BANC CORP
Form 10-Q
May 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

Commission File number 0-25033

The Banc Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	63-1201350
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)

17 North 20th Street, Birmingham, Alabama 35203
(Address of Principal Executive Offices)

(205) 327-3600
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of March 31, 2003
Common stock, $.001 par value	17,611,349

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

	MARCH 31, 2003 (UNAUDITED)
ASSETS	
Cash and due from banks	$ 34,605
Interest bearing deposits in other banks	32,003
Federal funds sold	36,000
Investment securities available for sale	67,311
Investment securities held for sale (fair value of $1,937,000 in 2003 and $1,867,000 in 2002)	1,996
Mortgage loans held for sale	15,459
Loans, net of unearned income	1,135,720
Less: Allowance for loan losses	(28,679)
Net loans	1,107,041
Premises and equipment, net	60,901
Accrued interest receivable	6,274
Stock in FHLB and Federal Reserve Bank	10,903
Other assets	73,555
TOTAL ASSETS	$1,446,048
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 111,296
Interest-bearing	1,038,698
TOTAL DEPOSITS	1,149,994
Advances from FHLB	173,550
Other borrowed funds	1,117
Long-term debt	2,083
Guaranteed preferred beneficial interests in our subordinated debentures (trust preferred securities)	31,000

Accrued expenses and other liabilities	8,818
TOTAL LIABILITIES	1,366,562
Stockholders' Equity	
Preferred stock, par value $.001 per share; authorized 5,000,000 shares; shares issued -0-	--
Common stock, par value $.001 per share; authorized 25,000,000 shares; shares issued 18,013,002 in 2003 and 18,009,002 in 2002; outstanding 17,611,349 in 2003 and 17,605,124 in 2002	18
Surplus	68,336
Retained Earnings	14,585
Accumulated other comprehensive income	386
Treasury stock, at cost	(808)
Unearned ESOP stock	(2,135)
Unearned restricted stock	(896)
TOTAL STOCKHOLDERS' EQUITY	79,486
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,446,048

See Notes to Condensed Consolidated Financial Statements.

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
INTEREST INCOME		
Interest and fees on loans	$ 19,844	$ 20,835
Interest on investment securities		
Taxable	718	648
Exempt from Federal income tax	92	94
Interest on federal funds sold	103	87
Interest and dividends on other investments	177	117
Total interest income	20,934	21,781
INTEREST EXPENSE		
Interest on deposits	6,754	7,622
Interest on other borrowed funds	2,186	2,120
Interest on guaranteed preferred beneficial interest in our subordinated debentures (trust preferred securities)	617	647
Total interest expense	9,557	10,389
NET INTEREST INCOME	11,377	11,392

Provision for loan losses	1,200	1,115
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,177	10,277
NONINTEREST INCOME		
Service charges and fees on deposits	1,623	1,196
Mortgage banking income	875	714
Gain on sale of securities	26	--
Gain on sale of branch	2,246	--
Other income	955	848
TOTAL NONINTEREST INCOME	5,725	2,758
NONINTEREST EXPENSES		
Salaries and employee benefits	6,318	5,552
Occupancy, furniture and equipment expense	2,089	1,804
Other	3,104	2,441
TOTAL NONINTEREST EXPENSES	11,511	9,797
Income before income taxes	4,391	3,238
INCOME TAX EXPENSE	1,377	1,052
NET INCOME	$ 3,014	$ 2,186
BASIC NET INCOME PER SHARE	$ 0.17	$ 0.15
DILUTED NET INCOME PER SHARE	$ 0.17	$ 0.15
AVERAGE COMMON SHARES OUTSTANDING	17,450	14,583
AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION	17,618	14,613

See Notes to Condensed Consolidated Financial Statements.

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(DOLLARS IN THOUSANDS)

	THREE MONTHS END MARCH 31	
	2003	
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (9,882)	$
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in interest bearing deposits in other banks	(21,978)	
Net increase in federal funds sold	(25,000)	

Proceeds from sales of securities available for sale	13,419	
Proceeds from maturities of investment securities available for sale	8,331	
Purchases of investment securities available for sale	(18,411)	
Net increase in loans	(13,277)	(
Purchases of premises and equipment	(654)	
Net cash paid in branch sale	(31,949)	
Net cash paid in business combination	--	
Net cash used by investing activities	(89,519)	(
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit accounts	86,789	
Net (decrease) increase in FHLB advances and other borrowed funds	(255)	
Proceeds received on long term debt	2,100	
Payments made on long term debt	(17)	
Proceeds from note payable	--	
Principal payment on note payable	--	(
Proceeds from sale of common stock	24	
Purchase of treasury stock	--	
Net cash provided by financing activities	88,641	
Net (decrease) increase in cash and due from banks	(10,760)	
Cash and due from banks at beginning of period	45,365	
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 34,605	$

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q, and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. For a summary of significant accounting policies that have been consistently followed, see Note 1 to the Consolidated Financial Statements included in Form 10-K for the year ended December 31, 2002. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Operating results for the three-month period ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

The statement of financial condition at December 31, 2002, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections" (Statement 145). Statement 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Provisions of Statement 145 related to the rescission of Statement 4 were effective for financial statements issued by the Corporation after January 1, 2003. The adoption of the provisions of Statement 145 did not have a material impact on the Corporation's financial condition or results of operations.

On January 1, 2003, the Corporation adopted Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (Statement 146). Statement 146 requires companies to recognize costs associated with the exit or disposal of activities as they are incurred rather than at the date a plan of disposal or commitment to exit is initiated. Types of costs covered by Statement 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, facility closing, or other exit or disposal activity. Statement 146 will apply to all exit or disposal activities initiated after December 31, 2002. The adoption of the provisions of Statement 146 did not have a material impact on the Corporation's financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (Interpretation 45). Interpretation 45 requires certain guarantees to be recorded at fair value. In general, Interpretation 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or an equity security of the guaranteed party. The initial recognition and measurement provisions of Interpretation 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Corporation began recording a liability and an offsetting asset for the fair value of any standby letters of credit issued by the Corporation beginning January 1, 2003. The impact of this new accounting standard was not material to the financial condition or results of operations of the Corporation. Interpretation 45 also requires new disclosures, even when the likelihood of making any payments under the guarantee is remote. These disclosure requirements were effective for financial statements of interim or annual periods ending after December 15, 2002.

