NBC CAPITAL CORP
Form 10-K
March 28, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002

Commission File Number 1-15773

NBC Capital Corporation
(Exact name of registrant as specified in its charter)

Mississippi	64-0694775
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

NBC Plaza, Starkville, Mississippi	39759
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(662) 323-1341

Securities registered pursuant to Section 12(b) of the Act:

Title of each class: Common stock, $1 par value
Name of each exchange on which registered: American Stock Exchange

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. ( )

Aggregate market value of the voting stock held by nonaffiliates as of February 14, 2003, was approximately:

$157,964,207

(based on most recent sale)

Indicate the number of shares outstanding of each of the issuers' classes of common stock as of the latest practicable date:

Common Stock, $1 par value - 8,182,878 shares outstanding as of February 14, 2003.

Documents incorporated by reference -

Portions of the Proxy Statement dated April 10, 2003 are incorporated by reference into Part III.

FORM 10-K
INDEX

PART I

ITEM 1 - BUSINESS

Forward Looking Statements

From time to time, NBC Capital Corporation (the Company) may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performances, development and results of the Company's business include, but are not limited to, the following: risks from changes in economic and industry conditions; changes in interest rates; risks inherent in making loans including repayment risks and value of collateral; dependence on senior management; and recently-enacted or proposed legislation. Statements contained in this filing regarding the demand for the Company and its subsidiaries' products and services, changing economic conditions, interest rates, and numerous other factors, may be forward-looking statements and are subject to uncertainties and risks. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

NBC Capital Corporation

The Company is a financial holding company which was organized under the laws of the State of Mississippi. On July 2, 1984, the Company acquired all of the outstanding common stock of the National Bank of Commerce (NBC), a national banking corporation. For the year ended December 31, 2002, the Company's subsidiaries accounted for approximately 99% of the Company's consolidated income and consolidated expenses.

National Bank of Commerce

NBC was originally formed through a series of mergers which began in 1972 and concluded on October 1, 1974. In March, 1991, NBC acquired the assets and assumed the liabilities of the Bank of Philadelphia. In 1994, the Company acquired NBC of Tuscaloosa (formerly First State Bank of Tuscaloosa). On December 31, 1998, the Company acquired all the outstanding common stock of First National Corporation of West Point ("FNC") in exchange for 864,736 shares of the Company's common stock. The acquisition was accounted for as a pooling of interest. FNC was merged into the Company and FNC's wholly-owned subsidiary banks, First National Bank of West Point and National Bank of the South, were merged into NBC. Concurrently, the Company's subsidiary, NBC of Tuscaloosa, was merged into NBC (formerly NBC of Mississippi). As a result of the acquisition and reorganization, NBC was the resulting financial institution. Also, First National Finance Company, a wholly-owned finance company subsidiary of FNC became a wholly-owned subsidiary of the Company. On August 31, 1999, the Company acquired all the outstanding stock of FFBS Bancorp, Inc. (FFBS). FFBS was the holding company of its wholly-owned savings bank, First Federal Bank for Savings (First Federal), Columbus, Mississippi. The Company exchanged 1,396,162 shares of its common stock and a nominal amount of cash in lieu of fractional shares for each common share of FFBS. First Federal was merged into NBC with NBC as the surviving institution. The transaction was accounted for as a pooling of interests and historical financial statements of the Company were restated to give effect of the acquisition. On September 30, 1999, NBC acquired the insurance agencies of Galloway-Wiggers Insurance Agency, Inc., Kyle Chandler

Insurance Agency, Inc., Galloway-Chandler-McKinney, Inc., and Napier Insurance Agency, Inc. NBC exchanged 173,184 of the Company's common stock for all of the issued and outstanding stock of the insurance agencies. The insurance agencies were combined into a wholly-owned subsidiary of NBC, Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM). The acquisition was accounted for as a pooling of interests. The historical financial statements of the Company were not restated as the changes would have been immaterial. On April 28, 2000, GCM acquired Heritage Insurance Agency, Ltd., an independent insurance agency located in Starkville, Mississippi, for $47,025 in cash and 14,028 shares of the Company's common stock. The acquisition was accounted for as a purchase.

NBC is the largest commercial bank domiciled in the north central area of the state known as the Golden Triangle. A total of twenty-seven banking facilities and an operation/administration center serves the communities of Aberdeen, Amory, Brooksville, Caledonia, Columbus, Hamilton, Maben, New Hope, Philadelphia, West Point and Starkville. This area extends into six Mississippi counties with a radius of approximately 65 miles from the home office in Starkville. The Bank also serves the Tuscaloosa, Alabama, area with a main office and four branch locations.

NBC is engaged in the general banking business and activities closely related to banking as authorized by the banking laws and regulations of the United States. There were no significant changes in the business activities of NBC during 2002.

NBC provides a complete line of wholesale and retail services including mortgage loans and trusts. The customer base is well diversified and consists of business, industry, agriculture, government, education and individual accounts. Profitability and growth have been consistent throughout the history of the bank.

NBC utilizes a written Asset/Liability Management Policy which calls for a static gap position of no more than a plus or minus 10% of aggregate assets over a 24-month period.

There has been no disposition of any material amounts of assets nor has there been a material change in the mode of conducting business. No major changes in operations are planned for the near future.

NBC Service Corporation

NBC Service Corporation (Service) is a wholly-owned subsidiary of NBC and was formed to provide additional financial services that otherwise might not be provided by NBC. For the years 2002 and 2001, its primary activity was limited to its investment in Commerce National Insurance Company (CNIC) of which Service owns 79%. Commerce National Insurance Company is a credit life insurance company whose primary source of income is from premiums on credit life insurance on loans issued by NBC. For the year 2002, NBC discontinued credit life insurance on loans. As a result, plans are for CNIC to be dissolved and liquidated in 2003.

Galloway-Chandler-McKinney Insurance Agency, Inc.

Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM) is a wholly-owned subsidiary of NBC. GCM operates as an independent insurance agency with its primary source of revenue coming from commissions and premiums on the sale of property and casualty insurance, title insurance, life insurance, annuities, and other commercial lines.

GCM is the result of the insurance agencies acquired on September 30, 1999, and April 28, 2000, as previously described. GCM has locations in Columbus, West Point, Amory, Starkville, and Aberdeen, Mississippi. At December 31, 2002, GCM had total assets of approximately $3.0 million, and for the year ended December 31, 2002, reported gross revenues of approximately $4.1 million.

NBC Insurance Services of Alabama, Inc.

NBC Insurance Services of Alabama is a wholly-owned subsidiary of NBC and was formed in 1999 for the purpose of selling annuity products in the State of Alabama. For the years ended December 31, 2002 and 2001, its activities were not significant.

First National Finance

First National Finance (Finance), a wholly-owned subsidiary of the Company, is a finance company that provides lending and financing services to consumers. It engages in consumer financing, and its loans are of a smaller amount and a higher interest rate than those of NBC. Its loan portfolio totaled approximately $640,000 at December 31, 2002. Finance is located in West Point, Mississippi. Finance was acquired as part of the FNC acquisition previously mentioned.

Competition

NBC and its subsidiaries currently serve six counties and eleven municipalities in North Central Mississippi. Over this same area, the bank competes directly with numerous competing banking institutions, credit unions, finance companies, brokerage firms, mortgage companies and insurance companies. The competing banking institutions range in asset size from approximately $270 million to in excess of $40 billion. NBC is the largest bank domiciled in its immediate service area. Asset size of competitive banks is that of the parent bank and not the branch. Several other competitors are branches or divisions of nationwide and regional companies with more resources than the Company and its subsidiaries.

NBC also serves the City of Tuscaloosa, Alabama, with a main office and four branch locations. The bank competes with approximately eight other financial institutions, most of which are larger. The other institutions range in size from approximately $90 million to $45 billion. Asset size of the competitive banks is that of the parent bank and not of the branch. In Tuscaloosa, NBC also competes with numerous credit unions, finance companies, etc., many of which are branches of nationwide companies.

Supervision and Regulation

The Company and its subsidiary bank are subject to state and federal banking laws and regulations which impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of operations. These laws and regulations are generally intended to protect depositors, not shareholders. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company. Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and following with Federal Deposit Insurance Corporation Improvement Act (FDICIA), which was enacted in 1991, numerous additional regulatory requirements have been placed on the banking industry, and additional changes have been proposed. The operations of the Company and its subsidiaries may be affected by legislative changes and the policies of various regulatory authorities. The Company is unable to predict the nature or the extent of the effect on its business and earnings that fiscal or monetary policies, economic control, or new federal or state legislation may have in the future.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the Act) and a financial holding company under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act") and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a financial holding company, the Company is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board also performs examinations of the Company. In addition, the Federal Reserve Board has the authority to regulate provisions of certain holding company debt.

The Act restricts the Company's nonbanking activities to those which are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity, or complementary to a financial activity. The Act does not place territorial restrictions on the activities of nonbank subsidiaries of holding companies. The Company's banking subsidiaries are subject to limitations with respect to transactions with affiliates.

The Act requires every holding company to obtain the prior approval of the Federal Reserve Board before acquiring substantially all the assets of or direct or indirect ownership or control of more than 5% of the voting shares of any bank which is not already majority-owned. The Act also prohibits a holding company, with certain exceptions, from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. One of the principal exceptions to these prohibitions is for engaging in or acquiring shares of a company engaged in activities found by the Federal Reserve Board by order or regulation to be so closely related to banking or managing banks as to be a proper incident thereto. The Act permits the acquisition by a holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, subject to certain state laws, including the establishment by states of a minimum age of their local banks before such banks can be acquired by an out-of-state institution. The Act and regulations of the Federal Reserve Board also prohibit a holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit or provision of any property or services.

In addition, and subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act require Federal Reserve approval prior to any person or company acquiring "control" of a holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the subsidiaries. The Federal Reserve Board may require a holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the holding company. Further, federal bank regulatory authorities have additional discretion to require a holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

Dividends paid by the Company are substantially provided from dividends from NBC. Generally, the approval of the OCC is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. In March, 2001, NBC obtained approval to pay a dividend of $24.2 million to the Company which was used to acquire 976,676 shares of the Company's common stock from its largest stockholder and related parties. For the year 2003, NBC has available approximately $7.1 million plus its net income for that year to pay as dividends.

The Federal Reserve Board, FDIC and OCC have established risk-based capital guidelines for holding companies, such as the Company, and its subsidiary bank. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." The Company's strategy related to risk-based capital is to maintain capital levels which will be sufficient to qualify the Company's bank subsidiary for the "well capitalized" category under the guidelines set forth by the FDICIA. Maintaining capital ratios at the "well capitalized" level avoids certain restrictions which, for example, could impact the Company's bank subsidiary's FDIC assessment, trust services and asset/liability management. At December 31, 2002, the Tier 1 and total capital ratios, respectively, of the Company (consolidated) and NBC (individually) were well above the minimum 6% and 10% levels required to be categorized as a "well capitalized" insured depository institution.

The FDIC, OCC and Federal Reserve Board have historically had common capital adequacy guidelines involving minimum (a) leverage capital and (b) risk-based capital requirements:

(a) The first requirement establishes a minimum ratio of capital as a percentage of total assets. The FDIC, OCC and Federal Reserve Board require institutions to maintain a minimum leverage ratio of Tier 1 capital (as defined) to total average assets based on the institution's rating under the regulatory CAMELS rating system. Institutions with CAMELS ratings of one that are not anticipating or experiencing significant growth and have well-diversified risk are required to maintain a minimum leverage ratio of 3 percent. An additional 100 to 200 basis points are required for all but these most highly rated institutions. At December 31, 2002, the Company's leverage capital ratio was 9.9%.

(b) The second requirement also establishes a minimum ratio of capital as a percentage of total assets, but gives weight to the relative risk of each asset. The FDIC, OCC and Federal Reserve Bank require institutions to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 3.0 percent. Banks must also maintain a minimum ratio of total capital to risk-weighted assets of 8.0 percent.

At December 31, 2002, the Company's Tier 1 and total capital ratios were 16.5% and 17.4%, respectively.

The primary supervisory authority of NBC is the OCC. The OCC regulates or monitors virtually all areas of operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuances of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC also imposes limitations on the aggregate investment in real estate, bank premises, and furniture and fixtures. In addition to regular examinations, the institution must furnish to its regulator quarterly reports containing a full and accurate statement of its affairs.

Banks are subject to the provisions of Section 23A of the Federal Reserve Act, which place limits on the amount of loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The aggregate of all covered transactions is limited in amount, as to any one affiliate, to 10% of the bank's capital and surplus and, as to all affiliates combined, to 20% of the bank's capital and surplus. Furthermore, within the foregoing limitations as to amount, each covered transaction must meet specified collateral requirements. Compliance is also required with certain provisions designed to avoid the taking of low quality assets.

Banks are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated companies. The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders, and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

The GLB Act was signed into law in November, 1999, and allows banks to engage in a wider range of nonbanking activities, including greater authority to engage in securities and insurance activities through the use of "financial holding companies." The expanded powers, which became effective March 11, 2000, generally are available to banks only if the bank and its bank subsidiaries remain well-capitalized and well-managed, and have a satisfactory CRA rating. Under the GLB Act, a national bank may engage in expanded financial activities through a "financial subsidiary," provided the aggregate assets of all of its financial subsidiaries do not exceed the lesser of 45 percent of the bank's assets or $50 billion. A financial subsidiary may underwrite any financial product other than insurance and may sell any financial product, including title insurance. A national bank itself may not sell title insurance, however, unless the state in which the bank is located permits state banks to sell title insurance.

National banks are required by the National Bank Act to adhere to branch office banking law. NBC may open branches throughout Mississippi or Alabama with the prior approval of the OCC. In addition, with prior regulatory approval, the subsidiary bank is able to acquire existing banking operations in Mississippi and Alabama. Furthermore, federal legislation permits interstate branching. The law also permits out of state acquisitions by bank holding companies (subject to veto by new state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. Effective June 1, 1997, the Interstate Banking Act allows banks with different home states to merge, unless a particular state opts out of the statute. In addition, beginning June 1, 1997, the Interstate Banking Act permitted national and state banks to establish de novo branches in another state if there is a law in that state which applies equally to all banks and expressly permits all out-of-state banks to establish such branches.

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC, or the OCC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

Interest and certain other charges collected or contracted by Banks are often subject to state usuary laws and certain federal laws concerning interest rates. The loan operations are also subject to certain federal laws applicable to credit transactions. These include but are not limited to the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution will be fulfilling its obligation to help meet the housing needs of the community it serves; the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit; and the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations also are subject to certain laws and regulations, included but not limited to, the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

A subsidiary bank of a holding company is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the holding company or its subsidiary, on investments in stock or other securities thereof and on the taking of such stock or securities as collateral for loans to any borrower.

NBC is a member of the FDIC and its deposits are insured as provided by law.

CNIC, GCM, and NBC Insurance Services of Alabama, Inc. are subject to regulation by the applicable state agencies. These agencies set reserve requirements, reporting standards, and establish regulations, all of which affect business operations.

On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). The USA Patriot Act broadened anti-money laundering requirements on financial institutions, including national banks such as NBC. Among its provisions, the USA Patriot Act requires a financial institution: (i) to establish an anti-money laundering program, (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities. The federal banking agencies have begun proposing and implementing regulations interpreting the USA Patriot Act. It is not anticipated that the USA Patriot Act will have a significant impact on the financial condition or results of operations of NBC.

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading, and other restrictions and requirements of the SEC under the Exchange Act.

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), which attempts to strengthen the independence of public company auditors by, among other things, (i) prohibiting public company auditors from providing certain non-audit services to their audit clients, (ii) requiring a company's audit committee to preapprove all audit and non-audit services being provided by its independent auditor, (iii) requiring the rotation of audit partners and (iv) prohibiting an auditor from auditing a client that has as its chief executive officer, chief financial officer, chief accounting officer or controller a person that was employed by the auditor during the previous year.

The Sarbanes-Oxley Act also seeks to enhance the responsibility of corporate management by, among other things, (i) requiring the chief executive officer and chief financial officer of public companies to provide certain certifications in their periodic reports regarding the accuracy of the periodic reports filed with the Securities and Exchange Commission, (ii) prohibiting officers and directors of public companies from fraudulently influencing an accountant engaged in the audit of the company's financial statements, (iii) requiring chief executive officers and chief financial officers to forfeit certain bonuses in the event of a misstatement of financial results, (iv) prohibiting officers and directors found to be unfit from serving in a similar capacity with other public companies, and (v) prohibiting officers and directors from trading in the company's equity securities during pension blackout periods. In addition, public companies with securities listed on a national securities exchange or association must satisfy the following additional requirements: (i) the company's audit committee must appoint and oversee the company's auditors; (ii) each member of the company's audit committee must be independent; (iii) the company's audit committee must establish procedures for receiving complaints regarding accounting, internal accounting controls and audit-related matters; (iv) the company's audit committee must have the authority to engage independent advisors; and (v) the company must provide appropriate funding to its audit committee, as determined by the audit committee.

The Sarbanes-Oxley Act contains several provisions intended to enhance the quality of financial disclosures of public companies, including provisions that (i) require that financial disclosures reflect all material correcting adjustments identified by the company's auditors, (ii) require the disclosure of all material off-balance sheet transactions, (iii) require the Securities and Exchange Commission to issue rules regarding the use by public companies of pro forma financial information, (iv) with certain limited exceptions, including an exception for financial institutions making loans in compliance with federal banking regulations, prohibit public companies from making personal loans to its officers and directors, (v) with certain limited exceptions, require directors, officers and principal shareholders of public companies to report changes in their ownership in the company's securities within two business days of the change, (vi) require a company's management to provide a report of its assessment of the internal controls of the company in its annual report, (vii) require public companies to adopt codes of conduct for senior financial officers and (viii) require companies to disclose whether the company's audit committee has a financial expert as a member.

