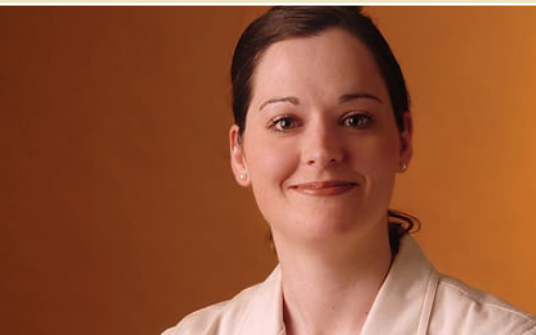


Building on our past,  
looking toward our future.



2004 ANNUAL REPORT



Eufaula

Clayton

Abbeville

Headland

Dothan

Lake Seminole

Leesburg

Colquitt

Donalsonville

Cairo

Thomasville

Quitman

Crawfordville

Sopchoppy

Panacea

Albany

Doerun

Meigs

Moultrie

Thomasville

Quitman

Cordele

Ocilla

Tifton

Douglas

Coolidge

Troupeville

Valdosta

Newberry

Trenton

Jekyll Island

St. Simons Island

Brunswick

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### ABC Bancorp 2004 Selected Financial Highlights

(Dollars in thousands except per share data)

	2003	2002
Assets.....	\$1,169,111	\$1,193,406
Loans .....	840,539	833,447
Deposits .....	906,524	916,047
Shareholders' Equity .....	113,613	107,484
Net Income .....	12,010	10,355
Dividends Paid .....	4,885	4,749
Per-share Data: (*)		
Earnings per share-basic	\$1.03	\$0.87
Earnings per share-diluted	\$1.02	\$0.87

(\*) Restated for a six-for-five stock split announced on 2.15.05.

# \$1,267,993,000

2004 Total Assets



Chairman's Letter to Shareholders

*Announcing*

THAT  
**Our Doors Are Now Open!**  
 As a New and Modern Facility  
 To Serve Our City and County

⋮ Officers ⋮  
 Eugene M. Vereen, Jr. .... President  
 Kenneth J. Husnicutt ..... Vice President  
 Curtis N. Leatherwood ..... V-Pres. & Cashier

**DIRECTORS**  
 R. B. Wright, Jr. .... Chairman  
 R. B. Wright      Chas. F. Arwood  
 Sam J. Whately      Wm. H. Russell  
 John G. Briggs      Willard Lassiter  
 Sam T. Brewer      John W. McLeod  
 Kenneth Husnicutt      Carl T. Hazrell  
 Lonnie B. Rowell



Opening ceremony  
 ribbon-cutting  
 of American Banking  
 Company 10.1.71.

Under Jack's leadership,  
 ABC Bancorp has built a  
 presence in three states.



## Dear Shareholders:

Writing this letter evokes mixed feelings resulting from a long and fulfilling career in banking. From my early days with another institution and service with our Company for over 33 years, there are many accomplishments on which to reflect with a sense of pride.

Public companies remain in the spotlight responding to concerns about some of their business practices. Character and service are two of our three founding core principles. They are as present today as they were on October 1, 1971, when our company was formed. I extend thanks to our exceptional employees who consistently exhibit character and integrity as they serve our customers.

Value is our third founding core principle. We closed 2004 with record earnings of \$13,101,000 for ABC Bancorp's shareholders. This was an increase of 9% over the prior year. Net income per basic share also reached a record high of \$1.12.

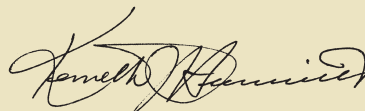
Asset quality further improved. Non-performing assets were reduced over 30%. The ratio of loans charged-off (net of recoveries) was .22% which was 24 basis points better than the prior year.

Our external expansion program continued to be successful as we added our twelfth subsidiary, Citizens Bank ~ Wakulla located in the panhandle of Florida. We are excited about the growth potential in this area, as well as other future opportunities.

My term as CEO ended on December 31, 2004, and as planned Ed Hortman assumed the leadership role without missing a beat. Ed is a seasoned banker and I'm proud that he will continue to promote our core values – the heritage of ABC Bancorp.

I have truly enjoyed my tenure with ABC Bancorp. It will be a pleasure to continue supporting the strategic direction of our Company while serving as Chairman of the Board. My retirement is certainly a change of pace, but a welcome one. I have experienced a rewarding career in banking – time well spent with satisfying achievements.

Sincerely,



Kenneth J. Hunnicutt  
Chairman of the Board

\$13,101,000

2004 Net Income



## CEO's Comments



*Ed joined ABC Bancorp in 1998 serving as President and CEO of Citizens Security Bank, formerly The Citizens Bank of Tifton (Chartered in 1945).*

*An ongoing commitment to technology promises to promote efficiency in everyday transactions.*



I am excited to travel this new path in my banking career and it is with honor that I serve as your President and Chief Executive Officer. ABC Bancorp's performance in 2004 certainly speaks well of the leadership that Jack Hunnicutt has provided since 1971. I want to thank him for his encouragement and support during a smooth transition to my new role.

Jack's letter mentions our core principles. These principles and our approach to community-based banking remain the cornerstones of ABC Bancorp's foundation. As we build our Company on the traditions of our success, our vision will continue to be guided by our values.

My plan will focus on executing the basics, while teamwork will fuel our results.

#### Shareholder Value

- Increasing our presence in existing markets by expanding profitable, growth-oriented opportunities and maintaining sound credit quality.

*Employees committed to taking care of our customers ensure shareholder value through solid performance.*

#### Customer Service

- Determining the financial needs of our customers and responding with skillful execution.

*We must fulfill our customers' expectations the first time and every time thereafter.*


#### Employees of Character

- Well-trained banking professionals with high standards of business ethics.

*No organization is more or less than the sum of its employees who demonstrate sincere effort and follow the path of integrity.*

Actions become habits that determine our character and we believe that there is never a wrong time to do the right thing. We remain committed to improving our performance and are appreciative of our valued employees, customers and shareholders.

Respectfully,



Edwin W. Hortman, Jr.

President and Chief Executive Officer

\$120,939,000

2004 Shareholders' Equity

8469

ALL

1971 SEP 30 PM 2 05

1256P CDT SEP 30 71 KA105 SYB163

SY WA327 EF INTER FR REG PDB FAX W WASHINGTON DC 09-30 ITRA

EDT

EUGENE M VEREEN JR, PRESIDENT AMERICAN BANKING CO

514 SOUTH MAIN ST /MOULTRIE GA

DEPOSITS OF AMERICAN BANKING COMPANY, MOULTRIE, GEORGIA, ARE INSURED BY FEDERAL DEPOSIT INSURANCE CORPORATION UP TO \$20,000 FOR EACH DEPOSITOR EFFECTIVE OCTOBER 1, 1971. MATERIAL RELATING TO DEPOSIT INSURANCE FOLLOWS

WILLIAM M MONRONEY (ASSISTANT TO BOARD OF DIRECTORS) FEDERAL DEPOSIT INSURANCE CORP.

COLL 1 1971 ALSO \$20,000. /CDC1234567/.

Telegram from the FDIC confirming deposit insurance 9.30.71 in preparation for the opening of American Banking Company.

### Building on Traditions of Success

#### 1971

Formation of American Banking Company (Anchor Bank).

#### 1979

First expansion, Bank purchases Toney Brothers Bank, as branch of American Banking Company.



#### 1981

ABC Bancorp expands to a multi-bank holding company.

#### 1985

First bank merger, The Bank of Quitman, oldest charter south of Macon, GA (1888). Later renamed Heritage Community Bank.

#### 1994

ABC Bancorp first listed on NASDAQ.

#### 1996

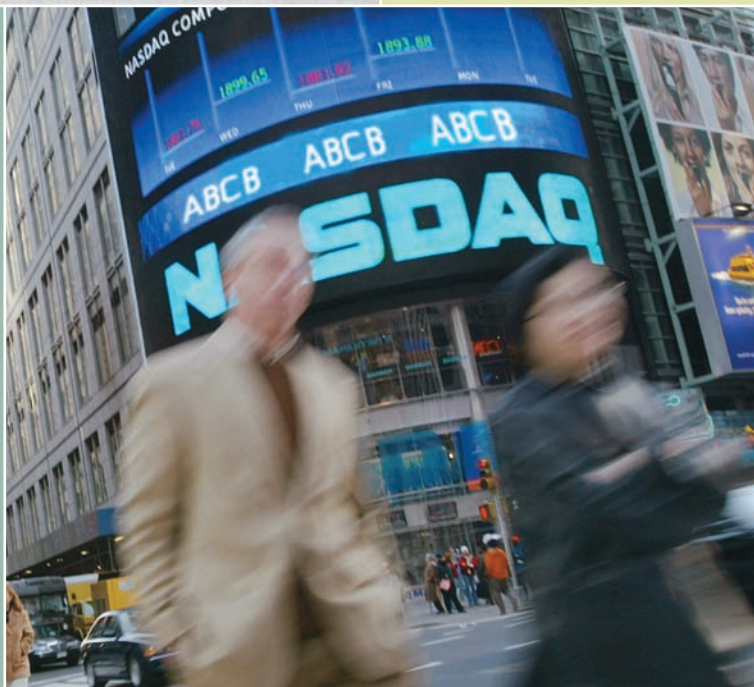
ABC Bancorp enters Alabama with merger of Southland Bank (Clayton Charter established 1887).

#### 2001

ABC Bancorp enters Florida with merger of Tri-County Bank (Consolidated assets now over \$1 billion).

#### 2004

Record earnings for ABC Bancorp.





### From Humble Beginnings...

In 1971, with a million dollars and a few hundred shareholders, American Banking Company set out to create a “bank of the people”. We envisioned an institution whose growth would be fueled by a steadfast combination of character, service and value, and whose presence would better the communities it touched.

### ...Through Continuous Growth...

Our successes are directly attributable to the strength of our three founding core principles. Without complete dedication to any and all of the three, ABC Bancorp wouldn't stand as it does today: with a strong presence in 3 states, over a billion dollars in assets, and approximately 5,000 shareholders. Today, our shareholders still benefit from our commitment to value, our focus remains on quality customer service, and our employees continue to be guided by our core values.

