Return on average assets	1.04 %	0.90 %	1.00 %
Return on average equity	10.85 %	9.81 %	10.30 %
Efficiency ratio	61.60 %	64.28 %	62.02 %
Book value per share	$ 11.61	$ 11.00	$ 10.42
Tangible book value per share	$ 9.31	$ 8.59	$ 7.88
Stockholders' equity to total assets	9.73 %	9.01 %	8.85 %

(a) Computed using fully taxable-equivalent net income.

BANK & CITY PRESIDENTS

From Left to Right

Edgar B. Smith, III
Cairo Banking Company

Sammie D. Dixon, Jr.
Bank of Thomas County

Robert L. Evans
Central Bank & Trust

Don Monk
First National Bank of South Georgia

Teresa Youmans
Merchants & Farmers Bank - Colquitt

Ronnie F. Marchant
American Banking Company

Tim S. Jones
Heritage Community Bank

John C. Mosely
Merchants & Farmers Bank

BANK & CITY PRESIDENTS

From Left to Right

David B. Batchelor
Citizens Security Bank - Douglas

Michael D. Hodges
The First Bank of Brunswick

C. Larry Young
Citizens Security Bank - Ocilla

Lawton E. Bassett, III
Citizens Security Bank

Harris O. Pittman, III
Southland Bank

John H. Ferguson
Tri-County Bank

Teamwork strengthens our Company

TEAMWORK – "*In the right formation, the lifting power of many wings can achieve twice the distance of any bird flying alone. Teamwork is the ability to direct individual accomplishment toward achieving organizational objectives. It is the fuel that allows common people to attain uncommon results.*"

- ABC Bancorp Corporate Value Statement

As our leadership crafted the corporate value statement, they were compelled to place teamwork among the nine values most critical to our success. It is the stroke that sets our core principles into motion. Teamwork can not be fully described using a few words. But one thing is for sure...you know teamwork when you see it.

An example to help gain insight into our unique definition of teamwork is found at Tri-County Bank. In 2001, our Company jumped into the Florida market with the acquisition of Tri-County Bank in Trenton. With Tri-County Bank we found not only a strong bank but a seasoned team built on the core principles we value most. For the past 17 years, the team of Karol Lindsey, Sandi Hilliard and Mary Dunn has successfully led their customers through a lot of change. According to John Ferguson, Bank President and CEO of Tri-County Bank, "Our bankers are strong. But our bank's strength is our teamwork. Our customers don't bank with one person. They bank with all of us. The way Karol, Sandi and Mary cooperate illustrates our team's sixth sense when working with each other and our customers."

Financially, ABC Bancorp's results are primarily the sum of the eleven separately charted banks. When our banks are in the right formation, the outcome exceeds what could be achieved if each bank stood alone. It takes time to develop a team, but the payoff is tremendous. This year's results are another way one can see where teamwork sets ABC Bancorp apart.

Karol Lindsey, Sandi Hilliard and Mary Dunn have successfully led their customers through a lot of change, but one thing has remained constant – teamwork.

Service is what drives our success.

The phrase, "banking is all about service" is often overused. Nevertheless, it is true. Excellent service is never an accident. It is always the result of effort, intelligence, and the vision to see obstacles as opportunities. ABC Bancorp's ability to grow is in direct proportion to the service we provide. Our customer service is not a department. It is our attitude.

As a result of many bank consolidations, the trio of Sandi Skoropat, Sandy Rentz and Barbara Tomlinson found themselves working for banks who valued profit over customer service. The bureaucracy of these mega banks did not allow them to care for their customer. Moreover, their jobs were not fun. They sought a company which placed the highest premium on providing personal service, delivering state-of-the-art products and creating a fun workplace.

Established in 1888, Heritage Community Bank has stood the test of time. We knew that a community bank offering quality customer service would flourish in the rapidly growing market of Valdosta, Georgia. But, we needed talented people to carry our customer service strategy in a new market. At the same time, this trio of talented bankers needed a company that shared their values.

Our shared belief brought us together. In August of 2000, a perfect fit was made as Heritage Community Bank opened its first branch in Valdosta. According to Bank President and CEO, Tim Jones, "Our successful branching is a direct result of the service Sandi, Barbara and Sandy provide. Customer response to this team has been phenomenal. In addition to growing the bank's assets and profitability by over 65% in three years, we have created an exciting work environment that continues to attract quality bankers that help the bank continue to grow." The experience at Heritage Community Bank typifies ABC Bancorp's commitment to attracting, retaining and empowering talented bankers.

Banking is all about service. Banking is all about the service we provide our customers who entrust us with their money. We thank them for their patronage. Banking is all about the service we provide our shareholders. We remain committed to providing a competitive return. ABC Bancorp is all about the service that our 520 employees give each other. We thank our team members for their unyielding effort.

Our shared beliefs bring people of common values together. Sandi Skoropat, Sandy Rentz and Barbara Tomlinson helped each other find their ideal work environment within ABC Bancorp.

BOARD OF DIRECTORS

From Left to Right

Henry C. Wortman

Daniel B. Jeter

Eugene M. Vereen, Jr.
Chairman Emeritus

Robert P. Lynch

Kenneth J. Hunnicutt
Chairman

EDWIN W. HORTMAN, JR.

J. THOMAS WHELCHEL

DOYLE WELTZBARKER
Vice Chairman

J. RAYMOND FULP

JOHNNY W. FLOYD (NOT PICTURED)

SENIOR MANAGEMENT

FROM LEFT TO RIGHT

KENNETH J. HUNNICUTT
Chairman of the Board
& Chief Executive Officer

JON S. EDWARDS
Executive Vice President
& South Regional Executive

CINDI H. LEWIS
Executive Vice President
Director of Human Resources
& Corporate Secretary

O. MITCHELL SMITH
Senior Vice President
& Director of Credit Administration

MICHAEL F. MCDONALD
Senior Vice President
& Director of Retail Banking

EDWIN W. HORTMAN, JR.
President, Chief Operating Officer
& North Regional Executive

W. EDWIN LANE, JR.
Executive Vice President
& Chief Financial Officer

CHARLES A. ROBINSON
Senior Vice President
& Director of Internal Audit

MARC E. DEMOTT
Senior Vice President
& Director of Automation & Operations

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-looking Statements

ABC's 2003 Annual Report contains forward-looking statements in addition to historical information. ABC cautions that there are various important factors that could cause actual results to differ materially from those indicated in the forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995; accordingly, there can be no assurance that such indicated results will be realized.

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, ABC is required to note the variety of factors that could cause ABC's actual results and experience to differ materially from the anticipated results or other expectations expressed in ABC's forward-looking statements. These factors include legislative and regulatory initiatives regarding deregulation and restructuring of the banking industry; the extent and timing of the entry of additional competition in ABC's markets; potential business strategies, including acquisitions or dispositions of assets or internal restructuring, that may be pursued by ABC, state and federal banking regulations; changes in or application of environmental and other laws and regulations to which ABC is subject; political, legal and economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather, natural disasters and other catastrophic events; and other factors discussed in ABC's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K. The words "believe", "expect", "anticipate", "project", and similar expressions signify such forward-looking statements.

Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of ABC. Any such statement speaks only as of the date the statement was made. ABC undertakes no obligation to update or revise any forward-looking statements. Additional information with respect to factors that may cause results to differ materially from those contemplated by such forward-looking statements is included in the ABC's current and subsequent filings with the Securities and Exchange Commission.

Critical Accounting Policies

ABC has established certain accounting and financial reporting policies to govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements. Certain accounting policies involve significant judgments and assumptions by management which have a material impact on the carrying value of certain assets and liabilities; management considers these accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from the judgments and estimates adopted by management which could have a material impact on the carrying values of assets and liabilities and the results of ABC's operations. We believe the following accounting policies applied by ABC represent critical accounting policies.

Allowance for Loan Losses

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of our consolidated financial statements. The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Calculation of the

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

allowance for loan losses represents a critical accounting estimate due to the significant judgment, assumptions and estimates related to the amount and timing of estimated losses, consideration of current and historical trends and the amount and timing of cash flows related to impaired loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the subsidiary banks' allowances for loan losses. Such agencies may require the subsidiary banks to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Considering current information and events regarding a borrower’s ability to repay its obligations, management considers a loan to be impaired when the ultimate collectibility of all amounts due, according to the contractual terms of the loan agreement, is in doubt. When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. If the loan is collateral-dependent, the fair value of the collateral is used to determine the amount of impairment. Impairment losses are included in the allowance for loan losses through a charge to the provision for losses on loans.

Subsequent recoveries are credited to the allowance for loan losses. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the accrual of interest has been discontinued are applied first to principal and then to interest income.

The accounting for impaired loans described above applies to all loans, except for large pools of smaller-balance, homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value or at the lower of cost or fair value, and debt securities. The allowance for loan losses for large pools of smaller-balance, homogeneous loans is established through consideration of such factors as changes in the nature and volume of the portfolio, overall portfolio quality, adequacy of the underlying collateral, loan concentrations, historical charge-off trends, and economic conditions that may affect the borrowers' ability to pay.

Certain economic and interest rate factors could have a material impact on the determination of the allowance for loan losses. The national economy showed signs of rebounding during the fourth quarter of 2003. If the economy’s momentum continues, certain factors could evolve which would positively impact our net interest margin. An increase in interest rates by the Federal Reserve Bank would favorably impact our net interest margin. An improving economy could result in the expansion of businesses and creation of jobs which would positively affect ABC’s loan growth and improve our gross revenue stream. Conversely, certain factors could result from an expanding economy which could increase our credit costs and adversely impact our net earnings. A significant rapid rise in interest rates could create higher borrowing costs and shrinking corporate profits which could have a material impact on borrowers’ ability to pay. We will continue to concentrate on maintaining a high quality loan portfolio through strict administration of our loan policy.

Another factor that we have considered in the determination of the allowance for loan losses is loan concentrations to individual borrowers or industries. At December 31, 2003, we had 12 individual credit relationships that exceeded $5.0 million with none exceeding $12.0 million.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A substantial portion of our loan portfolio is in the commercial real estate and residential real estate sectors. Those loans are secured by real estate in ABC's primary market area. A substantial of portion of other real estate owned is located in those same markets. Therefore, the ultimate collectibility of a substantial portion of our loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes to market conditions in ABC's primary market area.