The Sarbanes-Oxley Act imposes criminal liability for certain acts, including altering documents involving federal investigations, bankruptcy proceedings, corporate audits and increases the penalties for certain offenses, including mail and wire fraud. In addition, the Sarbanes-Oxley Act gives added protection to corporate whistle-blowers.

While certain provisions of the Sarbanes-Oxley Act have already become effective, many provisions in the Sarbanes-Oxley Act will become effective over the course of 2003. Although the Company anticipates that it will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the regulations promulgated by the Securities and Exchange Commission thereunder, the Company does not expect that such compliance will have a material impact on the Company's financial condition or results of operations.

Governmental Monetary Policies

As a bank chartered under the laws of the United States, NBC is a member of the Federal Reserve System. Its earnings are affected by the fiscal and monetary policies of the Federal Reserve System which regulates the national money supply in order to mitigate recessionary and inflationary pressures. The techniques used by the Federal Reserve System include setting the reserve requirements of depository institutions and establishing the discount rate on member bank borrowings. The Federal Reserve System also conducts open market operations in United States Government securities.

The policies of the Federal Reserve System and other regulatory agencies have a direct effect on the amount of bank loans and deposits, and the interest rates charged and paid thereon. While the impact these policies may have upon the future business and earnings of the financial institutions cannot be accurately predicted, such policies can materially affect the earnings of commercial banks.

Critical Accounting Policies

The most significant accounting policies followed by the Company are presented in Note A to the consolidated financial statements. The allowance for loan losses is based upon management's assessment of the probable loan losses inherent in the loan portfolio and, as such, is considered a critical accounting policy. The determination of the allowance requires significant judgment and is based upon various factors, many of which are subjective. Note A to the consolidated financial statements discloses the methodology used by management to determine the allowance.

Sources and Availability of Funds

The materials essential to the business of the Company and its subsidiaries consist primarily of funds derived from deposits and other borrowings in the financial markets. The availability of funds is primarily dependent upon the economic policies of the government, the economy in general and the institution's ability to compete in the market place.

Seasonability

Neither the Company nor any of its subsidiaries are dependent upon any seasons.

Dependence Upon A Single Customer

Neither the Company nor any of its subsidiaries are dependent upon a single customer or any small group of customers.

Executive Officers

The executive officers of the Company and its bank subsidiary, NBC, are listed below. The title indicates a position held in the Company and the bank.

Name and Title	Age	Five Year Experience
L. F. Mallory, Jr. Chairman and Chief Executive Officer, NBC Capital Corporation and NBC	60	Chairman and Chief Executive Officer, NBC Capital Corporation and NBC
Mark A. Abernathy President and Chief Operating Officer, NBC Capital Corporation and NBC	46	President and Chief Operating Officer, NBC Capital Corporation and NBC
Hunter M. Gholson Secretary	70	Secretary of NBC Capital Corporation and NBC
Richard T. Haston Executive Vice President, CFO, and Treasurer, NBC Capital Corporation and Executive Vice President and CFO, NBC	56	Executive Vice President, Chief Financial Officer, and Treasurer, NBC Capital Corporation, and Executive Vice President and Chief Financial Officer, NBC
Bobby L. Harper Chairman of the Executive Committee, NBC Capital Corporation and NBC and Columbus Regional Bank President, NBC	61	Chairman of Executive Committee, NBC Capital Corporation and NBC. Columbus Regional Bank President, NBC since September, 2002; Executive Vice President, Banking Center Administration, NBC January, 1999 - September, 2002; President of NBC Columbus Banking Center from January, 1981 - January, 1999
Tommy M. Tomlinson	49	Vice President, NBC Capital

Vice President, NBC Capital Corporation and Starkville Regional Bank President, NBC		Corporation since January, 1999. Starkville Regional Bank President, NBC, since September, 2002; Executive Vice President, Credit Administration, NBC, from January, 1999 - September, 2002; Executive Vice President and Senior Credit Officer of the Starkville Banking Center, NBC from January, 1996 - December, 1998
Thomas J. Prince, Jr. Vice President, NBC Capital Corporation and Executive Vice President, Division Manager of Consumer Financial Services NBC	61	Vice President, NBC Capital Corporation and Executive Vice President, Division Manager of Consumer Financial Service, NBC, since April, 1998; President, NBC Aberdeen Banking Center from January, 1985 - April, 1998
Donald J. Bugea, Jr. Vice President, NBC Capital Corporation and Executive Vice President and Investment Officer, NBC	49	Vice President, NBC Capital Corporation and Executive Vice President and Investment Officer, NBC
John R. Davis Vice President, NBC Capital Corporation and Senior Vice President and Trust Officer, NBC	47	Vice President, NBC Capital Corporation and Senior Vice President and Trust Officer, NBC since January, 1999, Vice President and Trust Officer of NBC from January, 1991 - December, 1998
Clifton B. Fowler Vice President, NBC Capital Corporation and Executive Vice President, Commercial Banking, NBC	54	Vice President, NBC Capital Corporation, Executive Vice President, Commercial Banking of NBC in 2002; previously President, NBC Starkville Banking Center
Marcus Mallory Vice President, NBC Capital Corporation and Executive Vice President, Credit Administration, NBC	35	Vice President, NBC Capital Corporation and Executive Vice President, Credit Administration, NBC since August, 2002; Senior Vice President, Senior Credit Officer, NBC Columbus Banking Center from June, 1997 - September, 2002
Terry Jones Vice President, NBC Capital Corporation, Chief Information Officer, NBC	57	Vice President, NBC Capital Corporation, Chief Information Officer, NBC since December, 2001, Senior Vice President, Chief Information Officer, NBC, from January, 2000 - August, 2002; Senior Vice President, Director of Information Systems, NBC, from June, 1997 - January, 2000

Personnel

At December 31, 2002, NBC had approximately 430 full-time employees, Finance had 3 full-time employees and GCM had approximately 44 full-time employees. The Company, Service, and CNIC had no employees at December 31, 2002.

ITEM 2 - PROPERTIES

The Company, Service and CNIC owned no properties at December 31, 2002. GCM and Finance operate out of leased office buildings.

The following listing describes the locations and general character of the Bank-owned properties:

Type	Location	Approximate Office Space (Square Feet)
NBC:		
Main Office	Starkville, Mississippi	35,000
University Branch	Starkville, Mississippi	1,485
Motor Branch	Starkville, Mississippi	2,000
Operations Center	Starkville, Mississippi	26,000
Starkville Crossing	Starkville, Mississippi	2,000
Main Office	Columbus, Mississippi	36,000
Mortgage Loan Center	Columbus, Mississippi	14,000
North Columbus Branch	Columbus, Mississippi	1,440
Fairlane Branch	Columbus, Mississippi	2,400
Bluecutt Road Branch	Columbus, Mississippi	3,200
New Hope Branch	New Hope, Mississippi	1,500
Caledonia Branch	Caledonia, Mississippi	1,000
Main Office	Aberdeen, Mississippi	11,026
Maple Street Branch	Aberdeen, Mississippi	998
Highway 45 North Branch	Aberdeen, Mississippi	1,205
Main Office	Amory, Mississippi	8,550
Medical and Industrial Center Branch	Amory, Mississippi	950
Main Office	Brooksville, Mississippi	3,000
Main Office	Hamilton, Mississippi	1,800
Main Office	Maben, Mississippi	4,000
Main Office	Philadelphia, Mississippi	6,000
Northside Branch	Philadelphia, Mississippi	300
Southside Branch	Philadelphia, Mississippi	450
Westside Branch	Philadelphia, Mississippi	3,250
Main Office	Tuscaloosa, Alabama	30,000
Northport Branch	Tuscaloosa, Alabama	3,018
University Branch	Tuscaloosa, Alabama	2,480
North Tuscaloosa Branch	Tuscaloosa, Alabama	3,250
Highway 69 South Branch	Tuscaloosa, Alabama	2,000

Main Office	West Point, Mississippi	18,000
East Main Branch	West Point, Mississippi	1,900
Highway 45 South Branch	West Point, Mississippi	1,520
Highway 45 North Branch	West Point, Mississippi	825

In the opinion of management, all properties are in good condition and are adequate to meet the needs of the communities they serve.

ITEM 3 - LEGAL PROCEEDINGS

There are no pending proceedings of a material nature to which the Company, or its subsidiaries, are a party.

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

None

PART II

ITEM 5 - MARKET FOR COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) Reference is made to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, under the caption, "Market Information."

(b) At December 31, 2002, the Company had 2,627 security holders.

(c) Dividends on common stock were declared quarterly in 2002 and 2001 and totaled as follows:

	(In thousands) December 31,	
	2002	2001
Dividends declared, $.87 per share	$7,123	$ -
Dividends declared, $.82 per share	-	6,998
	$7,123	$6,998

Also, in the year 2002, the Company declared a 4-for-3 stock split accounted for as a stock dividend. All per share information has been restated to reflect the stock split.

ITEM 6 - SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2002	2001	2000	1999	1998

	(In thousands, except per share data)				
INCOME DATA					
Interest and fees on loans	$ 40,022	$ 51,852	$ 57,535	$ 52,219	$ 52,955
Interest and dividends on securities	19,814	17,968	14,052	12,430	13,416
Other interest income	215	950	1,148	2,440	1,953
Total interest income	60,051	70,770	72,735	67,089	68,324
Interest expense	22,876	36,001	34,978	30,998	32,744
Net interest income	37,175	34,769	37,757	36,091	35,580
Provision for loan losses	2,790	1,720	1,280	1,769	3,187
Net interest income after provision for loan losses	34,385	33,049	36,477	34,322	32,393
Service charges on deposit accounts	7,110	5,942	5,306	5,230	4,720
Other income	10,936	10,524	8,456	7,824	4,871
Total noninterest income	18,046	16,466	13,762	13,054	9,591
Salaries and employee benefits	19,827	18,156	17,260	17,545	16,024
Occupancy and equipment expense	4,728	4,616	4,539	4,213	3,778
Other expenses	8,863	9,344	9,118	12,211	9,299
Total noninterest expenses	33,418	32,116	30,917	33,969	29,101
Income before income taxes	19,013	17,399	19,322	13,407	12,883
Income taxes	4,792	4,261	5,277	2,899	2,881
Net income	$ 14,221	$ 13,138	$ 14,045	$ 10,508	$ 10,002
PER SHARE DATA (1)					
Net income - basic	$ 1.73	$ 1.54	$ 1.47	$ 1.10	$ 1.07
Net income - diluted	1.73	1.54	1.47	1.10	1.06
Dividends	.87	.82	.73	.65	.55
FINANCIAL DATA					
Total assets	$1,077,456	$1,050,802	$1,009,515	$973,570	$937,147
Net loans	578,678	616,187	637,800	613,557	576,731
Total deposits	817,447	810,703	804,804	752,810	776,955
Total					

shareholders' equity	111,107	102,927	120,123	111,251	111,868

(1) Restated for 4-for-3 stock split.
(2) Financial data includes accounts of significant pooled acquisitions for all years presented.
(3) Merger-related expenses amounted to $2.5 million after tax in 1999 and $1.8 million after tax in 1998.

SUPPLEMENTAL STATISTICAL INFORMATION

I. DISTRIBUTION OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A. Average balance sheets (consolidated):

The following table presents, for the years indicated, condensed daily average balance sheet information.

	(In Thousands)		
Assets	2002	2001	2000
Cash and due from banks	$ 25,711	$ 26,462	$ 28,968
Securities:			
Taxable	250,970	185,076	133,497
Non-taxable	123,380	132,200	118,341
Total securities	374,350	317,276	251,838
Federal funds sold and other interest-bearing assets	12,986	22,816	17,962
Loans	591,297	629,248	630,851
Less allowance for loan losses	7,122	8,507	10,093
Net loans	584,175	620,741	620,758
Other assets	61,060	54,571	44,728
Total Assets	$1,058,282	$1,041,866	$964,254

	(In Thousands)		
Liabilities and Stockholders' Equity	2002	2001	2000
Deposits:			
Noninterest-bearing	$ 99,199	$ 96,249	$ 94,038
Interest-bearing	701,654	714,491	685,287
Total deposits	800,853	810,740	779,325
Federal funds purchased and securities sold under agreements to repurchase	19,430	19,159	18,734
Borrowed funds	115,209	96,605	39,781
Other liabilities	15,528	13,167	10,806

Total liabilities	951,020	939,671	848,646
Stockholders' equity	107,262	102,195	115,608
Total Liabilities and Stockholders' Equity	$1,058,282	$1,041,866	$964,254

B. Analysis of Net Interest Earnings

The table below shows, for the periods indicated, an analysis of net interest earnings, including the average amount of interest-earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on such amounts, the average yields/rates paid and the net yield on interest-earning assets:

	($ In Thousands) Average Balance		
	2002	2001	2000
EARNING ASSETS			
Loans	$591,297	$629,248	$630,851
Federal funds sold and other interest-bearing assets	12,986	22,816	17,962
Securities:			
Taxable	250,970	185,076	133,497
Nontaxable	123,380	132,200	118,341
Totals	978,633	969,340	900,651
INTEREST-BEARING LIABILITIES			
Interest-bearing deposits	701,654	714,491	685,287
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	134,639	115,764	58,515
Totals	836,293	830,255	743,802
Net Amounts	$142,340	$139,085	$156,849

	($ In Thousands) Interest for the Year Ended December 31,			Yields Earned And Rates Paid (%)		
	2002	2001	2000	2002	2001	2000
EARNING ASSETS						
Loans	$40,022	$51,852	$57,535	6.77	8.24	9.12
Federal funds sold and other interest-bearing assets	215	950	1,148	1.66	4.16	6.39
Securities:						
Taxable	13,675	11,165	7,966	5.45	6.03	5.97
Nontaxable	6,139	6,803	6,086	4.98	5.15	5.14

	($ In Thousands) Interest for the Year Ended December 31,			Yields Earned And Rates Paid (%)		
	2002	2001	2000	2002	2001	2000
Totals	$60,051	$70,770	$72,735	6.14	7.30	8.08
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits	$17,171	$29,866	$31,559	2.45	4.18	4.61
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	5,705	6,135	3,419	4.24	5.30	5.84
Totals	22,876	36,001	34,978	2.74	4.34	4.70
Net interest income	$37,175	$34,769	$37,757			
Net yield on earning assets				3.80	3.59	4.19

(1) Interest and yields on tax-exempt obligations are not on a fully taxable equivalent basis.

(2) For the purpose of these computations, nonaccruing loans are included in the average loan balances outstanding.

(3) Interest income on loans includes related fees.

C. Increase (Decrease) in Interest Income and Interest Expense

The following table analyzes the changes in both the rate and volume components of net interest revenue:

	(In Thousands) 2002 Over 2001 Change Due To:			(In Thousands) 2001 Over 2000 Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
EARNING ASSETS						
Loans	$(11,830)	$ (8,841)	$(2,989)	$(5,683)	$(5,540)	$ (143)
Federal funds sold and other interest-bearing assets	(735)	(428)	(307)	(198)	(881)	683
Securities:						
Taxable	2,510	(929)	3,439	3,199	88	3,111
Nontaxable	(664)	(219)	(445)	717	4	713
Totals	$(10,719)	$(10,417)	$ (302)	$(1,965)	$(6,329)	$ 4,364

	(In Thousands) 2002 Over 2001			(In Thousands) 2001 Over 2000		
	Change Due To:			Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits	$(12,695)	$(12,167)	$ (528)	$(1,693)	$(4,004)	$2,311
Interest on borrowed funds and federal funds purchased and securities sold under agreements to repurchase	(430)	(1,327)	897	2,717	(396)	3,113
Totals	$(13,125)	$(13,494)	$ 369	$ 1,024	$(4,400)	$5,424

NOTE: (1) Change in volume is the change in volume times the previous year's rate.

(2) Change in rate is the change in rate times the previous year's balance.

(3) 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 change to each.

II. INVESTMENT PORTFOLIO

A. The following tables present the book values of securities as of the dates indicated:

	(In Thousands) December 31,		
	2002	2001	2000
U. S. Treasury	$ 302	$ 306	$ 4,544
U. S. Government agencies and mortgage-backed securities	259,548	185,751	137,684
States and political subdivisions	106,212	113,871	124,011
Other	27,721	40,798	15,551
Total book value	$393,783	$340,726	$281,790

B. The following table sets forth the maturities of investment and mortgage-backed securities (carrying values) at December 31, 2002, and the weighted average yield of such securities:

($ In Thousands)
Weighted Average Yield

	0 - 1 Year	Yield (%)	1 - 5 Years	Yield (%)	5 - 10 Years	Yield (%)
Securities:						
U. S. Treasury	$ 100	2.75%	$ 202	2.25%	$ -	-
U. S. Government agencies	402	5.80%	774	3.36%	273	5.04%
Nontaxable municipals	12,720	7.65%	59,321	7.60%	10,496	8.84%
Taxable municipals	-	-	1,192	6.66%	128	7.18%
Other	2,252	6.86%	2,102	5.91%	1,466	5.81%
Total	$15,474		$63,591		$12,363	

	10+ Years	Yield (%)
Nontaxable municipals	$22,201	9.15%
Taxable municipals	154	7.37%
Equities	21,569	4.87%
Other	332	6.45%
Total	$44,256	

	Book Value	Yield (%)
Mortgage-backed securities	$258,099	5.49%

NOTE: Interest and yields on tax-exempt obligations are on a taxable equivalent basis.

Average yield on floating rate securities was determined using the current yield.

Table includes securities classified as available-for-sale and held-to-maturity at carrying values.

The majority of mortgage-backed securities are backed by U. S. Government agencies.