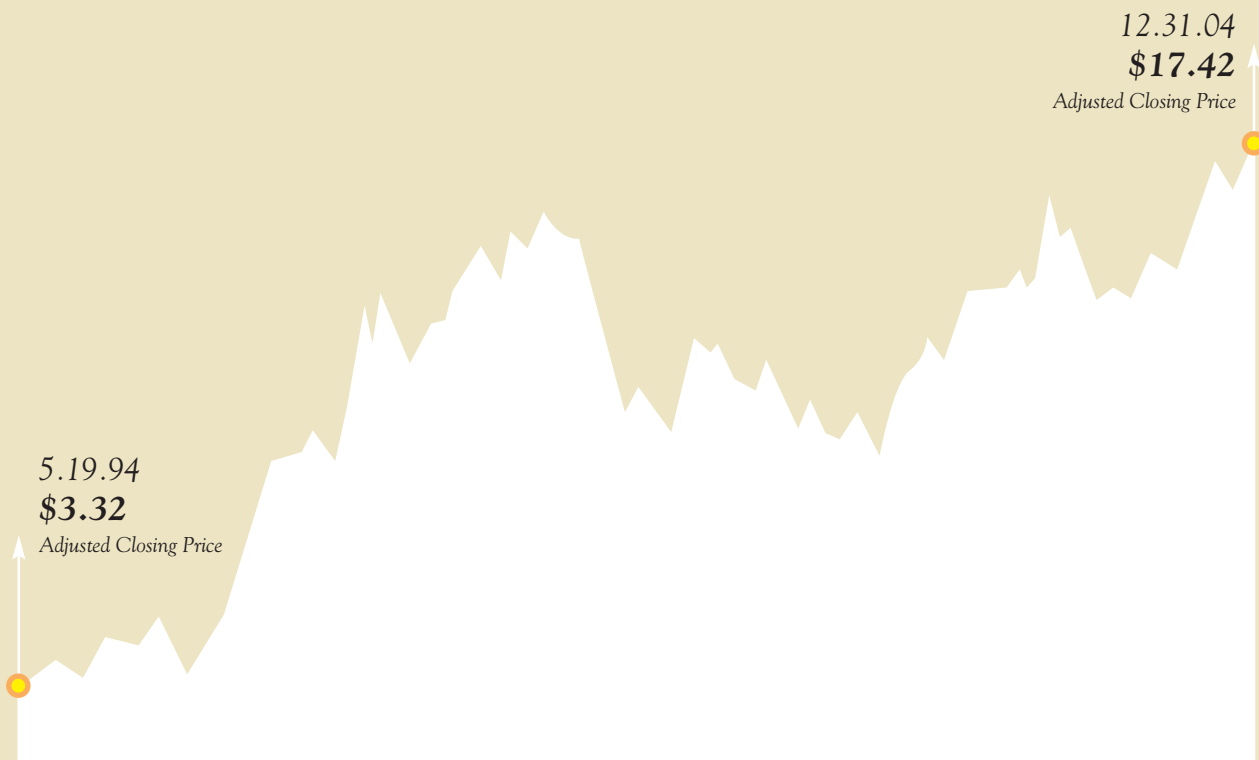
We have reached our initial goals, but that doesn't mean our work is finished.

### ...Toward a Promising Future.

We're proud of our unwavering focus on our core values – and the fact they have remained unchanged for more than three decades. No matter how much we continue to grow, or what changes we face, our shareholders, customers, and employees can always take comfort in knowing these values have brought us this far and they will continue to guide our every effort.

# 17%

Annualized Return 1994 - 2004



# BOARD OF DIRECTORS



Kenneth J. Hunnicutt, Chairman  
Occupation: *Retired/Consultant*



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.*



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



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



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

## SENIOR MANAGEMENT TEAM



Edwin W. Hortman, Jr.  
*President & Chief Executive Officer*



Dennis J. Zember, Jr.  
*Executive Vice President  
& Chief Financial Officer*



Thomas T. Dampier  
*Executive Vice President  
& North Regional Executive*



Jon S. Edwards  
*Executive Vice President  
& South Regional Executive*



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



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



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



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

ABC BANCORP SUBSIDIARY BANKS  
EXECUTIVE OFFICERS AND DIRECTORS

AMERICAN BANKING COMPANY  
Moultrie, Georgia



*President & Chief Executive Officer*  
Ronnie F. Marchant



*Directors*

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

*President Emeritus*

Eugene M. Vereen, Jr.

American Banking Company  
Moultrie (229) 985-2222  
Doerun (229) 782-5358  
Quitman Hwy. (229) 985-1111  
Sunset (229) 873-4444  
[www.americanbankingcompany.com](http://www.americanbankingcompany.com)

BANK OF THOMAS COUNTY  
Thomasville, Georgia



*President & Chief Executive Officer*  
Sammie D. Dixon, Jr.



*Directors*

L. Maurice Chastain, Chairman  
Dale E. Aldridge  
S. Mark Brewer, MD  
Sammie D. Dixon, Jr.  
Jon S. Edwards  
Gene Hickey  
Zeke Johnson  
Dr. Terrel M. Solana  
F. Keith Wortman

Bank of Thomas County  
Thomasville (229) 226-5755  
Coolidge (229) 346-3555  
[www.bankofthomascountry.com](http://www.bankofthomascountry.com)

CAIRO BANKING COMPANY  
Cairo, Georgia



*President & Chief Executive Officer*  
Edgar B. Smith, III



*Directors*

Jeffrey (Jet) F. Cox, Chairman  
Kevin S. Cauley  
Nancy C. Clark  
Jon S. Edwards  
Cuy Harrell, III  
Winburn Knight  
G. Ashley Register, MD  
Edgar B. Smith, III

Cairo Banking Company  
Cairo (229) 377-1110  
Meigs (229) 683-3411  
[www.cairobankingcompany.com](http://www.cairobankingcompany.com)

CENTRAL BANK & TRUST  
Cordele, Georgia



*President & Chief Executive Officer*  
Robert L. Evans



*Directors*

Johnny W. Floyd, Chairman  
Robert E. Barr, MD  
Charles W. Clark  
Thomas T. Dampier  
Robert L. Evans  
William T. Greene  
William H. Griffin, III  
David N. Rainwater

*Director Emeritus:*

Henry M. Turton, Jr.

Central Bank & Trust  
Cordele (229) 273-7700  
[www.centralbankandtrust.com](http://www.centralbankandtrust.com)

ABC BANCORP SUBSIDIARY BANKS  
EXECUTIVE OFFICERS AND DIRECTORS

CITIZENS BANK ~ WAKULLA  
Crawfordville, Florida



*President & Chief Executive Officer*  
David D. Buckridge



*Directors*

L.F. Young, Jr., Chairman  
Wade G. Brown  
David D. Buckridge  
Jon S. Edwards  
William E. Mills  
W. Mark Payne  
Jo Anne Strickland

Citizens Bank~Wakulla  
Crawfordville (850) 926-5211  
Panacea (850) 984-5050  
Sopchoppy (850) 962-4050  
[www.citizensbankwakulla.com](http://www.citizensbankwakulla.com)

CITIZENS SECURITY BANK  
Tifton, Georgia



*President & Chief Executive Officer*  
Lawton E. Bassett, III



*Directors*

J. Raymond Fulp, Chairman  
Lawton E. Bassett, III  
John R. Brownlee  
Austin L. Coarsey  
Thomas T. Dampier  
Robert R. Fender  
Stewart D. Gilbert, MD  
John Alan Lindsey  
Loran (Sonny) A. Pate  
Clifford A. Walker, Sr., DMD

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

CITIZENS SECURITY BANK

Douglas, Georgia

*City President*

David B. Batchelor



*City Directors*

Robert R. Fender, Chairman

Lawton E. Bassett, III

David B. Batchelor

Earl Brice

Thomas T. Dampier

J. Anthony Deal

William (Bill) H. Elliott

Faye Hennesy

Alfred Lott, Jr.

Donnie H. Smith

Ronnie Spivey

Oscar Street

CITIZENS SECURITY BANK

Ocilla, Georgia

*City President*

C. Larry Young



*City Directors*

Loran (Sonny) A. Pate, Chairman

Lawton E. Bassett, III

Thomas T. Dampier

Howard C. McMahan, MD

Daniel (Danny) M. Paulk

Gary H. Paulk

C. Larry Young

*Director Emeritus*

Wycliffe Griffin

THE FIRST BANK OF BRUNSWICK

Brunswick, Georgia



*President & Chief Executive Officer*

Michael D. Hodges



*Directors*

J. Thomas Whelchel, Chairman

C. Ray Acosta

Jon S. Edwards

Mark D. Hall

Michael D. Hodges

C. Vance Leavy

Jimmy D. Veal

*Director Emeritus*

James M. Fiveash

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](http://www.firstbankbrunswick.com)

ABC BANCORP SUBSIDIARY BANKS  
EXECUTIVE OFFICERS AND DIRECTORS

FIRST NATIONAL BANK OF S. GEORGIA  
Albany, Georgia



*President & Chief Executive Officer*  
Don Monk



*City President - Lee County*  
Ronnie Middlebrooks



*Directors*

Glenn A. Kirbo, Chairman  
Willie Adams, Jr., MD  
Robert V. Barkley, Sr.  
Thomas T. Dampier  
Waddell M. Hagins, Jr.  
Russell E. Martin  
Reid E. Mills  
W. Thomas Mitcham, MD  
Don Monk  
R. Douglas Oliver  
W. Paul Wallace, Jr.

First National Bank of South Georgia  
Albany (229) 888-5600  
Lee County (229) 434-4550  
[www.first-nationalbank.com](http://www.first-nationalbank.com)

HERITAGE COMMUNITY BANK  
Quitman, Georgia



*President & Chief Executive Officer*  
Tim S. Jones



*Directors*

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

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



**MERCHANTS & FARMERS BANK**  
Donalsonville, Georgia



*President & Chief Executive Officer*  
John C. Mosely



*City President - Colquitt*  
Teresa Youmans



*Directors*

Lewis M. Carter, Jr., Chairman  
Thomas T. Dampier  
Joseph S. Hall  
Walter Hays  
David Glenn Heard  
Newton E. King, Jr.  
C. Willard Mims  
John C. Mosely  
Dan E. Ponder, Jr.

*Directors Emeritus*

Charles R. Burke, Sr.  
H. Wayne Carr  
John B. Clarke, Sr.  
N. E. King, Sr.  
Jerry G. Mitchell

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

**SOUTHLAND BANK**  
Dothan, Alabama



*President & Chief Executive Officer*  
Harris O. Pittman, III



*City President - Barbour County*  
Jerry Gullede



*Directors*

R. Dale Ezzell, Chairman  
Robert Crowder  
Gerald B. Crowley  
Thomas T. Dampier  
Ronald E. Dean  
John D. DeLoach  
Harris O. Pittman, III

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](http://www.southland-bank.com)

ABC BANCORP SUBSIDIARY BANKS  
EXECUTIVE OFFICERS AND DIRECTORS

TRI-COUNTY BANK  
Trenton, Florida



*President & Chief Executive Officer*  
Michael E. McElroy



*Directors*

Wilbur Bush, Chairman  
Jon S. Edwards  
John H. Ferguson  
Donna Graham  
Michael Hayes  
Michael E. McElroy  
Samuel Sanders  
Norman Scoggins

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

ABC BANCORP  
Moultrie, Georgia



*President & Chief Executive Officer*  
Edwin W. Hortman, Jr.



*Directors*

Kenneth J. Hunnicutt, Chairman  
Doyle Weltzbarker, Vice Chairman  
Johnny W. Floyd  
J. Raymond Fulp  
Edwin W. Hortman, Jr.  
Daniel B. Jeter  
Robert P. Lynch  
J. Thomas Wheelchel  
Henry C. Wortman

*Chairman Emeritus*

Eugene M. Vereen, Jr.

ABC BANCORP  
24 Second Avenue, S.E., Moultrie, GA 31768  
P.O. Box 3668, Moultrie, GA 31776  
Phone (229) 890 -1111 • Fax (229) 890-2235  
www.abcancorp.com

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## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

ABC's 2004 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 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 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 third and fourth quarters of 2004. 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 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, 2004, we had 11 individual credit relationships that exceeded \$5 million with none exceeding \$11 million.

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 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 12 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 \$4,657,000, which includes amounts relating to loss carryforwards. We believe there will be sufficient taxable income in the future to allow 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 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 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 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.

In determining the existence of impairment factors, our assessment is based on market conditions, operational performance and legal factors of ABC and the 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 \$13.1 million, or \$1.11 per diluted common share, in 2004, compared to \$12.0 million, or \$1.02 per diluted common share, in 2003 and \$10.4 million, or \$0.87 per diluted common share, in 2002. The return on average assets was 1.12% in 2004 compared to 1.04% in 2003 and .90% in 2002. The return on average common stockholders' equity was 11.19% in 2004 compared to 10.85% in 2003 and 9.81% in 2002. In accordance with accounting rules promulgated by the Financial Accounting Standards Board ("FASB"), no amount of goodwill was expensed in 2004, 2003 or 2002, except for the impairment charge of \$9,000 in 2003.