The Corporation, as part of its ongoing business operations, issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Corporation generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by the Corporation to guarantee a customer's repayment of an outstanding loan or debt instrument. In a performance standby letter of credit, the Corporation guarantees a customer's performance under a contractual nonfinancial obligation for which it receives a fee. The Corporation has recourse against the customer for any amount it is required to pay to a third party under which it receives a fee. The Corporation has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. Revenues are recognized ratably over the life of the standby letter of credit. At March 31, 2003, the Corporation had standby letters of credit outstanding with maturities ranging from less than one year to three years. The maximum potential amount of future payments the Corporation could be required to make under its standby letters of credit at March 31, 2003 was $19.4 million and represents the Corporation's maximum credit risk. At March 31, 2003, the Corporation had no significant

liabilities and receivables associated with standby letters of credit agreements entered into subsequent to December 31, 2002 as a result of the Corporation's adoption of Interpretation 45 at January 1, 2003. Standby letters of credit agreements entered into prior to January 1, 2003, have a carrying value of zero. The Corporation holds collateral to support standby letters of credit when deemed necessary.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (Interpretation 46). Interpretation 46 addresses whether business enterprises must consolidate the financial statements of entities known as "variable interest entities". A variable interest entity is defined by Interpretation 46 to be a business entity which has one or both of the following characteristics: (1) The equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other parties, which is provided through other interests that will absorb some or all of the expected losses at the entity; and (2) The equity investors lack one or more of the following essential characteristics of a controlling financial interest: (a) direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, (b) the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities, or (c) the right to receive the expected residual returns of the entity if they occur, which is the compensation for risk of absorbing expected losses. Interpretation 46 does not require consolidation by transferors to qualifying special purpose entities. Interpretation 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Corporation does not have any ownership of a variable interest entity.

NOTE 3 - BUSINESS COMBINATION AND BRANCH SALE

On March 13, 2003, the Corporation's banking subsidiary sold its Roanoke, Alabama branch, which had assets of approximately $9,800,000 and liabilities of $44,672,000, pursuant to a Branch Sale Agreement, dated as of November 19, 2002, for approximately $3,300,000. The Corporation realized a $2,246,000 gain on the sale.

On February 15, 2002, the Corporation acquired one-hundred percent (100%) of the outstanding common shares of CF Bancshares, Inc. ("CF Bancshares") in a business combination accounted for as a purchase. CF Bancshares was a unitary thrift holding company operating in the panhandle of Florida. As a result of this acquisition, the Corporation expanded its market in the panhandle of Florida and increased its assets in Florida approximately $100,000,000.

The total cost of the acquisition was $15,636,000, which exceeded the fair value of the net assets of CF Bancshares by $7,445,000. The total costs included 16,794 shares of common stock valued at $110,840. The value of common stock issued was determined based on the average of the last sales price for the twenty (20) consecutive trading days ending three days prior to the special meeting of CF Bancshares shareholders held on November 28, 2002. Of this amount, approximately $2,900,000 consisted of a core deposit intangible which is being amortized over a ten-year period on the straight-line basis. The remaining $4,545,000 consists of goodwill. The Corporation's condensed consolidated statement of income for the three month period ended March 31, 2002 includes the results of operations of CF Bancshares only for the period February 15, 2002, to March 31, 2002.

The following unaudited summary information presents the consolidated results of operations of the Corporation on a pro forma basis, as if CF Bancshares had been acquired on January 1, 2002. The pro forma summary does not necessarily reflect the results of operations that would have occurred if the acquisition had occurred as of the beginning of the period presented, or the results that may occur in the future (in thousands, except per share data).

	Period Ended March 31, 2002
Interest income	$ 22,676
Interest expense	10,816
Net interest income	11,860
Provision for loan losses	1,932
Noninterest income	2,928
Noninterest expense	11,033
Income before income taxes	1,823
Income tax expense	612
Net income	$ 1,211
Basic and diluted net income per common share	$ .08

NOTE 4 - SEGMENT REPORTING

The Corporation has two reportable segments, the Alabama Region and the Florida Region. The Alabama Region consists of operations located throughout the state of Alabama. The Florida Region consists of operations located in the panhandle region of Florida. The Corporation's reportable segments are managed as separate business units because they are located in different geographic areas. Both segments derive revenues from the delivery of financial services. These services include commercial loans, mortgage loans, consumer loans, deposit accounts and other financial services.

The Corporation evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers. Net interest revenue is used as the basis for performance evaluation rather than its components, total interest revenue and total interest expense. The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2002. All costs have been allocated to the reportable segments. Therefore, combined amounts agree to the consolidated totals (in thousands).

	Alabama Region	Fl R
Three months ended March 31, 2003		
Net interest income	$ 6,089	$
Provision for loan losses	1,106	
Noninterest income	4,823	
Noninterest expense(1)	7,659	
Income tax expense	686	
Net income	1,461	
Total assets	945,876	5
Three months ended March 31, 2002		
Net interest income	$ 6,463	$
Provision for loan losses	630	
Noninterest income	2,204	
Noninterest expense(1)	6,749	
Income tax expense	458	
Net income	830	
Total assets	876,269	4

(1) Noninterest expense for the Alabama region includes all expenses for the holding company, which have not been prorated to the Florida region.

NOTE 5 - NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share amounts):

	Three Months Ended March 31	
	2003	2002
Numerator:		
For basic and diluted, net income	$ 3,014	$ 2,186
Denominator:		
For basic, weighted average common shares outstanding	17,450	14,583
Effect of dilutive stock options	168	30
Average diluted common shares outstanding	17,618	14,613
Basic and diluted net income per share	$ .17	$ .15

NOTE 6 - COMPREHENSIVE INCOME

Total comprehensive income was $2,850,000 and $2,265,000 for the three-month periods ended March 31, 2003, and 2002, respectively. Total comprehensive income consists of net income and the unrealized gain or loss on the Corporation's available for sale securities portfolio arising during the period.

NOTE 7 - INCOME TAXES

The primary difference between the effective tax rate and the federal statutory rate in 2003 and 2002 is due to certain tax-exempt income.