We are closely monitoring certain portions of our loan portfolio that we believe have a higher credit risk profile under the current environment based solely upon their industry classification which includes agricultural and agribusiness loans. Based on current information, we have not identified any problem credits included in these categories, which are not already classified as nonperforming or impaired loans. However, if the economic recovery takes longer than expected, the allowance for loan losses could be impacted by adverse developments in these credits.

Income Taxes

SFAS No. 109, "Accounting for Income Taxes," requires the asset and liability approach for financial accounting and reporting for deferred income taxes. We use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant income tax temporary differences. See Note 11 to the Notes to Consolidated Financial Statements for additional details.

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and the provision for loan losses, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities that are included in our consolidated balance sheet.

We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent we believe that recovery is not likely, we must establish a valuation allowance. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. To the extent we establish a valuation allowance or adjust this allowance in a period, we must include an expense within the tax provisions in the statement of income.

We have recorded on our consolidated balance sheet net deferred tax assets of $4,363,000 which includes amounts relating to loss carryforwards. We believe there will be sufficient taxable income in the future allowing us to utilize these loss carryforwards in the tax jurisdictions where they exist.

Long-Lived Assets, Including Intangibles

We evaluate long-lived assets, such as property and equipment, specifically identifiable intangibles and goodwill, when events or changes in circumstances indicate that the carrying value of such assets might not be recoverable. Factors that could trigger an impairment include significant underperformance relative to historical or projected future operating results, significant changes in the manner of our use of the acquired assets and significant negative industry or economic trends.

The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment loss recognized would be determined by estimating the fair value of the assets and recording a loss if the fair value was less than the book value.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In determining the existence of impairment factors, our assessment is based on market conditions, operational performance and legal factors of our Company and its subsidiary banks. Our review of factors present and the resulting appropriate carrying value of our goodwill, intangibles, and other long-lived assets are subject to judgments and estimates that management is required to make. Future events could cause us to conclude that impairment indicators exist and that our goodwill, intangibles and other long-lived assets might be impaired.

Performance Overview

We reported net income of $12.0 million, or $1.22 per diluted common share in 2003, compared to $10.4 million, or $1.05 per diluted common share in 2002 and $9.6 million, or $1.04 per diluted common share in 2001. The return on average assets was 1.04% in 2003 compared to .90% in 2002 and 1.00% in 2001. The return on average common shareholders' equity was 10.85% in 2003 compared to 9.81% in 2002 and 10.30% in 2001. As a result of a new accounting rule issued by the Financial Accounting Standards Board (FASB), no amount of goodwill was expensed in 2003 or 2002, except for the impairment charge of $9,000 in 2003. During 2001, we expensed $668,000 or $.07 per diluted common share associated with goodwill.

During 2003, we focused on three priorities: preserving asset quality, minimizing shrinkage of our net interest margin and controlling noninterest expenses. As a result of our focus on asset quality, nonperforming assets decreased 13% during the year, our charge-off ratio was 22 basis points lower than the previous year, and the ratio of our allowance for loan losses to nonperforming assets increased 26 basis points during the year. Due to the improvement of asset quality, we reduced our provision for loan losses $1.7 million to $3.9 million in 2003 compared to $5.6 million in 2002.

Due to the record low interest rate environment during 2003, our net interest margin decreased $.8 million or 1.85% to $42.4 million in 2003 compared to $43.2 million in 2002. To lessen the adverse impact on net interest margins, we avoided paying excessive interest rates on non-core deposits and relied on lower cost alternative funding. Although this strategy lessened the adverse impact on interest margins, it resulted in a shrinkage of $4.1 million or .5% in average deposits during 2003 compared to 2002.

As a result of our focus on controlling noninterest expenses, we reduced noninterest expenses $2.7 million or 7.04% to $35.1 million in 2003 compared to $37.8 million in 2002.

RESULTS OF OPERATIONS

General

Our principal asset is the ownership of our Banks. Accordingly, our results of operations are primarily dependent upon the results of operations of our Banks. Our Banks conduct a commercial banking business which consists of attracting deposits from the general public and applying those funds to the origination of commercial, consumer and real estate loans (including commercial loans collateralized by real estate). The Banks' profitability depends primarily on net interest income, which is the difference between interest income generated from interest-earning assets (i.e., loans and investments) less the interest expense incurred on interest-bearing liabilities (i.e., customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate paid and earned on these balances. Net interest income is dependent upon the Banks' interest rate spread, which is the difference between the average yield earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities. When interest-earning assets approximate or exceed

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

interest-bearing liabilities, any positive interest rate spread will generate interest income. The interest rate spread is impacted by interest rates, deposit flows and loan demand. Additionally, and to a lesser extent, the profitability of the Banks is affected by such factors as the level of noninterest income and expenses, the provision for loan losses and the effective tax rate. Noninterest income consists primarily of service charges on deposit accounts and other fees and income from the sale of investment securities and origination of mortgage loans. Noninterest expenses consist of compensation and benefits, occupancy-related expenses and other operating expenses.

Earnings Summary

We reported earnings of $12.0 million for 2003 representing an increase of $1.6 million or 15% compared to earnings of $10.4 million for 2002. Diluted earnings per common share were $1.22 in 2003 compared to $1.05 per common share in 2002 and $1.04 per common share in 2001.

As a result of accounting changes required by FASB, we discontinued the amortization of goodwill in 2002. As required by FASB, we will periodically test goodwill to determine whether the carrying value of our goodwill is impaired. We continue to amortize core deposit premiums and other identifiable intangibles as a noncash charge that increases our operating expenses. Intangible asset amortization included as an operating expense amounted to $1.0 million, $1.8 million and $1.2 million in 2003, 2002 and 2001, respectively.

Net interest income, on a taxable-equivalent basis, decreased 1.85% in 2003 to $42.5 million from $43.3 million in 2002. Net interest income increased 12.47% in 2002 to $43.3 million from $38.5 million in 2001. The significant increase in net interest income in 2002 is attributable to bank acquisitions consummated in 2001 and accounted for as purchase transactions. The net interest margin decreased 11 basis points to 3.98% in 2003 from 4.09% in 2002. The net interest margin decreased 24 basis points to 4.09% in 2002 from 4.33% in 2001. Over the past three years, the net interest margin has been impacted by changes in balance sheet mix and fair market value purchase accounting adjustments related to recent purchase acquisitions which have affected the yields earned and rates paid on the underlying assets and liabilities. These factors, coupled with the decrease in general interest rates as a result of action undertaken by the Federal Reserve, have resulted in net interest margin compression over the past three years.

Our provision for loan losses totaled $3.9 million in 2003, $5.6 million in 2002 and $4.6 in 2001. The allowance for loan losses represented 1.78% of total loans outstanding at both December 31, 2003 and December 31, 2002. The allowance for loan losses represented 1.85% of total loans outstanding at December 31, 2001. The allowance for loan losses is discussed in more detail under “Summary of Loan Loss Experience.”

Noninterest income decreased 6.41% to $14.6 million in 2003 compared to $15.6 million in 2002. Noninterest income increased 33.3% in 2002 from $11.7 million in 2001. The decrease in noninterest income in 2003 is attributable to securities transactions. In 2002, we recorded gains on sales of securities in the amount of $1.6 million; whereas in 2003, we recorded losses on sales of securities in the amount of $5,000. We recorded an increase of $.2 million in mortgage origination fees in 2003 from the amount recorded in 2002. We also recorded in 2003 approximately $.6 million representing gains on the sale of bank property and the reversal of contingent liabilities recorded in connection with the sale of our credit card portfolio in 2002. The increase in noninterest income in 2002 compared to 2001 represented increases in service charges on deposit accounts and mortgage origination fees.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Noninterest expense decreased $2.7 million to $35.1 million in 2003 from $37.8 million in 2002. Salaries and employee benefits increased $1.4 million; equipment and occupancy expense decreased $.3 million; and all other expenses decreased a net of $3.8 million. These reductions resulted from our focus on controlling expenses. Noninterest expense increased $7.0 million in 2002 compared to 2001. The majority of the increase resulted from the purchase acquisitions consummated in 2001.

Net Interest Income

A portion of interest income is earned on tax-exempt investments such as state and municipal bonds. In an effort to state this tax-exempt income and its resultant yields on a basis comparable to all other taxable investments, an adjustment is made to analyze this income on a taxable-equivalent basis assuming a 34% federal income tax rate.

Net interest income totaled $42.4 million in 2003 representing a decrease of $.8 million compared to net interest income of $43.2 million in 2002. Net interest income increased 13.68% in 2002 over 2001. The decrease in net interest income in 2003 was attributable to a decrease in general interest rates as a result of action undertaken by the Federal Reserve. In 2003, the net interest spread declined 6 basis points resulting in a net interest margin decline of 11 basis points. In 2002, the net interest spread increased 2 basis points, but the net interest margin declined 24 basis points. Net interest income in 2003 reflected a decrease in the average yield on earning assets of 70 basis points, while the average cost of interest-bearing liabilities declined only 64 basis points. In 2002, net interest income reflected a decrease in the average yield on earning assets of 150 points, while the average cost of interest-bearing liabilities declined 152 basis points. Over the past three years, the net interest margin has been impacted by changes in earning assets mix and the decrease in general interest rates precipitated by actions of the Federal Reserve.

The yield on loans decreased 62 basis points in 2003, 141 basis points in 2002 and 89 basis points in 2001 as a significant portion of our loan portfolio repriced as interest rates fell through 2003, 2002 and 2001. The cost of interest-bearing liabilities decreased 64 basis points in 2003, 152 basis points in 2002 and 34 basis points in 2001 as deposits repriced when interest rates declined. Average borrowings increased $4.3 million in 2003 and $35.4 million in 2002 as an alternative funding source when loan growth exceeded deposit growth. The average rate paid on borrowings in 2003 decreased 13 basis points to 3.93%. The effects of changes in rates and average volumes are set forth in the table titled “Rate/Volume Analysis.”