During 2004, we continued to focus on three goals pursued in 2003: 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 23% during 2004 and 13% during 2003; our charge-off ratio was 24 basis points lower in 2004 compared to 2003 and 22 basis points lower in 2003 compared to the previous year; and the ratio of our allowance for loan losses to nonperforming assets increased 35% during 2004 compared to 17% during 2003. Due to the improvement of asset quality, we reduced our provision for loan losses \$2.1 million to \$1.8 million in 2004 compared to a reduction of \$1.7 million to \$3.9 million in 2003.

Due to a continuing low interest rate environment during 2004, our net interest income actually increased \$2.7 million, or 6.38%, to \$45.0 million in 2004 compared to \$42.3 million in 2003 due to the fact that ABC was able to reduce its cost of funds by \$2.7 million while maintaining its interest income at virtually the same level in both 2004 and 2003. As in 2003, we avoided paying excessive interest rates on non-core deposits and relied on lower cost alternative funding. This strategy did not result in a shrinkage of average deposits in 2004. Average interest-bearing deposits remained at the same level in 2004 and 2003 while average noninterest-bearing deposits increased \$8.5 million in 2004 compared with 2003. Approximately \$.5 million of this increase was attributable to the acquisition of Citizens Bank – Wakulla in November 2004.

We continued our goal of controlling noninterest expenses. In pursuit of this goal, we held our increase in noninterest expense to 3.86% in 2004 over the amount for 2003. Salaries and employee benefits were held to an increase of 3.48% (excluding amounts allocated to loan costs) in 2004 over 2003. All other noninterest expenses increased by only 2.06% in 2004 over 2003.

## 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 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 \$13.1 million for 2004 representing an increase of \$1.1 million, or 9.17%, compared to earnings of \$12.0 million for 2003. Diluted earnings per common share were \$1.11 in 2004 compared to \$1.02 in 2003 and \$0.87 in 2002.

As required by FASB, we discontinued the amortization of goodwill in 2002. We 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 \$.8 million, \$1.0 million and \$1.8 million

in 2004, 2003 and 2002, respectively.

Net interest income, on a taxable-equivalent basis, increased 6.37% in 2004 to \$45.1 million from \$42.4 million in 2003. Net interest income decreased 1.85% in 2003 to \$42.4 million from \$43.2 million in 2002. The significant increase in net interest income in 2004 is attributable to lower cost of funds. Cost of funds decreased 12.22% to \$19.4 in 2004 from \$22.1 in 2003. The net interest margin increased 21 basis points to 4.18% in 2004 from 3.97% in 2003. The net interest margin decreased 11 basis points to 3.97% from 4.08% in 2002. During 2003 and 2002, the decrease in general interest rates as a result of action undertaken by the Federal Reserve resulted in net interest margin compression for those years. During 2004, the Federal Reserve raised interest rates six times for a total increase of 1.5% in the discount rate. We expect that gradual increases in the discount rate in 2005 will favorably impact our earnings.

Our provision for loan losses totaled \$1.8 million in 2004, \$3.9 million in 2003 and \$5.6 million in 2002. The allowance for loan losses represented 1.77% of total loans outstanding at December 31, 2004 and 1.78% of total loans outstanding at both December 31, 2003 and December 31, 2002. The allowance for loan losses is discussed in more detail under "Summary of Loan Loss Experience."

Noninterest income decreased 11.56% to \$13.0 million in 2004 compared to \$14.7 million in 2003. Noninterest income decreased 6.37% in 2003 to \$14.7 million from \$15.7 million in 2002. The decrease in noninterest income in 2004 is attributable to a decrease in income of \$.6 million related to credit card receivables, a decrease of \$.2 million in mortgage origination fees and a decrease of \$.6 million in service charges, commissions and fees. 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.

Noninterest expense increased \$1.4 million to \$36.5 million in 2004 from \$35.1 million in 2003. Salaries and employee benefits increased \$1.3 million and all other expenses increased a net of \$.1 million. Noninterest expense decreased \$2.7 million to \$35.1 in 2003 from



\$37.8 in 2002. Salaries and wages increased \$1.4 million, equipment and occupancy expense decreased \$.3 million, and all other expenses decreased a net of \$3.8 million.

#### 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 \$45.1 million in 2004 representing an increase of \$2.7 million compared to net interest income of \$42.4 million in 2003. Net interest income decreased \$.8 million or 1.85% in 2003 compared to 2002. The increase in net interest income in 2004 was attributable to a decrease in cost of funds. 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 2004, the net interest spread increased 24 basis points resulting in a net interest margin increase of 21 basis points. In 2003, the net interest spread decreased 6 basis points resulting in a decrease in the net interest margin of 11 basis points. Net interest income in 2004 reflected a decrease in the average yield on earning assets of 7 basis points, while the average cost of interest-bearing liabilities decreased 31 basis points. In 2003, net interest income reflected a decrease in the average yield on earning assets of 70 basis points, while the average cost of interest-bearing liabilities decreased 64 basis points. Over the past three years, the net interest margin has been impacted by changes in interest rates precipitated by actions of the Federal Reserve. Beginning in July 2004, the Federal Reserve gradually increased the federal funds rate by 25 basis points for 6 rate increases, resulting in a total increase of 150 basis points (1.5%) during 2004.

The yield on loans decreased 25 basis points in 2004, 62 basis points in 2003 and 141 basis points in 2002 due to the fact that a significant portion of our loan portfolio repriced as interest rates decreased through 2003 and 2002. The cost of interest-bearing liabilities decreased 31 basis points in 2004, 64 basis points in 2003 and 152 basis points in 2002 as deposits repriced when interest rates declined. Average borrowings increased \$2.9 million in 2004, \$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 2004 and 2003 was 3.93%. The average rate paid on borrowings in 2002 was 4.06%. The effects of changes in rates and average volumes are set forth in the table titled "Rate/Volume Analysis."

Average earning assets increased \$10.2 million, or .96%, to \$1,077.6 million in 2004 compared to \$1,067.4 million in 2003. In 2003, average earning assets increased \$9.2 million, or .87%, to \$1,067.4 million in 2003 compared to \$1,058.2 million in 2002. Average loans increased \$13.3 million, or 1.58%, to \$855.2 million in 2004 compared to average loans of \$841.9 million in 2003. Average loans increased \$14.0 million, or 1.69%, to \$841.9 million in 2003 compared to \$827.9 million in 2002. The average balance of our securities portfolio increased \$7.6 million, or 4.14%, during 2004 and \$14.3 million, or 8.44%, during 2003. Average investment securities represented 16.25% of total average assets in 2004 and 15.81% of total average assets in 2003. All of our investment securities are classified as available for sale. Average earning assets as a percentage of total average assets was 91.85% in 2004 compared to 92.20% in 2003 and 91.91% in 2002.

Average interest-bearing liabilities increased \$2.5 million, or .27%, in 2004 compared to a decrease of \$8.3 million, or .90%, in 2003 and an increase of \$159.2 million, or 20.91%, in 2002. Average interest-bearing deposits decreased \$.3 million, or .04%, in 2004 compared to a decrease of \$12.6 million, or 1.62%, in 2003 and an increase of \$94.4 million, or 13.83%, in 2002. The decrease in average interest-bearing deposits in 2004 and 2003 resulted from management's decision to avoid paying 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 15% of total average deposits were noninterest-bearing in 2004 compared to 14% in 2003 and 13% in 2002.

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 \$4.2 million, or 3.90%, to \$111.0 million in 2004 compared to \$106.8 million in 2003. Average other borrowings increased \$3.1 million, or 2.99%, to \$106.8 million in 2003 compared to \$103.7 million in 2002. During 2002, average other borrowings increased \$34.5 million, or 49.86%, to \$103.7 million compared to average borrowings of \$69.2 million in 2001. The increase in average other borrowings during the past three years is 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 \$35.6 million which have been included in interest-bearing liabilities and have remained unchanged since their issuance.

**Noninterest Income**

Noninterest income totaled \$13.0 million in 2004 compared to \$14.7 million in 2003 and \$15.7 million in 2002. The decrease of \$1.7 million in 2004 resulted from a decrease of \$.7 million in service charges and other fees and commissions, a decrease of \$.2 million in mortgage origination fees and a decrease in credit card income. ABC sold its credit card portfolio in 2002 and final income from credit cards was recorded during 2003.

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.

Following is a comparison of noninterest income for 2004, 2003 and 2002.

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Service charges on deposit accounts	\$ 10,210	\$ 10,638	\$ 10,550
Mortgage origination fees	1,427	1,637	1,365
Other service charges, commissions and fees	737	917	806
Gain (loss) on sale of securities	-	(5)	1,643
Other income	649	1,531	1,342
	<u>\$ 13,023</u>	<u>\$ 14,718</u>	<u>\$ 15,706</u>

**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 \$2.9 million of salaries to loan costs in 2004, \$3.4 million in 2003 and \$3.1 million in 2002. After adjusting salaries and benefits for amounts allocated to loan costs, total salaries and benefits increased \$.8 million, or 3.48%, to \$23.8 million in 2004 compared to \$23.0 million in 2003. In 2003, salaries and employee benefits, after adjustment, increased \$1.7 million, or 7.98%, to \$23.0 million in 2003 compared to \$21.3 million in 2002. Total full-time equivalent employees were approximately 530 for 2004 and approximately 500 for 2003 and 2002.

Equipment and occupancy expense remained stable at \$4.8 million in 2004 compared to 2003. Equipment and occupancy expense decreased \$.3 million to \$4.7 million in 2003 from \$5.0 million in 2002.

The decrease of \$.2 million in amortization of intangible assets in 2004, compared to a decrease of \$.8 million in amortization of intangible assets in 2003 relative to 2002,

resulted from a reduction in amortization of core deposit premiums paid on prior acquisitions.

Data processing fees increased only \$.1 million in 2004 and remained constant in 2003 and 2002. The increase in fees in 2004 was attributable to increased volume of transactions processed.

All other noninterest expense increased \$.2 million to \$8.4 million in 2004 compared to \$8.2 in 2003. The increase in other noninterest expense is attributable primarily to increases in legal, accounting and consulting fees resulting from new rules and regulations established by regulatory authorities, executive search fees and merger and acquisition expenses. 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 included decreases in conversion fees of \$.7 million, accounting and auditing fees of \$.3 million, OREO losses and other losses of \$.2 million and postage, stationery and supplies of \$.3 million.

Following is a comparison of noninterest expense for 2004, 2003 and 2002.

	<b>Years Ended December 31, (Dollars in Thousands)</b>		
	<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2002</b></u>
Salaries and employee benefits	\$ 20,893	\$ 19,599	\$ 18,192
Equipment and occupancy	4,770	4,725	5,039
Amortization of intangible assets	789	1,032	1,765
Data processing fees	1,680	1,587	1,546
Other expense	8,373	8,204	11,265
	<u><u>\$ 36,505</u></u>	<u><u>\$ 35,147</u></u>	<u><u>\$ 37,807</u></u>

**Income Taxes**

Income taxes totaled \$6.6 million in 2004, \$6.0 million in 2003 and \$5.1 million in 2002. The effective tax rate was 33% for each of the years ended December 31, 2004, 2003 and 2002.

**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, 2004, the Banks' short-term investments were adequate to cover any reasonable anticipated immediate need for funds. During 2004, we increased our capital by retaining net earnings of \$7,623,000 after payment of dividends. After recording a decrease in capital of \$752,000 for unrealized losses on securities available for sale, net of taxes, an increase of \$496,000 for restricted stock transactions, an increase of \$320,000 for the exercise of stock options and a decrease of \$361,000 for the repurchase of treasury shares, total capital increased \$7,326,000 during 2004. At December 31, 2004, total capital of ABC equaled \$120,939,000. We are aware of no events or trends likely to result in a material change in our liquidity.