C. Investment securities in excess of 10% of stockholders' equity.

At December 31, 2002, there were no securities from any issuers in excess of 10% of stockholders' equity that were not securities of the U. S. Government or U. S. Government agencies or corporations.

III. LOAN PORTFOLIO

A. Type of loans

The amount of loans outstanding by type at the indicated dates are shown in the following table:

	(In Thousands) December 31,				
Type	2002	2001	2000	1999	1998
Commercial, financial and agriculture	$103,327	$101,630	$103,045	$101,503	$ 81,365
Real estate - construction	30,028	31,461	33,638	26,185	27,253
Real estate - mortgage	364,875	387,667	402,987	390,205	366,219
Installment loans to individuals	77,692	94,424	105,564	101,624	104,470
Other	8,785	7,758	2,255	4,234	7,526
Total loans	$584,707	$622,940	$647,489	$623,751	$586,833

B. Maturities and sensitivities of loans to changes in interest rates:

	(In Thousands) December 31, 2002			
	Maturing or Repricing			
Type	Within 1 Year	After 1 Year Through 5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 78,834	$ 22,646	$ 1,847	$103,327
Real estate - construction	26,859	3,019	150	30,028
	$105,693	$ 25,665	$ 1,997	$133,355

(In Thousands)
December 31, 2002

Maturing or Repricing

After
1 Year

Type	Within 1 Year	Through 5 Years	Over 5 Years	Total
Loans with:				
Predetermined interest rates	$ 25,393	$ 25,665	$ 1,997	$ 53,055
Floating interest rates	80,300	-	-	80,300
	$105,693	$ 25,665	$ 1,997	$133,355

C. Nonperforming loans

1. The following table states the aggregate amount of loans which were nonperforming in nature:

	(In Thousands) December 31,				
Type	2002	2001	2000	1999	1998
Loans accounted for on a nonaccrual basis	$1,274	$2,050	$1,384	$ 270	$ 927
Accruing loans past due 90 days or more	$2,700	$1,850	$2,356	$2,975	$2,902
Renegotiated "troubled" debt	$ 304	$ 665	$ 294	$ 132	$ 337

2. There were no loan concentrations in excess of 10% of total loans at December 31, 2002. However, lending activities are affected by the economic trends within the areas served by the Company and its subsidiaries. This, in turn, can be influenced by the areas' larger employers, such as Mississippi State University, University of Alabama, Bryan Foods, Columbus Air Force Base, and the Mercedes-Benz Automotive Plant.

3. There were no outstanding foreign loans at December 31, 2002.

4. Loans classified for regulatory purposes or for internal credit review purposes that have not been disclosed in the above table do not represent or result from trends or uncertainties that management expects will materially impact the financial condition of the Company or its subsidiary banks, or their future operating results, liquidity, or capital resources.

5. If all nonaccrual loans had been current throughout their terms, interest income would have not been significantly different for the years ended 2002, 2001 and 2000.

6. Management stringently monitors loans that are classified

as nonperforming. Nonperforming loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a debtor's financial difficulties. Loans are generally placed on nonaccrual status if any of the following events occur: 1) the classification of a loan as nonaccrual internally or by regulatory examiners, 2) delinquency on principal for 90 days or more unless management is in the process of collection, 3) a balance remains after repossession of collateral, 4) notification of bankruptcy, or 5) management's judgment that nonaccrual is appropriate.

7. At December 31, 2002, the recorded investment in loans identified as impaired totaled approximately $1.2 million. The allowance for loan losses related to these loans approximated $596,000. The average recorded investment in impaired loans during the year ended December 31, 2002, was $1.8 million. Total interest recognized on impaired loans and the amount recognized on a cash basis were not significant.

D. Other interest-bearing assets

There were no other interest-bearing non-performing assets at December 31, 2002.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. An analysis of the loan loss experience for the periods indicated is as follows:

($ In Thousands)
December 31,

	2002	2001	2000	1999	1998
Beginning balance	$ 6,753	$ 9,689	$10,194	$10,102	$ 8,528
Charge-offs:					
Domestic:					
Commercial, financial and agricultural	(708)	(2,840)	(499)	(566)	(575)
Real estate	(1,240)	(780)	(206)	(444)	(451)
Installment loans and other	(2,226)	(1,580)	(1,497)	(1,047)	(960)
Total charge-offs	(4,174)	(5,200)	(2,202)	(2,057)	(1,986)
Recoveries:					
Domestic:					
Commercial, financial and agricultural	39	119	55	89	124
Real estate	64	61	17	25	76
Installment loans and other	557	364	345	266	173

Total recoveries	660	544	417	380	373
Net charge-offs	(3,514)	(4,656)	(1,785)	(1,677)	(1,613)
Provision charged to operations	2,790	1,720	1,280	1,769	3,187
Ending balance	$ 6,029	$ 6,753	$ 9,689	$10,194	$10,102
Ratio of net charge-offs to average loans outstanding	.59	.74	.29	.28	.28
Ratio of allowance for loan losses to loans outstanding at year end	1.03	1.08	1.50	1.63	1.72

B. Determination of Allowance for Loan Losses

The determination of the allowance for loan losses requires significant judgment. The balance of the allowance for loan losses reflects management's best estimate of probable loan losses related to specifically identified loans, as well as probable incurred loan losses in the remaining portfolio. Reference should be made to Note A-6 to the consolidated financial statements included herein as Item 8 and to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following schedule sets forth the components of the allowance for loan losses at December 31, 2002 and 2001. This allocation is based upon the consistent, quarterly evaluation of the adequacy of the allowance for loan losses. The entire allowance for loan losses is available to absorb loan losses in any category.

	2002		2001	
(In thousands)	Loan Balance	Allowance For Loan Losses	Loan Balance	Allowance For Loan Losses
Allocated component:				
Impaired loans	$ 1,230	$ 596	$ 2,471	$ 1,353
Graded loans	24,867	2,302	33,221	2,674
Homogeneous pools	156,837	980	187,751	1,071
Other loans	401,773	1,683	399,497	1,271
Unallocated component	-	468	-	384
	$584,707	$ 6,029	$622,940	$ 6,753

The allowance allocated to impaired loans for the years 2002 and 2001 was based upon the estimated fair value of the underlying collateral. Graded loans are those loans that exhibit some form of weakness. Allocations to this group are based upon the historical loan loss experience of the grades assigned and upon specific allocations to specific loans. An allowance is allocated to the various pools of loans considered to be homogenous based upon the historical loan losses of each pool. Other loans consist of those loans not graded or impaired or considered homogenous. These loans are grouped by risk assignments which are based upon consideration of collateral values, borrower financial condition and performance, debt service capacity, cash flows, market share, and other indicators. Allocations of the allowance to these loans are based upon historical loan loss experience of the risk assignment.

C. Loans and Risk Descriptions

Real Estate Loans

NBC originates loans secured by commercial real estate, one-to-four family residential properties, and multi-family dwelling units (5 or more units). At December 31, 2002, these loans totaled $395 million or approximately 68% of the loan portfolio.

NBC originates commercial real estate loans up to 80% of the appraised value. Currently, it is the philosophy to originate these loans only to selected known borrowers and on properties in the market area.

Of primary concern in commercial real estate lending is the borrower's credit worthiness and the feasibility and cash flow potential of the project. To monitor cash flows of borrowers, annual financial statements are obtained from the borrower and loan guarantors, if any. Although many banks have had significant losses in commercial real estate lending, NBC, historically, has sustained few losses, and those losses were not significant relative to the size of the entire commercial real estate loan portfolio at the time.

NBC originates loans secured by first and junior liens on one-to-four family residences in their lending areas. Typically, such loans are single family homes that serve as the primary residence of the borrower. Generally, these loans are originated in amounts up to 80% of the appraised value or selling price of the property. In the past, very few losses from these types of loans have been experienced.

Loans for multi-family (5 or more) residential properties are generally secured by apartment buildings. Loans secured by income properties are generally larger and involve greater risk than residential loans because payments are often dependent on the successful operation or management of the properties. As a result, these types of loans may be more sensitive to adverse conditions in the real estate market or the economy. Cash flow and financial statements are obtained from the borrowers and any guarantors. Also, rent rolls are often obtained.

Consumer and Other Loans

NBC offers consumer loans in the form of home improvement loans, mobile home loans, automobile loans and unsecured personal loans. These loans totaled $78 million or 13% of total loans at December 31, 2002. Consumer loans are originated in order to provide a wide range of financial services to customers and because the terms and normally higher interest rates on such loans help maintain a profitable spread between the average loan yield and the cost of funds.

In connection with consumer loan applications, the borrower's income statement and credit bureau report are reviewed. In addition, the relationship of the loan to the value of the collateral is considered. All automobile loan applications are reviewed, as well as the value of the unit which secured the loan. NBC intends to continue to emphasize the origination of consumer loans. Management believes that its loan loss experience in connection with its consumer loan portfolio is favorable in comparison to industry averages.

NBC makes commercial business loans on both a secured and unsecured basis with terms which generally do not exceed five years. Non-real estate commercial loans primarily consist of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans. A personal guaranty of payment by the principals of any borrowing entity is often required and the financial statements and income tax returns of the entity and its guarantors are reviewed. At December 31, 2002, NBC's commercial business loans represented approximately 16% of its total loan portfolio.

D. In the year 2001, NBC experienced an unusual and unexpected loan loss of $2 million (reference should be made to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations), which is included in the commercial, financial and agricultural category in Table IV.A. Loan losses in 2003 for all loan categories, as a percentage of average loans, are expected to approximate that of 2002.

V. DEPOSITS

($ In Thousands)

	2002		2001		2000	
	Amount	Rate	Amount	Rate	Amount	Rate
A. Average deposits:						
Domestic:						
Noninterest-bearing	$ 99,199	-	$ 96,249	-	$ 94,038	-
Interest-bearing demand (1)	296,313	1.5%	296,160	2.9%	254,458	3.6%
Savings	40,996	.8%	39,196	1.5%	48,414	2.1%
Time	364,345	3.5%	379,135	5.4%	382,415	5.6%
Foreign	N/A		N/A		N/A	
Total	$800,853		$810,740		$779,325	

(1) Includes Money Market accounts

B. Other categories

None

C. Foreign deposits

Not material

D. Time certificates of deposit of $100,000 or more and maturities at December 31, 2002

(In Thousands)

	Total	3 Months Or Less	3 Months Through 6 Months	6 Months Through 12 Months	Over 12 Months
Time certificates of deposit of $100,000 or more	$164,625	$51,413	$28,262	$23,868	$61,082

E. Foreign office time deposits of $100,000 or more

Not applicable

VI. RETURN ON EQUITY AND ASSETS

The following financial ratios are presented for analytical purposes:

	December 31, 2002	2001	2000
Return on assets (net income divided by total average assets)	1.3	1.3	1.4
Return on equity (net income divided by average equity)	13.3	12.5	12.2
Dividend payout ratio (dividends per share divided by basic net income per share)	50.3	53.2	49.5
Equity to asset ratio (average equity divided by average total assets)	10.1	9.8	12.0

VII. SHORT-TERM BORROWINGS

($ In Thousands)

	2002 Securities Sold Under Agreement to Repurchase	2001 Securities Sold Under Agreement to Repurchase	2000 Securities Sold Under Agreement to Repurchase
Balance at year end	$25,599	$16,625	$16,326
Weighted average interest rate at year end	1.10%	2.23%	4.15%
Maximum amount outstanding at any month end for the			

year	$26,328	$21,765	$17,831
Average amount outstanding during the year	19,430	18,922	17,049
Weighted average interest rate during the year	1.61%	3.45%	4.16%

VIII. CAPITAL ADEQUACY DATA

Total consolidated capital of the Company was as follows:

	($ In Thousands) December 31, 2002	2001
Total stockholders' equity (excluding unrealized gain/loss)	$106,985	$101,277
Allowance for loan losses, as allowed	6,029	6,753
Total primary capital	113,014	108,030
Other secondary capital	-	-
Total capital	113,014	108,030
Less intangible assets and other adjustments, net	(2,273)	(1,415)
Total capital, as defined for regulatory purposes	$110,741	$106,615

Tier 1 and total capital as a percentage of "risk-weighted" assets at December 31, 2002 and 2001, are as follows:

	December 31, 2002	2001
Tier 1 capital percentage	16.5%	15.0%
Total capital percentage	17.4%	16.0%

The Company's capital ratios exceed the minimum capital requirements at December 31, 2002, and management expects this to continue.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following provides a narrative discussion and analysis of significant changes in the Corporation's results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements, including the notes thereto, and the supplemental financial data included elsewhere in this report, including the five-year summary of Selected Financial Data and management's letter to shareholders at the beginning of this Annual Report.

Certain information included in this discussion contains forward-looking statements and information that are based on management's conclusions, drawn from certain assumptions and information currently available. The Private Securities Litigation Act of 1995 encourages the disclosure of forward-looking information by management by providing a safe harbor for such information. This discussion includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties that could cause the actual results to differ materially from the Corporation's expectations. The forward-looking statements made in this document are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in the Corporation's documents, the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, factors that could cause the Corporation's actual results to differ materially from those contemplated in any forward-looking statements include, among others, increased competition, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, employee workforce factors, cost and other effects of legal and administrative proceedings, and changes in federal, state or local laws and regulations. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

The two major trends that can have a material impact on the Corporation's financial condition and results of operations are the trend in interest rates and the overall trend in the economy. Currently, management expects, based on the available information, that interest rates will remain at their current levels during the first half of 2003 and trend upward slightly during the latter half of the year, and the overall economy in its market will remain relatively flat throughout the year. The Corporation's 2003 projections, budgets and goals are based on these expectations. If these trends move differently than expected in either direction or speed, it could have a material impact on the Corporation's financial condition and results of operations. The areas of the Corporation's operations most directly impacted would be the net interest margin, loan and deposit growth and the provision for loan losses.

ACCOUNTING ISSUES

Note A of the Notes to Consolidated Financial Statements contains a summary of the Corporation's accounting policies. Management is of the opinion that Note A, read in conjunction with all other information in the annual report, including management's letter to shareholders and management's discussion and analysis, is sufficient to provide the reader with the information needed to understand the Corporation's financial condition and results of operations and to identify the areas in which management is required to make the most difficult, subjective and /or complex judgments.

In the normal course of business, the Corporation's wholly-owned subsidiary, National Bank of Commerce, makes loans to related parties, including directors and executive officers of the Corporation and their relatives and affiliates. These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties. Also, they are consistent with sound banking practices and within the applicable regulatory and lending limitations. See Note O in the Notes to Consolidated Financial Statement and the Corporation's Proxy Statement for additional details concerning related party transactions.

Under Section 402 of the Sarbanes-Oxley Act of 2002, loans to executive officers are generally prohibited. However, the rule does not apply to any loan made or maintained by an insured depository institution if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act. All loans to executive officers made by the Corporation's bank subsidiary are subject to the above referenced section of the Federal Reserve Act.

Note A of the Notes to Consolidated Financial Statements contains a listing of all the Corporation's affiliated companies. The Corporation does not have investments in any unconsolidated entities over which it exercises management or control. The Corporation does not have relationships with limited or special purpose entities that it relies on to provide financing, liquidity or market and credit risk support.

Effective January 1, 2002, the Corporation adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets". This Statement eliminated the requirement to amortize goodwill; however, it does require periodic testing for impairment. As a result of the adoption of the Statement, the Corporation did not amortize goodwill during 2002. The Corporation completed its transitional impairment test in accordance with Statement No. 142 in January 2002. No significant impairment write down was recorded as a result of that test.

Additionally, the Corporation adopted FASB Statement No. 147, "Acquisition of Certain Financial Institutions" which became effective October 1, 2002. This Statement applies to unidentified intangible assets resulting from the acquisition of less-than-whole financial institutions. The Corporation's unidentified intangible asset resulted from such an acquisition. Management determined that the acquisition met the requirements of a business combination and, in accordance with FASB Statement No. 147, the related unidentified intangible asset was reclassified as goodwill and accounted for in accordance with FASB Statement No. 142. As a result, the Corporation reversed all related amortization expense recognized after FASB Statement No. 142 was applied. This reversal required the Corporation to restate each of the first three quarters of 2002, by reversing the previously recorded amortization. This reversal reduced each quarter's other operating expense by $28,000 and caused net income in each quarter to increase by approximately $18,500. This change did not cause the Earnings Per Share to change in any quarter.

At December 31, 2002, the Corporation had approximately $2.8 million of goodwill on its Balance Sheet, including approximately $800,000 of unidentified intangible assets reclassified as goodwill, which will remain at that level unless it becomes impaired under the definition of impairment in FAS 142. The amortization of goodwill during 2001 and 2000 was approximately $333,000 or $.04 per share and $327,000 or $.03 per share, respectively.