Average earning assets increased $9.2 million, or .87%, to $1,067.4 million in 2003 compared to $1,058.2 in 2002. In 2002, average earning assets increased $169.2 million, or 19.03%, from $889.0 million in 2001. Average loans increased $14.0 million, or 1.69%, to $841.9 million in 2003 compared to $827.9 in 2002. Average loans increased $129.6 million, or 18.56%, in 2002 compared to average loans of $698.3 million in 2001. Opportunity for loan growth has remained strong in our market. The growth in average loans in 2002 also reflected the impact of acquisitions consummated in 2001 and accounted for as purchase transactions. The average balance of our securities portfolio increased $14.3 million, or 8.44% during 2003 and $10.0 million, or 6.30% during 2002. Average investment securities represented 15.83% of total average assets in 2003 and 14.68% of total average assets in 2002. All of our investment securities are classified as available for sale. Average earning assets as a percentage of total average assets was 92.28% in 2003 compared to 92.00% in 2002 and 92.60% in 2001.

Average interest-bearing liabilities decreased $8.3 million, or .90%, in 2003 compared to an increase of $159.2 million, or 20.91% in 2002 and an

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

increase of $134.9 million, or 21.53% in 2001. Average interest-bearing deposits decreased $13.0 million, or 1.62%, in 2003 compared to an increase of $94.4 million, or 13.83%, in 2002 and an increase of $117.3 million, or 20.74% in 2001. The decrease in average interest-bearing deposits in 2003 resulted from management's decision to avoid paying the relatively high interest rates on non-core deposits. The increase in average interest-bearing deposits in 2002 was attributable to the purchase acquisitions consummated in 2001. Approximately 14% of total average deposits were noninterest-bearing in 2003 compared to 13% for both 2002 and 2001.

Average short-term borrowings do not represent a material source of funds and the average amounts outstanding during the last three years have remained fairly constant. Other borrowings represent primarily advances by the Federal Home Loan Bank. Average other borrowings increased $3.1 million, or 2.99%, to $106.8 million in 2003 compared to $103.7 in 2002. Average other borrowings increased $34.5 million, or 49.86%, in 2002 compared to average borrowings of $69.2 million in 2001. The increase in average other borrowings in 2002 was attributable to greater utilization of Federal Home Loan advances to fund loan growth. In late 2001, we issued trust preferred securities in the amount of $34.5 million which have been included in interest-bearing liabilities and have remained unchanged since issue.

Noninterest Income

Noninterest income totaled $14.6 million in 2003 compared to $15.6 million in 2002 and $11.7 million in 2001. The decrease of $1.0 million in 2003 resulted from a decrease of $1.6 million in gains on sale of investments securities offset by an increase of $.4 million in service charges on deposit accounts, mortgage origination fees, and other service charges and fees. Other net noninterest income increased $.2 million in 2003 attributable primarily to nonrecurring transactions related to sale of branch real estate and the reversal of contingent liabilities recorded in connection with the sale of our credit card portfolio in 2002.

Noninterest income increased $3.9 million in 2002 compared to 2001. Service charges on deposit accounts increased $2.8 million, or 36.64%, to $10.6 million in 2002 compared to $7.7 million in 2001 on an increase in average deposits of $112.9 million, or 14.46% to $893.8 million in 2002 from $780.9 million in 2001. The increase in service charges on deposit accounts and the increase in average deposits was directly related to the purchase acquisitions consummated in 2001. Origination fees on mortgage loans increased $.5 million or 52.34% to $1.4 million from $.9 million in 2001. The significant increase in mortgage fee income resulted from the volume of mortgage refinancing generated by the decrease in mortgage rates and the inclusion of results of operations for the entire year in 2002 for banks acquired in 2001, whose results of operations were included only since the date of acquisition in accordance with purchase accounting. In 2002, we realized $1. 6 million in gain on sale of securities as compared to $1.2 million in gain on sale of securities in 2001. All other noninterest income increased $214,000 or 20.74 % in 2002 from 2001 and $237,000 or 29.81% in 2001 from 2000. Such increases were primarily attributable to the 2001 bank acquisitions.

Following is a comparison of noninterest income for 2003, 2002 and 2001.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Service charges on deposit accounts	**$ 10,638**	$ 10,550	$ 7,721
Mortgage origination fees	**1,637**	1,365	896
Other service charges, commissions and fees	**917**	806	823
Gain (loss) on sale of securities	**(5)**	1,643	1,253
Other income	**1,435**	1,246	1,032
	$ 14,622	$ 15,610	$ 11,725

Noninterest Expense

In compliance with the requirements of FASB Statement No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases", we allocated $3.4 million of salaries to loan costs in 2003, $3.1 million in 2002 and $3.2 million in 2001. After adjusting salaries and benefits for amounts allocated to loan costs, total salaries and benefits increased $1.7 million, or 7.98%, to $23.0 million in 2003 compared to $21.3 million in 2002. The total full-time equivalent employees remained at approximately 500 employees for both 2003 and 2002. Salaries and employee benefits increased $3.0 million, or 16.39% to $21.3 in 2002 from $18.3 million in 2001. Approximately $2.0 million, or 66.66% of the increase, resulted from the inclusion of salaries and employee benefits for the entire year in expense for 2002 whereas salaries and benefits were included in expense in 2001 from the dates banks were acquired in accordance with purchase accounting. Salaries increased $1.9 million; bonuses increased $.6 million; retirement expense increased $.2 million; and all other employee benefits, including stock options and other grants, insurance and payroll taxes, increased $.3 million.

Equipment and occupancy expense decreased $.3 million to $4.7 million in 2003 compared to $5.0 million in 2002. Equipment and occupancy expense increased $.2 million to $5.0 million in 2002 from $4.8 million in 2001. The 2002 bank acquisitions had the effect of increasing equipment and occupancy expense $.5 million in 2002. This increase was offset by a reduction in leased equipment expense of $.2 million in 2002 and other reductions totaling $.1 million attributable to decreased depreciation .

The decrease of $.8 million in amortization of intangible assets in 2003 compared to 2002 resulted from a reduction in amortization of core deposit premiums paid on prior acquisitions. Amortization of intangible assets charged to expense increased $.6 million in 2002 compared to 2001. As of January 1, 2002, we were required to adopt the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." The adoption of this statement had the effect of reducing amortization expense by approximately $.6 million for amortization of goodwill charged to expense in 2001. Amortization expense for 2002 also included approximately $1.2 million additional amortization related to the 2001 bank acquisitions. The additional expense related to acquisitions, net of the nonamortization provisions of the newly adopted accounting statement resulted in a net increase in amortization expense in 2002 of $.6 million.

Data processing fees remained constant in 2003 compared to 2002. Data processing fees increased $.3 million to $1.5 million in 2002 from $1.2 million in 2001. The significant increase in fees was attributable to increased volume of transactions processed resulting from bank acquisitions and the inclusion of the acquired banks' results of operations for the entire year in 2002 as opposed to inclusion of operations of the acquired banks from the dates of acquisition in 2001. Bank transactions and all accounting data are now processed online on equipment at the Banks, parent company offices or central operations.

All other noninterest expense decreased $3.1 million to $8.2 million in 2003 from $11.3 million in 2002. The decrease was attributed to management's focus on controlling operating expenses in 2003. Significant reductions include decreases in conversion fees of $.7 million, accounting and auditing fees of $.3 million, OREO losses and other losses of $.2 million and postage, stationary and supplies of $.3 million. All other expense increased $2.8 million to $11.5 million in 2002 from $8.7 million in 2001. Approximately $.9 million, or 33.62% of the increase, was attributable to the 2001 acquisitions. Included in the 2002 expense was $.6 million resulting from other real estate losses and sale or abandonment of fixed assets. In 2002, we incurred $.7 million more in conversion charges compared to 2001, $.4 million in additional bank analysis charges and $.3 million in additional postage and stationery supplies. All other expense increased $1.1 million in 2002 over 2001.

Following is a comparison of noninterest income for 2003, 2002 and 2001.

	Years Ended December 31,		
	2003	**2002**	**2001**
	(Dollars in Thousands)		
Salaries and employee benefits	**$ 19,599**	$ 18,192	$ 15,100
Equipment and occupancy	**4,725**	5,039	4,784
Amortization of intangible assets	**1,032**	1,765	1,185
Data processing fees	**1,587**	1,546	1,250
Other expense	**8,204**	11,265	8,524
	$ 35,147	$ 37,807	$ 30,843

Income Taxes

Income taxes totaled $6.0 million in 2003, $5.1 million in 2002 and $4.7 million in 2001. The effective tax rate was 33% for each of the years ended December 31, 2003, 2002 and 2001.

Liquidity and Capital Resources

Liquidity management involves the matching of the cash flow requirements of customers, who may be either depositors desiring to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs, and the ability of ABC and our Banks to meet those needs. We seek to meet liquidity requirements primarily through management of short-term investments (principally interest-bearing deposits in banks) and monthly amortizing loans. Another source of liquidity is the repayment of maturing single payment loans. In addition, our Banks maintain relationships with correspondent banks which could provide funds to them on short notice, if needed.

The liquidity and capital resources of ABC and our Banks are monitored on a periodic basis by state and federal regulatory authorities. At December 31, 2003, the Banks' short-term investments were adequate to cover any reasonable anticipated immediate need for funds. During 2003, we increased our capital by retaining net earnings of $6,935,000 after payment of dividends. After recording a decrease in capital of $1,114,000 for unrealized losses on securities available for sale, net of taxes, an increase of $469,000 for restricted stock transactions, an increase of $9,000 for the exercise of stock options, a decrease of $170,000 for the repurchase of treasury shares, total capital increased $6,129,000 during 2003. At December 31, 2003, total capital of ABC amounted to $113,613,000. We are aware of no events or trends likely to result in a material change in our liquidity.

The following table summarizes the regulatory capital levels of our Company at December 31, 2003.