NOTE 8 - GUARANTEED PREFERRED BENEFICIAL INTEREST IN THE CORPORATION'S SUBORDINATED DEBENTURES (TRUST PREFERRED SECURITIES)

On September 7, 2000, TBC Capital Statutory Trust II ("TBC Capital II"), a Connecticut statutory trust established by the Corporation, received $15,000,000 in proceeds in exchange for $15,000,000 principal amount of TBC Capital II's 10.6% cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of 10.6% subordinated debentures of the Corporation.

On July 16, 2001, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust established by the Corporation, received $16,000,000 in proceeds in exchange for $16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of variable rate subordinated debentures of the Corporation. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% per annum ceiling for the first ten years. As of the date of issuance, the interest rate on the securities was 7.57%. As of March 31, 2003, the interest rate on these securities had repriced to 5.10%.

The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital II and TBC Capital III on a subordinated basis with respect to the preferred securities. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in our subordinated debentures." The sole assets of TBC Capital II and TBC Capital III are the subordinated debentures issued by the Corporation. The preferred securities of TBC Capital II and TBC Capital III and the subordinated debentures of the Corporation each have 30-year lives. However, the Corporation and TBC Capital II and TBC Capital III have call options, with a premium after five years through ten years and call options at par after ten years subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements.

NOTE 9 - STOCKHOLDERS' EQUITY

In September of 2000, the Corporation's board of directors approved a stock buyback plan in an amount not to exceed $10,000,000. As of March 31, 2003, there were 136,856 shares held in treasury at a cost of $808,000.

During March 2002, the Corporation received $19.3 million in proceeds, net of $1.8 million underwriting discount and other costs, from the sale of 3,450,000 shares of common stock in a secondary offering priced at $6.125 per share. The Corporation used $14.0 million of these proceeds to repay debt incurred in the acquisition of CF Bancshares.

On April 24, 2002, the Corporation issued 157,500 shares of restricted common stock to certain directors and key employees. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner until such shares have vested. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at a cost $1,120,000, and is classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. The $1,120,000 is being amortized as expense as the stock is earned during the restricted period. For the period ended March 31, 2003, the Corporation has recognized $37,000 in restricted stock expense.

The Corporation adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002 that covers all eligible employees that have attained the age of twenty-one and have completed a year of service. As of March 31, 2003, the ESOP has been leveraged with 273,400 shares of the Corporation's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares," in stockholders' equity.

On January 29, 2003, the Corporation finalized a $2.1 million promissory note to reimburse the Corporation for the funds used to leverage the ESOP. The unreleased shares and a guarantee of the Corporation will secure the promissory note, which has been classified as long-term debt on the Corporation's statement of financial condition. As the Corporation repays the debt, shares are released from collateral based on the proportion of debt service. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. The Corporation recognizes compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense reported by the Corporation is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that the Corporation recognized during the period ended March 31, 2003 was $15,000. The ESOP shares as of March 31, 2003 were as follows:

	March 31, 2003
Allocated shares	6,378
Estimated shares committed to be released	2,225
Unreleased shares	264,797
Total ESOP shares	273,400
Fair value of unreleased shares	$1,305,449

The Corporation has established a stock incentive plan for directors and certain key employees that provide for the granting of restricted stock and incentive and nonqualified options to purchase up to 1,500,000 shares of the Corporation's common stock. The compensation committee of the Board determines

the terms of the restricted stock and options granted.

All options granted have a maximum term of ten years from the grant date, and the option price per share of options granted cannot be less than the fair market value of the Corporation's common stock on the grant date. All options granted under this plan vest 20% on the grant date and an additional 20% annually on the anniversary of the grant date.

The Corporation has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement 123) which allows an entity to continue to measure compensation costs for those plans using the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Corporation has elected to follow APB Opinion 25 and related interpretations in accounting for its employee stock options. Accordingly, compensation cost for fixed and variable stock-based awards is measured by the excess, if any, of the fair market price of the underlying stock over the amount the individual is required to pay. Compensation cost for fixed awards is measured at the grant date, while compensation cost for variable awards is estimated until both the number of shares an individual is entitled to receive and the exercise or purchase price are known (measurement date). No option-based employee compensation cost is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The pro forma information below was determined as if the Corporation had accounted for its employee stock options under the fair value method of Statement 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Corporation's pro forma information follows (in thousands except earnings per share information):

	FOR THE TH
	MARCH 31 2003
Net income:	
As reported	$3,014
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(192)
Pro forma	$2,822
Earnings per common share:	
As reported	$ .17
Pro forma	$ .16
Diluted earnings per common share:	
As reported	$ .17
Pro forma	$ .16

The fair value of the options granted was based upon the Black-Scholes pricing model. The Corporation used the following weighted average assumptions for:

March 31	
2003	2002

Risk free interest rate	2.93%	5.30%
Volatility factor	.33	.30
Weighted average life of options	6.00	6.00

ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Basis of Presentation

The following is a discussion and analysis of our March 31, 2003 consolidated financial condition and results of operations for the three-month periods ended March 31, 2003 (first quarter of 2003) and 2002 (first quarter of 2002). All significant intercompany accounts and transactions have been eliminated. Our accounting and reporting policies conform to generally accepted accounting principles.

This information should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this report and the audited consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations", appearing in our Annual Report on Form 10-K for the year ended December 31, 2002.

Financial Overview

Total assets were $1.446 billion at March 31, 2003, an increase of $40 million, or 2.9% from $1.406 billion as of December 31, 2002. Total loans, net of unearned income, were $1.136 billion at March 31, 2003, a decrease of $3 million, or .3% from $1.139 billion as of December 31, 2002. Total deposits were $1.150 billion at March 31, 2003, an increase of $42 million, or 3.8% from $1.108 billion as of December 31, 2002. Total stockholders' equity was $80 million at March 31, 2003, an increase of $3 million, or 3.9% from $77 million as of December 31, 2002.

Results of Operations

Our net income increased $828,000, or 37.9% to $3.0 million for the first quarter of 2003 from $2.2 million for the first quarter of 2002. Basic and diluted net income per share was $.17 and $.15, respectively, for the first quarter of 2003 and 2002, based on average weighted shares outstanding for the respective periods. Return on average assets, on an annualized basis, was .85% for the first quarter of 2003 compared to .69% for the first quarter of 2002. Return on average stockholders' equity, on an annualized basis, was 15.85% for the first quarter of 2003 compared to 11.23% for the first quarter of 2002. Book value per share at March 31, 2003 was $4.51 compared to $4.35 as of December 31, 2002. Tangible book value per share at March 31, 2003 was $3.78 compared to $3.59 as of December 31, 2002.

