

PUBLIC DISCLOSURE

August 16, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Northwest Florida Bank
686132

Fort Walton Beach, Florida

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713

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

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First Northwest Florida Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of August 16, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The bank's average loan-to-deposit ratio is reasonable given the bank's asset size, local competition from other banking entities, and loan demand in the assessment area. A majority of the loans sampled are inside the bank's assessment area. In addition, an analysis of sampled loans indicated a reasonable penetration of loans among businesses of different revenue sizes. Also, the geographic distribution of the bank's loans reflects reasonable dispersion throughout the assessment area. No complaints regarding the bank's CRA performance have been received since the previous examination. No evidence of discrimination or other illegal credit practice was noted during the examination.

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| DESCRIPTION OF INSTITUTION |
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First Northwest Florida Bank operates one full service and one limited service office in Fort Walton Beach, Florida. According to the June 30, 1999 Consolidated Reports of Condition and Income (Call Report), the bank had total assets of \$39.1 million. The bank is a wholly owned subsidiary of First Northwest Florida Holding Company. First National Bank Northwest Florida in Panama City, Florida, is also a wholly owned subsidiary of the holding company, and functions as the lead bank. No legal or financial impediments exist that would hinder the bank's ability to meet the credit needs of its assessment area. The bank received a satisfactory rating at its previous CRA evaluation dated September 23, 1996.

The bank offers a variety of consumer and business loan products to meet community credit needs. The types of credit offered, as listed in the bank's loan policy, include consumer real estate, consumer nonreal estate, and commercial loans. The bank faces increased competition from local financial institutions including credit unions. To compete in the Fort Walton Beach market, the bank has developed somewhat of a niche by concentrating on small business lending.

Two individuals from the community were contacted for their perceptions of the community, opportunities for participation by local financial institutions, and the performance of local financial institutions. One contact represented the local chamber of commerce, and the other contact represented a community development organization. Both contacts indicated that there was a need for small dollar business loans. Both contacts were complimentary of the performance of the local banks in the community.

DESCRIPTION OF INSTITUTION (Continued)

The composition of the loan portfolio according to the December 31, 1998 Call Report is shown on the following table.

| COMPOSITION OF LOAN PORTFOLIO AS OF DECEMBER 31, 1998* | | |
|---|------------------|----------------|
| Loan Type | \$ (000s) | Percent |
| Construction and Development | 1,958 | 7.1% |
| Secured by One- to Four- Family Dwellings | 6,400 | 23.1% |
| Other Real Estate: | | |
| Farmland | 0 | 0.0% |
| Multifamily | 99 | 0.4% |
| Nonfarm nonresidential | 14,544 | 52.6% |
| Commercial and Industrial | 3,559 | 12.9% |
| Loans to Individuals | 1,095 | 4.0% |
| Agricultural Loans | 0 | 0.0% |
| <i>Total</i> | <i>\$27,655</i> | <i>100.0%</i> |

* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

The following table shows a comparison of the bank's loan portfolio by loan type at the previous examination and as of December 31, 1998. As shown in the table below, the composition of loan portfolio has remained fairly stable since the previous examination. Loans secured by one-to four-family dwellings experienced the largest percentage change in its composition of the loan portfolio. The four percent decrease reflects the bank's strategic plan to de-emphasize residential mortgage lending.

| Loan Type | Percentage | |
|--|-------------------|-------------|
| | 1996 | 1998 |
| Construction and Development | 9% | 7% |
| Secured by One- to Four-Family Dwellings | 27% | 23% |
| Nonfarm nonresidential | 51% | 53% |
| Commercial and Industrial | 11% | 13% |
| Loans to Individuals | 2% | 4% |
| <i>Total</i> | <i>100%</i> | <i>100%</i> |

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| DESCRIPTION OF ASSESSMENT AREA |
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The bank's assessment area is defined as Okaloosa County, Florida. Okaloosa County makes up the Fort Walton Beach Metropolitan Statistical Area (MSA) which consists of 33 census tracts. None of the 33 census tracts are low-income; 8 (24 percent) are moderate-income; 20 (61 percent) are middle-income; and 5 (15 percent) are upper-income tracts. Okaloosa County is located in the northwestern part of Florida. Choctawhatchee Bay surrounds the assessment area to the east, the Gulf of Mexico to the south and Eglin Air Force Base to the northeast. The assessment area does not arbitrarily exclude any moderate-income geographies.