The following table summarizes short-term borrowings for the periods indicated:

	Years Ended December 31, (Dollars in Thousands)					
	2004		2003		2002	
	<u>Average Balance</u>	<u>Average Rate</u>	<u>Average Balance</u>	<u>Average Rate</u>	<u>Average Balance</u>	<u>Average Rate</u>
Federal funds purchased and securities sold under agreement to repurchase	<u>\$ 5,235</u>	<u>1.28%</u>	<u>\$ 6,547</u>	<u>1.04%</u>	<u>\$ 5,363</u>	<u>2.20%</u>
Total maximum short-term borrowings outstanding at any month-end during the year	<u>\$ 14,205</u>		<u>\$ 13,978</u>		<u>\$ 15,978</u>	

The following table sets forth certain information about contractual cash obligations as of December 31, 2004.

	<u>Total</u>	<u>Payments Due After December 31, 2004</u>			
		<u>(Dollars in Thousands)</u>			
		<u>1 Year</u>	<u>1 – 3</u>	<u>4 – 5</u>	<u>After</u>
		<u>or Less</u>	<u>Years</u>	<u>Years</u>	<u>5 Years</u>
Short-term borrowings	\$ 7,530	\$ 7,530	\$ -	\$ -	\$ -
Time certificates of deposit	436,437	372,787	59,132	4,424	94
Long-term debt	219	219	-	-	-
Federal Home Loan Bank advances	110,147	15,022	3,022	-	92,103
Subordinated deferrable interest debentures	35,567	-	35,567	-	-
Total contractual cash obligations	<u>\$ 589,900</u>	<u>\$ 395,558</u>	<u>\$ 97,721</u>	<u>\$ 4,424</u>	<u>\$ 92,197</u>

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, 2004, we had \$388,000 in binding commitments for capital expenditures.

In accordance with risk capital guidelines issued by the Federal Reserve, 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 ABC at December 31, 2004.

	<u>Actual</u>		<u>Required</u>		<u>Excess</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
			<u>(Dollars in Thousands)</u>			
Leverage capital	\$ 123,293	10.43%	\$ 47,284	4.00%	\$ 76,009	6.43%
Risk-based capital:						
Core capital	123,293	13.30	37,074	4.00	86,219	9.30
Total capital	138,603	14.95	74,148	8.00	64,455	6.95

Each Bank also met its individual regulatory capital requirements at December 31, 2004.

The management of ABC Bancorp is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on this assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2004.

Mauldin & Jenkins, Certified Public Accountants, LLC ("Mauldin & Jenkins"), ABC's independent auditors, has issued an attestation report on management's assessment of ABC's internal control over financial reporting. That report is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

To the Board of Directors  
ABC Bancorp  
Moultrie, Georgia

We have audited management's assessment, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting", that ABC Bancorp and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. ABC Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in

accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that ABC Bancorp and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, ABC Bancorp and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial position of ABC Bancorp and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, and our report dated January 27, 2005, except for Note 20 as to which the date is February 15, 2005, expressed an unqualified opinion.



Albany, Georgia  
January 27, 2005

To the Board of Directors  
ABC Bancorp  
Moultrie, Georgia

We have audited the accompanying consolidated balance sheets of ABC Bancorp and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Bancorp and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

*Mauldin + Jenkins, LLC*

Albany, Georgia  
January 27, 2005, except for Note 20 as to which  
the date is February 15, 2005



Consolidated Balance Sheets

	December 31, (Dollars in Thousands)	
	2004	2003
<b>Assets</b>		
Cash and due from banks	\$ 40,339	\$ 44,854
Interest-bearing deposits in banks	57,331	35,626
Federal funds sold	12,285	-
Securities available for sale, at fair value	213,948	190,595
Restricted equity securities, at cost	7,793	5,694
Loans, net of unearned income	877,074	840,539
Less allowance for loan losses	15,493	14,963
Loans, net	<u>861,581</u>	<u>825,576</u>
Premises and equipment, net	27,772	25,537
Intangible assets	3,706	3,286
Goodwill	24,325	19,231
Other assets	<u>18,913</u>	<u>18,712</u>
	<u>\$ 1,267,993</u>	<u>\$ 1,169,111</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits		
Noninterest-bearing	\$ 150,090	\$ 141,715
Interest-bearing	<u>836,134</u>	<u>764,809</u>
Total deposits	986,224	906,524
Federal funds purchased and securities sold under agreements to repurchase	7,530	8,211
Other borrowings	110,366	97,545
Other liabilities	7,367	7,651
Subordinated deferrable interest debentures	<u>35,567</u>	<u>35,567</u>
Total liabilities	<u>1,147,054</u>	<u>1,055,498</u>
<b>Commitments and Contingencies</b>		
Stockholders' equity		
Common stock, par value \$1; 30,000,000 shares authorized; 13,070,578 and 10,849,922 shares issued	13,071	10,850
Capital surplus	45,073	46,446
Retained earnings	73,768	66,145
Accumulated other comprehensive income (loss)	(230)	522
Unearned compensation	<u>(523)</u>	<u>(491)</u>
	131,159	123,472
Less cost of 1,304,430 and 1,066,068 shares acquired for the treasury	<u>(10,220)</u>	<u>(9,859)</u>
Total stockholders' equity	<u>120,939</u>	<u>113,613</u>
	<u>\$ 1,267,993</u>	<u>\$ 1,169,111</u>

See Notes to Consolidated Financial Statements.

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Interest income</b>			
Interest and fees on loans	\$ 56,433	\$ 57,707	\$ 61,864
Interest on taxable securities	7,216	6,079	8,275
Interest on nontaxable securities	169	156	187
Interest on deposits in other banks	542	537	1,020
Interest on federal funds sold	5	-	1
	<u>64,365</u>	<u>64,479</u>	<u>71,347</u>
<b>Interest expense</b>			
Interest on deposits	11,306	14,183	20,286
Interest on other borrowings	8,069	7,958	7,954
	<u>19,375</u>	<u>22,141</u>	<u>28,240</u>
Net interest income	44,990	42,338	43,107
<b>Provision for loan losses</b>	1,786	3,945	5,574
Net interest income after provision for loan losses	<u>43,204</u>	<u>38,393</u>	<u>37,533</u>
<b>Other income</b>			
Service charges on deposit accounts	10,210	10,638	10,550
Other service charges, commissions and fees	737	917	806
Mortgage origination fees	1,427	1,637	1,365
Gain (loss) on sale of securities	-	(5)	1,643
Other	649	1,531	1,342
	<u>13,023</u>	<u>14,718</u>	<u>15,706</u>
<b>Other expenses</b>			
Salaries and employee benefits	20,893	19,599	18,192
Equipment expense	2,144	2,112	2,451
Occupancy expense	2,626	2,613	2,588
Amortization of intangible assets	789	1,032	1,765
Data processing fees	1,680	1,587	1,546
Other operating expenses	8,373	8,204	11,265
	<u>36,505</u>	<u>35,147</u>	<u>37,807</u>
Income before income taxes	19,722	17,964	15,432
<b>Applicable income taxes</b>	6,621	5,954	5,077
Net income	<u>\$ 13,101</u>	<u>\$ 12,010</u>	<u>\$ 10,355</u>
<b>Basic earnings per share</b>	<u>\$ 1.12</u>	<u>\$ 1.03</u>	<u>\$ 0.87</u>
<b>Diluted earnings per share</b>	<u>\$ 1.11</u>	<u>\$ 1.02</u>	<u>\$ 0.87</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Net income</b>	<b><u>\$ 13,101</u></b>	<b><u>\$ 12,010</u></b>	<b><u>\$ 10,355</u></b>
<b>Other comprehensive income (loss):</b>			
Net unrealized holding gains (losses) arising during period, net of tax (benefits) of \$(387), \$(575) and \$869	(752)	(1,117)	1,687
Reclassification adjustment for (gains) losses included in net income, net of (tax) benefits of \$2 and \$(558)	<u>-</u>	<u>3</u>	<u>(1,085)</u>
<b>Total other comprehensive income (loss)</b>	<b><u>(752)</u></b>	<b><u>(1,114)</u></b>	<b><u>602</u></b>
<b>Comprehensive income</b>	<b><u>\$ 12,349</u></b>	<b><u>\$ 10,896</u></b>	<b><u>\$ 10,957</u></b>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholder's Equity

	<b>Common Stock</b>		<b>Capital</b>
	<u>Shares</u>	<u>Par Value</u>	<u>Surplus</u>
	<i>(Dollars in Thousands)</i>		
<b>Balance, December 31, 2001</b>	10,790,369	\$ 10,790	\$ 45,616
Net income	-	-	-
Cash dividends declared, \$.40 per share	-	-	-
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	-	-	-
	<u>10,824,257</u>	<u>10,824</u>	<u>45,946</u>
<b>Balance, December 31, 2002</b>	10,824,257	10,824	45,946
Net income	-	-	-
Cash dividends declared, \$.43 per share	-	-	-
Issuance of restricted shares of common stock under employee incentive plan	24,800	25	386
Amortization of unearned compensation, net of forfeitures	-	-	-
Proceeds from exercise of stock options	865	1	8
Reduction in income taxes payable resulting from vesting of restricted shares	-	-	106
Repurchase of shares for treasury	-	-	-
Other comprehensive loss	-	-	-
	<u>10,849,922</u>	<u>10,850</u>	<u>46,446</u>
<b>Balance, December 31, 2003</b>	10,849,922	10,850	46,446
Net income	-	-	-
Cash dividends declared, \$.47 per share	-	-	-
Issuance of restricted shares of common stock under employee incentive plan	14,900	15	279
Amortization of unearned compensation, net of forfeitures	-	-	-
Proceeds from exercise of stock options	27,326	27	293
Reduction in income taxes payable resulting from vesting of restricted shares	-	-	234
Repurchase of shares for treasury	-	-	-
Six-for-five common stock split	2,178,430	2,179	(2,179)
Other comprehensive loss	-	-	-
	<u>13,070,578</u>	<u>\$ 13,071</u>	<u>\$ 45,073</u>
<b>Balance, December 31, 2004</b>	<u>13,070,578</u>	<u>\$ 13,071</u>	<u>\$ 45,073</u>

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholder's Equity

<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Unearned Compensation</u>	<u>Treasury Stock</u>		<u>Total</u>
			<u>Shares</u>	<u>Cost</u>	
\$ 53,584	\$ 1,034	\$ (656)	790,982	\$ (6,220)	\$ 104,148
10,355	-	-	-	-	10,355
(4,729)	-	-	-	-	(4,729)
-	-	(231)	-	-	-
-	-	444	-	-	444
-	-	-	-	-	133
-	-	-	262,339	(3,469)	(3,469)
-	602	-	-	-	602
<u>59,210</u>	<u>1,636</u>	<u>(443)</u>	<u>1,053,321</u>	<u>(9,689)</u>	<u>107,484</u>
12,010	-	-	-	-	12,010
(5,075)	-	-	-	-	(5,075)
-	-	(411)	-	-	-
-	-	363	-	-	363
-	-	-	-	-	9
-	-	-	-	-	106
-	-	-	12,747	(170)	(170)
-	(1,114)	-	-	-	(1,114)
<u>66,145</u>	<u>522</u>	<u>(491)</u>	<u>1,066,068</u>	<u>(9,859)</u>	<u>113,613</u>
13,101	-	-	-	-	13,101
(5,478)	-	-	-	-	(5,478)
-	-	(294)	-	-	-
-	-	262	-	-	262
-	-	-	-	-	320
-	-	-	-	-	234
-	-	-	20,957	(361)	(361)
-	-	-	217,405	-	-
-	(752)	-	-	-	(752)
<u>\$ 73,768</u>	<u>\$ (230)</u>	<u>\$ (523)</u>	<u>1,304,430</u>	<u>\$ (10,220)</u>	<u>\$ 120,939</u>