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. Net interest income remained level at $11.4 million for the first quarter of 2003 and the first quarter of 2002. Net interest income remained level primarily due to an $847,000, or 3.9% decrease in total interest income offset by an $832,000, or 8.0% decrease in total interest expense. The

decline in total interest income is primarily due to a decline in our yield on loans. The yield on our loan portfolio declined primarily as a result of declining market interest rates, significant charged off loans in 2002 and an increase in nonperforming loans.

The decline in total interest expense is primarily attributable to a 74 basis point decline in the average interest rate paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 3.12% for the first quarter of 2003 compared to 3.86% for the first quarter of 2002. Our net interest spread and net interest margin were 3.52% and 3.61%, respectively, for the first quarter of 2003, compared to 3.76% and 3.99% for the first quarter of 2002.

Average interest-earning assets for the first quarter of 2003 increased $120 million, or 10.4% to $1.282 billion from $1.162 billion in the first quarter of 2002. This growth in average interest-earning assets was primarily

funded by a $150 million, or 13.7% increase in average interest-bearing liabilities to $1.241 billion for the first quarter of 2003 from $1.091 billion for the first quarter of 2002. The ratio of average interest-earning assets to average interest-bearing liabilities was 103.30% and 106.45% for the first quarters of 2003 and 2002, respectively. Average interest-bearing assets produced a tax equivalent yield of 6.64% for the first quarter of 2003 compared to 7.62% for the first quarter of 2002. The 98 basis point decline in the yield was partially offset by a 74 basis point decline in the average rate paid on interest-bearing liabilities.

Average Balances, Income, Expense and Rates. The following table depicts, on a tax-equivalent basis for the periods indicated, certain information related to our average balance sheet and average yields on assets and average costs of liabilities. Average yields are calculated by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been calculated on a daily basis.

	THREE MONTHS ENDED MARCH 31,			
	2003			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
			(Dollars in thousands)	
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1).................	$1,142,333	$ 19,844	7.05%	$1,072,233
Investment securities				
Taxable...................	57,982	718	5.02	51,715
Tax-exempt(2).............	7,966	139	7.10	7,614
Total investment securities..........	65,948	857	5.27	59,329
Federal funds sold........	35,555	103	1.17	20,839

Other investments.........	38,598	177	1.86	9,510
Total interest-earning assets..............	1,282,434	20,981	6.64	1,161,911
Noninterest-earning assets:				
Cash and due from banks.....	36,402			36,278
Premises and equipment......	61,025			50,662
Accrued interest and other assets....................	80,920			41,652
Allowance for loan losses...	(27,965)			(13,282)
Total assets..........	$1,432,816			$1,277,221
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits.............	$ 288,826	694	0.97	$ 271,781
Savings deposits............	35,928	41	0.46	38,304
Time deposits...............	710,900	6,019	3.43	599,476
Other borrowings............	174,807	2,186	5.07	150,926
Guaranteed preferred beneficial interest in our subordinated debentures	31,000	617	8.07	31,000
Total interest-bearing liabilities.........	1,241,461	9,557	3.12	1,091,487
Noninterest-bearing liabilities:				
Demand deposits.............	105,802			98,400
Accrued interest and other liabilities...............	8,432			8,419
Stockholders' equity........	77,121			78,915
Total liabilities and stockholders' equity	$1,432,816			$1,277,221
Net interest income/net interest spread.....................		11,424	3.52%	
Net yield on earning assets...			3.61%	
Taxable equivalent adjustment:				
Investment securities(2)....		47		
Net interest income...		$ 11,377		

(1) Nonaccrual loans are included in loans, net of unearned income. No adjustment has been made for these loans in the calculation of yields.

(2) Interest income and yields are presented on a fully taxable equivalent basis using a tax rate of 34 percent.

The following table sets forth, on a taxable equivalent basis, the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the

three months ended March 31, 2003 and 2002.

	THREE MONTHS ENDED MARCH 31 (1) 2003 VS 2002		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans................	$ (991)	$(2,292)	$ 1,301
Interest on securities:			
Taxable..............................	70	(8)	78
Tax-exempt...........................	(3)	(9)	6
Interest on federal funds.................	16	(32)	48
Interest on other investments.............	60	(112)	172
Total interest income................	(848)	(2,453)	1,605
Expense from interest-bearing liabilities:			
Interest on demand deposits..................	(252)	(309)	57
Interest on savings deposits.................	(16)	(13)	(3)
Interest on time deposits....................	(600)	(1,708)	1,108
Interest on other borrowings.................	66	(249)	315
Interest on guaranteed preferred beneficial interest in our subordinated debentures.....	(30)	(30)	--
Total interest expense...............	(832)	(2,309)	1,477
Net interest income..................	$ (16)	$ (144)	$ 128

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(1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the changes in each.

Noninterest income. Noninterest income increased $3.0 million, or 107.6% to $5.7 million for the first quarter of 2003 from $2.7 million for the first quarter of 2002, primarily due to a gain on the sale of our Roanoke branch of $2.2 million. Service charges on deposits increased $427,000, or 35.7% to $1.6 million in the first quarter of 2003 from $1.2 million in the first quarter of 2002. Mortgage banking income increased $161,000, or 22.5% to $875,000 in the first quarter of 2003 from $714,000 in the first quarter of 2002.

Noninterest expense. Noninterest expense increased $1.7 million, or 17.5% to $11.5 million for first quarter of 2003 from $9.8 million for the first quarter of 2002. Because of the increase in noninterest income, our efficiency ratio improved to 67.1% during the first quarter of 2003 compared to 69.0% during the first quarter of 2002 and 67.3% for the year 2002. Salaries and benefits increased $766,000, or 13.8% to $6.3 million for the first quarter of 2003 from $5.6 million for the first quarter of 2002. The increase in salaries and benefits primarily resulted from the addition of risk management personnel and general raises to personnel salaries and wages. All other noninterest expenses

increased $948,000, or 22.3% to $5.2 million for the first quarter of 2003 from $4.2 million for the first quarter of 2002. The increase in other noninterest expenses is primarily due to increases in professional fees, advertising, insurance and travel cost.