In June 2002, the FASB issued Statement No. 146, "Accounting for the Cost Associated with Exit or Disposal Activities". The adoption of the Statement is not expected to have a material impact on the Corporation's consolidated financial statements.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Since 1998, the total assets of the Corporation have increased 15.0%. During this same period, loans have increased .3%, while deposits grew by 5.2%. During 1999, net loans grew by $36.8 million, while deposits declined by approximately $24.1 million. Approximately 79% of this decline in deposits occurred during the last sixty days of 1999. This situation required the Corporation to look to other funding sources such as reallocating funds from lower yielding assets and additional borrowings from the Federal Home Loan Bank. During 2000, this trend reversed as the equity markets turned down and cash began flowing back into the banking system. As a result, the Corporation was able to fund its net loan growth of approximately $24.2 million with a growth in deposits of approximately $52 million. During 2001, net loans declined by $21.6 million, mostly as a result of a decline in the Adjustable Rate Mortgage ("ARM") loans that the Corporation carried in its loan portfolio. The reason for the decline was the interest rate environment. During that period the Federal Reserve lowered rates eleven times, totaling 4.75%. Because of these lower rates, many homeowners refinanced their existing ARM loans to fixed rate loans. Due to the interest rate risk, the Corporation does not normally carry fixed rate mortgage loans on its books. As a result of this decline in loans and an overall soft loan demand, the Corporation did not need to aggressively price deposits, and therefore, had a modest $5.9 million growth in deposits during the year. This interest rate environment continued into 2002, as the rates remained at historically low levels, actually declining an additional 50 basis points in November. The mortgage-refinancing trend continued throughout 2002, and as a result, the Corporation's mortgage loan portfolio declined further. Also, the softness in the economy and the very low, or in the case of the auto industry, zero rate loans resulted in an overall decline in the Corporation's consumer loan portfolio. Even though other parts of the loan portfolio actually increased during the year, the increase was not enough to offset the decline in the mortgage and consumer portfolios. As a result, the Corporation experienced its second consecutive year of a declining loan portfolio, as loans decreased by 6.1%. With this continued decline in loans, the Corporation continued its position of not aggressively pricing deposits. As a result, deposits grew by .8% for the year. See the section entitled "Liquidity, Asset / Liability Management" for additional comments on sources and uses of cash during 2002.

Shareholders' Equity has represented a consistent strength of the Corporation throughout the years, as noted in the summary of Selected Financial Data. Shareholders' equity has decreased slightly (0.7%) since 1998. During 1999 and 2000, Shareholder's Equity increased from $111.9 million to $120.1 million, or 7.4%. The decline in 2001 resulted primarily from the purchase of approximately $25 million of outstanding shares owned beneficially by two long time shareholders at $18.83 per share (post split price). This purchase was partially offset by income, net of dividend, and an increase in the market value of "Available-for-Sale Securities", the cumulative effect of which caused Accumulated Other Comprehensive Income to increase by approximately $1.7 million. In 2002, Shareholders' Equity increased by $8.2 million, or 7.9% from $102.9 million to $111.1 million. This increase came from income, net of dividends, and a $2.5 million increase in Accumulated Other Comprehensive Income. Accumulated Other Comprehensive Income is composed of unrealized gains (losses), net of taxes on "Available-for-Sale Securities" ($1,650,000 and $4,122,000 at December 31, 2001 and 2002, respectively) and is reported as part of Shareholders' Equity, as required under FASB 115.

In 1999, net income increased by $506,000, even though the Corporation incurred approximately $2.5 million of merger related expenses (net of taxes) associated with the acquisitions of FFBS Bancorp, Inc., ("FFBS") and Galloway-

Chandler-McKinney Insurance Agency, Inc. ("GCM"). In 1998 and 1999, fully diluted earnings per share were $1.06 and $1.10, respectively, after being impacted by approximately $.20 in 1998 and $.27 in 1999, of non-recurring merger costs. In 2000, fully diluted earnings per share increased by 33.6% to $1.47 per share, as net income increased from $10.5 million in 1999 to $14.0 million in 2000. In 2001, net income declined to $13.1 million; however, fully diluted earnings per share increased to $1.54, a 4.8% increase, due to 10.8% fewer weighted average shares outstanding as a result of the previously mentioned repurchase of the Corporation's stock. In 2001, net income was negatively impacted by an additional $1 million provision made to the Corporation's allowance for loan losses to replenish the allowance for a large commercial loan charge-off. This charge-off will discussed in more detail later in this analysis. The following paragraphs discuss the increase in net income in 2002, compared to 2001. The 1998 earnings per share amounts have been restated to reflect the 1999 merger with FFBS. All earnings per share amounts have been restated to reflect the four for three stock split, accounted for as a stock dividend, that occurred during the third quarter of 2002.

Regular cash dividends have increased in each of the years outlined in the summary of Selected Financial Data. The 1998 dividends per share amount has been restated to reflect the 1999 merger with FFBS and all dividends per share have been restated to reflect the four for three stock split, accounted for as a stock dividend, that occurred during the third quarter of 2002.

Net interest income ("NII"), the primary source of earnings for the Corporation, represents income generated from earning assets, less the interest expense of funding those assets. NII declined by 7.9% in 2001 and increased by 6.9% in 2002. Changes in NII may be divided into two components; first, the change in average earning assets (volume component) and second, the change in the net interest spread (rate component). Net interest spread represents the difference between yields on earning assets and rates paid on interest-bearing liabilities.

The year 2001 was a unique year for the banking industry. During the year, the Federal Reserve reduced interest rates eleven times, for a total of 475 basis points. Even though most thought rates would decline during 2001, few, if any, expected rates to decline that far, that fast. This rate decline did not stop the general state of the economy from continuing to slow throughout the year. With this slow down in the economy, the Corporation experienced a substantial decline in loan demand, as businesses went into a defensive position. In this environment, the competition for quality credits increased. This situation caused many of the fixed rate loans that were in the portfolio to be refinanced at lower rates during the year. Also, at the beginning of the year, approximately 45 percent of the loan portfolio was composed of variable rate loans. These two factors caused an overall decline in loan yields during 2001.

As mentioned later in this discussion, the Corporation's policy is to maintain a basically neutral gap position for its balance sheet. The Corporation began 2001 with a twelve-month liability sensitive position of $57.7 million or 5.7% of assets, well within its policy of plus or minus 10%. Even though a liability sensitive position was appropriate for this declining rate environment, the speed and amount of the declines caused the variable loans to reprice more quickly than the cost of liabilities could be reduced, putting a great deal of downward pressure on the Corporation's margin during the year. Even though management began repricing deposits downward during January, it was the third and fourth quarters before the rates stabilized enough for the reduction in rates paid on deposit to catch up with the decline in yields and for the margin to stabilize and begin to increase.

In 2001, NII declined 7.9% as the net interest spread declined from 3.38% in

2000 to 2.96%. The primary reason for this decline was a decrease in average loan yields of approximately 88 basis points. This decrease in loan yields was partially offset by a decrease in the average cost of deposits of 43 basis points and a decrease in the cost of other borrowed funds of 54 basis points. The volume component of NII also helped offset this decline in loan yields, as average-earning assets grew $68.7 million, or 7.6%.

In 2002, NII increased by 6.9% from $34.8 million to $37.2 million. This increase resulted from improvement in both the rate and volume components of NII. During the year the margin increased from 3.59% in 2001 to 3.80% in 2002. Even though yields on earning assets continued to decline during the year, the Corporation was able to more than offset the decline by continuing to decease the cost of funds during the stable rate, low loan demand environment of 2002. As can be seen in following table, yields on earning assets declined by 116 basis points from 7.30% to 6.14%. This loss was more that offset by a decline of 160 basis points in cost of funds from 4.34% in 2001 to 2.74% in 2002. Also, the Corporation was able to grow earning assets by $9.3 million or 1.3% during 2002. All of this growth came in the area of investment securities.

If rates were to continue downward, it will become very difficult for the Corporation to continue to lower deposit rates much below their current level. As a result, if multiple rate reductions occur, the margin will again come under extreme pressure because asset yields will be decreasing and the Corporation's ability to reduce its deposit cost will be limited.

The table below shows, for the periods indicated, an analysis of NII, including the average amount of interest-earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on such amounts, the average yields/rates paid and the net yield on interest-earning assets on both a book and tax equivalent basis:

	($ In Thousands) Average Balance	
	Year Ended 12/31/02	Year Ended 12/31/01
EARNING ASSETS:		
Loans	$591,297	$629,248
Federal funds sold and other interest-bearing assets	12,986	22,816
Securities:		
Taxable	250,970	185,076
Nontaxable	123,380	132,200
Totals	$978,633	$969,340
INTEREST-BEARING LIABILITIES:		
Interest-bearing deposits	$701,654	$714,491
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other	134,639	115,764

Totals	$836,293	$830,255

	($ In Thousands) Interest For		Yields Earned and Rates Paid (%)	
	Year Ended 12/31/02	Year Ended 12/31/01	Year Ended 12/31/02	Year Ended 12/31/01
EARNING ASSETS:				
Loans	$ 40,022	$ 51,852	6.77	8.24
Federal funds sold and other interest-bearing assets	215	950	1.66	4.16
Securities:				
Taxable	13,675	11,165	5.45	6.03
Nontaxable	6,139	6,803	4.98	5.15
Totals	$ 60,051	$ 70,770	6.14	7.30
INTEREST-BEARING LIABILITIES:				
Interest-bearing deposits	$ 17,171	$ 29,866	2.45	4.18
Borrowed funds, federal funds sold, securities sold under agreements to repurchase and other	5,705	6,135	4.24	5.30
Totals	22,876	36,001	2.74	4.34
Net interest income	$ 37,175	$ 34,769		
Net yield on earning assets			3.80	3.59

Note: Yields on a tax equivalent basis would be:

Nontaxable securities	7.66	7.92
Total earning assets	6.47	7.68
Net yield on earning assets	4.14	3.96

The Corporation's Provision for Loan Losses is utilized to replenish the Reserve for Loan Losses on its balance sheet. The reserve is maintained at a level deemed adequate by the Board of Directors, after its evaluation of the risk exposure contained in the Corporation's loan portfolio. The methodology used to make this determination is performed on a quarterly basis by the senior credit officers and the loan review staff. As a part of this evaluation, certain loans are individually reviewed to determine if there is an impairment of the bank's ability to collect the loan and the related interest. This determination is generally made based on collateral value. If it is determined that an impairment exists, a specific portion of the reserve is allocated to these individual loans. All other loans are grouped into homogeneous pools, and risk exposure is determined by considering the following list of factors (this list is not all-inclusive and the factors reviewed may change as circumstances change): historical loss experiences; trends in delinquencies and non-accruals; and national, regional and local economic conditions. (These economic conditions would include, but not be limited to, general real estate conditions, the current interest rate environment and trends, unemployment levels and other information, as deemed appropriate.) Even though there has been increased competition for good quality credits in the Corporation's market, the quality of our portfolio remains strong. Net charge-offs for 2000, 2001 and 2002 were .28%, .74% and .59% of average net loans outstanding for each year, respectively. See Note D in the Notes to Consolidated Financial Statements for additional information concerning the transactions in the Reserve for Loan Losses for the three-year period ended December 31, 2002. Had it not been for a single $2 million loan charged off in June of 2001 (this loan will be discussed in more detail in the following paragraph), the ratio for 2001 would have been .42% of average net loans. The ratio of classified loans to capital has decreased from 18.1% at December 31, 2001 to 13.2% at December 31, 2002. The Reserve for Loan Losses as a percentage of total loans has declined from 1.08% of total loans at the end of 2001 to 1.03% at the end of 2002. Based on these evaluations, the reserve amounts maintained at the end of 2001 and 2000 were deemed adequate to cover exposure within the Corporation's loan portfolio.

The Provision for Loan Losses increased from $1,280,000 in 2000 to $1,720,000 in 2001 and to $2,790,000 in 2002. In 2001, the provision was increased to $1,720,000, as net charge-offs increased from $1.9 million in 2000 to $4.7 million in 2001. The primary reason for the increased charge-offs in 2001 was that in June, the Corporation charged-off a $2 million commercial loan that defaulted. This loan had previously not been classified as a problem loan and there were special circumstances surrounding the default. The Corporation has filed a claim with its bonding company to recover the entire $2 million; however, it can not predict whether there will be a recovery. In 2002, the provision was increased to $2,790,000. In total, the net charge-offs decreased to $3.5 million in 2002. However, when compared to 2001, exclusive of the special charge-off, the level of charge-offs actually increased in 2002. This increase can be attributed to the overall condition of the economy and the continued softening in the market, especially in the consumer sector. Due to this continued softness in the economy and the forecast of a long, slow recovery, management intends to again increase the provision for loan losses in 2003 to a level that we anticipate will protect the Corporation from any unforeseen deterioration in the quality of the loan portfolio.

Non-interest income includes various service charges, fees and commissions collected by the Corporation, including insurance commissions earned by GCM, the wholly owned insurance agency subsidiary of National Bank of Commerce. During 2002, non-interest income grew 9.6% from $16.5 million to $18.0 million. This increase resulted from the Corporation's continued focus on diversifying its income sources so that it can be less dependent on net interest income. Approximately 74% of the total increase came from a $1.2 million or a 19.7% increase in service charges on deposit accounts. This increase resulted primarily from an upgrade in the technology platform that includes more sophisticated account modeling. This gave management the tools needed to better monitor and more uniformly apply the account-based fees across all deposit accounts on a consistent basis. Insurance commissions, fees and premiums increased by $234,000, or 6.1%. This change in insurance commissions, fees and premiums relates directly to the volume of insurance product sold during these periods. Other service charges and fees also increased by $157,000, or 5.3%. This increase came from three areas. First, mortgage loan fee income increased by $37,000 to a level of $1,501,000. Mortgage activity benefited from the continued demand for loans in this low interest rate environment. Also the demand for mortgage refinancing, which had moderated during the first half of the year, began to increase once again during the last half of the year as interest rates fell. Also, during the year, the demand for new loans was strong. With this high level of activity at year-end, the pipeline for both new and refinanced mortgage loans remains strong going into 2003. The other two areas that caused the increase in other service charges and fees were ATM Income, which increased by 27.1%, and Check Card Income, which increased by 20.6%. Trust Department income increased by 3.2% to $1.8 million. Even though the Trust Department was able to continue to grow its assets under management during the year, its income is generated based on the market value of these assets. Therefore, its growth in income was limited by the overall conditions in the equity markets as they continued to decline throughout 2002. During 2001, non-interest income grew 19.6% to $16.5 million. Several different sources contributed to this increase. Service charges on deposit accounts increased by 12% to $5.9 million as a result of an on-going effort by management to better bill and collect fees. The Corporation's Trust Department income increased by 6.3% to $1.7 million. This increase was smaller than the prior year's increase. The activities in this area grew steadily during 2001; however, as mentioned, the amount of income collected from management fees is directly related to the market value of the account assets, which in many cases was negatively impacted by the decline in the equity markets during 2001. Additionally, other non-interest income increased by $1.8 million, or 69%. This increase came primarily from two sources. First, the fees from mortgage-related activities increased 205.7%, or $984,000, as a result of an interest rate environment that produced heavy refinancing activity throughout the year. Second, earnings from a $10 million purchase of Bank Owned Life Insurance ("BOLI") caused this category of other non-interest income to increase by $621,000. This purchase of BOLI was executed to help cover the increasing cost of employee benefits. These increases were partially offset by a decline of 8.3%, or $347,000, in Insurance Commissions, Fees and Premiums. This decline in Insurance Commissions, Fees and Premiums relates directly to the volume of insurance products sold. During the first quarter of 2001, a great deal of time and effort was spent handling claims that resulted from a major storm that hit the service area. This took away from time that would have been spent developing new business. Also, GCM experienced a reduction in incentive rebates from its insurance carriers because of underwriting losses that resulted from the storm.

The Corporation recognized $457,000 in securities gains during 2002, compared to $459,000 in 2001 and a loss of $22,000 for 2000. Approximately 80% of the 2002 gain came in the second half of the year. With approximately 74% of available-for-sale securities portfolio composed of mortgage backed securities, a unique situation developed during the second half of 2002. As mortgage rates continued to stay low during most of 2002 and then drop again with the Fed rate cut in November, the prepayment speed on the mortgages behind these securities increased. This caused the average lives on these securities to shorten from the 5 to 7 year ranges they were in when purchased, to ranges of 2 to 3 years. With the low interest rate environment there was a high demand for securities with 2 to 3 year estimated average life. This gave the Corporation the opportunity to sell these securities at a profit and replace them with securities with the same 5 to 7 year average life that were originally purchased. Not only did these transactions create a gain; they also allowed the Corporation to improve the yields on the particular securities sold by approximately 70 basis points. This environment continued into 2003, and the Corporation intends to take advantage of this situation for as long as it exists. The gain in 2001 resulted primarily from several securities that had been purchased at a discount being called, at par value, because of the low interest rate environment.

Non-interest expense represents ordinary overhead expenses, including salaries, bonuses and benefits. The Corporation maintains a formal salary administration program that considers extensive comparative salary data and other indices supplied by a leading outside consulting firm. This data is utilized to assure that salaries are in line and competitive with comparable jobs in the marketplace. Incentive bonuses that were expensed in 2002 and 2000 were paid to employees based on the attainment of predetermined profit goals. The predetermined profit goals were not reached in 2001; therefore, no significant bonuses were accrued. Overall, non-interest expense increased by approximately $1.3 million or, 4.1%, during 2002. This entire increase can be attributed to increases in salaries and benefits. Salaries increased by 7.3%, or $1.1 million. Approximately 86% of this increase came from bonuses and related expenses that were accrued in 2002. As stated above, no bonuses were accrued in 2001. The remaining portion of the salary increase is due to normal salary increases for the year. Employee benefits increased by 18.1%, or $568,000 in 2002. Like most companies, NBC experienced an increase in medical insurance premiums during the year. Also, the benefit cost increased due the effects on the Defined Benefit Plan of the lower rate environment on the present value calculations and low returns in the plan's investment portfolio due to the weak equity markets. Additionally, net occupancy expense and furniture and equipment expense increased by $112,000 or 2.4%. This small increase came primarily from higher maintenance and repair cost during the year. These increases were partially offset by a $481,000, or 5.1%, decrease in other expenses. During 2001, non-interest expense increased by approximately $1.2 million or, 3.9%. This increase resulted primarily from a $896,000, or 5.2%, increase in Salaries and Employee Benefits and a $226,000, or 2.5%, increase in Other Operating Expenses. Salaries and Employee Benefits increased as the result of an increase in employee benefit cost and a reduction in the FASB 91 deferral because of the reduction in loan volume. Salaries were basically unchanged during the year. The Corporation made significant changes in its employee benefits that became effective at the beginning of 2001. Management knew that these changes would increase the cost of benefits in the early years, but would eventually allow management to better control and possibly reduce the cost of benefits in future years. To offset these increases, the Corporation purchased the Bank-Owned Life Insurance. The increase in Other Operating Expenses resulted from increases in several expense categories, none of which were individually considered to be material.