	Years Ended December 31,					
	2003		2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Federal funds purchased and securities sold under agreement to repurchase	**$ 6,547**	**1.04 %**	$ 5,363	2.20 %	$ 4,523	4.40 %
	Total Balance		Total Balance		Total Balance	
Total maximum short-term borrowings outstanding at any month-end during the year	**$ 13,978**		$ 15,978		$ 16,941	

The following table sets forth certain information about contractual cash obligations as of December 31, 2003.

		Payments Due After December 31, 2003			
	Total	1 Year Or Less	1-3 Years	4-5 Years	After 5 Years
Short-term borrowings	$ 8,211	$ 8,211	$ -	$ -	$ -
Time certificates of deposit	407,176	355,473	39,969	11,580	154
Long-term debt	1,681	1,462	219	-	-
Federal Home Loan Bank advances	95,864	22	16,044	-	79,798
Subordinated deferrable interest debentures	34,500	-	34,500	-	-
Total contractual cash obligations	$ 547,432	$ 365,168	$ 90,732	$ 11,580	$ 79,952

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our operating leases represent short-term obligations, normally with maturities of one year or less. Many of the operating leases have thirty-day cancellation provisions. The total contractual obligations for operating leases do not require a material amount of our cash funds.

At December 31, 2003, we had $1,478,000 in binding commitments for capital expenditures.

In accordance with risk capital guidelines issued by the Federal Reserve Board, we are required to maintain a minimum standard of total capital to risk-weighted assets of 8%. Additionally, all member banks must maintain "core" or "Tier 1" capital of at least 4% of total assets ("leverage ratio"). Member banks operating at or near the 4% capital level are expected to have well-diversified risks, including no undue interest rate risk exposure, excellent control systems, good earnings, high asset quality, and well managed on- and off-balance sheet activities; and, in general, be considered strong banking organizations with a composite 1 rating under the CAMEL rating system of banks. For all but the most highly rated banks meeting the above conditions, the minimum leverage ratio is to be 4% plus an additional 100 to 200 basis points.

The following table summarizes the regulatory capital levels of our Company at December 31, 2003.

	Actual		Required		Excess	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)					
Leverage capital	$ 120,765	10.77 %	$ 44,852	4.00 %	$ 75,913	6.77 %
Risk-based capital:						
Core capital	120,765	13.85	34,874	4.00	85,891	9.85
Total capital	136,022	15.60	69,748	8.00	66,274	7.60

Each Bank also met its individual regulatory capital requirements at December 31, 2003.

INDEPENDENT AUDITOR'S REPORT

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, 2003 and 2002, 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, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Albany, Georgia

January 26, 2004

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

(Dollars in Thousands)		
Assets	**2003**	2002
Cash and due from banks	**$ 44,854**	$ 45,098
Interest-bearing deposits in banks	**35,626**	77,979
Securities available for sale, at fair value	**190,595**	178,303
Restricted stock	**5,694**	5,778
Loans, net of unearned income	**840,539**	833,447
Less allowance for loan losses	**14,963**	14,868
Loans, net	**825,576**	818,579
Premises and equipment, net	**25,537**	25,327
Intangible assets	**3,286**	4,309
Goodwill	**19,231**	19,240
Other assets	**17,645**	17,726
	$ 1,168,044	$ 1,192,339
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 141,715**	$ 131,611
Interest-bearing	**764,809**	784,436
Total deposits	**906,524**	916,047
Federal funds purchased and securities sold under agreements to repurchase	**8,211**	8,204
Other borrowings	**97,545**	117,290
Other liabilities	**7,651**	8,814
Subordinated deferrable interest debentures	**34,500**	34,500
Total liabilities	**1,054,431**	1,084,855
Commitments and contingencies		
Stockholders' equity		
Common stock, par value $1; 30,000,000 shares authorized; 10,849,922 and 10,824,257 shares issued	**10,850**	10,824
Capital surplus	**46,446**	45,946
Retained earnings	**66,145**	59,210
Accumulated other comprehensive income	**522**	1,636
Unearned compensation	**(491)**	(443)
	123,472	117,173
Less cost of 1,066,068 and 1,053,321 shares acquired for the treasury	**(9,859)**	(9,689)
Total stockholders' equity	**113,613**	107,484
	$ 1,168,044	$ 1,192,339

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2003, 2002 and 2001

(Dollars in Thousands)	2003	2002	2001
Interest income			
Interest and fees on loans	**$ 57,707**	$ 61,864	$ 61,980
Interest on taxable securities	**6,079**	8,275	9,072
Interest on nontaxable securities	**156**	187	869
Interest on deposits in other banks	**537**	1,020	943
Interest on federal funds sold	**-**	1	49
	64,479	71,347	72,913
Interest expense			
Interest on deposits	**14,183**	20,286	30,480
Interest on other borrowings	**7,862**	7,858	4,424
	22,045	28,144	34,904
Net interest income	**42,434**	43,203	38,009
Provision for loan losses	**3,945**	5,574	4,566
Net interest income after provision for loan losses	**38,489**	37,629	33,443
Other income			
Service charges on deposit accounts	**10,638**	10,550	7,721
Other service charges, commissions and fees	**917**	806	823
Mortgage origination fees	**1,637**	1,365	896
Gain (loss) on sale of securities	**(5)**	1,643	1,253
Other	**1,435**	1,246	1,032
	14,622	15,610	11,725
Other expenses			
Salaries and employee benefits	**19,599**	18,192	15,100
Equipment expense	**2,112**	2,451	2,833
Occupancy expense	**2,613**	2,588	1,951
Amortization of intangible assets	**1,032**	1,765	1,185
Data processing fees	**1,587**	1,546	1,250
Other operating expenses	**8,204**	11,265	8,524
	35,147	37,807	30,843
Income before income taxes	**17,964**	15,432	14,325
Applicable income taxes	**5,954**	5,077	4,692
Net income	**$ 12,010**	$ 10,355	$ 9,633
Basic earnings per share	**$ 1.23**	$ 1.05	$ 1.05
Diluted earnings per share	**$ 1.22**	$ 1.05	$ 1.04

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2003, 2002 and 2001

(Dollars in Thousands)	**2003**	2002	2001
Net income	**$ 12,010**	$ 10,355	$ 9,633
Other comprehensive income (loss):			
Net unrealized holding gains (losses) arising during period, net of tax (benefits) of $(575), $869 and $606	**(1,117)**	1,687	1,176
Reclassification adjustment for (gains) losses included in net income, net of (tax) benefits of $2, $(558) and $(426)	**3**	(1,085)	(827)
Total other comprehensive income (loss)	**(1,114)**	602	349
Comprehensive income	**$ 10,896**	$ 10,957	$ 9,982

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2003, 2002 and 2001

(Dollars in Thousands)

	Common Stock		Capital	Retained
	Shares	Par Value	Surplus	Earnings
Balance, December 31, 2000	9,137,990	$ 9,138	$ 29,237	$ 48,411
Net income	-	-	-	9,633
Cash dividends declared, $.48 per share	-	-	-	(4,460)
Adjustments to record acquisition of purchased subsidiaries	1,588,347	1,588	15,768	-
Issuance of restricted shares of common stock under employee incentive plan	62,800	63	600	-
Amortization of unearned compensation, net of forfeitures	-	-	-	-
Proceeds from exercise of stock options	1,232	1	11	-
Other comprehensive income	-	-	-	-
Balance, December 31, 2001	10,790,369	10,790	45,616	53,584
Net income	-	-	-	10,355
Cash dividends declared, $.48 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, $.52 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 income	-	-	-	-
Balance, December 31, 2003	10,849,922	$ 10,850	$ 46,446	$ 66,145

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2003, 2002 and 2001

(Dollars in Thousands)

Accumulated Other Comprehensive Income	Unearned Compensation	Treasury Stock Shares	Treasury Stock Cost	Total
$ 685	$ (595)	790,982	$ (6,220)	$ 80,656
-	-	-	-	9,633
-	-	-	-	(4,460)
-	-	-	-	17,356
-	(663)	-	-	-
-	-	-	-	-
-	602	-	-	602
-	-	-	-	12
349	-	-	-	349
1,034	(656)	790,982	(6,220)	104,148
-	-	-	-	10,355
-	-	-	-	(4,729)
-	(231)	-	-	-
-	444	-	-	444
-	-	-	-	133
-	-	262,339	(3,469)	(3,469)
602	-	-	-	602
1,636	(443)	1,053,321	(9,689)	107,484
-	-	-	-	12,010
-	-	-	-	(5,075)
-	(411)	-	-	-
-	363	-	-	363
-	-	-	-	9
-	-	-	-	106
-	-	12,747	(170)	(170)
(1,114)	-	-	-	(1,114)
$ 522	$ (491)	1,066,068	$ (9,859)	$ 113,613

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2002 and 2001

(Dollars in Thousands)	2003	2002	2001
OPERATING ACTIVITIES			
Net income	**$ 12,010**	$ 10,355	$ 9,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,858**	2,241	2,438
Amortization of intangible assets	**1,032**	1,765	1,185
Amortization of unearned compensation	**363**	444	602
Net gains (losses) on sale of securities available for sale	**5**	(1,643)	(1,253)
Net (gains) losses on sale or disposal of premises and equipment	**3**	320	(13)
Provision for loan losses	**3,945**	5,574	4,566
Provision for deferred taxes	**(157)**	(65)	(726)
Decrease in interest receivable	**944**	1,120	2,233
Decrease in interest payable	**(667)**	(1,216)	(672)
Increase (decrease) in taxes payable	**(284)**	588	167
Net other operating activities	**(533)**	2,964	(900)
Total adjustments	**6,509**	12,092	7,627
Net cash provided by operating activities	**18,519**	22,447	17,260
INVESTING ACTIVITIES			
(Increase) decrease in interest-bearing deposits in banks	**42,353**	28,193	(97,267)
Purchases of securities available for sale	**(129,998)**	(140,148)	(86,585)
Proceeds from maturities of securities available for sale	**89,533**	78,632	82,511
Proceeds from sale of securities available for sale	**26,479**	37,903	42,996
(Increase) decrease in restricted stock, net	**84**	(1,077)	(1,215)
Decrease in federal funds sold	**-**	44	13,942
Increase in loans, net	**(10,942)**	(34,021)	(53,244)
Purchase of premises and equipment	**(2,071)**	(1,726)	(1,896)
Proceeds from sale of premises and equipment	**-**	-	28
Net cash received from acquisitions	**-**	-	11,609
Net cash provided by (used in) investing activities	**15,438**	(32,200)	(89,121)
FINANCING ACTIVITIES			
Increase (decrease) in deposits	**(9,523)**	(14,971)	24,591
Increase in federal funds purchased and securities sold under agreements to repurchase	**7**	4,412	1,139
Proceeds from other borrowings	**15,000**	25,100	69,738
Repayment of other borrowings	**(34,745)**	(2,908)	(39,515)
Dividends paid	**(4,885)**	(4,749)	(4,262)
Proceeds from exercise of stock options	**9**	133	12
Proceeds from issuance of trust preferred securities	**-**	-	34,500
Reduction in income taxes payabe resulting from vesting of restricted shares	**106**	-	-
Payment for debt issue costs	**-**	-	(1,450)
Purchase of treasury shares	**(170)**	(3,469)	-
Net cash provided by (used in) financing activities	**(34,201)**	3,548	84,753
Net increase (decrease) in cash and due from banks	**(244)**	(6,205)	12,892
Cash and due from banks at beginning of year	**45,098**	51,303	38,411
Cash and due from banks at end of year	**$ 44,854**	$ 45,098	$ 51,303