Income tax expense. Income tax expense was $1.4 million for the first quarter of 2003, compared to $1.1 million for the first quarter of 2002. The primary difference in the effective rate and the federal statutory rate (34%) for the first quarter of 2003 and 2002 is due to certain tax-exempt income from investments and insurance policies.

Provision for Loan Losses. The provision for loan losses represents the amount determined by management necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Management reviews the adequacy of the allowance on a quarterly basis. The allowance for classified loans is established based on risk ratings assigned by loan officers. Loans are risk rated using an eight-point scale, with the loan officers having the primary responsibility for assigning the risk ratings and for the timely reporting of changes in the risk ratings. This process and the assigned risk ratings are subject to review by our internal Loan Review Department. Based on the assigned risk ratings, the loan portfolio is segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, recommended regulatory reserve percentages are applied to these categories to estimate the amount of loan loss allowance required. Impaired loans are reviewed specifically and separately under Statement of Financial Accounting Standards ("SFAS") Statement No. 114 to determine the appropriate reserve allocation. Management compares the investment in an impaired loan against the present value of expected future cash flows discounted at the loan's effective interest rate, the loans observable market price or the fair value of the collateral, if the loan is collateral dependent, to determine the appropriate reserve allowance. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions, and other pertinent information. Based on future evaluations, additional provision for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level. See "Financial Condition - Allowance for Loan Losses" for additional discussion.

The provision for loan losses was $1.2 million for the first quarter of 2003 compared to $1.1 million for the first quarter of 2002. During the first quarter of 2003, we had net charged-off loans totaling $195,000 compared to net charged-off loans of $875,000 in the first quarter of 2002. The ratio of net charged-off loans to the provision for loan losses was 16.3% in the first quarter of 2003 compared to 78.5% for the first quarter of 2002 and 72.7% for the year 2002. The annualized ratio of net charged-off loans to average loans was .07% in the first quarter of 2003 compared to .33% for the first quarter of 2002 and 3.35% for the year 2002. The allowance for loan losses totaled $28.7 million, or 2.53% of loans, net of unearned income at March 31, 2003, compared to $27.8 million, or 2.44% of loans, net of unearned income at December 31, 2002. See "Financial Condition - Allowance for Loan Losses" for additional discussion.

Financial Condition

Total assets were $1.446 billion at March 31, 2003, an increase of $40 million, or 2.9% from $1.406 billion as of December 31, 2002. Average total assets for the first quarter of 2003 were $1.433 billion, which was supported by average total liabilities of $1.356 billion and average total stockholders' equity of $77 million.

Short-term liquid assets. Short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) increased $36.2 million, or 54.6%, to $102.6 million at March 31, 2003 from $66.4 million at December 31, 2002. This increase resulted primarily from excess funds invested in federal funds sold and interest-bearing deposits at the FHLB. These excess funds were attributable primarily to an increase in deposits. These deposits were invested in short-term liquid assets primarily to improve our liquidity position. At March 31, 2003, short-term liquid assets comprised 7.1% of total assets compared to 4.7% at December 31, 2002. We continually monitor our liquidity position and will increase or decrease our short-term liquid assets as necessary.

Investment Securities. Total investment securities decreased $3.8 million, or 5.2% to $69.3 million at March 31, 2003, from $73.1 million at December 31, 2002. Mortgage-backed securities, which comprised 58.0% of the total investment portfolio at March 31, 2003, increased $7.0 million, or 21.1%, to $40.2 million from $33.2 million at December 31, 2002. Investments in U.S. agency securities, which comprised 7.9% of the total investment portfolio at March 31, 2003, decreased $11.4 million, or 67.5%, to $5.5 million from $16.9 million at December 31, 2002. The reduction in our agency securities allowed us to reinvest in mortgage-backed securities which enhanced our repricing opportunities. The total investment portfolio at March 31, 2003 comprised 5.3% of all interest-earning assets compared to 5.8% at December 31, 2002 and produced an average tax equivalent yield of 5.3% for the first quarter of 2003 compared to 5.4% for the first quarter of 2002.

Loans. Loans, net of unearned income, totaled $1.136 billion at March 31, 2003, a decrease of .3%, or $2.8 million from $1.139 billion at December 31, 2002. Mortgage loans held for sale totaled $15.5 million at March 31, 2003, an increase of $14.7 million from $764,000 at December 31, 2002. Average loans, including mortgage loans held for sale, totaled $1.142 billion for the first quarter of 2003 compared to $1.072 billion for the first quarter of 2002. Loans, net of unearned income, comprised 87.4% of interest-earning assets at March 31, 2003, compared to 91.5% at December 31, 2002. Mortgage loans held for sale comprised 1.2% of interest-earning assets at March 31, 2003, compared to .1% at December 31, 2002. The loan portfolio produced an average yield of 7.1% for the first quarter of 2003, compared to 7.9% for the first quarter of 2002. This decline in yield was substantially offset by a 74 basis point decline in the average cost of the funds that support the loan portfolio. The following table details the distribution of the loan portfolio by category as of March 31, 2003 and December 31, 2002:

DISTRIBUTION OF LOANS BY CATEGORY

	MARCH 31, 2003	DECEMBER 31,
	PERCENT	PE

	AMOUNT	OF TOTAL	AMOUNT	T
Commercial and industrial	$ 181,347	16.0%	$ 213,210	
Real estate -- construction and land development	222,711	19.6	212,818	
Real estate -- mortgage				
Single-family	264,028	23.2	272,899	
Commercial	346,050	30.4	317,359	
Other	40,807	3.6	38,220	
Consumer	72,819	6.4	79,398	
Other	9,279	.8	5,931	
Total loans	1,137,041	100.0%	1,139,835	1
Unearned income	(1,321)		(1,298)	
Allowance for loan losses	(28,679)		(27,766)	
Net loans	$1,107,041		$1,110,771	

Deposits. Noninterest-bearing deposits totaled $111.3 million at March 31, 2003, a decrease of 6.5%, or $7.8 million from $119.1 million at December 31, 2002. Noninterest-bearing deposits comprised 9.7% of total deposits at March 31, 2003, compared to 10.8% at December 31, 2002. Of total noninterest-bearing deposits $69.4 million, or 62.4% were in the Alabama branches while $41.9 million, or 37.6% were in the Florida branches.

