



August 4, 2006

LETTER OF COMMENT NO. 89

Mr. Lawrence W. Smith Chairman of Emerging Issues Task Force Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Dear Mr. Smith:

First National Bank of the South appreciates the opportunity to comment on the Emerging Issues Task Force (EITF) Issue No. 06-4, "Accounting for the Deferred Compensation and Post-Retirement Benefit Aspects of Split-Dollar Life Insurance Arrangements." We are writing to express our disagreement with the change in accounting that would be required for our bank's split-dollar arrangement under the EITF's proposed consensus outlined in Issue No. 06-4.

Our bank utilizes a post-retirement endorsement, split-dollar arrangement for which the underlying life insurance products are single-premium policies. We provide death benefits to each insured employee's beneficiary through a written agreement between each insured employee and our bank outlining an agreed-upon allocation of the death benefit payments made by the insurance company.

Currently, we have not recognized any liability in our financial statements for this post-retirement, endorsement split-dollar arrangement and have not been advised to do so by our independent auditor from the inception of the arrangement in 2003. The face amount of the policies purchased with a single premium of \$2.5 million in 2003 was \$9.1 million, covering 16 key employees and providing an estimated future death benefit to our employees' beneficiaries of approximately \$1.7 million.

We strive to make our employee benefits as competitive as possible to attract and retain our team of banking professionals. As a service business, we understand that we are only as good as our current 80+ employees and our ability to deliver superior financial products and services through them.

Our bank made the decision to purchase the single premium life insurance policies in 2003 which insure the lives of certain members of our bank's management tearn. Following this 215 N. Pine Street Spartanburg, South Carolina 29302

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decision, we were advised by a third-party consultant that we had the ability to direct a portion of the death benefit paid by the insurance company to the employees whose lives were being insured.

The impact of the issuance of the EITF's proposed consensus on our current split-dollar arrangement described above causes our bank some concern with respect to the potential financial statement liability associated with the death benefits currently provided to our employees in connection with our current arrangement. Our concerns stem from a number of factors, which are outlined below.

## No bank liability to insured employees

The accounting treatment of our split-dollar arrangement required by the proposed consensus does not reflect our intent with regard to the post-retirement benefit provided. We did not commit to pay a death benefit to our employees' beneficiaries and then purchase life insurance to fund this obligation. We have not communicated or implied such a plan or agreement to our employees. Under the policy endorsement, the insurance company is obligated to make any future benefit payments to the beneficiaries, not our bank.

## Misleading result

We feel that requiring our bank to accrue a liability by recording an expense in our financial statements is misleading to the reader of these financial statements. As an SEC registrant, our bank holding company, First National Bancshares, Inc. (Nasdaq: FNSC), is especially sensitive to our shareholders' understanding of our published financial information. The reader may conclude in error that our bank has an obligation to pay the benefit out of our future cash flows when we will never make a payment under this arrangement. This treatment is not a fair representation of the economics of the arrangement.

## Impact on bank regulatory capital

We respect that the EITF wishes to resolve the accounting for split-dollar arrangements in a timely fashion. However, the implementation date included in the proposed consensus would not give our bank adequate time to remedy any capital deficiency created by the change in accounting required.

We are required by our federal regulatory agency to maintain capital ratios at certain levels to remain in compliance with set regulatory minimum levels. Our management team would have only three months to formulate and execute a strategy to replace the required reduction in regulatory capital from the recording of the cumulative adjustment to retained earnings as of the beginning of the calendar year 2007. We strongly recommend that the EITF consider delaying the implementation date to years beginning after December 15, 2007, if the proposed consensus is ratified.

Mr. Lawrence W. Smith August 4, 2006 Page 3 of 3

## Conclusion

In summary, we believe that the application of the accounting treatment in the proposed consensus to our split-dollar arrangement is erroneous and does not accurately reflect the economic substance of the arrangement. Therefore, we respectfully request that the EITF reconsider ratifying the proposed consensus, as currently drafted, and conduct further research on the proper accounting treatment for endorsement split-dollar arrangements.

Thank you for the opportunity to share our bank's perspective on these issues.

Sincerely,

Kitty B. Payne, CPA

Executive Vice President and

Chief Financial Officer

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