The table on the next page provides key demographic information from the 1990 census that was used in analyzing the bank's CRA performance. Certain components of the data in the table are discussed in this evaluation as they apply to particular parts of the analysis.

| DEMOGRAPHIC ANALYSIS - FIRST NORTHWEST FLORIDA BANK | | | | | | |
|---|------------------------------------|----------------------------|------------------------|------------------------|---------------------|--------|
| Distribution of Tracts | Number | | | Percent | | |
| Low-Income Tracts | 0 | | | 0.0% | | |
| Moderate-Income Tracts | 8 | | | 24.2% | | |
| Middle-Income Tracts | 20 | | | 60.6% | | |
| Upper-Income Tracts | 5 | | | 15.2% | | |
| <i>Total Assessment Area</i> | 33 | | | 100.0% | | |
| Housing Units - Tract Distribution | Owner-Occupied | | Rental | | Vacant | |
| Low-Income Tracts | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Moderate-Income Tracts | 5,127 | 15.5% | 5,967 | 29.6% | 1,107 | 12.0% |
| Middle-Income Tracts | 22,082 | 66.6% | 11,619 | 57.6% | 7,432 | 80.3% |
| Upper-Income Tracts | 5,940 | 17.9% | 2,578 | 12.8% | 717 | 7.7% |
| <i>Total</i> | 33,149 | 100.0% | 20,164 | 100.0% | 9,256 | 100.0% |
| Housing Units - Percentage in Tract | | | | | | |
| Low-Income Tracts | 0.0% | | 0.0% | | 0.0% | |
| Moderate-Income Tracts | 42.0% | | 48.9% | | 9.1% | |
| Middle-Income Tracts | 53.7% | | 28.2% | | 18.1% | |
| Upper-Income Tracts | 64.3% | | 27.9% | | 7.8% | |
| <i>Total Assessment Area</i> | 53.0% | | 32.2% | | 14.8% | |
| Population - Tract Distribution | Families | | Households | | Population | |
| Low-Income Tracts | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Moderate-Income Tracts | 8,377 | 21.0% | 10,994 | 20.6% | 30,233 | 21.0% |
| Middle-Income Tracts | 24,583 | 61.6% | 33,717 | 63.2% | 90,684 | 63.1% |
| Upper-Income Tracts | 6,925 | 17.4% | 8,661 | 16.2% | 22,859 | 15.9% |
| <i>Total</i> | 39,885 | 100.0% | 53,372 | 100.0% | 143,776 | 100.0% |
| Population - Percentage by Income | | | | | | |
| Low-Income | 6,590 | 16.5% | 9,860 | 18.5% | | |
| Moderate-Income | 8,320 | 20.9% | 10,375 | 19.4% | | |
| Middle-Income | 9,505 | 23.8% | 11,666 | 21.9% | | |
| Upper-Income | 15,470 | 38.8% | 21,471 | 40.2% | | |
| <i>Total</i> | 39,885 | 100.0% | 53,372 | 100.0% | | |
| Families - Tract Distribution | Families < Poverty Level | Low-Income Families | Moderate-Income | Middle-Income | Upper-Income | |
| Low-Income Tracts | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Moderate-Income Tracts | 31.2% | 33.4% | 30.2% | 20.2% | 11.3% | |
| Middle-Income Tracts | 60.9% | 58.5% | 59.7% | 67.0% | 60.7% | |
| Upper-Income Tracts | 7.8% | 8.1% | 10.1% | 12.8% | 28.0% | |
| <i>Total</i> | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |
| Families - Percentage in Tract | | | | | | |
| Low-Income Tracts | 0.0% | | 0.0% | | 0.0% | |
| Moderate-Income Tracts | 11.7% | | 26.2% | | 20.8% | |
| Middle-Income Tracts | 7.8% | | 15.7% | | 38.2% | |
| Upper-Income Tracts | 3.5% | | 7.7% | | 62.6% | |
| <i>Total Assessment Area</i> | 7.8% | | 16.5% | | 23.8% | |
| Median Family Income | \$31,663 | | | | | |
| Households Receiving Public Assistance | 4.9% | | | | | |
| Population Age | Age 65 and Over | | | Age 18 and Over | | |
| | 9.3% | | | 74.1% | | |

Totals in percentage columns are calculated independently and may not be exactly equal to the sum of the components due to rounding of the components. These rounding errors are immaterial and have no effect on related analyses or conclusions.

