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BANC CORP  
Form 10-K  
April 15, 2003

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-K

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-25033

THE BANC CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	63-1201350 (I.R.S. Employer Identification No.)
17 NORTH 20TH STREET BIRMINGHAM, ALABAMA	35203 (Zip Code)
(Address of Principal Executive Offices)	

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

Securities registered pursuant to Section 12(b) of the Act:  
NONE

Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, PAR VALUE \$.001 PER SHARE  
(Titles of Class)

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  No

Indicate by check mark if disclosure of delinquent files 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 this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

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The aggregate market value of the voting and nonvoting common stock held by non-affiliates of the registrant as of June 28, 2002, the last business day of the most recently completed second fiscal quarter, based on the last reported sales price on the Nasdaq National Market System of Common Stock was \$118,319,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: the number of shares outstanding as of March 28, 2003, of the registrant's only issued and outstanding class of stock, its \$.001 per share par value common stock, was 17,872,146.

### DOCUMENTS INCORPORATED BY REFERENCE

The information set forth under Items 10, 11, 12 and 13 of Part III of this Report is incorporated by reference from the registrant's definitive proxy statement for its 2003 annual meeting of stockholders that will be filed no later than April 30, 2003.

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### PART I

#### ITEM 1. BUSINESS.

##### GENERAL

We are a Delaware-chartered financial holding company headquartered in Birmingham, Alabama. We offer a broad range of banking and related services in 35 locations in Alabama and the Florida panhandle through The Bank, our principal subsidiary. Seven of The Bank branches between Destin and Panama City, Florida operate as Emerald Coast Bank, a division of The Bank. We had assets of approximately \$1.41 billion, loans of approximately \$1.14 billion, deposits of approximately \$1.11 billion and stockholders' equity of approximately \$76.5 million at December 31, 2002. Our principal executive offices are located at 17 North 20th Street, Birmingham, Alabama 35203, and our telephone number is (205) 327-3600.

##### RECENT DEVELOPMENTS

**Bristol, Florida Bank Group Situation.** In January of 2003, our internal risk management function identified certain loans that had been extended upon the authorization and direction of the now former president of our Bristol, Florida bank group which consists of branches in Altha, Bristol and Blountstown, Florida. These loans exceeded that former employee's loan authority and were approved or otherwise extended in violation of The Bank's lending policies and procedures. It also appears that these loans were deliberately hidden from The Bank's management through direct manipulation of The Bank's loan files and other actions of the former employee. Based on our review of the loan documentation, including collateral and borrower financial information, we charged off approximately \$26.0 million of these loans and provided an additional \$9.5 million to our allowance for loan and lease losses as a result of these loans. We are "adequately" capitalized for regulatory purposes. (For a further explanation of the regulatory capital requirements and our position relative to those requirements, please see Item 7 "Management's Discussion and Analysis of Financial Condition and Results Of Operations -- Financial Condition -- Regulatory Capital," and Note 15 to our consolidated financial statements set forth in Item 8 herein.)

The amount of our provision for loan losses was determined after a thorough

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loan review and consultation with The Bank's federal and state regulators. We believe that we will not need to make any additional provision related to these loans; however, no assurance can be given that any additional classifications or provision will not be required in the future. As a result of this review and the acts of our former employee, we have restated our quarterly financial statements for the periods ended June 30, 2002 and September 30, 2002. The reasons for, and the results of, this restatement are described in Note 21 of the Consolidated Financial Statements set forth in Item 8 herein. Although the Bristol, Florida bank group loan problems resulted from a former employee's intentional circumvention of our existing internal controls, and although we discovered these problems as a result of the peer review system we implemented in the fourth quarter of 2002, we and our independent auditors are nonetheless treating those circumstances as reflecting material weaknesses in our internal controls with respect to the monitoring of loan risk ratings, the timely review of the loan portfolio by our loan review function, the monitoring of past due loans and the monitoring of loan approval and a loan officer's ability to originate loans in excess of authorized lending limits. These concerns are being addressed in part by the actions we instituted during the fourth quarter of 2002. Going forward, we intend to centralize the loan operations of all of our branch groups in order to provide an enhanced degree of centralized supervision, monitoring and accountability. We believe that we will have this centralization completed within the next twelve months. We have disclosed and discussed these issues and responses with our Audit Committee and independent auditors. For a further discussion please see Item 14 "Controls and Procedures."