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Operating Activities</b>			
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,880	1,858	2,241
Amortization of intangible assets	789	1,032	1,765
Amortization of unearned compensation	262	363	444
Net (gains) losses on sale of securities available for sale	-	5	(1,643)
Net (gains) losses on sale or disposal of premises and equipment	(50)	3	320
Provision for loan losses	1,786	3,945	5,574
Provision for deferred taxes	243	(157)	(65)
Decrease in interest receivable	438	944	1,120
Increase (decrease) in interest payable	81	(667)	(1,216)
Increase (decrease) in taxes payable	(284)	(284)	588
Net other operating activities	2,419	(533)	2,964
Total adjustments	<u>7,564</u>	<u>6,509</u>	<u>12,092</u>
Net cash provided by operating activities	<u>20,665</u>	<u>18,519</u>	<u>22,447</u>
<b>Investing Activities</b>			
(Increase) decrease in interest-bearing deposits in banks	(21,705)	42,353	28,193
Purchases of securities available for sale	(67,681)	(129,998)	(140,148)
Proceeds from maturities of securities available for sale	68,130	89,533	78,632
Proceeds from sale of securities available for sale	-	26,479	37,903
(Increase) decrease in restricted equity securities, net	(1,957)	84	(1,077)
(Increase) decrease in federal funds sold	(10,430)	-	44
Increase in loans, net	(17,302)	(10,942)	(34,021)
Purchase of premises and equipment	(2,816)	(2,071)	(1,726)
Proceeds from sale of premises and equipment	583	-	-
Net cash paid for acquisition	<u>(9,416)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(62,594)</u>	<u>15,438</u>	<u>(32,200)</u>
<b>Financing Activities</b>			
Increase (decrease) in deposits	31,056	(9,523)	(14,971)
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	(681)	7	4,412
Proceeds from other borrowings	32,000	15,000	25,100
Repayment of other borrowings	(19,679)	(34,745)	(2,908)
Dividends paid	(5,475)	(4,885)	(4,749)
Proceeds from exercise of stock options	320	9	133
Reduction in income taxes payable resulting from vesting of restricted shares	234	106	-
Purchase of treasury shares	<u>(361)</u>	<u>(170)</u>	<u>(3,469)</u>
Net cash provided by (used in) financing activities	<u>37,414</u>	<u>(34,201)</u>	<u>3,548</u>
Net decrease in cash and due from banks	<u>(4,515)</u>	<u>(244)</u>	<u>(6,205)</u>
Cash and due from banks at beginning of year	<u>44,854</u>	<u>45,098</u>	<u>51,303</u>
Cash and due from banks at end of year	<u>\$ 40,339</u>	<u>\$ 44,854</u>	<u>\$ 45,098</u>

See Notes to Consolidated Financial Statements.

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Supplemental Disclosures of Cash Flow Information</b>			
Cash paid during the year for:			
Interest	\$ 19,184	\$ 22,706	\$ 29,331
Income taxes	\$ 6,662	\$ 6,395	\$ 4,554
<b>Noncash Transaction</b>			
Principal balances of loans transferred to other real estate owned	\$ 2,239	\$ 2,096	\$ 3,930

See Notes to Consolidated Financial Statements.

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Nature of Business**

ABC Bancorp (the "Company") is a multi-bank holding company whose business is presently conducted by its subsidiary banks (the "Banks"). Through the Banks, the Company operates a full service banking business and offers a broad range of retail and commercial banking services to its customers located in a market area which includes South and Southeast Georgia, North Florida and Southeast Alabama. The Company and the Banks are subject to the regulations of certain federal and state agencies and are periodically examined by those regulatory agencies.

### **Basis of Presentation and Accounting Estimates**

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate, contingent assets and liabilities, impairment of intangible assets, goodwill and deferred tax assets. The determination of the adequacy of the allowance for loan losses is based on estimates that are susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans and the valuation of foreclosed real estate, management obtains independent appraisals for significant collateral. Management also tests intangible assets and goodwill for impairment on an annual basis.

### **Cash, Due from Banks and Cash Flows**

For purposes of reporting cash flows, cash and due from banks includes cash on hand, cash items in process of collection and amounts due from banks. Cash flows from loans, federal funds sold, deposits, interest-bearing deposits in banks, federal funds purchased and securities sold under agreements to repurchase are reported net.

The Banks are required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank.

The total of those reserve balances was approximately \$9,602,000 and \$7,845,000 at December 31, 2004 and 2003, respectively.

### **Securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Management has not classified any of its debt securities as held to maturity. Securities, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income, net of the related deferred tax effect. Equity securities, including restricted equity securities, without a readily determinable fair value are classified as available for sale and recorded at cost.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the life of the securities. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings on the settlement date. Declines in the fair value of securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses.

In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

### **Loans**

Loans are reported at their outstanding principal balances less unearned income, net deferred fees and costs on originated loans and the allowance for loan losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield over the life of the loan using a method which approximates a level yield.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, unless the loan is well-secured. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued, but



not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income, unless management believes that the accrued interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is subsequently recognized only to the extent cash payments are received until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when it is probable, based on current information and events, the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

#### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectibility of the principal is unlikely. Subsequent recoveries are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Banks' allowance for loan losses and may require the Banks to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

#### Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives:

	<u>Years</u>
Buildings	39
Furniture and equipment	3-7

#### Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of an impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Company performed its annual test of impairment in the fourth quarter and determined that there was no impairment in the carrying value of goodwill assigned to any of its subsidiary banks as of October 1, 2004.

Intangible assets consist of core deposit premiums

acquired in connection with the business combinations. The core deposit premium is initially recognized based on a valuation performed as of the consummation date. The core deposit premium is amortized over the average remaining life of the acquired customer deposits, or five to eight years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Included in the consolidated statements of income for December 31, 2004, 2003 and 2002 were charges for amortization of identifiable intangible assets in the amounts of \$789,000, \$1,023,000 and \$1,765,000, respectively.

#### Foreclosed Assets

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are expensed. The carrying amount of foreclosed assets at December 31, 2004 and 2003 was \$476,140 and \$1,505,118, respectively.

#### Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

#### Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans whereby compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure

compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. The Company has elected to continue with the accounting methodology of Opinion No. 25. No stock-based employee compensation cost is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123 to stock-based employee compensation.

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income, as reported	\$ 13,101	\$ 12,010	\$ 10,355
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(59)</u>	<u>(70)</u>	<u>(54)</u>
Pro forma net income	<u>\$ 13,042</u>	<u>\$ 11,940</u>	<u>\$ 10,301</u>
Earnings per share:			
Basic - as reported	<u>\$ 1.12</u>	<u>\$ 1.03</u>	<u>\$ 0.87</u>
Basic - pro forma	<u>\$ 1.11</u>	<u>\$ 1.02</u>	<u>\$ 0.86</u>
Diluted - as reported	<u>\$ 1.11</u>	<u>\$ 1.02</u>	<u>\$ 0.87</u>
Diluted - pro forma	<u>\$ 1.10</u>	<u>\$ 1.01</u>	<u>\$ 0.86</u>

#### Treasury Stock

The Company's repurchases of shares of its common stock are recorded at cost as "Treasury Stock" and result in a reduction of "Stockholders' Equity." When treasury shares are reissued, the Company uses a first-in, first-out method and any difference in repurchase cost and reissuance price is recorded as an increase or reduction in "Capital Surplus."

### Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share are computed by dividing net income, by the effect of the issuance of potential common shares that are dilutive, by the sum of the weighted-average number of shares of common stock outstanding and dilutive potential common shares. Potential common shares consist of only stock options for the years ended December 31, 2004, 2003 and 2002, and are determined using the treasury stock method.

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

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income	<u>\$ 13,101</u>	<u>\$12,010</u>	<u>\$10,355</u>
Weighted average number of common shares outstanding	11,736	11,727	11,830
Effect of dilutive options	<u>125</u>	<u>80</u>	<u>60</u>
Weighted average number of common shares outstanding used to calculate dilutive earnings per share	<u>11,861</u>	<u>11,807</u>	<u>11,890</u>

At December 31, 2003 and 2002, potential common shares of 75,092 and 107,933, respectively, were not included in the calculation of diluted earnings per share because the exercise of such shares would be anti-dilutive. There were no anti-dilutive potential common shares at December 31, 2004.

### Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

### Recent Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" and, on December 24, 2003, the FASB issued FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities" which replaced FIN 46. The interpretation addresses consolidation by business enterprises of variable interest entities. A variable interest entity is defined as an entity subject to consolidation according to the provisions of the interpretation. The revised interpretation provided for special effective dates for entities that had fully or partially applied the original interpretation as of December 24, 2003. Otherwise, application of the interpretation is required in financial statements of public entities that have interests in special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of variable interest entities (i.e., non-SPEs) is required in financial statements for periods ending after March 15, 2004. Application by small business issuers to variable interest entities other than SPEs and by nonpublic entities to all types of variable interest entities is required at various dates in 2004 and 2005. The Company has determined that the provisions of FIN 46 require deconsolidation of the subsidiary trust which issued subordinated debentures. The Company has adopted the provisions under the revised interpretation and has restated each of the years presented in the Company's consolidated financial statements.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, Share-Based Payment, a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions such as the issuance of stock options in exchange for employee services. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will

be recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period (usually the vesting period). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). This Statement is effective for public entities that do not file as small business issuers - as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. This Statement applies to all awards granted or vesting after the required effective date and to awards modified, repurchased, or cancelled after that date.

#### Reclassification of Certain Items

Certain items in the consolidated financial statements as of and for the years ended December 31, 2003 and 2002 have been reclassified, with no effect on net income, to be consistent with the classifications adopted for the year ended December 31, 2004.

#### NOTE 2. BUSINESS COMBINATION

On November 30, 2004, ABC acquired all the issued and outstanding common shares of Citizens Bancshares, Inc., the parent company of Citizens Bank ~ Wakulla, in Crawfordville, Florida. The acquisition was accounted for using the purchase method of accounting and accordingly, the results from Citizens Bancshares, Inc.'s operations have been included in the consolidated financial statements beginning December 1, 2004.

The aggregate purchase price was \$11,515 thousand, consisting of all cash.

ABC has not completed the purchase price allocation relating to the acquisition. The preliminary purchase price allocation has been determined as shown in the table below.

<b><i>Citizens Bancshares, Inc</i></b> <b><i>(Dollars in Thousands)</i></b>	<b><i>As of</i></b> <b><i>November 30,</i></b> <b><i>2004</i></b>
Cash and due from banks	\$ 2,099
Investments	25,083
Federal funds sold	1,855
Loans, net	22,728
Premises and equipment	1,720
Intangible asset	1,209
Goodwill	5,094
Other assets	1,255
Total assets acquired	<u>61,043</u>
Deposits	48,644
Other borrowings	500
Other liabilities	384
Total liabilities assumed	<u>49,528</u>
Net assets acquired	<u>\$11,515</u>

Of the \$6,303 thousand of acquired intangible assets, \$5,094 thousand has been temporarily allocated to goodwill. The goodwill will not be deductible for tax purposes. The remaining \$1,209 thousand has been allocated to core deposit premiums which will be amortized over a period of 10 years. Amortization of the core deposit premiums will not be deductible for tax purposes. ABC is in the process of obtaining third-party valuations of the core deposit intangibles and other assets; thus, the allocation of the purchase price is subject to refinement.

Proforma information relating to the impact of the acquisition on ABC's consolidated financial statements, assuming such acquisition had occurred at the beginning of the periods reported, is not presented as such impact is not significant.