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2002 and 2001

(**Dollars in Thousands**)	**2003**	2002	2001
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	**$ 22,712**	$ 29,360	$ 35,576
Income taxes	**$ 6,395**	$ 4,554	$ 5,251
NONCASH TRANSACTIONS			
Principal balances of loans transferred to other real estate owned	**$ 2,096**	$ 3,390	$ 2,216
Common stock issued in connection with business acquisitions	**$ -**	$ -	$ 17,590

See Notes to Consolidated Financial Statements.

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 accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date 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 relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, contingent assets and liabilities, impairment of intangible assets and goodwill. 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 and 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, based on a percentage of deposits. The total of those reserve balances was approximately $7,845,000 and $6,438,000 at December 31, 2003 and 2002, 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 not classified as held to maturity, 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 stock, without a readily determinable fair value are classified as available for sale and recorded at cost.

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.

Loans

Loans are reported at their outstanding principal balances less unearned income, net deferred fees 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. 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 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. 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, based on an evaluation of the collectibility of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower's ability to pay. 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 (or 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 principally on the straight-line method over the estimated useful lives:

	Years
Buildings	39
Furniture and equipment	5-7

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 test of impairment in the fourth quarter and determined that there was impairment of approximately $9,000 in the carrying value of goodwill allocated to a subsidiary bank as of October 1, 2003.
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.

For the years ended December 31, 2003 and December 31, 2002, no amortization of goodwill was included in the consolidated statements of income, except for the impairment charge of $9,000 in 2003. For the year ended December 31, 2001, charges in the amount of $668,000 were included in the consolidated statements of income for amortization of goodwill. Included in the consolidated statements of income for December 31, 2003, 2002 and 2001 were charges for amortization of identifiable intangible assets in the amounts of $1,023,000, $1,765,000 and $517,000, respectively.

Other Real Estate Owned

Other real estate owned represents properties acquired through or in lieu of loan foreclosure and is initially recorded at the lower of cost or fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. The carrying amount of other real estate owned at December 31, 2003 and 2002 was $1,503,139 and $1,534,200, 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

The Company has two stock-based employee compensation plans, which are described more fully in Note 13. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to*

Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those 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, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Years Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Net income, as reported	**$ 12,010**	$ 10,355	$ 9,633
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(70)**	(54)	(39)
Pro forma net income	**$ 11,940**	$ 10,301	$ 9,594
Earnings per share:			
Basic - as reported	**$ 1.23**	$ 1.05	$ 1.05
Basic - pro forma	**$ 1.22**	$ 1.04	$ 1.04
Diluted - as reported	**$ 1.22**	$ 1.05	$ 1.04
Diluted - pro forma	**$ 1.21**	$ 1.04	$ 1.04

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. 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 potential common shares. Potential common shares consist of stock options for the years ended December 31, 2003, 2002 and 2001. The weighted-average number of shares outstanding for the years ended December 31, 2003, 2002 and 2001 was 9,772,166, 9,858,463 and 9,214,276, respectively. The weighted-average number of shares outstanding and potential shares for the years ended December 31, 2003, 2002 and 2001 was 9,838,590, 9,908,663 and 9,250,040, respectively.

Potential common shares not included due to the fact that they would be anti-dilutive at December 31, 2003, 2002 and 2001 were 62,577, 89,944 and 30,696, respectively.

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.

Accounting Standards

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". The interpretation discusses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. It also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing a guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements in the interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the interpretation did not have a material effect on the Company's financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123". The Statement amends Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect on reported results of operations. The disclosure requirements of the statement are required for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. The Company has not adopted Statement No. 123 for accounting for stock-based compensation as of December 31, 2003; however, all required disclosures of Statement No. 148 are included above under the heading "Stock-Based Compensation".

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 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 may require deconsolidation of subsidiary trusts which issued subordinated debentures. The Company plans to adopt the provisions under the revised interpretation in the first quarter of 2004. The adoption of FIN 46 and related revisions is not expected to have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". The statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The statement requires that an issuer classify a financial instrument that is within its scope as a liability. Many of those instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. Mandatorily redeemable financial instruments of nonpublic entities are subject to the provisions of the statement for the first fiscal period beginning after December 15, 2003. The adoption of the statement did not have a material effect on the Company's financial condition or results of operations.

Reclassification of Certain Items

Certain items in the consolidated financial statements as of and for the years ended December 31, 2002 and 2001 have been reclassified, with no effect on total assets or net income, to be consistent with the classifications adopted for the year ended December 31, 2003.

NOTE 2. Securities

The amortized cost and fair value of securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
December 31, 2003:				
U. S. Government and agency securities	**$ 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**
Equity securities	**788**	**-**	**(47)**	**741**
	$ 189,805	**$ 1,425**	**$ (635)**	**$ 190,595**
December 31, 2002:				
U. S. Government and agency securities	$ 72,326	$ 1,488	$ (41)	$ 73,773
State and municipal securities	3,362	179	(12)	3,529
Corporate debt securities	22,838	384	(355)	22,867
Mortgage-backed securities	76,439	921	(46)	77,314
Equity securities	859	-	(39)	820
	$ 175,824	$ 2,972	$ (439)	$ 178,303

The amortized cost and fair value of securities available for sale as of December 31, 2003 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.

	Amortized Cost	Fair Value
	(Dollars in Thousands)	
Due in one year or less	$ 37,330	$ 37,793
Due from one year to five years	57,171	57,893
Due from five to ten years	6,340	6,375
Due after ten years	4,626	4,685
Mortgage-backed securities	83,550	83,108
Equity securities	788	741
	$ 189,805	$ 190,595

NOTE 2. Securities (Continued)

Securities with a carrying value of $125,547,653 and $84,535,517 at December 31, 2003 and 2002, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gains and losses on sales of securities available for sale consist of the following:

	December 31,		
	2003	**2002**	**2001**
	(Dollars in Thousands)		
Gross gains on sales of securities	**$ 87**	$ 1,643	$ 1,253
Gross losses on sales of securities	**(92)**	-	-
Net realized gains (losses) on sales of securities available for sale	**$ (5)**	$ 1,643	$ 1,253

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, 2003.

	Less than 12 months		12 months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities	Dollars in Thousands					
U.S. Government and agency securities	$ 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
Subtotal, debt services	62,762	587	982	1	63,744	588
Equity securities	-	-	221	47	221	47
Total temporarily impaired securities	$ 62,762	$ 587	$ 1,203	$ 48	$ 63,965	$ 635

The majority of debt securities containing unrealized losses at December 31, 2003 represent mortgage-backed securities. Nine (9) securities contained unrealized losses greater than two percent (2%) of their costs. None of the securities contained an unrealized loss greater than 2.50% of its cost. One equity security representing an investment in a mutual fund reflected an unrealized loss of 17% of its cost. The unrealized loss in this security represented 7.4% 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.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans is summarized as follows:

	December 31,	
	2003	2002
	(Dollars in Thousands)	
Commercial and financial	**$ 157,594**	$ 172,429
Agricultural	**22,051**	34,007
Real estate – construction	**60,978**	23,020
Real estate - mortgage, farmland	**65,433**	63,093
Real estate - mortgage, commercial	**250,247**	243,037
Real estate - mortgage, residential	**209,172**	209,485
Consumer installment loans	**68,230**	78,535
Other	**6,834**	9,841
	840,539	833,447
Allowance for loan losses	**14,963**	14,868
	$ 825,576	$ 818,579

The following is a summary of information pertaining to impaired loans:

	As of and For the Years Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Impaired loans without a valuation allowance	**$ -**	$ -	$ -
Impaired loans with a valuation allowance	**6,472**	7,561	11,958
Total impaired loans	**$ 6,472**	$ 7,561	$ 11,958
Valuation allowance related to impaired loans	**$ 1,105**	$ 1,358	$ 1,984
Average investment in impaired loans	**$ 8,619**	$ 8,966	$ 8,249
Interest income recognized on impaired loans	**$ 27**	$ 26	$ 6
Forgone interest income on impaired loans	**$ 842**	$ 792	$ 666

Loans on nonaccrual status amounted to approximately $6,472,000, $7,561,000 and $11,958,000 at December 31, 2003, 2002 and 2001, respectively. There were $25,000, $171,000 and $691,000 of loans past due ninety days or more and still accruing interest at December 31, 2003, 2002, and 2001, respectively.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Changes in the allowance for loan losses for the years ended December 31, 2003, 2002, and 2001 are as follows:

	December 31,		
	2003	**2002**	**2001**
	(Dollars in Thousands)		
Balance, beginning of year	**$ 14,868**	$ 14,944	$ 9,832
Provision for loan losses	**3,945**	5,574	4,566
Loans charged off	**(5,226)**	(7,159)	(5,488)
Recoveries of loans previously charged off	**1,376**	1,509	1,110
Acquired loan loss reserve	**-**	-	4,924
Balance, end of year	**$ 14,963**	$ 14,868	$ 14,944