We are vigorously working with legal counsel and regulatory and federal authorities to pursue all available remedies and avenues for collection. We anticipate making fidelity bond claims in an undetermined amount stemming from the unauthorized loan activity.

Roanoke Branch Sale. On March 13, 2003, The Bank sold its Roanoke branch, including all loans and deposits, pursuant to a Branch Sale Agreement, dated November 19, 2002, for gross proceeds of approximately \$3.3 million.

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### STRATEGY

Operations. The Bank targets individuals and local and regional businesses that prefer prompt, local decision-making and personalized service. As a result, we conduct our business on a decentralized basis with respect to deposit gathering and most credit decisions, emphasizing local knowledge and authority to make these decisions. We supplement this decentralized management approach with centralized risk management, policy oversight, credit review, audit, asset/liability management and risk management systems. We implement these standardized administrative and operational policies at each of our locations while retaining local management and advisory directors to capitalize on their knowledge of the local community. We believe this strategy enables The Bank to generate high yielding loans and to attract and retain low cost core deposits that provide a large portion of our funding requirements. Core deposits comprised approximately 73.5% of our total deposits at December 31, 2002.

Products and Services. We focus on commercial, consumer, residential mortgage and real estate construction lending to customers in our local markets. Our retail loan products include mortgage banking services, home equity lines of credit, consumer loans, including automobile loans, and loans secured by certificates of deposit and savings accounts. Our commercial loan products include working capital lines of credit, term loans for both real estate and equipment, letters of credit and SBA loans. We also offer a variety of deposit programs to individuals and to businesses and other organizations, including a variety of personal checking, savings, money market and NOW accounts, as well as

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business checking and savings accounts, investment sweep accounts and credit line sweep accounts. In addition, we offer individual retirement accounts and investment services, safe deposit and night depository facilities and additional services such as commercial cash management services, internet banking, bill payment services and the sale of traveler's checks, money orders and cashier's checks.

The Bank increased its brokerage, investment and insurance product business lines during 2002 and plans to offer life, health and long-term care insurance and annuity products during 2003.

Market Areas. Our primary markets are located throughout the northern half of Alabama and the panhandle of Florida.

We are headquartered in Birmingham, Alabama. We also have branches in Albertville, Andalusia, Boaz, Childersburg, Decatur, Frisco City, Gadsden, Guntersville, Huntsville, Kinston, Madison, Monroeville, Morris, Mt. Olive, Opp, Rainbow City, Samson, Sylacauga and Warrior, Alabama. We operate a loan production office in Decatur, Alabama. Along Florida's gulf coast and in the panhandle region, we have branches in Altha, Apalachicola, Blountstown, Bristol, Carrabelle, Destin (2), Mexico Beach, Panama City, Panama City Beach (2), Port Saint Joe, Santa Rosa Beach and Seagrove.

Growth. Since our inception, we have grown through acquisitions, internal growth and branching. Following each of our acquisitions, we have expended substantial managerial, operating, financial and other resources to integrate these entities. In addition, we have typically maintained the acquired entity's management and staff. As a result of this increase in personnel and the corresponding investment in infrastructure and systems, our efficiency ratio has been above average for our peer group.

Our future growth depends primarily on the expansion of the business of The Bank through internal growth and the opening of new branch offices in new and existing markets. We will also consider the strategic acquisition of other financial institutions and branches with relatively high earnings or exceptional growth potential. Our ability to increase profitability and grow internally depends significantly on our ability to attract and retain low cost and core deposits coupled with the continued opportunity to generate high yielding, quality loans. Our ability to grow profitably through the opening or acquisition of new branches will depend on, among other things, our ability to identify profitable, growing markets and branch locations within such markets, attract necessary deposits to operate such branches profitably and locate lending and investment opportunities within such markets.

We periodically evaluate business combination opportunities and conduct discussions, due diligence activities and negotiations in connection with those opportunities. As a result, business combination transactions involving cash, debt or equity securities might occur from time to time. Any future business

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combination or series of business combinations that we might undertake may be material, in terms of assets acquired or liabilities assumed, to our financial condition. Any future acquisition is subject to approval by the appropriate bank regulatory agencies. See "Supervision and Regulation."