**NOTE 3. SECURITIES**

The amortized cost and fair value of securities available for sale with gross unrealized gains and losses are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	<i>(Dollars in Thousands)</i>			
<b>December 31, 2004:</b>				
U. S. Government and federal agencies	\$ 78,143	\$ 235	\$ (151)	\$ 78,227
State and municipal securities	4,113	99	-	4,212
Corporate debt securities	18,032	112	(13)	18,131
Mortgage-backed securities	<u>113,221</u>	<u>173</u>	<u>(754)</u>	<u>112,640</u>
Total debt securities	213,509	619	(918)	213,210
Equity securities	<u>788</u>	<u>-</u>	<u>(50)</u>	<u>738</u>
Total securities	<u>\$ 214,297</u>	<u>\$ 619</u>	<u>\$ (968)</u>	<u>\$ 213,948</u>
<b>December 31, 2003:</b>				
U. S. Government and federal agencies	\$ 78,826	\$ 727	\$ (8)	\$ 79,545
State and municipal securities	3,584	149	-	3,733
Corporate debt securities	23,057	418	(7)	23,468
Mortgage-backed securities	<u>83,550</u>	<u>131</u>	<u>(573)</u>	<u>83,108</u>
Total debt securities	189,017	1,425	(588)	189,854
Equity securities	<u>788</u>	<u>-</u>	<u>(47)</u>	<u>741</u>
Total securities	<u>\$ 189,805</u>	<u>\$ 1,425</u>	<u>\$ (635)</u>	<u>\$ 190,595</u>

The amortized cost and fair value of debt securities available for sale as of December 31, 2004 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	<u>Amortized Cost</u>	<u>Fair Value</u>
	<i>(Dollars in Thousands)</i>	
Due in one year or less	\$ 18,685	\$ 18,758
Due from one year to five years	64,162	64,257
Due from five to ten years	13,199	13,232
Due after ten years	4,242	4,323
Mortgage-backed securities	113,221	112,640
	<u>\$ 213,509</u>	<u>\$ 213,210</u>

Securities with a carrying value of \$144,573,626 and \$125,547,653 at December 31, 2004 and 2003, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

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

	<i>Years Ended December 31, (Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gross gains on sales of securities	\$ -	\$ 87	\$ 1,643
Gross losses on sales of securities	-	(92)	-
Net realized gains (losses) on sales of securities available for sale	<u>\$ -</u>	<u>\$ (5)</u>	<u>\$ 1,643</u>

The following table shows the gross unrealized losses and fair value of securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2004 and 2003.

Description of Securities	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2004:						
U. S. Government and federal agencies	\$ 33,929	\$ 118	\$ 6,178	\$ 33	\$ 40,107	\$ 151
Corporate debt securities	-	-	1,001	13	1,001	13
Mortgage-backed securities	44,349	386	39,427	368	83,776	754
Subtotal, debt securities	78,278	504	46,606	414	124,884	918
Equity securities	-	-	216	50	216	50
Total temporarily impaired securities	\$ 78,278	\$ 504	\$ 46,822	\$ 464	\$ 125,100	\$ 968
December 31, 2003:						
U. S. Government and federal agencies	\$ 1,912	\$ 8	\$ -	\$ -	\$ 1,912	\$ 8
Corporate debt securities	1,012	7	-	-	1,012	7
Mortgage-backed securities	59,838	572	982	1	60,820	573
Subtotal, debt securities	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

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The majority of debt securities containing unrealized losses at December 31, 2004 represent mortgage-backed securities. Eight (8) debt securities contained unrealized losses greater than two percent (2%) of their costs. None of the debt securities contained an unrealized loss

greater than 3.0% of its cost. One equity security representing an investment in a mutual fund reflected an unrealized loss of 19% of its cost. The unrealized loss in this security represented 5.2% of the total unrealized losses in the Company's investment portfolio. The unrealized losses are considered temporary because each security carries an acceptable investment grade and the repayment sources of principal and interest are government backed.

**NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES**

The composition of loans is summarized as follows:

	<i>December 31,</i> <i>(Dollars in Thousands)</i>	
	<u>2004</u>	<u>2003</u>
Commercial and financial	\$ 136,229	\$ 157,594
Agricultural	28,198	22,051
Real estate - construction	94,043	60,978
Real estate - mortgage, farmland	64,245	65,433
Real estate - mortgage, commercial	253,001	250,247
Real estate - mortgage, residential	235,431	209,172
Consumer installment loans	60,884	68,230
Other	5,043	6,834
	<u>877,074</u>	<u>840,539</u>
Allowance for loan losses	15,493	14,963
	<u>\$ 861,581</u>	<u>\$ 825,576</u>

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

	<i>As of and For the Years Ended December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Impaired loans without a valuation allowance	\$ -	\$ -	\$ -
Impaired loans with a valuation allowance	5,640	6,472	7,561
Total impaired loans	<u>\$ 5,640</u>	<u>\$ 6,472</u>	<u>\$ 7,561</u>
Valuation allowance related to impaired loans	<u>\$ 1,001</u>	<u>\$ 1,105</u>	<u>\$ 1,358</u>
Average investment in impaired loans	<u>\$ 6,229</u>	<u>\$ 8,619</u>	<u>\$ 8,966</u>
Interest income recognized on impaired loans	<u>\$ 2</u>	<u>\$ 27</u>	<u>\$ 26</u>
Forgone interest income on impaired loans	<u>\$ 557</u>	<u>\$ 842</u>	<u>\$ 792</u>



## Notes to Consolidated Financial Statements

Loans on nonaccrual status amounted to approximately \$5,640,000, \$6,472,000 and \$7,561,000 at December 31, 2004, 2003 and 2002, respectively. There were \$44,000, \$25,000 and \$171,000 of loans past due ninety days or more and still accruing interest at December 31, 2004, 2003 and 2002, respectively.

Changes in the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002 are as follows:

	<i>December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Balance, beginning of year</b>	\$ 14,963	\$ 14,868	\$ 14,944
Provision for loan losses	1,786	3,945	5,574
Loans charged off	(3,576)	(5,226)	(7,159)
Recoveries of loans previously charged off	1,665	1,376	1,509
Acquired loan loss reserve	655	-	-
<b>Balance, end of year</b>	<u>\$ 15,493</u>	<u>\$ 14,963</u>	<u>\$ 14,868</u>

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:

	<i>December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
<b>Balance, beginning of year</b>	\$ 35,242	\$ 42,807
Advances	63,109	19,467
Repayments	(60,297)	(29,966)
Transactions due to changes in related parties	259	2,934
<b>Balance, end of year</b>	<u>\$ 38,313</u>	<u>\$ 35,242</u>

**NOTE 5. PREMISES AND EQUIPMENT**

Premises and equipment are summarized as follows:

	<i>December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
Land	\$ 7,168	\$ 6,694
Buildings	24,898	23,030
Furniture and equipment	19,193	17,275
Construction in progress; estimated cost to complete, \$388,000	1,004	1,026
	<u>52,263</u>	<u>48,025</u>
Accumulated depreciation	(24,491)	(22,488)
	<u>\$ 27,772</u>	<u>\$ 25,537</u>

**NOTE 6. INTANGIBLE ASSETS**

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

	<u>As of December 31, 2004</u>		<u>As of December 31, 2003</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
	<i>(Dollars in Thousands)</i>			
Amortized intangible assets				
Core deposit premiums	<u>\$ 10,105</u>	<u>\$ 6,399</u>	<u>\$ 8,896</u>	<u>\$ 5,610</u>

The aggregate amortization expense for intangible assets was \$789,000, \$1,023,000 and \$1,765,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

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

2005	\$ 817,000
2006	686,000
2007	592,000
2008	403,000
2009	323,000

Changes in the carrying amount of goodwill are as follows:

	<i>For the Year Ended December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
Beginning balance	\$ 19,231	\$ 19,240
Goodwill written off at a subsidiary Bank	-	(9)
Goodwill acquired through purchase of subsidiary Bank	<u>5,094</u>	<u>-</u>
Ending balance	<u>\$ 24,325</u>	<u>\$ 19,231</u>

#### NOTE 7. DEPOSITS

The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2004 and 2003 was \$180,787,000 and \$149,991,000, respectively. The scheduled maturities of time deposits at December 31, 2004 are as follows:

	<i>(Dollars in Thousands)</i>
2005	\$ 372,787
2006	39,985
2007	13,473
2008	5,674
2009	4,424
Later years	<u>94</u>
	<u>\$ 436,437</u>

At December 31, 2004 and 2003, overdraft demand deposits reclassified to loans totaled \$972,000 and \$1,402,000, respectively.

#### NOTE 8. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements, which are secured borrowings, generally mature within one to four days from the transaction date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be

required to provide additional collateral based on the fair value of the underlying securities. The Company monitors the fair value of the underlying securities on a daily basis. Securities sold under repurchase agreements at December 31, 2004 and 2003 were \$7,530,000 and \$8,211,000, respectively.

**NOTE 9. EMPLOYEE BENEFIT PLANS**

The Company has established a retirement plan for eligible employees. The ABC Bancorp 401(k) Profit Sharing Plan allows a participant to defer a portion of his compensation and provides that the Company will match a portion of the deferred compensation. The plan also provides for nonelective and discretionary contributions. All full-time and part-time employees are eligible to participate in the 401(k) Profit Sharing Plan provided they have met the eligibility requirements. Generally, a participant must have completed twelve months of employment with a minimum of 1,000 hours.

In 2002, the Company terminated the ABC Bancorp Money Purchase Pension Plan. All fully funded employee benefits under the plan were transferred to the 401(k) profit sharing plan.

Aggregate expense under the two plans charged to operations during 2004, 2003 and 2002 amounted to \$1,099,000, \$1,149,000 and \$877,000, respectively.

**NOTE 10. DEFERRED COMPENSATION PLANS**

The Company and three subsidiary banks have entered into separate deferred compensation arrangements with certain executive officers and directors. The plans call for certain amounts payable at retirement, death or disability. The estimated present value of the deferred compensation is being accrued over the expected service period. The Company and Banks have purchased life insurance policies which they intend to use to finance this liability. Cash surrender value of life insurance of \$2,119,000 and \$1,231,000 at December 31, 2004 and 2003, respectively, is included in other assets. Accrued deferred compensation of \$1,349,000 and \$1,105,000 at December 31, 2004 and 2003, respectively, is included in other liabilities. Aggregate compensation expense under the plans were \$92,000, \$94,000 and \$93,000 for 2004, 2003 and 2002, respectively, and is included in other operating expenses.

**NOTE 11. OTHER BORROWINGS**

Other borrowings consist of the following:

	<i>December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
Advances under revolving credit agreement with SunTrust Bank with interest at LIBOR plus 1.15% (3.32% at December 31, 2004) due on June 30, 2005, secured by subsidiary bank stock.	\$ 100	\$ 100
Advances from SunTrust Bank with 5 quarterly principal payments at sixty-day LIBOR rate plus .9% (3.57% at December 31, 2004), maturing March 31, 2005.	119	1,581
Advances from Federal Home Loan Bank with interest at adjustable rate (3.28% at December 31, 2004), due February 10, 2005.	15,000	15,000
Advances from Federal Home Loan Bank with interest at a fixed rate of 6.72%, due in annual installments due November 1, 2006.	44	65
Advances from Federal Home Loan Bank with interest at a fixed rate (ranging from 2.96% to 6.12%) convertible to a variable rate at option of Federal Home Loan Bank, due at various dates from December 22, 2006 through June 18, 2014.	95,103	80,799
	<u>\$ 110,366</u>	<u>\$ 97,545</u>

The advances from Federal Home Loan Bank are collateralized by the pledging of a blanket lien on all first mortgage loans and other specific loans, as well as FLHB stock.