Interest-bearing deposits totaled $1.039 billion at March 31, 2003, an increase of 5.1%, or $50.0 million from $989 million at December 31, 2002. Interest-bearing deposits averaged $1.036 billion for the first quarter of 2003 compared to $909.6 million for the first quarter of 2002. The average rate paid on all interest-bearing deposits during the first quarter of 2003 was 2.6% compared to 3.4% for the first quarter of 2002. Of total interest-bearing deposits, $644.8 million, or 62.1% were in the Alabama branches while $393.9 million, or 37.9% were in the Florida branches.

Borrowings. Advances from the Federal Home Loan Bank ("FHLB") totaled $174.0 million at March 31, 2003 and December 31, 2002. Borrowings from the FHLB were used primarily to fund growth in the loan portfolio and have a weighted average rate of approximately 5.1%. The advances are secured by FHLB stock, agency securities and a blanket lien on certain residential real estate loans and commercial loans.

Guaranteed Preferred Beneficial Interests in Our Subordinated Debentures. On September 7, 2000, TBC Capital Statutory Trust II ("TBC Capital II"), a Connecticut statutory trust established by us, received $15,000,000 in proceeds in exchange for $15,000,000 principal amount of TBC Capital II's 10.6% cumulative trust preferred securities in a pooled trust preferred private placement. TBC Capital II used the proceeds to purchase an equal principal amount of our 10.6% subordinated debentures.

On July 16, 2002, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust established by us, received $16,000,000 in proceeds in exchange for $16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private

placement. TBC Capital III used the proceeds to purchase an equal principal amount of our variable rate subordinated debentures. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% annum ceiling for the first ten years. As of the date of issuance, the interest rate on the securities was 7.57%. As of March 31, 2003, the interest rate is 5.10%.

We have fully and unconditionally guaranteed all obligations of TBC Capital II and TBC Capital III on a subordinated basis with respect to the preferred securities. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in our subordinated debentures." The sole assets of TBC Capital II and TBC Capital III are our subordinated debentures. The preferred securities of TBC Capital II and TBC Capital III and our subordinated debentures each have 30-year lives. However, we, TBC Capital II and TBC Capital III have call options, with a premium after five years through ten years and call options at par after ten years, subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements.

Accrued Expenses and Other Liabilities. Accrued expenses and other liabilities decreased $6.7 million from $15.6 million at December 31, 2002 to $8.8 million at March 31, 2003. This decline is primarily due to the repurchase of $5.3 million in loans sold with recourse during 2002.

Allowance for Loan Losses. We maintain an allowance for loan losses within a range that we believe is adequate to absorb estimated losses inherent in the loan portfolio. We prepare a quarterly analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, we estimate the allowance using specific reserves for impaired loans, and other factors, such as historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. The level of allowance for loan losses to net loans will vary depending on the quarterly analysis.

We manage and control risk in the loan portfolio through adherence to credit standards established by the board of directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting/approval procedures, set limits on credit concentration and enforces regulatory requirements. In addition, we have implemented a peer review system to supplement our existing independent loan review functions. We believe that this system will help us to improve our timely review of the loan portfolio.

Loan portfolio concentration risk is reduced through concentration limits for borrowers and collateral types and through geographical diversification. Concentration risk is measured and reported to senior management and the board of directors on a regular basis.

The quarterly allowance for loan loss calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a seven point scale with the loan officer having the primary responsibility for assigning risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk

ratings, are subject to review by the internal loan review function and senior management. Based on the assigned risk ratings, the loan portfolio is segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages are applied to these categories to estimate the amount of loan loss, adjusted for previously mentioned risk factors.

Pursuant to SFAS 114, impaired loans are specifically reviewed loans for which it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loans observable market price or at the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is expected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment.

Reserve percentages assigned to pass rated homogeneous loans are based on historical charge-off experience adjusted for current trends in the portfolio and other risk factors.

As stated above, risk ratings are subject to independent review by the Loan Review Department, which also performs ongoing, independent review of the risk management process, which includes underwriting, documentation and collateral control. The Loan Review Department is centralized and independent of the lending function. The loan review results are reported to the Audit Committee of the board of directors and senior management. We have also established a centralized loan administration services department to serve all of our bank locations, thereby providing standardized oversight for compliance, approval authorities, and bank

lending policies and procedures, as well as centralized supervision, monitoring and accessibility. Indeed, this department will enhance the monitoring of loan risk ratings as well as the monitoring of a loan officer's ability to originate loans.

The following table summarizes certain information with respect to our allowance for loan losses and the composition of charge-offs and recoveries for the periods indicated.

SUMMARY OF LOAN LOSS EXPERIENCE

	THREE-MONTH PERIOD ENDED MARCH 31, 2003	YEAR ENDED DECEMBER 31, 2002
	(Dollars in thousands)	
Allowance for loan losses at beginning of period..	$ 27,766	$ 12,546
Allowance of (branch sold) acquired bank..........	(92)	1,058

Charge-offs:		
Commercial and industrial......................	112	25,162
Real estate -- construction and land development	--	1,704
Real estate -- mortgage		
Single-family............................	5	2,608
Commercial...............................	--	6,140
Other....................................	--	141
Consumer...	148	2,343
Total charge-offs......................	265	38,098
Recoveries:		
Commercial and industrial......................	19	94
Real estate -- construction and land development	3	14
Real estate -- mortgage		
Single-family............................	1	23
Commercial...............................	--	--
Other....................................	7	38
Consumer...	40	239
Total recoveries.......................	70	408
Net charge-offs..................................	195	37,690
Provision for loan losses	1,200	51,852
Allowance for loan losses at end of period........	$ 28,679	$ 27,766
Loans at end of period, net of unearned income....	$1,135,720	$1,138,537
Average loans, net of unearned income............	1,142,333	1,124,977
Ratio of ending allowance to ending loans.........	2.53%	2.44%
Ratio of net charge-offs to average loans (1).....	.07%	3.35%
Net charge-offs as a percentage of:		
Provision for loan losses......................	16.25%	72.69%
Allowance for loan losses (1)..................	2.76%	135.74%
Allowance for loan losses as a percentage of nonperforming loans....................	86.38%	105.00%

(1) Annualized.