### LENDING ACTIVITIES

General. We offer various lending services, including real estate, consumer and commercial loans, primarily to individuals and businesses and other organizations that are located in or conduct a substantial portion of their

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business in our market areas. Our total loans at December 31, 2002 were approximately \$1.14 billion, or 91.5% of total earning assets. The interest rates we charge on loans vary with the risk, maturity and amount of the loan and are subject to competitive pressures, market interest rates, availability of funds and government regulations. We do not have any foreign loans or loans for highly leveraged transactions.

The lending activities of The Bank are subject to the written underwriting standards and loan origination procedures established by The Bank's board of directors and management. Loan originations are obtained from a variety of sources, including referrals, existing customers, walk-in customers and advertising. Loan applications are initially processed by loan officers who have approval authority up to designated limits.

We use generally recognized loan underwriting criteria, and attempt to minimize loan losses through various means. In particular, on larger credits, we generally rely on the cash flow of a debtor as the primary source of repayment and secondarily on the value of the underlying collateral. In addition, we attempt to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral. As of December 31, 2002, approximately 65% of our loan portfolio consisted of loans that had variable interest rates or matured within one year. Additionally, The Bank generally does not lend without personal signatures or guarantees unless approved by the Chairman of the Board of Directors.

We address repayment risks by adhering to internal credit policies and procedures that include officer and customer lending limits, a multi-layered loan approval process that includes senior management of The Bank and The Banc Corporation for larger loans, periodic documentation examination and follow-up procedures for any exceptions to credit policies. The level in our loan approval process at which a loan is approved depends on the size of the borrower's overall credit relationship with The Bank.

### LOAN PORTFOLIO

Real Estate Loans. Loans secured by real estate are a significant component of our loan portfolio, constituting \$841 million, or 73.8% of total loans at December 31, 2002. Our largest real estate loan category is nonresidential real estate mortgage loans, typically structured with fixed or adjustable interest rates, based on market conditions. Nonresidential mortgage loans include commercial, industrial and raw land loans. At December 31, 2002, \$355 million, or 31.2% of our total loan portfolio consisted of these loans. Our commercial real estate loans primarily provide financing for income producing properties such as shopping centers, apartments and office buildings and for owner occupied properties (primarily light industrial facilities, office buildings and farm or timber land). These loans are underwritten with loan-to-value ratios ranging from 65% to 85% based upon the type of property being financed and the financial strength of the borrower. For owner-occupied commercial buildings, we underwrite the financial capability of the owner, with an 85% maximum loan-to-value ratio. For income producing improved real estate, we underwrite the strength of the leases, especially those of any anchor tenants, with minimum debt service coverage of 1.2:1 and an 85% maximum loan-to-value ratio. While evaluation of collateral is an essential part of the underwriting process for these loans, repayment ability is determined from analysis of the borrower's earnings and cash flow. Terms are typically three to five years and may have payments through the date of maturity based on a 15 to 30-year amortization schedule.

At December 31, 2002, \$273 million, or 23.9% of our total loan portfolio consisted of single family mortgage loans. Fixed rate loans usually have terms of three to five years or less, with payments through the date of maturity based on a 15 to 30-year amortization schedule. Adjustable rate loans generally have a

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term of 15 years. We typically charge an origination fee on these loans.

We make loans to finance the construction of and improvements to single-family and multi-family housing and commercial structures as well as loans for land development. At December 31, 2002,

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\$213 million, or 18.7% of our total portfolio consisted of these loans. Our construction lending is divided into three general categories: owner occupied commercial buildings; income producing improved real estate; and single-family residential construction. For construction loans related to income producing properties, the underwriting criteria are the same as outlined in the preceding paragraph. For single family residential construction, we underwrite the financial strength and reputation of the builder, factoring in the general state of the economy and interest rates and the location of the home, with an 85% maximum loan-to-value ratio. Construction loans usually have a term of twelve months and generally require personal guarantees. The majority of land development loans consist of loans to convert raw land into residential subdivisions.

**Commercial and Industrial Loans.** We make loans for commercial purposes in various lines of business. These loans are typically made on terms up to five years at fixed or variable rates and are secured by accounts receivable, inventory or, in the case of equipment loans, the financed equipment. We attempt to reduce our credit risk on commercial loans by limiting the loan to value ratio to 85% on loans secured by accounts receivable, 50% on loans secured by inventory and 75% on loans secured by equipment. We also, from time to time, make unsecured commercial loans. Commercial and industrial loans constituted \$213 million, or 18.7% of our loan portfolio at December 31, 2002.