Changes in the Corporation's income tax expense have generally paralleled changes in pre-tax income. The Corporation's effective tax rates were 27.3% in 2000, 24.5% in 2001 and 25.2% in 2002. The small increase in the effective tax rate in 2002 resulted from a $8.8 million dollar decrease in the average balance of assets that provide either tax-free or tax advantaged earnings. The decrease in the effective rate in 2001 resulted from a $14 million increase in the average balance of assets that provide either tax-free or tax advantaged earnings. The Corporation's ability to reduce income tax expense by acquiring additional tax-free investments is limited by the Alternative Minimum Tax Provision, the market supply of acceptable municipal securities, the level of tax exempt yields and the Corporation's normal liquidity and balance sheet structure requirements.

LIQUIDITY, ASSET/LIABILITY MANAGEMENT

Liquidity may be defined as the ability of the Corporation to meet cash flow requirements created by decreases in deposits and/or other sources of funds or increases in loan demand. The Corporation has not experienced any problems with liquidity over any of the years noted, and anticipates that all liquidity requirements will be met comfortably in the future. The Corporation's traditional sources of funds from deposit increases, maturing loans and investments and earnings have generally allowed it to consistently generate sufficient funds for liquidity needs. As the result of a $38.2 million decrease in loans and a $6.7 million increase in deposits, the Corporation's loan/deposit ratio has decreased from 76.8% in 2001 to 71.5% in 2002. In addition, the Corporation increased its borrowing from the Federal Home Loan Bank during 2002 by approximately $2.0 million and other borrowed funds by $9.0 million. With the very soft loan demand, this positive flow of funds was used primarily to purchase additional investment securities. During 2002, the investment security portfolio increased from $340.7 million to $393.8 million, representing a $53.1 million, or 15.6%, increase. An additional $15.0 million was placed in Federal Funds Sold. All the remaining liquidity needs for the year were provided from normal operating activities.

The Corporation offers repurchase agreements to accommodate excess funds of some of its larger depositors. Management believes that these repurchase agreements stabilize traditional deposit sources as opposed to risking the potential loss of these funds to alternative investment arrangements. Repurchase Agreements, which are viewed as a source of funds to the Corporation, totaled $25.6 million and $16.6 million at December 31, 2002 and 2001, respectively. The level of repurchase agreement activity is limited by the availability of investment portfolio securities to be pledged against the accounts. Due to the limited amount of repurchase agreements and the fact that the underlying securities remain under the control of National Bank of Commerce, the exposure of the Corporation for this service is not considered material.

The following table shows the contractual obligations for the Corporation as of December 31, 2002:

Obligations (In Thousands)	Total	Due in less than 1 year	Due in 1-3 years	Due in 3-5 years	Due after 5 years
Long-term debt	$111,906	$25,757	$51,846	$25,039	$ 9,264
Operating leases	2,852	279	720	236	1,617
Securities sold under repurchase agreements	25,599	25,599			
Other borrowings	1,035	1,035			
Total cash obligations	$141,392	$52,670	$52,566	$25,275	$10,881

The following table shows the other commercial commitments for the Corporation as of December 31, 2002:

Commercial Commitments (In Thousands)	Total	Expires in less than 1 year	Expires in 1-3 years	Expires in 3-5 years	Expires after 5 years
Lines of Credit (unfunded commitments)	$76,217	$59,380	$ 5,510	$ 1,967	$ 9,360
Commercial and similar letters of credit	$6,018	$2,041	$1,363	$2,614	

The Corporation believes that normal earnings and other traditional sources of cash flow, along with additional borrowings from the Federal Home Loan Bank, if necessary, will provide the cash to allow it to meet these obligations with no adverse effect on liquidity. At December 31, 2002, the Corporation had the ability to borrow approximately $48 million from the Federal Home Loan Bank and had other short-term borrowing lines (Federal Funds Purchased Lines) of approximately $75 million from upstream correspondent banks.

The Corporation has no plans for the refinancing or redemption of any liabilities other than normal maturities and payments relating to the borrowings from the Federal Home Loan Bank. The Corporation does not have plans at this time for any discretionary spending that would have a material impact on liquidity other than its announced stock repurchase program. At December 31, 2002, the Corporation had the authority, at its discretion, to purchase 330,583 additional shares of its common stock. If purchased at the year-end closing price of $25.20, this purchase would require approximately $8.3 million. Any purchases under this program will be made over an unknown period of time, and the necessary funds will be provided from normal sources.

Under regulations controlling financial holding companies and national banks, the bank is limited in the amount it can lend to the Corporation and such loans are required to be on a fully secured basis.
At December 31, 2002, there were no borrowings between the Corporation and its subsidiary bank.

The Corporation has maintained a consistent and disciplined asset/liability management policy during each of the years noted in the summary. This policy focuses on interest rate risk and sensitivity. During 2002, the Corporation did not engage in any non-exchange-traded contracts such as currency or interest rate swaps, nor did it purchase or hold any derivative securities.

The primary objective of rate sensitivity management is to maintain net interest income growth while reducing exposure to adverse fluctuations in rates. The Corporation utilizes an Asset/Liability Management Committee that evaluates and analyzes the Corporation's pricing, asset/liability maturities and growth, and balance sheet mix strategies in an effort to make informed decisions that will increase income and limit interest rate risk. The committee uses simulation modeling as a guide for its decision making. Modeling techniques are also utilized to forecast changes in net income and the economic value of equity under assumed fluctuations in interest rate levels.

Due to the potential volatility of interest rates, the Corporation's goal is to stabilize the net interest margin by maintaining a neutral rate sensitive position. At year-end 2002, the Corporation's balance sheet reflected approximately $51.6 million more in rate sensitive assets than liabilities that were scheduled to reprice within one year. This represents 4.8% of total assets and would indicate that the Corporation is slightly asset sensitive. This computation results from a static gap analysis that weights assets and liabilities equally. It is the Corporation's policy to maintain a static gap position of no more than a plus or minus 10% of aggregate assets over a moving twenty-four month period. The Corporation's position is considered essentially neutral when using simulation modeling that provides different weighting for assets and liabilities. Management believes that interest rates will increase slightly during the second half of 2003. As a result, it is felt that the Corporation's current position places it in the correct interest rate risk posture for a rising rate environment. Management does not believe that it is in the Corporation's best interest to speculate on changes in interest rate levels. Although earnings could be enhanced if predictions were correct, they could also be put at significant risk if interest rates move against predictions.

CAPITAL

Retained earnings have served as the Corporation's exclusive source of capital growth over the five years noted in the summary of Selected Financial Data. In 1999, total Stockholders' Equity showed a decline of approximately $600,000. The reason for this decline was that Accumulated Other Comprehensive Income, which is composed primarily of unrealized gains (losses) on available-for-sale securities, moved from a gain of $1.4 million in 1998 to a loss of $2.6 million in 1999. This movement resulted from an increasing rate environment during 1999, which caused a decline in market value of these investment securities. The interest rate trend reversed in 2000, and as a result, the Accumulated Other Comprehensive Income improved from a loss of $2.6 million to a loss of only $68,000. This, along with net income, net of dividends, resulted in Stockholder's Equity increasing from $111.3 million at the end of 1999 to $120.1 million at the end of 2000. In 2001, Shareholder's Equity decreased by $17.2 million or 14.3%. This decrease resulted from a large repurchase of stock during the first quarter and the normal payment of dividends. These decreases were partially offset by the net income for the year and a continued downward trend in interest rates, which caused the Accumulated Other Comprehensive Income to increase from a loss of $68,000 at December 31 2000, to a gain of $1,650,000 at December 31, 2001. In 2002, Shareholders' Equity increased by $8.2 million from $102.9 million to $111.1 million. This represented an increase of 7.9%. This increase came primarily from two sources. First, the Corporation generated net income of $14.2 million, from which it paid approximately $7.1 million in dividends. The second primary cause of this increase was that the interest rate climate continued downward during 2002, causing the market value of the available-for-sale securities to increase. As a result, Accumulated Other Comprehensive Income increased from $1,650,000 at December 31, 2001 to $4,122,000 at December 31, 2002. Offsetting these increases was the purchase of approximately $1.3 million in Treasury Stock. Common Stock also shows an increase of approximately $2.4 million. However, this was the result of a four-for-three stock split, accounted for as a stock dividend, during the third quarter of 2002. This increase in Common Stock was offset by a charge to Retained Earnings and had no impact on Total Shareholders' Equity.

During 2002, the amount of Treasury Stock increased from $25,997,000 to $27,341,000 as the number of shares held in the treasury increased from 1,029,702 to 1,428,352. This increase in the shares held in treasury stock came from stock purchased through the Repurchase Program first announced in July of 2001 and extended in July of 2002. The initial plan approved the repurchase of 310,000 shares or up to 5% of the common stock. This total increased to 413,333 as the result of the four for three stock split that occurred during the third quarter of 2002. During 2002, 27,300 shares were purchased under this program prior to the above referenced stock split for approximately $855,000 or an average of $31.31 per share on a pre-split basis. As a result of the split, 352,000 of additional shares were placed in treasury stock at no additional cost. Following the split, an additional 20,350 shares were purchased under the repurchase plan for approximately $517,000, or an average price of $25.39. On a post-split basis, the average purchase price of stock purchased during 2002 was $24.16 per share. During fourth quarter, 11,800 shares were purchased at an average price of $25.45 per share. Also during 2002, the Corporation issued 1,000 shares upon the exercise of stock options granted under a plan carried over from FFBS. At December 31, 2002, the Corporation could purchase an additional 330,583 shares under its Stock Repurchase Program. During the year ended December 31, 2002, the Corporation used Sterne, Agee & Leach, Inc. and FTN Financial Securities Corp. to purchase these shares under the Stock Repurchase Plan in the open market in accordance with Securities and Exchange Commission Rule 10b-18.

Current regulatory requirements call for a basic leverage ratio of 5.0% for an institution to be considered "well-capitalized." At the end of 2002, NBC maintained a 9.9% leverage ratio, which means it significantly exceeded the ratio required for a "well-capitalized" institution.

Regulatory authorities also evaluate a financial institution's capital under certain risk-weighted formulas (high-risk assets would require a higher capital allotment, lower risk assets a lower capital allotment). In this context, a "well-capitalized" bank is required to have a Tier 1 risk-based capital ratio (excludes reserve for loan losses) of 6.0% and a total risk-based capital ratio (includes reserve for loan losses) of 10.0%. At the end of 2002, the Corporation had a Tier 1 ratio of 16.5% and a total risk-based capital ratio of 17.4%, again placing the Corporation well above the level required for a "well-capitalized" institution.

The Corporation's capital position obviously exceeds regulatory requirements, even for "well-capitalized" institutions. Even though capital has decreased 0.7% since 1998 and assets grew by 15.0%; the capital to asset ratio remained high at 10.3%, as of December 31, 2002. Management still considers this level of capital to be excessive in relation to the amount needed to support the assets of the Corporation. As a result, management is continuing to consider alternatives to safely leverage the remaining excess capital in an effort to increase the earnings of the Corporation and improve Return on Average Equity.
Some of the items under consideration are the additional purchase of the Corporation's stock, acquisitions and additional arbitrage transactions. There are no material commitments for the use of capital resources that cannot be funded through currently available liquidity sources.

MARKET INFORMATION

The Corporation's stock is listed on the American Stock Exchange ("AMEX") and is traded under the symbol NBY. SunTrust Bank, Atlanta acts as Transfer Agent for the Corporation. The following table sets forth, for the periods indicated, the range of sales prices of the Corporation's common stock as reported on AMEX for 2001 and 2002 and the dividends declared for each period. Please note that all per share amounts have been restated for the 4-for-3 stock split, accounted for as a stock dividend, that occurred during the third quarter of 2002.

YEAR	QUARTER	HIGH	LOW	CASH DIVIDEND DECLARED PER QUARTER
2001	First	$16.880	$14.160	$0.19
	Second	22.090	16.090	0.21
	Third	25.310	20.440	0.21
	Fourth	24.380	22.430	0.21
2002	First	$23.480	$21.490	$0.21
	Second	28.500	22.610	0.22

Third	28.200	24.280	0.22
Fourth	26.700	24.800	0.22

ITEM 7A. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed only to U.S. dollar interest rate changes and, accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of the investment portfolio as held for trading. The Company does not engage in any hedging activities or enter into any derivative instruments with a higher degree of risk than collateralized mortgage obligations which are commonly held securities generally collateralized by pools of GNMA, FNMA, or FHLMC pass-through securities. Finally, the Company has no exposure to foreign currency exchange rate risk, commodity price risk, and other market risks.

The following table reflects the year-end position of the Company's interest-earning assets and interest-bearing liabilities which can either reprice or mature within the designated time period. The interest rate sensitivity gaps can vary from day-to-day and are not necessarily a reflection of the future. In addition, certain assets and liabilities within the same designated time period may nonetheless reprice at different times and at different levels.

($ In Thousands)
December 31, 2002

	Interest Sensitive Within (Cumulative)			
	Within 3 Months	Within 12 Months	Within 5 Years	Total of Interest-Earning Assets
Interest-earning assets:				
Loans	$258,310	$393,865	$524,792	$ 584,707
Investment and mortgage-backed securities	52,266	229,324	329,572	393,783
Federal funds sold and other	29,053	29,053	29,053	29,053
Totals	339,629	652,242	883,417	1,007,543
Interest-bearing liabilities:				
Deposits	368,907	548,226	708,393	713,945
Borrowed funds	33,073	52,391	129,296	138,540
	401,980	600,617	837,669	882,485
Sensitivity gap:				
Dollar amount	(62,351)	51,625	45,748	125,058
Percent of total interest-earning assets	(6.19%)	5.12%	4.54%	12.4%

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap". An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets anticipated, based upon certain assumptions, to mature or reprice within that time period. A gap is considered positive when the amount of interest rate sensitive assets maturing within a specific time frame exceeds the amount of interest rate sensitive liabilities maturing within that same time frame. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income. In a rising interest rate environment, an institution with a positive gap would generally be expected, absent the effects of other factors, to experience a greater increase in the yield of its assets relative to the costs of its liabilities and thus an increase in the institution's net interest income would result whereas an institution with a negative gap could experience the opposite results.

At December 31, 2002, total interest-earning assets maturing or repricing within one year were more than interest-bearing liabilities maturing or repricing within the same time period by approximately $51.6 million (cumulative), representing a positive cumulative one year gap of 5.12% of earning assets. Management of the Company believes this position to be acceptable in the current interest rate environment.

Banking regulators have issued advisories concerning the management of interest rate risk (IRR). The regulators consider that effective interest rate management is an essential component of safe and sound banking practices. To monitor its IRR, the Company's risk management practices include (a) Risk Management, (b) Risk Monitoring and (c) Risk Control. Risk Management consists of a system in which a measurement is taken of the amount of earnings at risk when interest rates change. The Company does this by first preparing a "base strategy" which is the position of the bank and its forecasted earnings based upon the current interest rate environment or, most likely, interest rate environment. The IRR is then measured based upon hypothetical changes in interest rates by measuring the impact such a change will have on the "base strategy."

Risk monitoring consists of evaluating the "base strategy" and the assumptions used in its development based upon the current interest rate environment. This evaluation is performed quarterly by management or more often in a rapidly changing interest rate situation and monitored by an Asset/Liability Management Committee.

Risk control is utilized based upon the setting of guidelines as to the tolerance for interest rate exposure. These guidelines are set by senior management and approved by the board of directors. Assuming a 300 basis points increase over the next twelve months, the December, 2002, model reflects net income declining by .6%. A 300 basis points decline would result in an 11.6% decrease in net income. Utilizing a rate shock model, a 200 basis point increase in interest rates results in a 14.8% decrease in market value equity, and a 200 basis point decrease results in a 3.9% increase in market value equity. The guidelines allow for no more than a + - 10% change in income, and no more than a + - 25% change in market value equity. However, at December 31, 2002, management believes the changes in income and market value equity as reflected in the models are acceptable in the current rate environment.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NBC CAPITAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2002 AND 2001

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
NBC Capital Corporation

We have audited the accompanying consolidated balance sheets of NBC Capital Corporation ("the Corporation") and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of NBC Capital Corporation and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the consolidated financial statements, the Corporation and its subsidiaries adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangibles," effective January 1, 2002.