The allowance for loan losses as a percentage of loans, net of unearned income, at March 31, 2003 was 2.53% compared to 2.44% as of December 31, 2002. The allowance for loan losses as a percentage of nonperforming loans decreased to 86.4% at March 31, 2003 from 105.0% at December 31, 2002 due to an increase in nonperforming loans of $6.8 million. The increase in nonperforming loans primarily resulted from the amount of potential problem loans (See "Potential Problem Loans" section) migrating to a nonperforming status during the current quarter. This migration of potential problem loans did not have a significant effect on the allowance for loan losses at March 31, 2003 because approximately $1.2 million of allowance had been allocated to these loans at December 31, 2002.

Net charge-offs were $195,000 for the first quarter of 2003. Net charge-offs to average loans on an annualized basis totaled .07% for the first quarter of 2002. Net commercial loan charge-offs totaled $93,000, or 47.7% of total net charge-off loans for the first quarter of 2003 compared to 66.5% of total net charge-off loans for the year 2002. Net consumer loan charge-offs totaled $108,000, or 55.4% of total net charge-off loans for the first quarter of 2003 compared with 5.6% of total net charge-off loans for the year 2002.

Nonperforming Loans. Nonperforming loans increased $6.8 million to $33.2 million as of March 31, 2003 from $26.4 million as of December 31, 2002. As a percentage of net loans, nonperforming loans increased from 2.32% at December 31, 2002 to 2.92% at March 31, 2003. The increase in nonperforming loans resulted primarily from the amount of potential problem loans (see "Potential Problem Loans" section) reported at December 31, 2002 migrating to a nonperforming status. The following table represents our nonperforming loans for the dates indicated.

NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

	MARCH 31, 2003	DECEMBER 31, 2002
	(Dollars in thousands)	
Nonaccrual	$ 32,506	$ 24,715
Past due (contractually past due 90 days or more)	694	1,729
Restructured	--	--
	$ 33,200	$ 26,444
Nonperforming loans as a percent of loans	2.92%	2.32%

The following is a summary of nonperforming loans by category for the dates shown:

	MARCH 31, 2003	DECEMBER 31, 2002
	(Dollars in thousands)	
Commercial and industrial	$ 11,972	$ 9,661
Real estate-- construction and land development	2,922	2,226
Real estate-- mortgages		
Single-family	5,289	3,672
Commercial	10,080	8,434
Other	825	888
Consumer	2,051	1,548
Other	61	15
Total nonperforming loans	$ 33,200	$ 26,444

A delinquent loan is placed on nonaccrual status when it becomes 90 days or more past due and management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. When a loan is placed on nonaccrual status, all interest which has been accrued on the loan during the current period but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income; any prior period accrued and unpaid

interest is reversed and charged against the allowance for loan losses. No additional interest income is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan to the allowance for loan losses, which may necessitate additional charges to earnings.

Impaired Loans. At March 31, 2003, the recorded investment in impaired loans totaled $33.2 million with approximately $11.0 million in allowance for loan losses specifically allocated to impaired loans. This represents an increase of $6.8 million from $26.4 million at December 31, 2002. A significant portion of our impaired loans are centered in three of our bank groups; Bristol bank $19.8 million, Albertville bank $3.5 million and Hunstville bank $5.2 million. The increase in impaired loans resulted primarily from the amount of potential problem loans (see "Potential Problem Loans" section) reported at December 31, 2002 migrating to a nonperforming status during the first quarter. Any estimated losses related to these potential problem loans had been adequately provided at December 31, 2002. We have approximately $337,000 in commitments to loan additional funds to the borrowers whose loans are impaired.

The following is a summary of impaired loans and the specifically allocated allowance for loan losses by category as of March 31, 2003:

	OUTSTANDING BALANCE	SPECIFIC ALLOWANCE
	(Dollars in thousands)	
Commercial and industrial........................	$ 13,445	$ 5,078
Real estate -- construction and land development..	2,933	595
Real estate -- mortgages		
Commercial.................................	16,123	5,178
Other......................................	676	108
Other..	2	1
Total.................................	$ 33,179	$ 10,960

In addition to impaired loans, management has identified $7.4 million in potential problem loans as of March 31, 2003. Potential problem loans are loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and may result in disclosure of such loans as nonperforming in future periods. Of the $7.4 million in potential problem loans at March 31, 2003, $3.8 million or 51% is attributable to the Bristol, Florida group and $1.3 million or 18% is concentrated in the forest products industry in Bristol. Overall, 25% of these potential problem loans are secured by 1-4 family residential real estate and 34% of these potential problem loans are secured by commercial real estate. Management will work closely with these customers in an attempt to prevent these loans from migrating into nonperforming status. The bank has allocated $774,000 in loan loss reserve to absorb potential losses on these accounts.

Stockholders Equity. At March 31, 2003, total stockholders' equity was $79.5 million, an increase of $3.0 million from $76.5 million at December 31, 2002. The increase in stockholders' equity resulted primarily from net income of $3.0 million for the first quarter of 2003. As of March 31, 2003 we had 18,013,002 shares of common stock issued and 17,611,349 outstanding. In September of 2000, our board of directors approved a stock buyback plan in an amount not to exceed $10,000,000. As of March 31, 2003, there were 136,856 shares held in treasury at a cost of $808,000.

On April 24, 2002, we issued 157,500 shares of restricted common stock to certain directors and key employees. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner until such shares have vested. During the restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at a cost $1,120,000, and is classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. The $1,120,000 is being amortized as expense as the stock is earned during the restricted period. For the period ended March 31, 2003, we recognized $37,000 in restricted stock expense.

We adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002 that covers all eligible employees that have attained the age of twenty-one and have completed a year of service. As of March 31, 2003, the ESOP has been leveraged with 273,400 shares of our's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares," in stockholders' equity.