**Consumer Loans.** Our consumer portfolio includes installment loans to individuals in our market areas and consists primarily of loans to purchase automobiles, recreational vehicles, mobile homes and consumer goods. Consumer loans constituted \$86 million, or 7.5% of our loan portfolio at December 31, 2002. Consumer loans are underwritten based on the borrower's income, current debt, credit history and collateral. Terms generally range from four to five years on automobile and mobile home loans and one to three years on other consumer loans.

### CREDIT REVIEW AND PROCEDURES

There are credit risks associated with making any loan. These include repayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect collectibility.

We have a loan review process designed to promote early identification of credit quality problems. We employ a risk rating system that assigns to each loan a rating that corresponds to the perceived credit risk. Risk ratings are subject to independent review by a centralized loan review department, which also performs ongoing, independent reviews of the risk management process including underwriting, documentation and collateral control. Regular reports are made to senior management and the Board of Directors of The Bank regarding credit quality as measured by assigned risk ratings and other measures, including, but not limited to, the level of past due percentages and non-performing assets. The loan review function is centralized and independent of the lending function. We also use a peer review system in which loans in one of our banks are reviewed by lenders from our other banks along with loan review

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and credit administration executives. Review results are reported to the Audit Committee of our board of directors as well as to our independent auditors.

### DEPOSITS

Core deposits are our principal source of funds, constituting approximately 73.5% of our total deposits as of December 31, 2002. Core deposits consist of demand deposits, interest-bearing transaction accounts, savings deposits and certificates of deposit (excluding certificates of deposits over \$100,000). Transaction accounts include checking, money market and NOW accounts that provide The Bank with a source of fee income and cross-marketing opportunities, as well as a low-cost source of funds. Time and savings accounts also provide a relatively stable and low-cost source of funding. The largest source of funds for The Bank is certificates of deposit. Certificates of deposit in excess of \$100,000 are held primarily by customers in our market areas.

Deposit rates are set periodically by the Asset Liability Management Committee, which includes senior management of The Bank and The Banc Corporation. We believe our rates are competitive with those offered

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by competing institutions in our market areas; however, we focus on customer service, not high rates, to attract and retain deposits.

### COMPETITION

The banking industry is highly competitive, and our profitability depends principally upon our ability to compete in our market areas. In our market areas, we face competition from both super-regional banks and smaller community banks. We encounter strong competition both in making loans and attracting deposits. Competition among financial institutions is based upon interest rates offered on deposit accounts, interest rates charged on loans and other credit and service charges. Customers also consider the quality and scope of the services rendered, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits. Customers may also take into account the fact that other banks offer different services. Many of the large super-regional banks against which we compete have significantly greater lending limits and may offer additional products; however, we believe we have been able to compete effectively with other financial institutions, regardless of their size, by emphasizing customer service and by providing a wide array of services. In addition, most of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. See "Supervision and Regulation." Competition may further intensify if additional financial services companies enter markets in which we conduct business.

### EMPLOYEES

As of December 31, 2002, we employed approximately 460 individuals, primarily at The Bank. We believe that our employee relations have been and continue to be good.

### SUPERVISION AND REGULATION

We are a financial holding company under the Gramm-Leach-Bliley Act ("GLBA"). We are subject to the supervision, examination and reporting requirements of the Federal Reserve Board, the Bank Holding Company Act ("BHCA") and the GLBA. The BHCA and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory

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enforcement actions for violations of laws and regulations.

The supervision and regulation of bank holding companies and their subsidiaries are intended primarily for the protection of depositors, the deposit insurance funds of the Federal Deposit Insurance Corporation (the "FDIC") and the banking system as a whole, not for the protection of bank holding company stockholders or creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the power to impose substantial fines and other penalties for violation of laws and regulations. The following description summarizes some of the laws to which we are subject. References herein to applicable statutes and regulations are brief summaries thereof, do not purport to be complete and are qualified in their entirety by reference to such statutes and regulations.

The Bank, an Alabama state chartered bank and member of the Federal Reserve System, is subject to the regulation, supervision and examination by the Federal Reserve Board and the Alabama Banking Department.