/S/ T. E. LOTT & COMPANY

Starkville, Mississippi
January 17, 2003

NBC CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS	(In thousands)	
Cash and due from banks	$ 27,865	$ 28,752
Interest-bearing deposits with banks	567	1,263
Federal funds sold	28,486	13,510
Total cash and cash equivalents	56,918	43,525
Securities available-for-sale	349,991	293,043
Securities held-to-maturity (estimated fair value of $46,975 in 2002 and $50,623 in 2001)	43,792	47,683
Total securities	393,783	340,726
Loans	584,707	622,940
Less allowance for loan losses	(6,029)	(6,753)
Net loans	578,678	616,187
Interest receivable	7,605	8,352
Premises and equipment	14,816	15,377
Goodwill	2,853	2,857
Other assets	22,803	23,778
Total Assets	$1,077,456	$1,050,802
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing deposits	$ 103,502	$ 101,569
Interest-bearing deposits	713,945	709,134
Total deposits	817,447	810,703
Interest payable	1,626	2,284
Securities sold under agreements to repurchase	25,599	16,625
Other borrowed funds	112,941	110,594
Other liabilities	8,736	7,669
Total liabilities	966,349	947,875
Shareholders' equity:		
Common stock - $1 par value, authorized 10,000,000 shares in 2002 and 2001;		

	2002	2001
issued 9,615,806 shares in 2002 and 7,212,662 in 2001	9,616	7,213
Surplus	51,413	51,429
Retained earnings	73,297	68,632
Accumulated other comprehensive income	4,122	1,650
Treasury stock, at cost	(27,341)	(25,997)
Total shareholders' equity	111,107	102,927
Total Liabilities and Shareholders' Equity	$1,077,456	$1,050,802

The accompanying notes are an integral part of these statements.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(In thousands, except per share data)		
INTEREST INCOME			
Interest and fees on loans	$ 40,022	$ 51,852	$ 57,535
Interest and dividends on securities:			
Taxable	13,971	11,165	7,966
Tax-exempt	5,843	6,803	6,086
Other	215	950	1,148
Total interest income	60,051	70,770	72,735
INTEREST EXPENSE			
Interest on time deposits of $100,000 or more	5,086	7,788	7,692
Interest on other deposits	12,085	22,078	23,867
Interest on borrowed funds	5,705	6,135	3,419
Total interest expense	22,876	36,001	34,978
Net interest income	37,175	34,769	37,757
Provision for loan losses	2,790	1,720	1,280
Net interest income after provision for loan losses	34,385	33,049	36,477
OTHER INCOME			
Service charges on deposit accounts	7,110	5,942	5,306
Insurance commissions, fees, and premiums	4,091	3,857	4,204
Other service charges and fees	3,092	2,935	1,938
Trust Department income	1,772	1,717	1,616

Securities gains (losses), net	457	459	(22)
Other	1,524	1,556	720
Total other income	18,046	16,466	13,762
OTHER EXPENSE			
Salaries	16,129	15,026	14,976
Employee benefits	3,698	3,130	2,284
Net occupancy expense	2,412	2,311	2,161
Furniture and equipment expense	2,316	2,305	2,378
Other	8,863	9,344	9,118
Total other expense	33,418	32,116	30,917
Income before income taxes	19,013	17,399	19,322
Income taxes	4,792	4,261	5,277
Net income	$ 14,221	$ 13,138	$ 14,045
Net income per share:			
Basic	$ 1.73	$ 1.54	$ 1.47
Diluted	1.73	1.54	1.47

The accompanying notes are an integral part of these statements.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	Comprehensive Income	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
				(In thousands)			
Balance, January 1, 2000		$7,213	$51,845	$ 55,410	$ (579)	$(2,638)	$111,251
Comprehensive income:							
Net income for 2000	$14,045	-	-	14,045	-	-	14,045
Net change in unrealized gains on securities available-for-sale, net of tax	2,570	-	-	-	-	2,570	2,570

Comprehensive income	$16,615						
Cash dividends declared, $.73 per share		-	-	(6,963)	-	-	(6,963)
Purchase of treasury stock		-	-	-	(1,164)	-	(1,164)
Treasury shares issued for acquisition		-	(184)	-	479	-	295
Exercise of stock options		-	(132)	-	221	-	89
Balance, December 31, 2000		7,213	51,529	62,492	(1,043)	(68)	120,123
Comprehensive income:							
Net income for 2001	$13,138	-	-	13,138	-	-	13,138
Net change in unrealized gains on securities available-for-sale, net of tax	1,718	-	-	-	-	1,718	1,718
Comprehensive income	$14,856						
Cash dividend declared, $.82 per share		-	-	(6,998)	-	-	(6,998)
Purchase of treasury stock		-	-	-	(25,122)	-	(25,122)
Exercise of stock options		-	(100)	-	168	-	68
Balance, December 31, 2001		7,213	51,429	68,632	(25,997)	1,650	102,927
Comprehensive income:							
Net income for 2002	$14,221	-	-	14,221	-	-	14,221
Net change in unrealized gains on securities available-for-sale, net of tax	2,472	-	-	-	-	2,472	2,472
Comprehensive income	$16,693						
4 for 3 stock split		2,403	-	(2,403)	-	-	-
Cash dividends declared, $.87 per share		-	-	(7,123)	-	-	(7,123)
Purchase of treasury stock		-	-	-	(1,372)	-	(1,372)
Exercise of stock options		-	(16)	-	28	-	12
Purchase of fractional shares		-	-	(30)	-	-	(30)

Balance, December 31, 2002	$9,616	$51,413	$ 73,297	$(27,341)	$ 4,122	$111,107

The accompanying notes are an integral part of these statements.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 14,221	$ 13,138	$ 14,045
Adjustments to reconcile net income to net cash:			
Depreciation and amortization	2,031	2,558	2,458
Deferred income taxes	719	701	103
Provision for loan losses	2,790	1,720	1,280
Securities amortization and accretion, net	1,447	515	558
FHLB stock dividend	(173)	(201)	(278)
(Gains) losses on sale of securities	(457)	(459)	22
Deferred credits	143	(63)	(397)
Changes in:			
Interest receivable	747	2,169	(1,674)
Other assets	(1,627)	13,080)	992
Interest payable	(658)	1,136)	607
Other liabilities	385	(99)	(167)
Net cash provided by operating activities	19,568	5,763	17,549
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities available-for-sale	(182,876)	(159,165)	(46,745)
Proceeds from sales of securities available-for-sale	40,591	33,056	1,883
Proceeds from maturities and calls of securities available-for-sale	88,229	67,859	16,930
Purchases of securities held-to-maturity	-	-	(22,866)
Proceeds from maturities and calls of securities held-to-maturity	3,891	2,113	2,894
(Increase) decrease in loans	35,651	22,225	(23,993)
Additions to premises and equipment	(1,313)	(1,125)	(1,450)
Cash paid in business acquisition	-	-	(47)
Net cash used in investing activities	(15,827)	(35,037)	(73,394)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits	6,744	5,899	51,994
Dividends paid on common stock	(7,053)	(7,062)	(10,138)
Net change in securities sold under agreement to repurchase	8,974	299	(12,340)
Proceeds from issuance of long-term			

debt	44,500	75,200	50,000
Repayment of long-term debt	(42,153)	(21,633)	(59,830)
Exercise of stock options	12	68	89
Acquisition of stock	(1,372)	(25,122)	(1,164)
Net cash provided by financing activities	9,652	27,649	18,611
Net increase (decrease) in cash and cash equivalents	13,393	(1,625)	(37,234)
Cash and cash equivalents at beginning of year	43,525	45,150	82,384
Cash and cash equivalents at end of year	$ 56,918	$ 43,525	$ 45,150

The accompanying notes are an integral part of these statements

NBC CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

NOTE A - SUMMARY OF ACCOUNTING POLICIES

NBC Capital Corporation (the "Corporation"), and its subsidiaries, follow accounting principles generally accepted in the United States of America, including, where applicable, general practices within the banking industry.

1. Basis of Presentation

The consolidated financial statements include the accounts of the Corporation and

National Bank of Commerce ("NBC"), a wholly-owned subsidiary of the Corporation,

First National Finance Company, a wholly-owned subsidiary of the Corporation,

Galloway-Chandler-McKinney Insurance Agency, Inc., a wholly-owned subsidiary of NBC,

NBC Insurance Services of Alabama, Inc., a wholly-owned subsidiary of NBC,

NBC Service Corporation, a wholly-owned subsidiary of NBC, and

Commerce National Insurance Company, a 79%-owned subsidiary of NBC Service Corporation.

Significant intercompany accounts and transactions have been eliminated.

2. Nature of Operations

The Corporation is a financial holding company. Its primary asset is its investment in its subsidiary bank. NBC provides full banking services, including trust services. The bank operates under a national bank charter and is subject to regulation of the Office of the Comptroller of the Currency. The area served by NBC is the North Central region of Mississippi with locations in ten communities and the Tuscaloosa, Alabama area. Galloway-Chandler-McKinney Insurance Agency, Inc., operates insurance agencies in the NBC servicing area. NBC Insurance Services of Alabama, Inc., sells annuity contracts in the State of Alabama. The primary asset of NBC Service Corporation is its investment in Commerce National Insurance Company, a life insurance company. First National Finance Company is a finance company located in West Point, Mississippi.

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Securities

Investments in securities are classified into three categories and are accounted for as follows:

Securities Available-for-Sale

Securities classified as available-for-sale are those securities that are intended to be held for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including movements in interest rates, liquidity needs, security risk assessments, changes in the mix of assets and liabilities and other similar factors. These securities are carried at their estimated fair value, and the net unrealized gain or loss is reported as accumulated other comprehensive income, net of tax, until realized. Premiums and discounts are recognized in interest income using the interest method.

Gains and losses on the sale of securities available-for-sale are determined using the adjusted cost of the specific security sold.

Securities Held-to-Maturity

Securities classified as held-to-maturity are those securities for which there is a positive intent and ability to hold to maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method.

Trading Account Securities

Trading account securities are those securities which are held for the purpose of selling them at a profit. There were no trading account securities on hand at December 31, 2002 and 2001.

5. Loans

Loans are carried at the principal amount outstanding. Interest income on loans is recognized based on the principal balance outstanding and the stated rate of the loan.

A loan is considered to be impaired when it appears probable that the entire amount contractually due will not be collected. Factors considered in determining impairment include payment status, collateral values, and the probability of collecting scheduled payments of principal and interest when due. Generally, impairment is measured on a loan by loan basis using the fair value of the supporting collateral.

Loans are generally placed on a nonaccrual status when principal or interest is past due ninety days or when specifically determined to be impaired. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. If collectability is in doubt, cash receipts on nonaccrual loans are used to reduce principal rather than recorded as interest income.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan.

6. Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual and anticipated loss experience, current economic events, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the evaluation of collateral supporting impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either Financial Accounting Standards Board (FASB) Statement No. 5, "Accounting for Contingencies," or FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan." The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific allocations are based on a regular review of all loans over a fixed-dollar amount and where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using loss experience and the related internal gradings of loans charged off. The analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of the amounts necessary for any concentrations and changes in portfolio mix and volume.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, changes in collateral values, unfavorable information about a borrower's financial condition, and other risk factors that have not yet manifested themselves. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in the loan loss analysis. The historical loan loss experiences used in the analysis may not be representative of actual losses inherent in the portfolio that have not yet been realized.

7. Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are determined using the straight-line method at rates calculated to depreciate or amortize the cost of assets over their estimated useful lives.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in operations.

8. Other Real Estate

Other real estate consists of properties acquired through foreclosure and as held for sale property is recorded at the lower of the outstanding loan balance or current appraisal less estimated costs to sell. Any write-down to fair value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent gains or losses on other real estate are reported in other operating income or expenses.

9. Goodwill and Other Intangible Assets

Goodwill represents the cost of acquired institutions in excess of the fair value of the net assets acquired. Effective January 1, 2002, the Corporation and its subsidiaries adopted FASB Statement No. 142, "Goodwill and Other Intangible Assets," which eliminated the requirement to amortize goodwill but instead requires periodic testing of goodwill for impairment.

The Corporation and its subsidiaries adopted FASB Statement No. 147, "Acquisition of Certain Financial Institutions" which was effective October 1, 2002. The statement applies to unidentified intangible assets resulting from the acquisition of less-than-whole financial institutions. NBC's unidentified intangible asset resulted from such an acquisition. Upon evaluation, NBC determined the acquisition met the requirements of a business combination and, in accordance with FASB Statement No. 147, the related unidentified intangible asset was reclassified as goodwill and accounted for in accordance with FASB Statement No. 142. As a result, NBC reversed all related amortization expense recognized after FASB Statement No. 142 was applied.

Goodwill and any other intangible assets are reviewed annually for possible impairment. If impaired, the asset is written down to its estimated fair value. Prior to adopting Statements No. 142 and 147, the Corporation and its subsidiaries amortized goodwill and other intangible assets using the straight-line method over the estimated benefit period.

10. Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to differences between the bases of assets and liabilities as measured by income tax laws and their bases as reported in the financial statements. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Corporation and its subsidiaries (except for Commerce National Insurance Company) file consolidated income tax returns. The subsidiaries provide for income taxes on a separate return basis and remit to the Corporation amounts determined to be payable.

11. Trust Assets

Except for amounts included in deposits, assets of the Trust Department are not included in the accompanying balance sheets.

12. Advertising Costs

Advertising costs are expensed in the period in which they are incurred. Advertising expense for the years ended December 31, 2002, 2001, and 2000, was approximately $601,000, $544,000, and $668,000, respectively.

13. Employee Benefits

Employees hired prior to January 1, 2001, participate in a noncontributory defined benefit pension plan. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and compensation. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The annual pension cost charged to expense is actuarially determined in accordance with the provisions of FASB Statement No. 87, "Employers' Accounting for Pensions." The plan was amended effective January 1, 2001, to close participation in the plan. Employees hired subsequent to December 31, 2000, are not eligible to participate. Current participants continue to accrue benefits, but benefits accrued are offset by contributions to the profit sharing plan.

On January 1, 2001, the Corporation and its subsidiaries adopted a defined contribution profit sharing plan. Employer contributions are made annually equal to 3% of each participant's base pay. Participant accounts will be 100% vested upon completion of five years of service.

The Corporation and its subsidiaries provide a deferred compensation arrangement [401(k)] plan whereby employees contribute a percentage of their compensation. NBC makes matching contributions of fifty percent of employee contributions of six percent or less for employees with less than twenty years of service. For employees with service of twenty years or more, the matching contribution is seventy-five percent of employee contributions of six percent or less.

Employees participate in a nonleveraged Employee Stock Ownership Plan (ESOP) through which common stock of the Corporation is purchased at its market price for the benefit of employees. Effective January 1, 2001, the ESOP plan was amended to freeze the plan and to allow no new entrants into the ESOP. All participants at December 31, 2000, became 100% vested in their accounts. The ESOP is accounted for in accordance with Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans."

The Corporation and its subsidiary bank have various deferred income and supplemental retirement plans for certain key executive and senior officers. Life insurance contracts have been purchased which may be used to fund payments under the plans. The estimated present value of the projected payments under the deferred income plans is being accrued to expense over the remaining expected term of each participant's active employment. Accruals for the supplemental retirement plans are based upon a predetermined rate or upon the earnings of the related life insurance contracts.

The Corporation provides an employee stock benefit plan whereby 11,245 shares of the Corporation's stock have been assigned for the benefit of certain key employees. Under the terms of the plan, retirement or similar payments will be equal to the fair market value of the stock plus all cash dividends paid since the adoption of the agreement. An expense was recorded at the establishment date based on the market value of the stock. The difference between any increase or decrease in the value of the stock is recorded as an adjustment to employee benefits expense.

14. Stock Options

Stock option grants are accounted for in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, no compensation expense is recognized for stock options granted.

15. Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with banks, and federal funds sold. Generally, federal funds are sold for one to seven day periods.

16. Net Income Per Share

Basic net income per share computations are based upon the weighted average number of common shares outstanding during the periods. Diluted net income per share computations are based upon the weighted average number of common shares outstanding during the periods plus the dilutive effect of outstanding stock options.

Presented below is a summary of the components used to calculate basic and diluted net income per share for the years ended December 31, 2002, 2001, and 2000 (as restated for stock split):

	Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share data)		
Basic Net Income Per Share			
Weighted average common shares			

outstanding	8,213	8,548	9,573
Net income	$14,221	$13,138	$14,045
Basic net income per share	$ 1.73	$ 1.54	$ 1.47

Diluted Net Income Per Share

Weighted average common shares outstanding	8,213	8,548	9,573
Net effect of the assumed exercise of stock options based on the treasury stock method	15	-	7
Total weighted average common shares and common stock equivalents outstanding	8,228	8,548	9,580
Net income	$14,221	$13,138	$14,045
Diluted net income per share	$ 1.73	$ 1.54	$ 1.47

17. Stock Split

On July 30, 2002, the Corporation announced a four-for-three stock split that was effected in the form of a 33-1/3% stock dividend on September 9, 2002. Shareholders' equity, as presented in the consolidated financial statements, reflects the issuance of 2,403,144 shares of the Corporation's common stock. Per share and related information for all periods has been restated to reflect the stock split.

18. Off-Balance Sheet Financial Instruments

In the ordinary course of business, NBC enters into off-balance sheet financial instruments consisting of commitments to extend credit, credit card lines, commercial and similar letters of credit and commitments to purchase securities. Such financial instruments are recorded in the financial statements when they are exercised.

19. Business Segments

FASB Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information," requires public companies to report (i) certain financial and descriptive information about their reportable operating segments (as defined) and (ii) certain enterprise-wide financial information about products and services, geographic areas, and major customers. Management believes the Corporation's principal activity is community banking and that any other activities are not considered significant segments.

20. Reclassifications

Certain amounts reported in prior years have been reclassified to conform with the 2002 presentation. These reclassifications did not impact the Corporation's consolidated financial condition or results of operations.

21. Accounting Pronouncements

In June, 2002, the FASB issued Statement No. 146, "Accounting for the

Costs Associated with Exit or Disposal Activities." Statement No. 146 addresses the financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity can be recognized when it is incurred and measured initially at fair value. This new guidance will impact the timing of recognition and the initial measurement of the amount of liabilities the Corporation and its subsidiaries recognize in connection with exit or disposal activities initiated after December 31, 2002, the effective date of the statement. The adoption of this statement is not expected to have a material impact on the Corporation's consolidated financial statements.