On January 29, 2003, we finalized a $2.1 million promissory note to reimburse funds used to leverage the ESOP. The unreleased shares and our guarantee will secure the promissory note, which has been classified as long-term debt on our statement of financial condition. As we repay the debt, shares are released from collateral based on the proportion of debt service. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. We recognize compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense we reported is equal to the average fair value of the shares earned and committed to be released during the period. We recognized compensation expense during the period ended March 31, 2003 of $15,000. The ESOP shares as of March 31, 2003 were as follows:

	March 31, 2003
Allocated shares	6,378
Estimated shares committed to be released	2,225
Unreleased shares	264,797
Total ESOP shares	273,400
Fair value of unreleased shares	$1,305,449

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Regulatory Capital. The table below represents our and our subsidiary's regulatory and minimum regulatory capital requirements at March 31, 2003 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO CAPI
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUN
Total Risk-Based Capital					
Corporation	$106,027	9.09%	$93,351	8.00%	$116,6
The Bank	99,845	8.69	91,901	8.00	114,8
Tier 1 Risk-Based Capital					
Corporation	80,417	6.89	46,675	4.00	70,0
The Bank	85,284	7.42	45,950	4.00	68,9
Leverage Capital					
Corporation	80,417	5.69	56,561	4.00	70,7
The Bank	85,284	6.13	55,678	4.00	69,5

Liquidity

Our principal sources of funds are deposits, principal and interest payments on loans, federal funds sold and maturities and sales of investment securities. In addition to these sources of liquidity, we have access to purchased funds from several regional financial institutions and may borrow from a regional financial institution under a line of credit, and from the Federal Home Loan Bank under a blanket floating lien on certain commercial loans and residential real estate loans. While scheduled loan repayments and maturing investments are relatively predictable, interest rates, general economic conditions and competition primarily influence deposit flows and early loan payments. Management places constant emphasis on the maintenance of adequate liquidity to meet conditions that might reasonably be expected to occur.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Some of the disclosures in this Quarterly Report on Form 10-Q, including any statements preceded by, followed by or which include the words "may," "could," "should," "will," "would," "hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements.

These forward-looking statements, implicitly and explicitly, include the

assumptions underlying the statements and other information with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including our expectations and estimates with respect to our revenues, expenses, earnings, return on equity, return on assets, efficiency ratio, asset quality, the adequacy of our allowance for loan losses and other financial data and capital and performance ratios.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, these statements involve risks and uncertainties which are subject to change based on various important factors (some of which are beyond our control). The following factors, among others, could cause our financial performance to differ materially from our goals, plans, objectives, intentions, expectations, and other forward-looking statements: the strength of the United States economy in general and the strength of the regional and local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; our ability to successfully integrate the assets, liabilities, customers, systems and management we acquire or merge into our operations; our timely development of new products and services to a changing environment, including the features, pricing and quality compared to the products and services of our competitors; the willingness of users to substitute competitors' products and services for our products and services; the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies; our ability to resolve any legal proceeding on acceptable terms and its effect on our financial condition or results of operations; technological changes; changes in consumer spending and savings habits; and regulatory, legal or judicial proceedings;

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this prospectus. Therefore, we caution you not to place undue reliance on our forward-looking information and statements.

We do not intend to update our forward-looking information and statements, whether written or oral, to reflect change. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The information set forth under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Market Risk-Interest Rate Sensitivity" included in our Annual Report on Form 10-K for the year ended December 31, 2002, is hereby incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATION

Appearing immediately following the Signatures section of this report are

Certifications of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"). The Certifications are required to be made by Rule 13a - 14 of the Securities Exchange Act of 1934, as amended. This Item contains the information about the evaluation that is referred to in the Certifications, and the information set forth below in this Item 4 should be read in conjunction with the Certifications for a more complete understanding of the Certifications.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing of this quarterly report, we conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our CEO and CFO. Based upon the Evaluation, our CEO and CFO have concluded that, subject to the limitations noted below, our disclosure controls and procedures are effective to ensure that material information relating to The Banc Corporation and its subsidiaries is made known to management including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

CHANGES IN INTERNAL CONTROLS

Prior to the discovery of the Bristol, Florida bank group situation (that was disclosed and described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002) which ultimately caused us to restate our financial statements for the second and third quarters of 2002, we were in the process of enhancing our internal controls for financial reporting. In the fourth quarter of 2002, we instituted a peer review system to supplement our existing independent loan review function; we increased our loan review staffing; and we also established a centralized loan administration services department to serve all of our bank locations, thereby providing standardized oversight for compliance with approval authorities and bank lending policies and procedures. We also hired additional personnel for our credit risk management department.

Although the Bristol, Florida bank group loan problems resulted from a former employee's intentional circumvention of our existing internal controls, and although we discovered these problems as a result of the peer review system we implemented in the fourth quarter of 2002, we and our independent auditors are nonetheless treating those circumstances as reflecting material weaknesses in our internal controls with respect to the monitoring of loan risk ratings, the timely review of the loan portfolio by our loan review function, the monitoring of past due loans and the monitoring of loan approval and a loan officer's ability to originate loans in excess of authorized lending limits.

These concerns are being addressed in part by the actions we instituted during the fourth quarter of 2002. Going forward, we intend to centralize the loan

operations of all of our branch groups in order to provide an enhanced degree of centralized supervision, monitoring and accountability. We believe that we will have this centralization completed within the next twelve months.

We have disclosed and discussed these issues and responses with our Audit Committee and independent auditors.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

While we are a party to various legal proceedings arising in the ordinary course of business, we believe that there are no proceedings threatened or pending against us at this time that will individually, or in the aggregate, materially adversely effect our business, financial condition or results of operations. We believe that we have strong claims and defenses in each lawsuit in which we are involved. While we believe that we will prevail in each lawsuit, there can be no assurance that the outcome of the pending, or any future, litigation, either individually or in the aggregate, will not have a material adverse effect on our financial condition or our results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibit:

None

(b) Report on Form 8-K:

We filed Current Report on Form 8-K dated February 7, 2003 pursuant to Item 9 Regulation FD Disclosure of Form 8-K containing as an Exhibit a press release dated February 6, 2003.

SIGNATURE

Pursuant to requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Banc Corporation
(Registrant)

Date: May 15, 2003 By: /s/ James A. Taylor, Jr.

James A. Taylor, Jr.
President and Chief Operating Officer

Date: May 15, 2003 By: /s/ David R. Carter

David R. Carter
Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATIONS

I, James A. Taylor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Banc Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure

controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ James A. Taylor

James A. Taylor
Chief Executive Officer

CERTIFICATIONS

I, David R. Carter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Banc Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By: /s/ David R. Carter

David R. Carter
Chief Financial Officer