DESCRIPTION OF ASSESSMENT AREA (Continued)

As shown in the table on the preceding page, middle-income census tracts constitute the largest percentage of census tracts in the assessment area and contain a large majority of the population, families, and households. Thus, the largest percentage of lending would be expected in these census tracts.

The local economy is strongly influenced by the presence of Eglin Air Force Base (AFB). Eglin AFB is the single largest employer in the county and is among the largest Air Force installations in the world, covering over 724 square miles and an additional 86,500 square miles of water test ranges. Local community contacts estimate that close to 60 percent of the local economy is related to the military facilities located in the county. According to information provided by the Greater Fort Walton Beach Chamber of Commerce, approximately 70 percent of the residents of Okaloosa County reside in the Fort Walton Beach community. The median family income for the assessment area is \$31,663 compared to \$32,212 for the state of Florida.

Small businesses with less than 50 employees account for the vast majority of businesses in the assessment area. The 1998 U.S. Census employment data for county business patterns showed a total of 932 businesses in the bank's assessment area. Of the 932 businesses, 931 (99 percent) were businesses with fewer than 50 employees.

Unemployment figures for Okaloosa County, which were taken from the U. S. Bureau of Labor Statistics, are shown in the following chart. The state of Florida is included in the chart as a comparison to the county unemployment rates. As indicated in the chart, the unemployment rate for Okaloosa County has continued to decline, and has consistently remained lower than the unemployment rate for the state of Florida for the last four years.

| UNEMPLOYMENT RATES FOR THE MONTH OF JUNE | | | | |
|---|-------------|-------------|-------------|-------------|
| Area | 1996 | 1997 | 1998 | 1999 |
| Okaloosa County | 3.6% | 3.5% | 3.2% | 3.1% |
| State of Florida | 5.4% | 5.1% | 4.6% | 4.1% |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

The bank's average loan-to-deposit ratio has increased since the previous examination and is considered reasonable. The average net loan-to-deposit ratio for the eleven-quarter period ending June 30, 1999, was 75.3 percent. The average loan-to-deposit ratio at the previous examination was 63.6 percent. Since the previous exam, total assets increased by \$17.4 million, deposits increased by \$15.9 million and net loans outstanding increased by \$12.1 million.

First Northwest Florida Bank's average loan-to-deposit ratio was compared to the average loan-to-deposit ratios of the two other financial institutions of similar asset size operating in Okaloosa County. First Northwest Florida Bank's average loan-to-deposit ratio of 75.3 percent was the highest of the three institutions. The eleven-quarter average loan-to-deposit ratios for the two other institutions were 60.6 percent and 74.5 percent. Based on the bank's increase in net loans outstanding and average loan-to-deposit ratio since the previous examination, and its loan-to-deposit ratio ranking versus two similarly situated financial institutions, First Northwest Florida Bank meets standards for satisfactory performance.

Assessment Area Concentration

Lending in the assessment area meets the standards for satisfactory performance. During the examination, information was collected on a sample of 66 small business loans. These loans were used to determine the percentage of loans in the bank's assessment area, to assess the bank's lending to businesses of different sizes, and to evaluate the geographic distribution of the loans. The following table shows the percentage of the sampled loans as well as overall dollar amounts that was inside and outside the bank's assessment area.

| LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA | | | | | | | | | | |
|--|----|-----|----------|-----|-----|-----|----------|-----|-------|----------|
| LOAN TYPE | IN | | | | OUT | | | | TOTAL | |
| | # | % | \$(000)s | % | # | % | \$(000)s | % | # | \$(000)s |
| Business | 50 | 76% | \$4,753 | 44% | 16 | 24% | \$6,124 | 56% | 66 | \$10,877 |

The preceding table shows that a majority of the sampled loans are inside the assessment area. Of the 66 loans sampled, 50 (76 percent) are in the assessment area. The table also shows that the majority of loans by dollar amount are outside the assessment area. The majority of the loans granted in the assessment area are small dollar amount loans less than \$100,000. These loans were granted for the most part to small local businesses. Of the 16 small business loans originated outside the bank's assessment area, 11 are loan participations of large dollar amounts (\$5.1 million) with a subsidiary bank. Most of these loans are in a neighboring county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Small business loans (loans in amounts of \$1 million or less) were analyzed to determine their distribution among businesses of different gross revenue sizes. Of the 50 small business loans made inside the bank's assessment area, 8 did not have revenue information and were excluded from the analysis. The following table depicts the distribution of small business loans by revenue size and by loan size.