Gramm-Leach-Bliley Act. The GLBA became law on November 12, 1999, and key provisions affecting bank holding companies became effective March 11, 2000. The GLBA enables bank holding companies to acquire insurance companies and securities firms and effectively repeals depression-era laws which prohibited the affiliation of banks and these other financial services entities under a single holding company. Certain qualified bank holding companies and other types of financial service entities may elect to become financial holding companies under the new law. Financial holding companies are permitted to engage in activities considered financial in nature, as defined in the GLBA, and may engage in a broader range of activities than bank holding companies or banks. The GLBA will enable financial holding companies to offer a wide variety of financial services, or services incident to financial services, including banking, securities underwriting, merchant banking and insurance (both underwriting and agency services). The new financial services

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authorized by the GLBA also may be engaged in by a "financial subsidiary" of a national or state bank, with the exception of insurance or annuity underwriting, insurance company portfolio investments, real estate investment and development, and merchant banking, all of which must be conducted under the financial holding company.

To become a financial holding company, a bank holding company must provide notice to the Federal Reserve Board of its desire to become a financial holding company, and certify to the Federal Reserve Board that each of its bank subsidiaries is "well-capitalized," "well-managed" and has at least a "satisfactory" rating under the CRA. These requirements are also necessary to maintain financial holding company status. On February 12, 2000, we filed our election to become a financial holding company with the Federal Reserve Board. Our election was effective as of March 13, 2000.

Regulatory Restrictions on Dividends. Various federal and state statutory provisions limit the amount of dividends The Bank can pay to us without regulatory approval. Approval of the Federal Reserve Board is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve System if the total of all dividends declared by the bank in any calendar year would exceed the total of its net profits (as defined by regulatory agencies) for that year combined with its retained net profits for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its net profits. State member banks may also be subject to similar restrictions imposed by the laws of the states in which they are chartered.



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Under Alabama law, a bank may not pay a dividend in excess of 90% of its net earnings until the bank's surplus is equal to at least 20% of its capital. The Bank is also required by Alabama law to obtain the prior approval of the Superintendent of the State Banking Department of Alabama for its payment of dividends if the total of all dividends declared by The Bank in any calendar year will exceed the total of (1) The Bank's net earnings (as defined by statute) for that year, plus (2) its retained net earnings for the preceding two years, less any required transfers to surplus. In addition, no dividends may be paid from The Bank's surplus without the prior written approval of the Superintendent.

In addition, federal bank regulatory authorities have authority to prohibit the payment of dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company experiencing earnings weaknesses should not pay cash dividends that exceed its net income or that could only be funded in ways that weaken the bank holding company's financial health, such as by borrowing. Our ability and The Bank's ability to pay dividends in the future is currently, and could be further, affected by bank regulatory policies and capital guidelines. Currently, we must obtain regulatory approval prior to paying dividends on our common stock or our trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distribution on our trust preferred securities in March 2003.

Source of Strength. Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to its banking subsidiaries and commit resources to their support. This support may be required by the Federal Reserve Board at times when, absent this policy, a bank holding company may not be inclined to provide it. A bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary. In addition, any capital loans by a bank holding company to any of its depository institution subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of the banks.

Under the Federal Deposit Insurance Act ("FDIA"), an FDIC-insured depository institution can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution or (2) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution "in danger of default." "Default" is defined generally as the appointment of a conservator or receiver and "in danger of default" is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. The FDIC's claim for damages is superior to claims of stockholders of the insured

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depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institution.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe or unsound banking practices. The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe or unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1,000,000 for each day the activity continues.

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Capital Adequacy Requirements. We are required to comply with the capital adequacy standards established by the Federal Reserve Board, and The Bank is subject to additional requirements of the FDIC and the Alabama Banking Department. The Federal Reserve Board has adopted two basic measures of capital adequacy for bank holding companies: a risk-based measure and a leverage measure. All applicable capital standards must be satisfied for a bank holding company to be in compliance.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items are assigned to risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio (the "Total Risk-Based Capital Ratio") of total capital ("Total Capital") to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%. At least half of Total Capital must comprise common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets ("Tier 1 Capital"). The remainder may consist of subordinated debt, other preferred stock and a limited amount of loan loss reserves ("Tier 2 Capital").

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio (the "Leverage Ratio") of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3%, plus an additional cushion of 100 to 200 basis points. Our Leverage Ratio was 5.67% at December 31, 2002. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve Board has indicated that it will consider a tangible Tier 1 Capital Leverage Ratio (deducting all intangibles) and other indicia of capital strength in evaluating proposals for expansion or new activities.