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,	
	2003	**2002**
	(Dollars in Thousands)	
Balance, beginning of year	**$ 42,807**	$ 34,488
Advances	**19,467**	33,424
Repayments	**(29,966)**	(26,285)
Transactions due to changes in related parties	**2,934**	1,180
Balance, end of year	**$ 35,242**	$ 42,807

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2003	**2002**
	(Dollars in Thousands)	
Land	**$ 6,694**	$ 6,096
Buildings	**23,030**	22,618
Furniture and equipment	**17,275**	17,889
Construction in progress, estimated cost to complete, $1,478,000	**1,026**	472
	48,025	47,075
Accumulated depreciation	**(22,488)**	(21,748)
	$ 25,537	$ 25,327

NOTE 5. INTANGIBLE ASSETS

Following is a summary of information related to acquired intangible assets:

	As of December 31, 2003		As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in Thousands)			
Amortized intangible assets				
Core deposit premiums	**$ 8,896**	**$ 5,610**	$ 8,896	$ 4,587

The aggregate amortization expense for intangible assets was $1,023,000, $1,765,000 and $1,185,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

The estimated amortization expense for each of the next five years is as follows:

2004	$ 790,000
2005	642,000
2006	549,000
2007	490,000
2008	287,000

Changes in the carrying amount of goodwill are as follows:

	For the Years Ended December 31,	
	2003	2002
	(Dollars in Thousands)	
Beginning balance	$ **19,240**	$ 19,240
Goodwill written off at a subsidiary Bank	**(9)**	-
Ending balance	**$ 19,231**	$ 19,240

Following is a summary of net income and earnings per share that would have been reported exclusive of amortization expense recognized in those periods related to goodwill and intangible assets that are no longer being amortized.

	For the Years Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Reported net income	**$ 12,010**	$ 10,355	$ 9,633
Add back goodwill amortization	**-**	-	668
Adjusted net income	**$ 12,010**	$ 10,355	$ 10,301

NOTE 5. INTANGIBLE ASSETS (Continued)

	For the Years Ended December 31,		
	2003	2002	2001
	(Dollars in Thousands)		
Basic earnings per share:			
Reported net income	**$ 1.23**	$ 1.05	$ 1.05
Goodwill amortization	**-**	-	.07
Adjusted net income	**$ 1.23**	$ 1.05	$ 1.12
Diluted earnings per share:			
Reported net income	**$ 1.22**	$ 1.05	$ 1.04
Goodwill amortization	**-**	-	.07
Adjusted net income	**$ 1.22**	$ 1.05	$ 1.11

NOTE 6. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2003 and 2002 was $149,991,000 and $155,048,000, respectively. The scheduled maturities of time deposits at December 31, 2003 are as follows:

	(Deposits in Thousands)
2004	$ 355,470
2005	30,634
2006	9,338
2007	6,855
2008	4,725
Later years	154
	$ 407,176

At December 31, 2003 and 2002, overdraft demand deposits reclassified to loans totaled $1,402,000 and $1,226,000, respectively.

NOTE 7. 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, 2003 and 2002 were $8,211,000 and $8,204,000, respectively.

NOTE 8. 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 2003, 2002 and 2001 amounted to $1,149,000, $877,000 and $655,000, respectively.

NOTE 9. DEFERRED COMPENSATION PLANS

The Company and two 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 remaining 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 $1,231,000 and $1,038,000 at December 31, 2003 and 2002, respectively, is included in other assets. Accrued deferred compensation of $1,105,000 and $1,012,000 at December 31, 2003 and 2002, respectively, is included in other liabilities. Aggregate compensation expense under the plans were $94,000, $93,000 and $74,000 for 2003, 2002 and 2001, respectively, and is included in other operating expenses.

NOTE 10. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31, 2003	December 31, 2002
	(Dollars in Thousands)	
Advances under revolving credit agreement with SunTrust Bank with interest at LIBOR plus 1.15% (2.02% at December 31, 2003) due on May 31, 2004, secured by subsidiary bank stock.	**$ -**	$ 100
Advances from SunTrust Bank with 5 quarterly principal payments of $366,000 at sixty-day LIBOR rate plus .9% (2.07% at December 31, 2003), maturing July 23, 2005.	**1,681**	8,044
Advances from Federal Home Loan Bank with interest at adjustable rate (4.08% at December 31, 2003), due February 10, 2005.	**15,000**	26,000
Advances from Federal Home Loan Bank with interest at a fixed rate of 6.72%, due in annual installments due November 1, 2006.	**65**	152
Advances from Federal Home Loan Bank with interest at a fixed rate (ranging from 3.66% to 6.12%) convertible to a variable rate at option of Federal Home Loan Bank, due at various dates from September 28, 2004 through August 6, 2012.	**80,799**	82,994
	$ 97,545	$117,290

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, 2003 have maturities in future years as follows:

	(Dollars in Thousands)
2004	$ 1,484
2005	16,241
2006	22
2007	-
2008	-
Later years	79,798
	$ 97,545

The Company and subsidiaries have available unused lines of credit with various financial institutions totaling approximately $80,100,000 at December 31, 2003. There were no other advances outstanding at December 31, 2003 or 2002.

NOTE 11. INCOME TAXES

The income tax expense in the consolidated statements of income consists of the following:

	Years Ended December 31, 2003	2002	2001
	(Dollars in Thousands)		
Current	**$ 6,111**	$ 5,142	$ 5,418
Deferred	**(157)**	(65)	(726)
	$ 5,954	$ 5,077	$ 4,692

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:

	Years Ended December 31, 2003	2002	2001
	(Dollars in Thousands)		
Tax at federal income tax rate	**$ 6,108**	$ 5,247	$ 4,871
Increase (decrease) resulting from:			
Tax-exempt interest	**(201)**	(224)	(476)
Amortization of intangible assets	**13**	33	274
Other	**34**	21	23
Provision for income taxes	**$ 5,954**	$ 5,077	$ 4,692

Net deferred income tax assets of $4,363,000 and $3,632,000 at December 31, 2003 and 2002, respectively, are included in other assets. The components of deferred income taxes are as follows:

	December 31, 2003	2002
	(Dollars in Thousands)	
Deferred tax assets:		
Loan loss reserves	**$ 5,022**	$ 4,942
Deferred compensation	**376**	344
Unearned compensation related to restricted stock	**287**	295
Nonaccrual interest	**134**	235
Net operating loss tax carryforward	**91**	115
Other	**232**	121
	6,142	6,052
Deferred tax liabilities:		
Depreciation and amortization	**419**	242
Unrealized gain on securities available for sale	**269**	843
Intangible assets	**1,091**	1,335
	1,779	2,420
Net deferred tax assets	**$ 4,363**	$ 3,632

NOTE 12. 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.

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 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 I 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, 2003 and 2002 was $34,500,000. The aggregate principal amount of Debentures outstanding at those dates was $35,567,000.

The Company will be required to adopt the provisions of FIN 46 in the first quarter of 2004 and may be required to deconsolidate the trust subsidiary. The adoption of FIN 46 is not expected to have a material effect on the Company's consolidated financial statements.

NOTE 13. STOCK OPTION PLANS

The Company has two fixed stock option plans under which it has granted options to its 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 10,000 shares were granted. All of these options were exercised during 2002. Under the 1997 Plan, options to purchase 67,500 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 60,150 shares were exercisable as of December 31, 2003.

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 637,500 subject to adjustment in certain circumstances to prevent dilution. As of December 31, 2003, the Company has issued a total of 211,596 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 $363,000, $444,000 and $602,000 for 2003, 2002 and 2001, respectively. In addition to the granting of restricted shares, options to purchase 276,039 shares of the Company's common stock have been granted under the Omnibus Plan as of December 31, 2003.

Other pertinent information related to the options is as follows:

	December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Under option, beginning of the year	**313,988**	**$ 11.95**	285,943	$ 10.95	239,553	$ 11.00
Granted	**40,250**	**16.50**	81,950	14.42	71,550	10.60
Exercised	**(865)**	**9.90**	(18,589)	7.17	(1,232)	10.09
Forfeited	**(9,834)**	**13.16**	(35,316)	12.06	(23,928)	10.47
Under option, end of year	**343,539**	**12.46**	313,988	11.95	285,943	10.95
Exercisable at end of year	**182,757**	**$ 11.75**	130,352	$ 11.67	99,625	$ 11.09
Weighted-average fair value per option of options granted during year		**$ 3.13**		$ 2.96		$ 1.84

NOTE 13. STOCK OPTION PLANS (Continued)

Information pertaining to options outstanding at December 31, 2003 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Contractual Life in Years	Weighted-Average Exercise Price	Number Outstanding	Weighted-Average Exercise Price
$ 11.33	67,500	3.3	$ 11.33	60,150	$ 11.33
15.94	22,327	4.0	15.94	22,327	15.94
14.17	6,000	4.3	14.17	6,000	14.17
10.39	600	5.1	10.39	480	10.39
9.90	21,462	5.1	9.90	17,170	9.90
10.11	6,000	5.3	10.11	4,800	10.11
10.83	2,400	5.9	10.83	1,920	10.83
10.38	56,000	6.1	10.38	33,600	10.38
9.94	3,000	6.5	9.94	1,800	9.94
10.50	44,550	7.1	10.50	17,820	10.50
11.20	10,000	7.5	11.20	4,000	11.20
13.25	8,000	8.2	13.25	1,600	13.25
14.55	55,450	8.7	14.55	11,090	14.55
16.50	40,250	9.3	16.50	-	-
	343,539	6.32	12.46	182,757	11.75

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,		
	2003	**2002**	**2001**
Dividend yield	**3.60%**	3.60%	3.60%
Expected life	**7 years**	7 years	10 years
Expected volatility	**22.30%**	22.80%	15.04%
Risk-free interest rate	**4.03%**	4.60%	5.05%

NOTE 14. EARNINGS PER SHARE

Presented below is a summary of the components used to calculate basic and diluted earnings per share:

	Years Ended December 31,		
	2003	**2002**	**2001**
		Dollars in Thousands	
Net income	**$ 12,010**	$ 10,355	$ 9,633
Weighted average number of common shares outstanding	**9,772**	9,859	9,214
Effect of dilutive options	**66**	50	36
Weighted average number of common shares outstanding used to calculate dilutive earnings per share	**9,838**	9,909	9,250

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 in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit 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,	
	2003	**2002**
	(Dollars in Thousands)	
Commitments to extend credit	**$ 104,573**	$ 89,540
Financial standby letters of credit	**2,536**	5,315
	$ 107,109	$ 94,855

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 party.