| SMALL BUSINESS LOANS | | |
|------------------------------------|---------------|----------------|
| Lending by Business Revenue | Number | Percent |
| \$1 Million or Less | 39 | 78.0% |
| Over \$1 Million | 3 | 6.0% |
| Not Available | 8 | 16.0% |
| <i>Total</i> | <i>50</i> | <i>100.0%</i> |
| Loan Size: | | |
| \$100,000 or Less | 37 | 74.0% |
| \$100,001 - \$250,000 | 11 | 22.0% |
| \$250,001 - \$1 Million | 2 | 4.0% |
| <i>Total</i> | <i>50</i> | <i>100.0%</i> |

As indicated in the table above, First Northwest Florida Bank has done an excellent job in extending loans to businesses with gross revenues of \$ 1 million or less. Of the 42 loans with revenue information, 39 (93 percent) were extended to businesses with revenues of \$1 million or less. According to Dunn and Bradstreet data, of the 6,061 business in the assessment area, 5,527 (91.2 percent) have revenues under \$1 million. The distribution of the bank's small business loans to businesses of various revenue sizes closely reflects the distribution of businesses in the bank's assessment area. In addition, of the 50 small business loans in the sample, 96 percent were in amounts of \$250,000 or less and 74 percent of the small business loans were in amounts of \$100,000 or less. This level of lending shows the bank's willingness to meet the credit needs for small dollar business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans

The geographic distribution of small business loans meets standards for satisfactory performance. The following table provides the geographic distribution of the commercial entities in the bank's assessment area.

| BUSINESS DEMOGRAPHICS | | | | | | |
|------------------------------|-------------------------|--------|---------------------------------|--------|--------------------------------|--------|
| Percentage in Tract | Total Businesses | | Businesses with Revenue: | | | |
| | | | Under \$1 Million | | \$1 Million and Greater | |
| Low-Income Tracts | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Moderate-Income Tracts | 1,011 | 16.7% | 927 | 16.8% | 84 | 15.7% |
| Middle-Income Tracts | 4,227 | 69.7% | 3,836 | 69.4% | 391 | 73.2% |
| Upper-Income Tracts | 646 | 10.7% | 608 | 11.0% | 38 | 7.1% |
| Tract Not Reported | 177 | 2.9% | 156 | 2.8% | 21 | 3.9% |
| <i>Total</i> | 6,061 | 100.0% | 5,527 | 100.0% | 534 | 100.0% |

As shown in the preceding table, middle-income census tracts contain the majority of the businesses in the assessment area. Approximately 70 percent of the businesses are located in the middle-income census tracts. As a result, it is expected that the largest percentage of commercial lending would be in the middle-income census tracts. 16.7 percent of businesses are located in moderate-income tracts and 10.7 percent of the businesses are in upper-income census tracts. The geographic distribution of the sampled small business loans originated in the bank's assessment area is shown in the following table.

| GEOGRAPHIC DISTRIBUTION | | |
|--------------------------------|-----------------------|----------------|
| Tract Income Level | Number | Percent |
| | Small Business | |
| Low-Income Tracts | 0 | 0.0% |
| Moderate-Income Tracts | 7 | 14.0% |
| Middle-Income Tracts | 35 | 70.0% |
| Upper-Income Tracts | 8 | 16.0% |
| <i>Total</i> | 50 | 100.0% |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

As shown in the preceding geographic distribution table, the majority of the bank's small business loans were originated in the middle-income census tracts. Seventy percent of the small business loans were originated in middle-income census tracts. Approximately 70.0 percent of the businesses in the bank's assessment area are located in middle-income census tracts. The percentage of small business loans in the moderate-income tracts approximates the percentage of businesses located in the moderate-income census tracts and the percentage of small business loans originated in upper-income census tracts exceeds the percentage of businesses in these census tracts. Given how closely the bank's distribution of small business loans reflects the distribution of businesses throughout the bank's assessment area, the geographic distribution of small business loans meets standards for satisfactory performance.

Complaints

No complaints have been filed concerning the bank's performance in meeting the assessment area credit need since the previous examination.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or the use of illegal credit practices was noted during the review of bank policies and procedures. No practices have the intent or the effect of discouraging applicants.