The federal bank regulatory agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal and state bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant.

The Bank was in compliance with the applicable minimum capital requirements as of December 31, 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Failure to meet capital guidelines could subject The Bank to a variety of enforcement remedies by federal bank regulatory agencies, including termination of deposit insurance by the FDIC, and to certain restrictions on business.

As of December 31, 2002, both The Banc Corporation and The Bank were "adequately capitalized."

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Branching. The BHCA, as amended by the interstate banking provisions of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act"), repealed the prior statutory restrictions on interstate banking so that The Banc Corporation may acquire a bank located in any other state, and any bank holding company located outside Alabama may lawfully acquire any Alabama-based bank regardless of state law to the contrary, in either case subject to certain deposit-percentage minimums, aging requirements and other restrictions. In addition, the Interstate Banking Act generally provided that after June 1, 1997, national and state-chartered banks may branch interstate through acquisitions of banks in other states.

Alabama and other states have laws relating specifically to acquisitions of banks, bank holding companies and other types of financial institutions. Alabama law sets five years as the minimum age of banks which may be acquired by an out of state institution.

Restrictions on Transactions With Affiliates and Insiders. Transactions between The Bank and its affiliates, including The Banc Corporation, are subject to Sections 23A and 23B of the Federal Reserve Act and, as of April 1, 2003, Regulation W which implements Sections 23A and 23B. In general, Section 23A imposes limits on the amount of such transactions and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of The Banc Corporation or any of its subsidiaries. Section 23B of the Federal Reserve Act generally requires that certain transactions between a bank and its respective affiliates be on terms substantially the same, or at least as favorable to such bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O apply to all federally insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. State banking laws also have similar provisions.

FDIC Insurance Assessments. Pursuant to FDICIA, the FDIC adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. An institution is also assigned by the FDIC to one of three supervisory subgroups within each capital group. The supervisory subgroup to which an institution is assigned is based on a supervisory evaluation provided to the FDIC by the institution's primary federal regulator and information which the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds (which may include, if applicable, information provided by the institution's state supervisor). An institution's insurance assessment rate is then determined based on the capital category and supervisory category to which it is assigned. Under the risk-based assessment system, there are nine assessment risk classifications (i.e., combinations of

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capital groups and supervisory subgroups) to which different assessment rates are applied.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act. The Bank is subject to the CRA. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area

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when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed by federal banking agencies in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or thrift or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. The Bank has a satisfactory CRA rating from federal banking agencies.

USA Patriot Act. 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 strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. Among its provisions, the USA Patriot Act requires that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certificate of money laundering risk for their foreign correspondent banking relationships. We have adopted policies, procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update our policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulation.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act and the Settlement Procedures Act among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans to or engaging in other types of transactions with such customers.

### INSTABILITY OF REGULATORY STRUCTURE

Various bills are routinely introduced in the United States Congress and state legislatures with respect to the regulation of financial institutions. Certain of these proposals, if adopted, could significantly change the

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regulation of banks and the financial services industry. We cannot predict whether any of these proposals will be adopted or, if adopted, how these proposals would affect us.

### EFFECT ON ECONOMIC ENVIRONMENT

The policies of regulatory authorities, especially the monetary policy of the Federal Reserve Board, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve Board to affect the money supply are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve Board monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The nature of future monetary policies and the effect of such policies on our business and earnings cannot be predicted.

### AVAILABLE INFORMATION

The Banc Corporation maintains an Internet website at [www.thebankmybank.com](http://www.thebankmybank.com). The Banc Corporation makes available free of charge through its website various reports that it files with the Securities and Exchange Commission including its annual reports on Form 10-K, quarterly reports on Form 10-Q, current

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reports on Form 8-K, and amendments to these reports. These reports are made available as soon as reasonably practicable after they are filed with, or furnished to the Securities and Exchange Commission. From our home page at [www.thebankmybank.com](http://www.thebankmybank.com), go to and click on "Investor Relations" to access these reports.