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, 2003 and 2002, 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, 2003 and 2002.

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 adverse 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.

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 market 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, 2003 as follows:

Noninterest-bearing accounts	$ 28,412
Interest-bearing accounts	$ 33,847

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, 2003, approximately $7,664,000 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 consolidated 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 the Company's and Banks' 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 to risk-weighted assets, as defined, and of Tier I capital to average assets, as defined. Management believes, as of December 31, 2003 and 2002, the Company and the Banks met all capital adequacy requirements to which they are subject.

As of December 31, 2003, 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.

The Company and Banks' actual capital amounts and ratios are presented in the following table.

As of December 31, 2003	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
Total Capital to Risk Weighted Assets:	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in Thousands)			
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%

NOTE 17. REGULATORY MATTERS (Continued)

As of December 31, 2003 (Continued)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Tier 1 to 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%	$ 4,340	5.00%
Bank of Thomas County	$ 4,085	8.65%	$ 1,889	4.00%	$ 2,361	5.00%
Citizens Security Bank	$ 14,059	8.79%	$ 6,398	4.00%	$ 7,997	5.00%
Cairo Banking Company	$ 6,244	7.45%	$ 3,352	4.00%	$ 4,191	5.00%
Southland Bank	$ 16,460	7.09%	$ 9,286	4.00%	$ 11,608	5.00%
Central Bank and Trust	$ 4,456	7.92%	$ 2,251	4.00%	$ 2,813	5.00%
First National Bank of South Georgia	$ 6,275	7.92%	$ 3,169	4.00%	$ 3,961	5.00%
Merchants and Farmers Bank	$ 7,648	8.60%	$ 3,557	4.00%	$ 4,447	5.00%
Tri-County Bank	$ 6,568	9.61%	$ 2,734	4.00%	$ 3,417	5.00%
First Bank of Brunswick	$ 14,464	10.29%	$ 5,623	4.00%	$ 7,028	5.00%

NOTE 17. REGULATORY MATTERS (Continued)

As of December 31, 2002	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Total Capital to Risk Weighted Assets:						
Consolidated	$ 127,577	14.87%	$ 68,649	8.00%	-	— N/A —
American Banking Company	$ 17,374	13.63%	$ 10,200	8.00%	$ 12,750	10.00%
Heritage Community Bank	$ 8,210	12.30%	$ 5,342	8.00%	$ 6,678	10.00%
Bank of Thomas County	$ 4,813	11.67%	$ 3,299	8.00%	$ 4,124	10.00%
Citizens Security Bank	$ 14,937	11.95%	$ 10,002	8.00%	$ 12,502	10.00%
Cairo Banking Company	$ 7,236	13.85%	$ 4,181	8.00%	$ 5,226	10.00%
Southland Bank	$ 19,782	14.13%	$ 11,198	8.00%	$ 13,998	10.00%
Central Bank and Trust	$ 5,721	13.04%	$ 3,509	8.00%	$ 4,386	10.00%
First National Bank of South Georgia	$ 6,772	11.21%	$ 4,833	8.00%	$ 6,041	10.00%
Merchants and Farmers Bank	$ 8,266	14.40%	$ 4,591	8.00%	$ 5,739	10.00%
Tri-County Bank	$ 6,589	16.20%	$ 3,254	8.00%	$ 4,067	10.00%
First Bank of Brunswick	$ 14,342	12.15%	$ 9,443	8.00%	$ 11,804	10.00%
Tier I Capital to Risk Weighted Assets:						
Consolidated	$ 109,733	12.79%	$ 34,325	4.00%	-	— N/A —
American Banking Company	$ 15,776	12.37%	$ 5,100	4.00%	$ 7,650	6.00%
Heritage Community Bank	$ 7,375	11.04%	$ 2,671	4.00%	$ 4,007	6.00%
Bank of Thomas County	$ 4,296	10.42%	$ 1,649	4.00%	$ 2,474	6.00%
Citizens Security Bank	$ 13,366	10.69%	$ 5,001	4.00%	$ 7,501	6.00%
Cairo Banking Company	$ 6,577	12.58%	$ 2,090	4.00%	$ 3,136	6.00%
Southland Bank	$ 18,019	12.87%	$ 5,599	4.00%	$ 8,399	6.00%
Central Bank and Trust	$ 5,169	11.79%	$ 1,754	4.00%	$ 2,631	6.00%
First National Bank of South Georgia	$ 6,015	9.96%	$ 2,416	4.00%	$ 3,625	6.00%
Merchants and Farmers Bank	$ 7,543	13.14%	$ 2,295	4.00%	$ 3,443	6.00%
Tri-County Bank	$ 6,104	15.01%	$ 1,627	4.00%	$ 2,440	6.00%
First Bank of Brunswick	$ 12,861	10.90%	$ 4,722	4.00%	$ 7,083	6.00%

NOTE 17. REGULATORY MATTERS (Continued)

As of December 31, 2002 Tier 1 Capital to Average Assets:	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
Consolidated	$ 109,733	9.49%	$ 46,252	4.00%	— N/A —	
American Banking Company	$ 15,776	9.02%	$ 6,996	4.00%	$ 8,745	5.00%
Heritage Community Bank	$ 7,375	9.21%	$ 3,203	4.00%	$ 4,004	5.00%
Bank of Thomas County	$ 4,296	8.37%	$ 2,053	4.00%	$ 2,566	5.00%
Citizens Security Bank	$ 13,366	8.01%	$ 6,675	4.00%	$ 8,343	5.00%
Cairo Banking Company	$ 6,577	8.09%	$ 3,252	4.00%	$ 4,065	5.00%
Southland Bank	$ 18,019	6.83%	$ 10,553	4.00%	$ 13,191	5.00%
Central Bank and Trust	$ 5,169	8.44%	$ 2,450	4.00%	$ 3,062	5.00%
First National Bank of South Georgia	$ 6,015	8.04%	$ 2,993	4.00%	$ 3,741	5.00%
Merchants and Farmers Bank	$ 7,543	8.11%	$ 3,720	4.00%	$ 4,650	5.00%
Tri-County Bank	$ 6,104	9.19%	$ 2,657	4.00%	$ 3,321	5.00%
First Bank of Brunswick	$ 12,861	9.29%	$ 5,538	4.00%	$ 6,922	5.00%

NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair value is based on discounted cash flows or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. *SFAS 107, Disclosures about Fair Value of Financial Instruments*, excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments.

Cash, Due From Banks, Interest-Bearing Deposits in Banks: The carrying amount of cash, due from banks and interest-bearing deposits in banks approximates fair value.

Securities: Fair value of securities is based on available quoted market prices. The carrying amount of equity securities with no readily determinable fair value approximates fair value.

Loans: The carrying amount of variable-rate loans that reprice frequently and have no significant change in credit risk approximates fair value. The fair value of fixed-rate loans is estimated based on discounted contractual cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of impaired loans is estimated based on discounted contractual cash flows or underlying collateral values, where applicable.

Deposits: The carrying amount of demand deposits, savings deposits and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

Federal Funds Purchased, Repurchase Agreements and Other Borrowings: The carrying amount of variable rate borrowings, federal funds purchased and securities sold under repurchase agreements approximate fair value. The fair value of fixed rate other borrowings are estimated based on discounted contractual cash flows using the current incremental borrowing rates for similar type borrowing arrangements.

Subordinated Deferrable Interest Debentures: The fair value of the Company's fixed rate trust preferred securities are based on available quoted market prices.

NOTE 18. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Accrued Interest: The carrying amount of accrued interest approximates their fair value.

Off-Balance-Sheet Instruments: The carrying amount of commitments to extend credit and standby letters of credit approximates fair value. The carrying amount of the off-balance-sheet financial instruments is based on fees charged to enter into such agreements.

The carrying amount and estimated fair value of the Company's financial instruments were as follows:

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash, due from banks and interest-bearing deposits in banks	**$ 80,480**	**$ 80,480**	$ 123,077	$ 123,077
Securities available for sale	**$ 190,595**	**$ 190,595**	$ 178,303	$ 178,303
Restricted stock	**$ 5,694**	**$ 5,694**	$ 5,778	$ 5,778
Loans	**$ 840,539**	**$ 843,095**	$ 833,447	$ 837,057
Allowance for loan losses	**14,963**	**-**	14,868	-
Loans, net	**$ 825,576**	**$ 843,095**	$ 818,579	$ 837,057
Accrued interest receivable	**$ 8,702**	**$ 8,702**	$ 9,647	$ 9,647

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial liabilities:				
Deposits	**$ 906,524**	**$ 908,079**	$ 916,185	$ 919,406
Federal funds purchased and securities sold under agreements to repurchase	**$ 8,211**	**$ 8,211**	$ 8,204	$ 8,204
Other borrowings	**$ 97,545**	**$ 97,515**	$ 117,290	$ 117,094
Accrued interest payable	**$ 1,728**	**$ 1,728**	$ 2,395	$ 2,395
Trust preferred securities	**$ 34,500**	**$ 38,019**	$ 34,500	$ 37,088

NOTE 19. CONDENSED FINANCIAL INFORMATION OF ABC BANCORP (PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(Dollars in Thousands)

	2003	2002
Assets		
Cash	**$ 1,547**	$ 3,535
Interest bearing deposits in banks	**17,575**	14,933
Investment in subsidiaries	**125,477**	128,286
Other assets	**8,252**	6,232
Total assets	**$ 152,851**	$ 152,986
Liabilities		
Other borrowings	**$ 1,681**	$ 8,144
Other liabilities	**3,057**	2,858
Trust preferred securities	**34,500**	34,500
Total liabilities	**39,238**	45,502
Stockholders' equity	**113,613**	107,484
Total liabilities and stockholders' equity	**$ 152,851**	$ 152,986