Other borrowings at December 31, 2004 have maturities in future years as follows:

	<i>(Dollars in Thousands)</i>
2005	\$ 15,241
2006	522
2007	-
2008	2,500
2009	-
Later years	<u>92,103</u>
	<u>\$ 110,366</u>

The Company and subsidiaries have available unused lines of credit with various financial institutions totaling approximately \$86,300,000 at December 31, 2004. There were no other advances outstanding at December 31, 2004 or 2003.

#### NOTE 12. INCOME TAXES

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

	<i>Years Ended December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current	\$ 6,378	\$ 6,111	\$ 5,142
Deferred	<u>243</u>	<u>(157)</u>	<u>(65)</u>
	<u>\$ 6,621</u>	<u>\$ 5,954</u>	<u>\$ 5,077</u>

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:

	<i>Years Ended December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Tax at federal income tax rate	\$ 6,705	\$ 6,108	\$ 5,247
Increase (decrease) resulting from:			
Tax-exempt interest	(209)	(201)	(224)
Amortization of intangible assets	79	13	33
Other	<u>46</u>	<u>34</u>	<u>21</u>
Provision for income taxes	<u>\$ 6,621</u>	<u>\$ 5,954</u>	<u>\$ 5,077</u>

Net deferred income tax assets of \$4,657,000 and \$4,363,000 at December 31, 2004 and 2003, respectively, are included in other assets. The components of deferred income taxes are as follows:

	<i>December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
<b>Deferred tax assets:</b>		
Loan loss reserves	\$ 5,217	\$ 5,022
Deferred compensation	459	376
Unearned compensation related to restricted stock	147	287
Nonaccrual interest	131	134
Net operating loss tax carryforward	67	91
Unrealized loss on securities available for sale	119	-
Other	302	232
	<u>6,442</u>	<u>6,142</u>
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	860	419
Unrealized gain on securities available for sale	-	269
Intangible assets	925	1,091
	<u>1,785</u>	<u>1,779</u>
<b>Net deferred tax assets</b>	<u>\$ 4,657</u>	<u>\$ 4,363</u>

### NOTE 13. SUBORDINATED DEFERRABLE INTEREST DEBENTURES

In 2001, the Company formed a wholly-owned grantor trust to issue cumulative trust preferred securities to the public. The grantor trust invested the proceeds of the trust preferred securities in junior subordinated debentures of the Company. The trust preferred securities can be redeemed prior to maturity at the option of the Company on or after September 30, 2006. The sole assets of the guarantor trust are the Junior Subordinated Deferrable Interest Debentures of the Company (the Debentures) held by the grantor trust. The Debentures have the same interest rate (9%) as the trust preferred securities. The Company has the right to defer interest payments on the Debentures at any time or from time to time for a period not exceeding 20 consecutive quarters provided that no extension period may extend beyond the stated maturity of the related Debentures. During any such extension period, distributions on the trust preferred certificates would also be deferred.

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 1 qualifying capital, the trust preferred securities can only be included up to the amount constituting 25% of total Tier 1 capital elements (including trust preferred securities). Such Tier 1 capital treatment provides the

Company with a more cost-effective means of obtaining capital for bank regulatory purposes than if the Company were to issue preferred stock.

The trust preferred securities and the related Debentures were issued on November 8, 2001. Both financial instruments bear an identical annual rate of interest of 9%. Distributions on the trust preferred securities are paid quarterly on March 31, June 30, September 30 and December 31 of each year. Interest on the Debentures is paid on the corresponding dates. The aggregate principal amount of trust preferred certificates outstanding at December 31, 2004 was \$34,500,000. The aggregate principal amount of Debentures outstanding at those dates was \$35,567,000.

#### NOTE 14. STOCK OPTION PLANS

The Company has two fixed stock option plans under which it has granted options to its former Chief Executive Officer to purchase common stock at the fair market price on the date of grant. All of the options are intended to be incentive stock options qualifying under Section 422 of the Internal Revenue Code for favorable tax treatment. Under the 1992 Plan, options to purchase 12,000 shares were granted. All of these options were exercised during 2002. Under the 1997 Plan, options to purchase 81,000 shares were granted. Options under the 1997 Plan are fully vested and are exercisable over a period of ten years subject to certain limitations as to aggregate fair market value (determined as of the date of the grant) of all options exercisable for the first time by the optionee during any calendar year (the "\$100,000 Per-Year Limitation"). Under the 1997 Plan, options to purchase 81,000 shares were

exercisable as of December 31, 2004.

At the annual meeting on April 15, 1997, the shareholders approved the ABC Bancorp Omnibus Stock Ownership and Long-Term Incentive Plan (the "Omnibus Plan"). Awards granted under the Omnibus Plan may be in the form of Qualified or Nonqualified Stock Options, Restricted Stock, Stock Appreciation Rights ("SARS"), Long-Term Incentive Compensation Units consisting of a combination of cash and Common Stock, or any combination thereof within the limitations set forth in the Omnibus Plan. The Omnibus Plan provides that the aggregate number of shares of the Company's Common Stock which may be subject to award may not exceed 765,000 subject to adjustment in certain circumstances to prevent dilution. As of December 31, 2004, the Company has issued a total of 271,795 restricted shares under the Omnibus Plan as compensation for certain employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is three years from the date of the grant. Shares issued under this plan were recorded at their fair market value on the date of their grant with a corresponding charge to equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was \$262,000, \$363,000 and \$444,000 for 2004, 2003 and 2002, respectively. In addition to the granting of restricted shares, options to purchase 309,042 shares of the Company's common stock have been granted under the Omnibus Plan as of December 31, 2004.

Other pertinent information related to the options is as follows:

	2004		December 31, 2003		2002	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Under option, beginning of the year	412,247	\$ 10.38	376,786	\$ 9.96	343,132	\$ 9.12
Granted	36,000	15.67	48,300	13.75	98,340	12.02
Exercised	(32,791)	9.75	(1,038)	8.25	(22,307)	5.97
Forfeited	(25,414)	11.02	(11,801)	10.97	(42,379)	10.05
Under option, end of year	<u>390,042</u>	10.87	<u>412,247</u>	10.38	<u>376,786</u>	9.96
Exercisable at end of year	<u>252,366</u>	\$ 9.92	<u>219,308</u>	\$ 9.79	<u>156,422</u>	\$ 9.72
Weighted-average fair value per option of options granted during year		<u>\$ 3.28</u>		<u>\$ 2.61</u>		<u>\$ 2.47</u>

Information pertaining to options outstanding at December 31, 2004 is as follows:

<i>Range of Exercise Prices</i>	<i>Options Outstanding</i>			<i>Options Exercisable</i>		
	<i>Number Outstanding</i>	<i>Weighted- Average Contractual Life in Years</i>	<i>Weighted- Average Exercise Price</i>	<i>Number Outstanding</i>	<i>Weighted- Average Exercise Price</i>	
\$ 9.44	81,000	2.3	\$ 9.44	81,000	\$ 9.44	
13.28	24,078	3.0	13.28	24,078	13.28	
11.81	7,200	3.3	11.81	7,200	11.81	
8.25	23,040	4.1	8.25	23,040	8.25	
8.42	7,200	4.3	8.42	7,200	8.42	
9.02	2,304	4.9	9.02	2,304	9.02	
8.65	51,600	5.1	8.65	41,280	8.65	
8.28	3,600	5.5	8.28	2,880	8.28	
8.75	37,980	6.1	8.75	22,788	8.75	
9.33	12,000	6.5	9.33	7,200	9.33	
11.04	9,600	7.2	11.04	3,840	11.04	
12.12	51,540	7.7	12.12	20,616	12.12	
13.75	44,700	8.3	13.75	8,940	13.75	
15.16	3,000	9.3	15.16	-	-	
15.72	31,200	9.4	15.72	-	-	
	<u>390,042</u>	5.56	10.87	<u>252,366</u>	9.92	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<i>Years Ended December 31,</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Dividend yield	3.40%	3.60%	3.60%
Expected life	7 years	7 years	7 years
Expected volatility	22.57%	22.30%	22.80%
Risk-free interest rate	4.52%	4.03%	4.60%



**NOTE 15. COMMITMENTS AND CONTINGENT LIABILITIES****Loan Commitments**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the Company's commitments is as follows:

	<i>December 31,</i>	
	<u>2004</u>	<u>2003</u>
	<i>(Dollars in Thousands)</i>	
Commitments to extend credit	\$ 114,942	\$ 104,573
Financial standby letters of credit	<u>3,172</u>	<u>2,536</u>
	<u>\$ 118,114</u>	<u>\$ 107,109</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral is required in instances which the Company deems necessary.

At December 31, 2004 and 2003, the carrying amount of liabilities related to the Company's obligation to perform under financial standby letters of credit was insignificant.

The Company has not been required to perform on any financial standby letters of credit and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2004 and 2003.

**Contingencies**

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

**NOTE 16. CONCENTRATIONS OF CREDIT**

The Banks make commercial, residential, construction, agricultural, agribusiness and consumer loans to customers primarily in counties in South and Southeast Georgia, North Florida and Southeast Alabama. A substantial portion of the Company's customers' abilities to honor their contracts is dependent on the business economy in the geographical area served by the Banks.

A substantial portion of the Company's loans are secured by real estate in the Company's primary market area. In addition, a substantial portion of the other real estate owned is located in those same markets. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of other real estate owned are susceptible to changes in real estate conditions in the Company's primary market area.

Although the Company's loan portfolio is diversified, there is a relationship in this region between the agricultural economy and the economic performance of loans made to nonagricultural customers. The Company's lending policies for agricultural and nonagricultural customers require loans to be well-collateralized and supported by cash flows. Collateral for agricultural loans include equipment, crops, livestock and land. Credit losses from loans related to the agricultural economy is taken into consideration by management in determining the allowance for loan losses.

The Company has a concentration of funds on deposit at its two primary correspondent banks at December 31, 2004 as follows:

Noninterest-bearing accounts	<u>\$ 23,237,000</u>
Interest-bearing accounts	<u>\$ 55,897,000</u>

**NOTE 17. REGULATORY MATTERS**

The Banks are subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2004, approximately

\$7,566,000 of retained earnings were available for dividend declaration without regulatory approval.

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital, as defined by the regulations, to risk-weighted assets, as defined, and of Tier I capital to average assets, as defined. Management believes, as of December 31, 2004 and 2003, the Company and the Banks met all capital adequacy requirements to which they are subject.

As of December 31, 2004, the most recent notification from the regulatory authorities categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Banks' category. Prompt corrective action provisions are not applicable to bank holding companies.