### ITEM 2. PROPERTIES.

Our headquarters are located at 17 North 20th Street, Birmingham, Alabama. As of December 21, 1999, The Banc Corporation and The Bank, who jointly own the building, converted the building into condominiums known as The Bank Condominiums. The Bank owns the Bank unit, which consists of four floors of the building, including a branch of The Bank and our headquarters and Units 4-5 and Units 7-14 of the Bank Condominiums. We have sold or leased six Units, and we intend to use most of the remaining space for future expansion of The Bank. We will relocate our operations and data processing center to the fourth and fifth floors and centralize our risk management department on the sixth floor of our headquarters building during 2003. We may sell or lease any remaining condominium units for commercial or residential use.

We operate through 36 office facilities, including our current operations center. We own 32 of these facilities, lease four facilities and have two ground leases on facilities we own. Rental expense on the leased properties totaled approximately \$125,000 in 2002 which includes three months of rental expense on Emerald Coast Bank, a Division of The Bank, branches purchased by The Bank in March 2002.

### ITEM 3. LEGAL PROCEEDINGS.

While we are a party to various legal proceedings arising from the ordinary course of our business, we believe that there are no proceedings threatened or

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

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

None.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### MARKET FOR COMMON STOCK

Our common stock trades on Nasdaq under the ticker symbol "TBNC". As of March 27, 2003, there were approximately 934 record holders of our common stock. The following table sets forth, for the calendar periods indicated, the range of high and low closing sales prices:

	HIGH	LOW
	-----	-----
2001		
First Quarter.....	\$ 6.38	\$ 5.00
Second Quarter.....	7.10	5.00
Third Quarter.....	7.35	6.51
Fourth Quarter.....	7.30	6.15
2002		
First Quarter.....	\$ 7.40	\$ 5.70
Second Quarter.....	8.86	6.90
Third Quarter.....	8.72	7.00
Fourth Quarter.....	8.00	7.00
2003		
First Quarter.....	\$ 8.84	\$ 4.93
Second Quarter (through April 10, 2003).....	5.09	4.41

On December 31, 2002, the last sale price for the common stock was \$7.76 per share.

#### DIVIDENDS

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors. Prior to October 29, 2002, when our Board of Directors approved a quarterly cash dividend of \$.02 per share or \$.08 per share annually, we had not paid dividends. Our first quarterly dividend of \$.02 per share was paid on November 25, 2002. We derive cash available to pay dividends primarily, if not entirely, from dividends paid to us by our subsidiaries. There are certain restrictions that limit The Bank's ability to pay dividends to us and our ability to pay dividends. Our ability to pay dividends to our stockholders will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and

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regulatory climate, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our board of directors. Currently, we must obtain regulatory approval prior to paying dividends on our common stock or our trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distribution on our trust preferred securities in March 2003. The restrictions that may limit our ability to pay dividends are discussed in this Report in Item 1 under the heading "Supervision and Regulation -- Regulatory Restrictions on Dividends."

### ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical financial data as of December 31, 2002 and 2001 and for each of the three years ended December 31, 2002 is derived from our audited consolidated financial statements and related notes included in this Form 10-K. See "Item 8. The Banc Corporation and Subsidiaries Consolidated Financial Statements."

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	AS OF AND FOR THE YEAR ENDED		
	2002	2001	2000
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)		
<b>SELECTED STATEMENT OF FINANCIAL CONDITION DATA:</b>			
Total assets.....	\$1,405,814	\$1,206,405	\$1,029,210
Loans, net of unearned income.....	1,138,537	999,156	808,140
Allowance for loan losses.....	27,766	12,546	8,950
Investment securities.....	73,125	68,847	95,700
Deposits.....	1,107,798	952,235	827,300
Advances from FHLB and notes payable.....	173,750	135,900	104,300
Guaranteed preferred beneficial interest in the Corporation's subordinated debentures (trust preferred securities)(1).....	31,000	31,000	15,000
Stockholders' Equity.....	76,541	76,853	74,870
<b>SELECTED STATEMENT OF OPERATIONS DATA:</b>			
Interest income.....	\$ 88,469	\$ 90,351	\$ 75,030
Interest expense(2).....	40,431	50,518	40,420
Net interest income(2).....	48,038	39,833	34,610
Provision for loan losses.....	51,852	7,454	4,960
Noninterest income.....	15,123	9,773	7,820
Merger related costs.....	--	--	--
Noninterest expense.....	42,669	38,497	32,110
(Loss) income before income tax (benefit) expenses.....	(31,360)	3,655	5,350
Income tax (benefit) expense.....	(12,959)	966	990
Net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,350
<b>PER SHARE DATA:</b>			
Net (loss) income -- basic.....	\$ (1.09)	\$ 0.19	\$ 0.30
-- diluted.....	(1.09)	0.19	0.30
Weighted average shares outstanding -- basic.....	16,829	14,272	14,380