NOTE 19. CONDENSED FINANCIAL INFORMATION OF ABC BANCORP (PARENT COMPANY ONLY) (Continued)

CONDENSED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Dollars in Thousands)

	2003	2002	2001
Income			
Dividends from subsidiaries	**$ 17,464**	$ 4,220	$ 7,386
Interest	**165**	334	212
Fee income	**10,440**	9,865	9,252
Other income	**2,049**	1,416	1,002
Total income	**30,118**	15,835	17,852
Expense			
Interest	**3,536**	3,650	955
Amortization and depreciation	**839**	1,129	1,599
Other expense	**12,221**	12,239	10,072
Total expense	**16,596**	17,018	12,626
Income (loss) before income tax benefits and equity in undistributed earnings of subsidiaries (distributions in excess of earnings)	**13,522**	(1,183)	5,226
Income tax benefits	**1,232**	1,860	590
Income before equity in undistributed earnings of subsidiaries (distributions in excess of earnings)	**14,754**	677	5,816
Equity in undistributed earnings of subsidiaries (distributions in excess of earnings)	**(2,744)**	9,678	3,817
Net income	**$ 12,010**	$ 10,355	$ 9,633

NOTE 19. CONDENSED FINANCIAL INFORMATION OF ABC BANCORP (PARENT COMPANY ONLY) (Continued)

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Dollars in Thousands)

	2003	2002	2001
OPERATING ACTIVITIES			
Net income	**$ 12,010**	$ 10,355	$ 9,633
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**476**	685	698
Amortization of intangible assets	**-**	-	299
Amortization of unearned compensation	**363**	444	602
(Undistributed earnings of subsidiaries) distributions in excess of earnings	**2,744**	(9,678)	(3,817)
(Increase) decrease in interest receivable	**5**	(9)	(2)
Increase (decrease) in interest payable	**-**	(58)	58
Increase (decrease) in taxes payable	**(564)**	4	(552)
Provision for deferred taxes	**80**	(27)	(284)
(Increase) decrease in due from subsidiaries	**(178)**	301	(61)
Other operating activities	**(709)**	624	(729)
Total adjustments	**2,217**	(7,714)	(3,788)
Net cash provided by operating activities	**14,227**	2,641	5,845
INVESTING ACTIVITIES			
Increase in interest-bearing deposits in banks	**(2,642)**	(11,376)	(3,557)
Purchases of premises and equipment	**(1,121)**	(369)	(111)
Contribution of capital to subsidiary bank	**(1,050)**	-	(8,500)
Proceeds from sale of premises and equipment	**-**	-	422
Net cash paid for purchased subsidiaries	**-**	-	(11,681)
Net cash used in investing activities	**(4,813)**	(11,745)	(23,427)
FINANCING ACTIVITIES			
Repayment of other borrowings	**(6,462)**	(1,463)	(7,131)
Purchase of treasury shares	**(170)**	(3,469)	-
Dividends paid	**(4,885)**	(4,749)	(4,262)
Proceeds from other borrowings	**-**	-	14,738
Proceeds from issuance of trust preferred	**-**	-	34,500
Reduction in income taxes payable resulting from vesting of restricted shares	**106**	-	-
Proceeds from exercise of stock options	**9**	133	12
Net cash provided by (used in) financing activities	**(11,402)**	(9,548)	37,857
Net increase (decrease) in cash	**(1,988)**	(18,652)	20,275
Cash at beginning of year	**3,535**	22,187	1,912
Cash at end of year	**$ 1,547**	$ 3,535	$ 22,187
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	**$ 3,239**	$ 3,388	$ 853

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ABC BANCORP EXECUTIVE OFFICERS, DIRECTORS AND SENIOR MANAGEMENT

Executive Officers

Chairman of the Board
& Chief Executive Officer
Kenneth J. Hunnicutt

President & Chief Operating Officer,
North Regional Executive
Edwin W. Hortman, Jr.

Executive Vice President
& Chief Financial Officer
W. Edwin Lane, Jr., CPA

Executive Vice President &
South Regional Executive
Jon S. Edwards

Executive Vice President,
Director of Human Resources
& Corporate Secretary
Cindi H. Lewis

Directors

Kenneth J. Hunnicutt, Chairman
Occupation: Banker
Main Employer: ABC Bancorp

Doyle Weltzbarker, Vice Chairman
Occupation: Farm Products
Main Employer: West End Milling

Johnny W. Floyd
Occupation: Timber and Realty
Main Employer: Floyd Timber Company & Cordele Realty, Inc.

J. Raymond Fulp
Occupation: Pharmacist
Main Employer: CVS Pharmacy

Edwin W. Hortman, Jr.
Occupation: Banker
Main Employer: ABC Bancorp

Daniel B. Jeter
Occupation: Consumer Finance
Main Employer: Standard Discount

Robert P. Lynch
Occupation: Automobile Dealer
Main Employer: Motor Finance Co.

Eugene M. Vereen, Jr.
Chairman Emeritus
Occupation: Investments
Main Employer: M.I.A., Co.

J. Thomas Whelchel
Occupation: Attorney
Main Employer: Whelchel, Brown, Readdick & Bumgartner

Henry C. Wortman
Occupation: Dairyman
Main Employer: Jackson & Wortman

ABC Bancorp Senior Management

Chairman of the Board
& Chief Executive Officer
Kenneth J. Hunnicutt

President & Chief Operating Officer,
North Regional Executive
Edwin W. Hortman, Jr.

Executive Vice President &
Chief Financial Officer
W. Edwin Lane, Jr., CPA

Executive Vice President &
South Regional Executive
Jon S. Edwards

Executive Vice President,
Director of Human Resources
& Corporate Secretary
Cindi H. Lewis

Senior Vice President &
Director of Automation & Operations
Marc E. DeMott

Senior Vice President &
Director of Retail Banking
Michael F. McDonald

Senior Vice President &
Director of Internal Audit
Charles A. Robinson

Senior Vice President &
Director of Credit Administration
O. Mitchell Smith

PRESIDENTS AND DIRECTORS
SUBSIDIARY BANKS

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Moultrie, GA

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Directors
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C. Wayne Cooper
Jon S. Edwards
Thomas L. Estes, MD
Robert A. Faircloth
Plenn Hunnicutt
Daniel B. Jeter
Ronnie F. Marchant
J. Mark Mobley, Jr.
Thomas W. Rowell
Brooks Sheldon

President Emeritus
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S. Mark Brewer, MD
Sammie D. Dixon, Jr.
Jon S. Edwards
Gene Hickey
Zeke Johnson
Dr. Terrel M. Solana
F. Keith Wortman

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Cairo, GA

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Directors
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Nancy C. Clark
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Winburn Knight
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Tifton, GA

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Loran A. Pate
Clifford A. Walker, Sr., DMD

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David B. Batchelor

City Directors
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David B. Batchelor
Earl Brice
J. Anthony Deal
William (Bill) H. Elliott
Faye Hennesy
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Donnie H. Smith
Ronnie Spivey
Oscar Street

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Ocilla, GA

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C. Larry Young

City Directors
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Gary H. Paulk
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Director Emeritus
Wycliffe Griffin

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Albany, GA

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Russell E. Martin
Reid E. Mills
W. Thomas Mitcham, MD
Don Monk
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Doyle Weltzbarker, Chairman
John A. Baker
William P. Cooper, Jr.
Jon S. Edwards
Tim S. Jones
Sue D. Mink
Charles E. Smith
Henry C. Wortman
Thomas Eddie York

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Donalsonville, GA

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Edwin W. Hortman, Jr.
Newton E. King, Jr.
C. Willard Mims
John C. Mosely
Dan E. Ponder, Jr.

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H. Wayne Carr
John B. Clarke, Sr.
Newton E. King, Sr.
R.G. Heard
Jerry G. Mitchell

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Dothan, AL

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Directors
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Robert Crowder
Gerald B. Crowley
Ronald E. Dean
John D. DeLoach
Edwin W. Hortman, Jr.
Harris O. Pittman, III

THE FIRST BANK OF BRUNSWICK
Brunswick, GA

President & Chief Executive Officer
Michael D. Hodges

Directors
J. Thomas Whelchel, Chairman
C. Ray Acosta
Jon S. Edwards
Michael D. Hodges
Jimmy D. Veal

Director Emeritus
James M. Fiveash

TRI-COUNTY BANK
Trenton, FL

President & Chief Executive Officer
John H. Ferguson

Directors
Wilbur Bush, Chairman
Jon S. Edwards
John H. Ferguson
Donna Graham
Michael Hayes
Norman Scoggins

MARKET FOR THE COMPANY'S COMMON STOCK AND DIVIDEND INFORMATION

ABC Bancorp Common Stock is quoted through the National Market System of the National Association of Securities Dealers (NASDAQ) under the symbol "ABCB".

The following table sets forth the low and high sales prices for the common stock as quoted on the NASDAQ during 2003.

Calendar Period	Sales Price	
2003	**Low**	**High**
First Quarter	$ 12.97	$ 14.58
Second Quarter	$ 13.55	$ 14.98
Third Quarter	$ 14.35	$ 17.65
Fourth Quarter	$ 15.25	$ 17.65

Quarterly dividends of $0.12 per share were declared for the first and second quarters and $0.14 per share for the third and fourth quarters of 2003.

AVAILABILTY OF INFORMATION

Upon written request, ABC Bancorp will provide, without charge, a copy of the Annual Report on Form 10-K, including the financial statements and the financial statement schedules, required to be filed with the Securities and Exchange Commission for fiscal year 2003.

Please direct requests to:

ABC Bancorp, Attention: W. Edwin Lane, Jr., CPA, P.O. Box 3668, Moultrie, GA 31776-3668.

ANNUAL MEETING OF SHAREHOLDERS

The 2004 Annual Meeting of Shareholders of ABC Bancorp will be held at 4:15 p.m. EST, Tuesday, May 18, 2004 at the ABC Bancorp Corporate Office located at 24 Second Avenue S.E., Moultrie, Georgia.

ABC BANCORP

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