In October, 2002, the FASB issued Statement No. 147, "Acquisition of Certain Financial Institutions." Except for transactions between mutual enterprises, this statement removes acquisitions of financial institutions from the scope of both FASB Statement No. 72 and FASB Interpretation No. 9 and requires that these transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations" and FASB Statement No. 142, "Goodwill and Other Intangible Assets." Further, the statement amends FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer relationship intangible assets of financial institutions. Consequently, such assets are subject to the same impairment loss recognition and measurement provisions that FASB Statement No. 144 requires for other long-lived assets. As previously mentioned, the Corporation adopted this statement in 2002.

NOTE B - ACQUISITIONS

On April 28, 2000, NBC acquired Heritage Insurance Agency, Ltd. (Heritage), an independent insurance agency located in Starkville, Mississippi, for $47,025 in cash, and 14,028 shares of the Corporation's common stock issued from treasury. Simultaneously with the acquisition, Heritage was merged into Galloway-Chandler-McKinney Insurance Agency, Inc. The acquisition of Heritage was accounted for as a purchase business combination, and the results of operations of Heritage, which are not material, have been included in the consolidated financial statements from the acquisition date.

NOTE C - SECURITIES

A summary of amortized cost and estimated fair value of securities available-for-sale and securities held-to-maturity at December 31, 2002 and 2001, follows:

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Securities available-for-sale:				
U. S. Treasury securities	$ 300	$ 2	$ -	$ 302
Obligations of other U. S. Government				

agencies	1,402	47	-	1,449
Obligations of states and municipal subdivisions	59,989	2,432	1	62,420
Mortgage-backed securities	252,827	5,315	43	258,099
Equity securities	23,219	-	1,650	21,569
Other securities	5,980	178	6	6,152
	$ 343,717	$ 7,974	$ 1,700	$ 349,991
Securities held-to-maturity:				
Obligations of states and municipal subdivisions	$ 43,792	$ 3,218	$ 35	$ 46,975

	December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Securities available-for-sale:				
U. S. Treasury securities	$ 300	$ 6	$ -	$ 306
Obligations of other U. S. Government agencies	4,354	185	-	4,539
Obligations of states and municipal subdivisions	64,588	1,604	4	66,188
Mortgage-backed securities	180,484	1,485	757	181,212
Equity securities	27,511	-	140	27,371
Other securities	13,285	142	-	13,427
	$ 290,522	$ 3,422	$ 901	$ 293,043
Securities held-to-maturity:				
Obligations of states and municipal subdivisions	$ 47,683	$ 2,983	$ 43	$ 50,623

The scheduled maturities of securities available-for-sale and securities held-to-maturity at December 31, 2002, are as follows:

	Available-for-Sale		Held-to-Maturity	
		Estimated		Estimated

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 10,284	$ 10,439	$ 781	$ 801
Due after one year through five years	45,134	47,287	6,280	6,665
Due after five years through ten years	3,492	3,599	13,458	14,430
Due after ten years	2,781	2,847	23,273	25,079
Mortgage-backed securities and other securities	282,026	285,819	-	-
	$ 343,717	$ 349,991	$ 43,792	$ 46,975

Equity securities consist of investments in FNMA preferred stock and stock of the Federal Reserve Bank and the Federal Home Loan Bank (FHLB). The transferability of the Federal Reserve Bank and FHLB stock is restricted.

Gross gains of $534,000, $480,000, and $ -0-, and gross losses of $77,000, $21,000, and $22,000 were realized on securities available-for-sale in 2002, 2001, and 2000, respectively.

Securities with a carrying value of $161,435,000 and $193,986,000 at December 31, 2002 and 2001, respectively, were pledged to secure public and trust deposits and for other purposes as required or permitted by law.

NOTE D - LOANS

Loans outstanding include the following types:

	December 31,	
	2002	2001
	(In thousands)	
Commercial, financial and agricultural	$103,327	$101,630
Real estate - construction	30,028	31,461
Real estate - mortgage	364,875	387,667
Installment loans to individuals	77,692	94,424
Overdrafts	1,194	789
Net deferred costs and fees	631	775
Other	6,960	6,194
	584,707	622,940
Allowance for loan losses	(6,029)	(6,753)
	$578,678	$616,187

Transactions in the allowance for loan losses are summarized as follows:

	Years Ended December 31,		
	2002	2001	2000

		(In thousands)	
Balance at beginning of year	$ 6,753	$ 9,689	$ 10,194
Additions:			
Provision for loan losses charged to operating expense	2,790	1,720	1,280
Recoveries of loans previously charged off	660	544	417
	10,203	11,953	11,891
Deductions:			
Loans charged off	4,174	5,200	2,202
Balance at end of year	$ 6,029	$ 6,753	$ 9,689

At December 31, 2002 and 2001, the recorded investment in loans considered to be impaired totaled approximately $1,230,000 and $2,471,000, respectively. The allowance for loan losses related to these loans approximated $596,000 and $1,353,000 at December 31, 2002 and 2001, respectively. The average recorded investment in impaired loans during the years ended December 31, 2002 and 2001, was approximately $1.8 million and $4.1 million, respectively. For the years ended December 31, 2002 and 2001, the amount of income recognized on impaired loans was immaterial. At December 31, 2002 and 2001, nonaccrual loans amounted to approximately $1,274,000 and $2,050,000, respectively, and loans past due ninety days or more and still accruing interest amounted to approximately $2,700,000 and $1,900,000, respectively.

NOTE E - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization as follows:

	Estimated Useful Lives In Years	December 31, 2002	December 31, 2001
		(In thousands)	
Premises:			
Land	-	$ 3,404	$ 3,404
Buildings, construction and improvements	10 - 50	16,535	16,308
		19,939	19,712
Equipment	3 - 10	8,548	11,688
		28,487	31,400
Less accumulated depreciation and amortization		(13,671)	(16,023)
		$ 14,816	$ 15,377

The amount charged to operating expenses for depreciation was $1,875,000 for 2002, $2,032,000 for 2001, and $1,922,000 for 2000.

During the year 2002, the Corporation and its subsidiaries retired fully depreciated equipment with an original cost of approximately $4 million.

NOTE F - DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more for 2002 and 2001 was $164,625,000 and $147,885,000, respectively.

At December 31, 2002, the scheduled maturities of time deposits included in interest-bearing deposits are as follows (in thousands):

2003	$ 227,620
2004	62,412
2005	49,861
2006	36,326
2007	6,016
Thereafter	5,552
	$ 387,787

NOTE G - BORROWED FUNDS

Securities sold under agreements to repurchase generally mature within one to seven days from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2002	2001
	($ In thousands)	
Balance at year end	$ 25,599	$ 16,625
Average balance during the year	19,430	18,922
Average interest rate during the year	1.61%	3.45%
Maximum month-end balance during the year	26,328	21,765

Securities underlying the repurchase agreements remain under the control of NBC.

Other borrowed funds consisted of the following at December 31:

	2002	2001
	(In thousands)	
FHLB advances	$111,906	$109,911
Treasury tax and loan note	1,035	683
	$112,941	$110,594

Advances from the FHLB consist of monthly amortizing borrowings with maturity dates ranging from June, 2004, through August, 2012. Interest is payable monthly at rates ranging from 3.53% to 7.29%. Advances due to the FHLB are collateralized by a blanket lien on the bank's first mortgage loans. FHLB advances available and unused at December 31, 2002, totaled $47.8 million. The treasury tax and loan note generally matures within one to sixty days from the transaction date. Interest is paid at an adjustable rate as set by the U. S. Government.

Annual principal repayment requirements on FHLB borrowings at December 31, 2002, are as follows:

Year	Amount
	(In thousands)
2003	$25,757
2004	26,398
2005	25,448
2006	20,275
2007	4,764
Thereafter	9,264

NOTE H - OTHER ASSETS AND OTHER LIABILITIES

Other assets and other liabilities at December 31, 2002 and 2001, consisted of the following:

	December 31,	
	2002	2001
	(In thousands)	
Other assets:		
Cash surrender value of life insurance	$ 15,121	$ 14,316
Deferred income tax benefits	-	1,373
Prepaid pension	1,782	1,279
Other real estate	1,512	2,531
Prepaid expenses and other	4,388	4,279
	$ 22,803	$ 23,778
Other liabilities:		
Dividends payable	$ 1,801	$ 1,731
Deferred income tax liability	611	-
Accrued expenses	4,416	3,745
Minority interest in subsidiary	1,663	1,606
Other	245	587
	$ 8,736	$ 7,669

NOTE I - COMPREHENSIVE INCOME

In the calculation of comprehensive income, certain reclassification adjustments are made to avoid double counting amounts that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income. The disclosures of the reclassification amounts are as follows:

Years Ended December 31,		
2002	2001	2000

	(In thousands)		
Net change in unrealized gains:			
Net unrealized gains on securities available-for-sale	$ 4,216	$ 3,113	$ 3,887
Reclassification adjustment for (gains) losses on securities available-for-sale	(457)	(459)	22
Net change in unrealized gains on securities available-for-sale before tax	3,759	2,654	3,909
Income tax expense:			
Net unrealized gains on securities available-for-sale	$ (1,436)	$ (1,080)	$ (1,323)
Reclassification adjustment for gains (losses) on securities available-for-sale	171	171	(8)
Total income tax expense	(1,265)	(909)	(1,331)
Net change in unrealized gains on securities available-for-sale, net of tax before minority interest	2,494	1,745	2,578
Minority interest in net change	(22)	(27)	(8)
	$ 2,472	$ 1,718	$ 2,570

NOTE J - INCOME TAXES

The provision for income taxes including the tax effects of securities transactions [2002 - $171,375; 2001 - $171,247; 2000 - $(8,254)] is as follows:

	Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Current tax expense	$ 4,073	$ 3,560	$ 5,174
Deferred tax expense	719	701	103
	$ 4,792	$ 4,261	$ 5,277

The difference between the total expected tax expense at the federal tax rate of 34% and the reported income tax expense is as follows:

	Years Ended December 31,		
	2002	2001	2000

	(In thousands)		
Tax on income before income taxes	$ 6,464	$ 5,916	$ 6,569
Increase (decrease) resulting from:			
Tax-exempt income	(2,349)	(2,597)	(2,231)
Nondeductible expenses	251	442	442
State income taxes, net of federal benefit	530	462	540
Tax credits	(72)	-	-
Other, net	(32)	38	(43)
	$ 4,792	$ 4,261	$ 5,277

The components of the net deferred tax included in the consolidated balance sheets as of December 31, 2002 and 2001, are as follows:

	December 31,	
	2002	2001
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,261	$ 2,532
Employee benefits	731	676
Other	933	1,049
Total deferred tax assets	3,925	4,257
Deferred tax liabilities:		
Premises and equipment	(1,185)	(818)
Unrealized gain on securities available-for-sale	(2,125)	(860)
Other	(1,226)	(1,206)
Total deferred tax liabilities	(4,536)	(2,884)
Net deferred tax asset (liability)	$ (611)	$ 1,373

NOTE K - GOODWILL AND OTHER INTANGIBLE ASSETS

The Corporation and its subsidiaries adopted FASB Statements No. 142, "Goodwill and Other Intangible Assets" and No. 147, "Acquisitions of Certain Financial Institutions" effective January 1, 2002. Had the statements been adopted effective January 1, 2000, the consolidated net income and the basic and diluted net income per share would have been as follows:

	Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share amounts)		

Reported net income	$14,221	$13,138	$14,045
Add back goodwill amortization	-	262	256
Add back amortization of unidentified intangible asset	-	71	71
Adjusted net income	$14,221	$13,471	$14,372
Basic net income per share:			
Reported net income	$ 1.73	$ 1.54	$ 1.47
Amortization	-	.04	.03
	$ 1.73	$ 1.58	$ 1.50
Diluted net income per share:			
Reported net income	$ 1.73	$ 1.54	$ 1.47
Amortization	-	.04	.03
Adjusted net income	$ 1.73	$ 1.58	$ 1.50

Upon adoption of FASB Statements No. 142 and 147, the carrying value of goodwill associated with business acquisitions was approximately $2 million and the carrying value of the unidentified intangible asset reclassified as goodwill was $841,050. The Corporation completed its transitional impairment test in accordance with Statement No. 142 in January, 2002, with no significant impairment identified.

NOTE L - STOCK OPTIONS

In connection with a business combination in 1999, the Corporation assumed stock options which were previously granted and converted those options, based upon the appropriate exchange ratio, into options to acquire the Corporation's common stock. All options were granted with an exercise price of $8.57 per share (as adjusted by the exchange ratio).

In June, 2001, the Corporation established the 2001 Long-Term Compensation Plan that is administered by a committee appointed by the Corporation's Board of Directors. Employees eligible to receive incentives under the plan are those designated, individually or by groups or categories, by the committee. The plan is a nonqualified stock option plan. The number of shares of Corporation common stock that may be issued under the plan cannot exceed 313,333 (stock split adjusted). The committee may grant options to designated employees at an exercise price not less than the fair market value of the common stock at the date of the grant and the number of shares subject to the option must be designated at the grant date. The option term is determined by the committee, but cannot exceed ten years. Vesting is in equal amounts over a four year period. In June, 2001, grants for 112,000 shares were issued at an option price of $20.75 per share, and in June, 2002, grants for 117,868 shares were issued at an option price of $24.11.

A summary of the status of the Corporation's stock option plans for the three years ended December 31, 2002, follows:

	2002		2001		2000	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	114,357	$ 20.50	10,372	$ 8.57	20,729	$ 8.57
Options granted	117,868	24.11	112,000	20.75	-	-
Options exercised	(1,333)	8.57	(8,015)	8.57	(10,357)	8.57
Options cancelled	-		-		-	
Options outstanding, end of year	230,892	22.41	114,357	20.50	10,372	8.57
Options exercisable at end of year	29,019	20.32	2,357	8.57	10,372	8.57
Weighted average fair value of options granted during year	$ 4.64		$ 4.30		-	

The following table summarizes information about stock options outstanding at December 31, 2002:

Exercise Price	Number Outstanding	Remaining Contractual Life In Years	Number Exercisable
$8.57	1,024	.5	1,024
20.75	112,000	8.5	28,000
24.11	117,868	9.4	-

Had compensation cost for the stock option plans been determined based on the fair value of the options at the grant dates consistent with FASB Statement No. 123, "Accounting for Stock-Based Compensation," the Corporation's net income and income per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2002	2001	2000

	(In thousands, except per share data)		
Net income - as reported	$14,221	$13,138	$14,045
Net income - pro forma	14,007	13,051	14,045
Primary net income per share - as reported	1.73	1.54	1.47
Primary net income per share - pro forma	1.71	1.53	1.47
Fully diluted net income per share - as reported	1.73	1.54	1.47
Fully diluted net income per share - pro forma	1.70	1.53	1.47

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions in 2002 and 2001, respectively: dividend yield of 3.62% for each year; expected volatility of 22% and 21%; risk-free interest rates of 4.5% and 5.1%; and expected lives of 6.75 and 7.07 years. Pro forma amounts for the year ended December 31, 2000, were not different than the reported amounts.

NOTE M - EMPLOYEE BENEFITS

The following table sets forth the defined benefit plan's funded status and amounts recognized in the Corporation's consolidated financial statements at December 31, 2002 and 2001:

	December 31,	
	2002	2001
	($ In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 9,536	$ 7,747
Service cost	454	390
Interest cost	652	622
Actuarial loss	269	498
Beginning of year measurement loss	102	837
Administrative expenses paid	(62)	(68)
Benefits paid	(364)	(490)
Benefit obligation at end of year	10,587	9,536
Change in plan assets:		
Fair value of plan assets at beginning of year	8,220	8,853
Return on plan assets	(758)	(422)
Employer contributions	864	346
Administrative expenses paid	(63)	(68)
Benefits paid	(364)	(490)
Fair value of plan assets at end of year	7,899	8,219
Funded status	(2,688)	(1,317)
Unrecognized net actuarial loss	5,778	4,044
Unrecognized prior service cost	(1,308)	(1,448)

Prepaid benefit cost	$ 1,782	$ 1,279
	=======	=======
Weighted average assumptions:		
Discount rate	6.75%	7.00%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	5.00%	5.00%
Components of net periodic benefit cost:		
Service cost	454	390
Interest cost	652	622
Expected return on plan assets	(767)	(764)
Amortization of prior service costs	(140)	(140)
Recognized net actuarial loss	162	87
Net periodic benefit cost	$ 361	$ 195
	=======	=======

No contributions were made to the Corporation's nonleveraged ESOP in each of the three years ended December 31, 2002. At December 31, 2002 the plan held 406,093 shares of the Corporation's common stock. Contributions to the 401(k) plan amounted to $417,475 in 2002, $401,175 in 2001, and $278,534 in 2000. Expense for the defined contribution plan totaled $451,439 in 2002 and $303,000 in 2001.

Expenses under the deferred income and supplemental retirement plans, net of increases in the cash surrender value of life insurance contracts, were not material in each of the three years ended December 31, 2002.

NOTE N - TREASURY STOCK

Shares held in treasury totaled 1,428,352 at December 31, 2002, and 1,029,702 at December 31, 2001. Upon the exercise of stock options, 1,333, 6,011, and 7,768 treasury shares were issued in 2002, 2001, and 2000, respectively, and an additional 14,028 treasury shares were issued in 2000 in connection with the acquisition of Heritage.

On June 28, 2001, the Corporation announced a one-year stock repurchase program of up to 5%, or 413,333 (stock split adjusted) shares of the Corporation's common stock. Stock repurchases were carried out through open market purchases, block trades, and in negotiated private purchases. After one year, the Board of Directors approved the continuation of the program and at December 31, 2002, 330,583 shares remained to be purchased.

In March, 2001, the Corporation repurchased 976,676 shares of its common stock from parties representing the largest block of stock controlled by related shareholders. The purchase price of $24.5 million was financed by borrowings from the FHLB.