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

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in Thousands)					
<b>As of December 31, 2004</b>						
<b>Total Capital to Risk Weighted Assets</b>						
Consolidated	\$ 138,603	14.95%	\$ 74,148	8.00%	-- N/A --	
American Banking Company	\$ 16,709	12.11%	\$ 11,041	8.00%	\$ 13,802	10.00%
Heritage Community Bank	\$ 8,801	11.99%	\$ 5,871	8.00%	\$ 7,339	10.00%
Bank of Thomas County	\$ 4,779	15.44%	\$ 2,476	8.00%	\$ 3,095	10.00%
Citizens Security Bank	\$ 15,930	12.27%	\$ 10,386	8.00%	\$ 12,983	10.00%
Cairo Banking Company	\$ 7,255	14.21%	\$ 4,084	8.00%	\$ 5,105	10.00%
Southland Bank	\$ 19,598	12.83%	\$ 12,218	8.00%	\$ 15,273	10.00%
Central Bank and Trust	\$ 5,657	14.45%	\$ 3,132	8.00%	\$ 3,915	10.00%
First National Bank of South Georgia	\$ 7,271	10.55%	\$ 5,511	8.00%	\$ 6,889	10.00%
Merchants and Farmers Bank	\$ 8,573	14.98%	\$ 4,579	8.00%	\$ 5,724	10.00%
Tri-County Bank	\$ 7,426	17.92%	\$ 3,314	8.00%	\$ 4,143	10.00%
The First Bank of Brunswick	\$ 16,589	14.13%	\$ 9,392	8.00%	\$ 11,740	10.00%
Citizens Bank ~ Wakulla	\$ 4,483	13.92%	\$ 2,577	8.00%	\$ 3,221	10.00%
<b>Tier I Capital to Risk Weighted Assets:</b>						
Consolidated	\$ 123,293	13.30%	\$ 37,074	4.00%	-- N/A --	
American Banking Company	\$ 14,979	10.85%	\$ 5,521	4.00%	\$ 8,281	6.00%
Heritage Community Bank	\$ 7,883	10.74%	\$ 2,935	4.00%	\$ 4,403	6.00%
Bank of Thomas County	\$ 4,386	14.17%	\$ 1,238	4.00%	\$ 1,857	6.00%
Citizens Security Bank	\$ 14,301	11.02%	\$ 5,193	4.00%	\$ 7,790	6.00%
Cairo Banking Company	\$ 6,613	12.95%	\$ 2,042	4.00%	\$ 3,063	6.00%
Southland Bank	\$ 17,677	11.57%	\$ 6,109	4.00%	\$ 9,164	6.00%
Central Bank and Trust	\$ 5,163	13.19%	\$ 1,566	4.00%	\$ 2,349	6.00%
First National Bank of South Georgia	\$ 6,407	9.30%	\$ 2,756	4.00%	\$ 4,134	6.00%
Merchants and Farmers Bank	\$ 7,857	13.73%	\$ 2,289	4.00%	\$ 3,434	6.00%
Tri-County Bank	\$ 6,907	16.67%	\$ 1,657	4.00%	\$ 2,486	6.00%
The First Bank of Brunswick	\$ 15,120	12.88%	\$ 4,696	4.00%	\$ 7,044	6.00%
Citizens Bank ~ Wakulla	\$ 4,076	12.66%	\$ 1,288	4.00%	\$ 1,933	6.00%
<b>Tier I Capital to Average Assets:</b>						
Consolidated	\$ 123,293	10.43%	\$ 47,284	4.00%	-- N/A --	
American Banking Company	\$ 14,979	8.46%	\$ 7,082	4.00%	\$ 8,853	5.00%
Heritage Community Bank	\$ 7,883	8.25%	\$ 3,822	4.00%	\$ 4,778	5.00%
Bank of Thomas County	\$ 4,386	10.88%	\$ 1,613	4.00%	\$ 2,016	5.00%
Citizens Security Bank	\$ 14,301	8.61%	\$ 6,644	4.00%	\$ 8,305	5.00%
Cairo Banking Company	\$ 6,613	7.86%	\$ 3,365	4.00%	\$ 4,207	5.00%
Southland Bank	\$ 17,677	7.42%	\$ 9,529	4.00%	\$ 11,912	5.00%
Central Bank and Trust	\$ 5,163	9.07%	\$ 2,277	4.00%	\$ 2,846	5.00%
First National Bank of South Georgia	\$ 6,407	7.69%	\$ 3,333	4.00%	\$ 4,166	5.00%
Merchants and Farmers Bank	\$ 7,857	8.76%	\$ 3,588	4.00%	\$ 4,485	5.00%
Tri-County Bank	\$ 6,907	10.43%	\$ 2,649	4.00%	\$ 3,311	5.00%
The First Bank of Brunswick	\$ 15,120	11.37%	\$ 5,319	4.00%	\$ 6,649	5.00%
Citizens Bank ~ Wakulla	\$ 4,076	8.18%	\$ 1,993	4.00%	\$ 2,491	5.00%

	<i>Actual</i>		<i>For Capital Adequacy Purposes</i>		<i>To Be Well Capitalized Under Prompt Corrective Action Provisions</i>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	<i>(Dollars in Thousands)</i>					
<b>As of December 31, 2003</b>						
<b>Total Capital to Risk Weighted Assets</b>						
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%
The First Bank of Brunswick	\$ 15,963	13.36%	\$ 9,560	8.00%	\$ 11,950	10.00%
<b>Tier I Capital to Risk Weighted Assets:</b>						
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%
The First Bank of Brunswick	\$ 14,464	12.10%	\$ 4,780	4.00%	\$ 7,170	6.00%
<b>Tier I Capital to Average Assets:</b>						
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	.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%
The First Bank of Brunswick	\$ 14,464	10.29%	\$ 5,623	4.00%	\$ 7,028	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.

### 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, 2004		December 31, 2003	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	<i>(Dollars in Thousands)</i>			
<b>Amortized intangible assets</b>				
Cash, due from banks and interest-bearing deposits in banks	\$ 97,670	\$ 97,670	\$ 80,480	\$ 80,480
Federal funds sold	\$ 12,285	\$ 12,285	\$ -	\$ -
Securities available for sale	\$ 213,948	\$ 213,948	\$ 190,595	\$ 190,595
Restricted equity securities	\$ 7,793	\$ 7,793	\$ 5,694	\$ 5,694
Loans	\$ 877,074	\$ 875,145	\$ 840,539	\$ 843,095
Allowance for loan losses	15,493	-	14,963	-
Loans, net	\$ 861,581	\$ 875,145	\$ 825,576	\$ 843,095
Accrued interest receivable	\$ 8,590	\$ 8,590	\$ 8,702	\$ 8,702
<b>Financial liabilities:</b>				
Deposits	\$ 986,224	\$ 985,717	\$ 906,524	\$ 908,079
Federal funds purchased and securities sold under agreements to repurchase	\$ 7,530	\$ 7,530	\$ 8,211	\$ 8,211
Other borrowings	\$ 110,366	\$ 111,818	\$ 97,545	\$ 97,515
Accrued interest payable	\$ 1,863	\$ 1,863	\$ 1,728	\$ 1,728
Subordinated deferrable interest debentures	\$ 35,567	\$ 37,701	\$ 35,567	\$ 39,195

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

## Condensed Balance Sheets

	<i>December 31,</i> <i>(Dollars in Thousands)</i>	
	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash and due from banks	\$ 6,203	\$ 1,547
Interest-bearing deposits in banks	4,546	17,575
Investment in subsidiaries	139,838	125,477
Other assets	<u>9,070</u>	<u>9,319</u>
Total assets	<u>\$ 159,657</u>	<u>\$ 153,918</u>
<b>Liabilities</b>		
Other borrowings	\$ 219	\$ 1,681
Other liabilities	2,932	3,057
Subordinated deferrable interest debentures	<u>35,567</u>	<u>35,567</u>
Total liabilities	<u>38,718</u>	<u>40,305</u>
<b>Stockholders' equity</b>	<u>120,939</u>	<u>113,613</u>
Total liabilities and stockholders' equity	<u>\$ 159,657</u>	<u>\$ 153,918</u>

## Condensed Statements of Income

	<i>Years Ended December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Income</b>			
Dividends from subsidiaries	\$ 12,100	\$ 17,464	\$ 4,220
Interest on deposits in other banks	204	165	334
Fee income	10,599	10,440	9,865
Other income	1,707	2,145	1,512
Total income	<u>24,610</u>	<u>30,214</u>	<u>15,931</u>
<b>Expense</b>			
Interest	3,547	3,632	3,746
Amortization and depreciation	876	839	1,129
Other expense	12,819	12,221	12,239
Total expense	<u>17,242</u>	<u>16,692</u>	<u>17,114</u>
Income (loss) before income tax benefits and equity in undistributed earnings of subsidiaries (distributions in excess of earnings)	7,368	13,522	(1,183)
<b>Income tax benefits</b>	<u>1,647</u>	<u>1,232</u>	<u>1,860</u>
Income before equity in undistributed earnings of subsidiaries (distributions in excess of earnings)	9,015	14,754	677
<b>Equity in undistributed earnings of subsidiaries (distributions in excess of earnings)</b>	<u>4,086</u>	<u>(2,744)</u>	<u>9,678</u>
Net income	<u>\$ 13,101</u>	<u>\$ 12,010</u>	<u>\$ 10,355</u>



## Condensed Statements of Cash Flows

	<i>Years Ended December 31,</i> <i>(Dollars in Thousands)</i>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Operating Activities</b>			
Net income	\$ 13,101	\$ 12,010	\$ 10,355
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	614	476	685
Amortization of unearned compensation (Undistributed earnings of subsidiaries) distributions in excess of earnings	262	363	444
(Increase) decrease in interest receivable	(4,086)	2,744	(9,678)
Decrease in interest payable	4	5	(9)
Increase (decrease) in taxes payable	-	-	(58)
Provision for deferred taxes	(370)	(564)	4
(Increase) decrease in due from subsidiaries	318	80	(27)
Other operating activities	234	(178)	301
Total adjustments	113	(709)	624
<b>Net cash provided by operating activities</b>	<u>(2,911)</u>	<u>2,217</u>	<u>(7,714)</u>
	<u>10,190</u>	<u>14,227</u>	<u>2,641</u>
<b>Investing Activities</b>			
(Increase) decrease in interest-bearing deposits in banks	13,029	(2,642)	(11,376)
Purchases of premises and equipment	(725)	(1,121)	(369)
Contribution of capital to subsidiary bank	-	(1,050)	-
Net cash paid for acquisition	(11,094)	-	-
Net cash provided by (used in) investing activities	<u>1,210</u>	<u>(4,813)</u>	<u>(11,745)</u>
<b>Financing Activities</b>			
Repayment of other borrowings	(1,462)	(6,462)	(1,463)
Purchase of treasury shares	(361)	(170)	(3,469)
Dividends paid	(5,475)	(4,885)	(4,749)
Reduction in income taxes payable resulting from vesting of restricted shares	234	106	-
Proceeds from exercise of stock options	320	9	133
<b>Net cash used in financing activities</b>	<u>(6,744)</u>	<u>(11,402)</u>	<u>(9,548)</u>
Net increase (decrease) in cash and due from banks	4,656	(1,988)	(18,652)
Cash at beginning of year	<u>1,547</u>	<u>3,535</u>	<u>22,187</u>
Cash at end of year	<u>\$ 6,203</u>	<u>\$ 1,547</u>	<u>\$ 3,535</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the year for interest	<u>\$ 3,242</u>	<u>\$ 3,335</u>	<u>\$ 3,484</u>

**NOTE 20. SUBSEQUENT EVENT**

On February 15, 2005, the Company's Board of Directors approved a six-for-five stock split of the Company's common stock payable on or about March 31, 2005 to shareholders of record on March 15, 2005. This transaction has been reported retroactively in the consolidated balance sheet as if the transaction had occurred on December 31, 2004.

The number of shares issued as of December 31, 2004 and the related equity accounts have been revised to give effect to the stock split. All per share data and all information pertaining to stock options have been revised to give effect to the transaction as if it had occurred at the beginning of the earliest period presented.

**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 2004.

CALENDAR PERIOD	SALES PRICE	
	Low	High
2004		
First Quarter	\$13.22	\$16.50
Second Quarter	\$14.05	\$17.30
Third Quarter	\$14.67	\$16.88
Fourth Quarter	\$15.89	\$18.61

Quarterly dividends of \$0.12 per share were declared for first, second, third and fourth quarters of 2004. The stock prices and quarterly dividends have been restated for a six-for-five stock split announced on 2-15-05.

**AVAILABILITY 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 the fiscal year 2004.

Please direct requests to:

ABC Bancorp, Attention: Dennis J. Zember, Jr., CPA, P.O. Box 3668, Moultrie, GA 31776-3668.

**ANNUAL MEETING OF SHAREHOLDERS**

The 2005 Annual Meeting of Shareholders of ABC Bancorp will be held at 4:15 p.m. EST, Tuesday, May 17, 2005 at the ABC Bancorp Corporate Office located at 24 Second Avenue, S. E., Moultrie, Georgia.