NOTE O - RELATED PARTY TRANSACTIONS

In the normal course of business, loans are made to directors and executive officers and to companies in which they have a significant ownership interest. In the opinion of management, these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties, and are consistent with sound banking practices and are within applicable regulatory and lending limitations. The activity in loans to current directors, executive officers, and their affiliates during 2002 is summarized as follows:

	December 31,	
	2002	2001
	(In thousands)	
Loans outstanding at beginning of year	$23,211	$11,634
New loans	26,367	14,498
Repayments	(10,433)	(2,921)
Loans outstanding at end of year	$39,145	$23,211

Also, in the normal course of business, the Corporation and its subsidiaries enter into transactions for services with companies and firms whose principals are directors and shareholders.

NOTE P - REGULATORY MATTERS

Any dividends paid by the Corporation are provided from dividends received from its subsidiary bank. Under regulations controlling national banks, the payment of any dividends by a bank without prior approval of the Comptroller of the Currency is limited to the current year's net profits (as defined by the Comptroller of the Currency) and retained net profits of the two preceding years.

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

To ensure capital adequacy, quantitative measures have been established by regulators and these require the Corporation and its bank subsidiary to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), and of Tier I capital to adjusted average total assets (leverage). Management believes, as of December 31, 2002, that the Corporation and its subsidiary bank exceed all capital adequacy requirements.

At December 31, 2002, NBC was categorized by regulators as well-capitalized under the regulatory framework for prompt corrective action. A financial institution is considered to be well-capitalized if it has a total risk-based capital ratio of 10% or more, has a Tier

I risk-based capital ratio of 6% or more, and has a Tier I leverage capital ratio of 5% or more. There are no conditions or anticipated events that, in the opinion of management, would change the categorization.

The actual capital amounts and ratios at December 31, 2002 and 2001, are presented in the following table. No amount was deducted from capital for interest-rate risk exposure.

	NBC Capital Corporation (Consolidated)		NBC	
	Amount	Ratio	Amount	Ratio
		($ In thousands)		
December 31, 2002:				
Total risk-based	$110,741	17.4%	$108,521	17.1%
Tier I risk-based	104,712	16.5%	102,562	16.1%
Tier I leverage	104,712	9.9%	102,562	9.7%
December 31, 2001:				
Total risk-based	$106,615	16.0%	$103,763	15.7%
Tier I risk-based	99,862	15.0%	97,040	14.6%
Tier I leverage	99,862	9.7%	97,040	9.4%

The minimum amounts of capital and ratios as established by banking regulators at December 31, 2002 and 2001, were as follows:

	NBC Capital Corporation (Consolidated)		NBC	
	Amount	Ratio	Amount	Ratio
		($ In thousands)		
December 31, 2002:				
Total risk-based	$ 50,958	8.0%	$ 50,829	8.0%
Tier I risk-based	25,454	4.0%	25,414	4.0%
Tier I leverage	31,838	3.0%	31,793	3.0%
December 31, 2001:				
Total risk-based	$ 53,174	8.0%	$ 53,001	8.0%
Tier I risk-based	26,595	4.0%	26,500	4.0%
Tier I leverage	30,946	3.0%	30,890	3.0%

NBC is required to maintain average reserve balances in the form of cash or deposits with the Federal Reserve Bank. The reserve balance varies depending upon the types and amounts of deposits. At December 31, 2002 and 2001, the required reserve balance on deposit with the Federal Reserve Bank was approximately $600,000 and $500,000, respectively.

NOTE Q - COMMITMENTS AND CONTINGENT LIABILITIES

The consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of banking business and which involve elements of credit risk, interest rate risk, and liquidity risk. The commitments and contingent liabilities are commitments to extend credit, credit card lines, and commercial and similar letters of credit. A summary of commitments and contingent liabilities at December 31, 2002 and 2001, is as follows:

	Contractual Amount	
	December 31,	
	2002	2001
	(In thousands)	
Commitments to extend credit	$70,833	$89,460
Credit card lines	5,384	5,416
Commercial and similar letters of credit	6,018	4,880

Commitments to extend credit, credit card lines, and commercial and similar letters of credit include some exposure to credit loss in the event of nonperformance of the customer. The credit policies and procedures for such commitments are the same as those used for lending activities. Because these instruments have fixed maturity dates and because a number expire without being drawn upon, they generally do not present any significant liquidity risk. No significant losses on commitments were incurred during the three years ended December 31, 2002, nor are any significant losses as a result of these transactions anticipated.

NBC leases various banking premises and equipment under operating leases with minimum lease payments of approximately $250,000 for each of the next five years and a total of approximately $1.6 million due after five years.

NBC is a defendant in various pending and threatened legal actions arising in the normal course of business. In the opinion of management, based upon the advice of legal counsel, the ultimate disposition of these matters will not have a material effect on the Corporation's consolidated financial statements.

NOTE R - CONCENTRATIONS OF CREDIT

Most of the loans, commitments and letters of credit of NBC have been granted to customers in its market areas. Generally, such customers are also depositors. Investments in state and municipal securities also involve governmental entities within the bank's market areas. The concentrations of credit by type of loan are set forth in Note D. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Letters of credit were granted primarily to commercial borrowers.

NOTE S - SUPPLEMENTAL CASH FLOW INFORMATION

	Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Cash paid during the year for:			
Interest	$ 23,534	$ 37,138	$ 34,376
Income taxes, net of refunds	4,612	2,895	4,924

Non-cash activities:			
Transfers of loans to other real estate	1,075	2,269	1,113

NOTE T - DISCLOSURE ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with FASB Statement No. 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents - For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities - For securities held as investments, fair value equals market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans - The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits - The fair values of demand deposits are, as required by Statement No. 107, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

Short-Term Borrowings - The carrying value of any federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings approximates their carrying values.

FHLB and Other Borrowings - The fair value of the fixed rate borrowings are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowings approximates their fair values.

Off-Balance Sheet Instruments - Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed.

Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

	December 31, 2002		December 31, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Instruments:	(In thousands)			
Assets:				
Cash and cash equivalents	$ 56,918	$ 56,918	$ 43,525	$ 43,525
Securities available-for-sale	349,991	349,991	293,043	293,043
Securities held-to-maturity	43,792	46,975	47,683	50,623
Loans	578,678	579,209	616,187	617,419
Liabilities:				
Noninterest-bearing deposits	103,502	103,502	101,569	101,569
Interest-bearing deposits	713,945	715,910	709,134	709,772
Securities sold under agreements to repurchase	25,599	25,599	16,625	16,625
FHLB and other borrowings	112,941	112,767	110,594	110,229

NOTE U - CONDENSED PARENT COMPANY STATEMENTS

Balance sheets as of December 31, 2002 and 2001, and statements of income and cash flows for the years ended December 31, 2002, 2001 and 2000, of NBC Capital Corporation (parent company only) are presented below:

BALANCE SHEETS

	December 31,	
	2002	2001
	(In thousands)	
Assets		
Cash and cash equivalents	$ 734	$ 1,385
Investment in subsidiaries	109,713	100,898
Other assets	2,842	2,703
	$113,289	$104,986
Liabilities and Shareholders' Equity		
Dividends payable and other liabilities	$ 2,182	$ 2,059
Shareholders' equity	111,107	102,927
	$113,289	$104,986

STATEMENTS OF INCOME

	Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Income			
Dividends from subsidiaries	$ 8,123	$ 31,199	$ 8,136
Other	14	73	130
	8,137	31,272	8,266
Expense	407	459	127
Income before income taxes and equity in undistributed earnings of subsidiaries	7,730	30,813	8,139
Income tax benefit	147	122	4
Income before equity in undistributed earnings of subsidiaries	7,877	30,935	8,143
Equity in undistributed earnings of subsidiaries in excess of (less than) dividends	6,344	(17,797)	5,902
Net income	$ 14,221	$ 13,138	$ 14,045

STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
Cash Flows From Operating Activities			
Net income	$ 14,221	$ 13,138	$ 14,045
Equity in subsidiaries' earnings in excess of (less than) dividends	(6,344)	17,797	(5,902)
Other, net	(174)	97	2,981
Net cash provided by operating activities	7,703	31,032	11,124
Cash Flows From Investing Activities	-	-	(47)
Cash Flows From Financing Activities			
Dividends paid on common stock	(7,053)	(7,062)	(10,138)
Acquisition of stock	(1,372)	(25,122)	(1,164)
Other, net	71	68	89
Net cash used in financing activities	(8,354)	(32,116)	(11,213)
Net decrease in cash and cash equivalents	(651)	(1,084)	(136)
Cash and cash equivalents at beginning of year	1,385	2,469	2,605

Cash and cash equivalents at end of year	$ 734	$ 1,385	$ 2,469

NOTE V - SUMMARY OF QUARTERLY RESULTS OF OPERATIONS AND PER SHARE AMOUNTS (UNAUDITED)

	Three Months Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
	(In thousands, except per share data)			
2002				
Total interest income	$ 15,480	$ 15,171	$ 15,092	$ 14,308
Total interest expense	6,156	5,666	5,669	5,385
Net interest income	9,324	9,505	9,423	8,923
Provision for loan losses	630	630	755	775
Net interest income after provision for loan losses	8,694	8,875	8,668	8,148
Total noninterest income, excluding securities gains	4,078	4,313	4,415	4,783
Securities gains	91	-	188	178
Total noninterest expenses	8,029	8,178	8,401	8,810
Income taxes	1,288	1,313	1,254	937
Net income	$ 3,546	$ 3,697	$ 3,616	$ 3,362
Per share:				
Net income	$ .43	$ .45	$ .44	$ .41
Net income, diluted	.43	.45	.44	.41
Cash dividends declared	.21	.22	.22	.22
2001				
Total interest income	$ 18,975	$ 18,331	$ 17,456	$ 16,008
Total interest expense	9,929	9,841	8,802	7,429
Net interest income	9,046	8,490	8,654	8,579
Provision for loan losses	180	1,180	180	180
Net interest income after provision for loan losses	8,866	7,310	8,474	8,399
Total noninterest income, excluding securities gains	3,566	3,974	3,963	4,504
Securities gains	49	163	109	138
Total noninterest expenses	7,981	8,179	7,780	8,176
Income taxes	1,152	595	1,313	1,201
Net income	$ 3,348	$ 2,673	$ 3,453	$ 3,664
Per share:				

Net income	$ .35	$ .32	$ .42	$ .44
Net income, diluted	.35	.32	.42	.44
Cash dividends declared	.19	.21	.21	.21

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE MATTERS

Not applicable.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Reference is made to the material under the captions, "Election of Directors" of the Company's proxy statement, dated April 10, 2003, which is incorporated herein by reference, and to "Executive Officers" included in Part I, Item 1, of this report.

ITEM 11 - EXECUTIVE COMPENSATION

Reference is made to the caption, "Executive Compensation" of the Company's proxy statement, dated April 10, 2003, which is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is made to the caption, "Stock Ownership of Directors, Officers, and Principal Shareholders," of the Company's proxy statement, dated April 10, 2003, which is incorporated herein by reference.

Equity Compensation Plan Information:

(a)

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options	Weighted-Average Price Of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,024	$ 8.57	-
Equity compensation plans not approved by security holders	229,868	$22.47	83,465

(b) Note L - Stock Options of the notes to the consolidated financial statements and the information contained under the caption, "Stock Option Plan" of the Company's proxy statement, dated April 10, 2003, should also be read in connection with this item.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is made to, "Certain Relationships, Related Transactions and Indebtedness" of the Company's proxy statement, dated April 10, 2003, which is incorporated herein by reference.

ITEM 14 - DISCLOSURES AND CONTROLS

It is the responsibility of the Chief Executive Officer and the Chief Financial Officer to establish and maintain the disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for NBC Capital Corporation. These disclosure controls and procedures have been designed to ensure that material information relating to NBC Capital Corporation, including its consolidated subsidiaries, is made known to these officers by others within those entities, during the period covered by this filing and up to and including the filing date of this report.

In accordance with Item 307a of Regulation S-K, these disclosure controls and procedures were evaluated on February 18, 2003 (a date within 90 days of the filing of this report). It is the conclusion of the Chief Executive and the Chief Financial Officer that, as of the date of the evaluation, the disclosure controls and procedures of NBC Capital Corporation are functioning effectively to make known all material information that requires disclosure in this filing.

In response to Item 307b of Regulation S-K, there have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation. Therefore, no corrective actions were necessary with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. Financial Statements

The following consolidated financial statements and report of independent auditors of NBC Capital Corporation and subsidiaries are included in this Form 10-K (Item 8) of the registrant for the year ended December 31, 2002.

Report of Independent Auditors

Consolidated Balance Sheets--December 31, 2002 and 2001

Consolidated Statements of Income--Years Ended December 31, 2002, 2001, and 2000

Consolidated Statements of Shareholders' Equity--Years Ended

December 31, 2002, 2001, and 2000

Consolidated Statements of Cash Flows--Years Ended
December 31, 2002, 2001, and 2000

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3(a)&(c). Exhibits:

1. - 2. None

3.1 Articles of Incorporation of NBC Capital Corporation (included as Exhibit B to NBC Capital Corporation's Definitive Proxy Statement dated March 20, 1998, and filed with the Commission on March 18, 1998, Commission File No. 0-12885, which Exhibit B is incorporated herein by reference).

3.2 By-laws of NBC Capital Corporation (included as Exhibit 3(b) to NBC Capital Corporation's Registration Statement on Form S-4A, filed with the Commission on November 4, 1998, Commission File No. 333-65545, which Exhibit 3(b) is incorporated herein by reference.

4. - 9. None

10.1 Employment Agreement dated January 31, 1991, between National Bank of Commerce and L. F. Mallory, Jr., as previously filed.

10.2 Agreement and Plan of Merger by and between NBC Capital Corporation and FFBS Bancorp, Inc., dated February 3, 1999 (included as Appendix A to the Proxy Statement-Prospectus dated May 7, 1999, forming part of the Company's Registration Statement on Form S-4 filed with the Commission on March 30, 1999, Commission File No. 333-75293) and incorporated herein by reference.

10.3 Plan of Reorganization and Merger by and between National Bank of Commerce and First Federal Bank for Savings dated February 3, 1999 (included as Appendix A to the Proxy Statement-Prospectus dated May 7, 1999, forming part of the Company's Registration Statement on Form S-4 filed with the Commission on March 30, 1999, Commission File No. 333-75293) and incorporated herein by reference.

10.4 Merger Agreement by and between NBC Capital Corporation and National Bank of Commerce and Galloway-Wiggers Insurance Agency, Inc., Galloway-Chandler-McKinney Insurance, Inc., Galloway-Chandler-McKinney Insurance Agency of Amory, Inc., Kyle Chandler Insurance Agency, Inc., and Napier Insurance Agency, Inc. (included as Exhibit 99.2 on Form 10Q filed with the Commission on August 10, 1999, Commission File No. 0-12885) and incorporated herein by reference.

10.5	1993 Incentive Stock Option Plan and 1993 Stock Option Plan for Outside Directors of FFBS Bancorp, Inc., assumed by NBC Capital Corporation (incorporated by reference to Exhibit A of Form S-8 filed September 20, 1999) and incorporated herein by reference.
10.6	Employment Agreement Dated January 2, 2001, by and Between National Bank of Commerce and Richard T. Haston (incorporated by reference to Exhibit 10.7 of Form 10-K filed March 30, 2001).
10.7	Employment Agreement Dated January 2, 2001, by and Between National Bank of Commerce and Mark A. Abernathy (incorporated by reference to Exhibit 10.8 of Form 10-K filed March 30, 2001).
10.8	2001 Long-Term Incentive Compensation Plan (incorporated by reference to Exhibit 4 of Form S-8 filed August 8, 2001) and incorporated herein by reference.
10.9	Salary Reduction Thrift Plan (incorporated by reference to Exhibit 4.3 of Form S-8 filed December 13, 2001) and incorporated herein by reference.
11. - 20.	None
21.	Subsidiaries of Company
22.	None
23.	Consent of Independent Auditors
99.	Section 906 Certifications

(b) No reports on Form 8-K were filed during the quarter ended December 31, 2002.

(d) Financial statement schedules - None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

NBC CAPITAL CORPORATION
(Registrant)

/s/ L. F. MALLORY, JR.
By ____
L. F. Mallory, Jr.
Chairman of Board and Chief Executive Officer

/s/ RICHARD T. HASTON
By ____
Richard T. Haston
Executive Vice President, CFO, and Treasurer (Chief Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

/S/ RALPH E. POGUE (Director)	/S/ J. NUTIE DOWDLE (Director)
/S/ ROBERT L. CALVERT, III (Director)	/S/ SAMMY J. SMITH (Director)
/S/ HARRY STOKES SMITH (Director)	/S/ ROBERT S. JONES (Director)
/S/ JAMES D. GRAHAM (Director)	/S/ R. S. CALDWELL, JR. (Director)
/S/ JAMES C. GALLOWAY, JR. (Director)	/S/ R. D. MILLER (Director)
/S/ HENRY WEISS (Director)	

Date: March 19, 2003

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES/OXLEY ACT OF 2002

I, L. F. Mallory, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of NBC Capital Corporation;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the "Evaluation Date"); and

   c) presented in this annual 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 annual 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.

/s/ L. F. MALLORY, JR.
By ______________________________
L. F. Mallory, Jr.
Chairman of Board and
Chief Executive Officer
Date: March 18, 2003

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES/OXLEY ACT OF 2002

I, Richard T. Haston, CFO, certify that:

1. I have reviewed this annual report on Form 10-K of NBC Capital Corporation;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 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 annual 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 annual report (the "Evaluation Date"); and

   c) presented in this annual 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 annual 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.

/S/ RICHARD T. HASTON
By ______________________________
Richard T. Haston
Executive Vice President,
CFO, and Treasurer

Date: March 18, 2003