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Weighted average shares outstanding -- diluted.....	16,829	14,302	14,38
Book value at period end.....	4.35	5.41	5.2
Tangible book value per share.....	3.59	4.98	4.7
Common shares outstanding at period end.....	17,605	14,217	14,34
PERFORMANCE RATIOS AND OTHER DATA:			
Return on average assets.....	(1.36)%	0.23%	0.4
Return on average stockholders' equity.....	(19.89)	3.53	6.0
Net interest margin(2) (3) (4).....	3.94	3.83	4.2
Net interest spread(2) (4) (5).....	3.70	3.43	3.8
Noninterest income to average assets.....	1.12	0.85	0.8
Noninterest expense to average assets(2).....	3.15	3.34	3.5
Efficiency ratio(2) (6).....	67.34	77.22	75.0
Average loan to average deposit ratio.....	117.00	100.40	95.6
Average interest-earning assets to average interest bearing liabilities(1).....	107.05	108.26	109.7
ASSETS QUALITY RATIOS:			
Allowance for loan losses to nonperforming loans.....	143.12%	100.99%	90.8
Allowance for loan losses to loans, net of unearned income.....	2.44	1.26	1.1
Nonperforming loans to loans, net of unearned income.....	1.70	1.24	1.2
Nonaccrual loans to loans, net of unearned income.....	1.51	0.79	1.1
Net loan charge-offs to average loans.....	3.35	0.42	0.5
Net loan charge-offs as a percentage of:			
Provision for loan losses.....	72.69	51.88	81.9
Allowance for loan losses.....	135.74	30.82	45.4
CAPITAL RATIOS:			
Tier-1 risk-based capital ratio.....	6.60	9.44	10.2
Total risk-based capital ratio.....	8.81	11.41	11.3
Leverage ratio.....	5.67	7.92	8.4

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- (1) Trust preferred securities have been reclassified as long-term debt in the December 31, 2001 and 2000, statements of financial condition to conform to the December 31, 2002 presentation.
- (2) Distributions on the trust preferred securities have been reclassified as interest expense in the statements of income for the periods December 31, 2001 and 2000, respectively to conform to the December 31, 2002 presentation.
- (3) Net interest income divided by average earning assets.
- (4) Calculated on a tax equivalent basis.
- (5) Yield on average interest-earning assets less rate on average interest bearing liabilities.
- (6) Efficiency ratio is calculated by dividing noninterest expense by noninterest income plus net interest income on a fully tax equivalent basis.

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

GENERAL

The following is a narrative discussion and analysis of significant changes in our results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and selected financial data included elsewhere in this document.

Our principal subsidiary is The Bank, a financial institution organized and existing under the laws of Alabama and headquartered in Birmingham, Alabama



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which operates 35 banking offices throughout Alabama and the panhandle of Florida. Other subsidiaries include TBC Capital Statutory Trust II ("TBC Capital II"), a Connecticut statutory trust, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust, and Morris Avenue Management Group, Inc. ("MAMG"), an Alabama corporation, all of which are wholly owned. TBC Capital II and TBC Capital III are consolidated special purpose entities formed solely to issue cumulative trust preferred securities. MAMG is a real estate management company that manages our real properties.

The acquisition of other banking organizations during 1998 and 1999 contributed significantly to our early development. During the fourth quarter of 1998, Commerce Bank of Alabama, Inc. and the banking subsidiaries of Commercial Bancshares of Roanoke, Inc., City National Corporation and First Citizens Bancorp, Inc. were merged with and into The Bank. Emerald Coast Bank became our subsidiary in February 1999, as a result of our merger with Emerald Coast Bancshares, Inc. C&L Bank became our subsidiary in June 1999 as a result of our acquisitions of C&L Bank of Blountstown and C&L Banking Corporation and its bank subsidiary, C&L Bank of Bristol. The banking subsidiary of BankersTrust of Alabama, Inc., was merged into The Bank in July 1999. The Bank also acquired three new branches in Southeast Alabama in November of 1999. In June 2000, Emerald Coast Bank and C&L Bank merged into The Bank. During March 2002, Citizens Federal Savings Bank of Port St. Joe, the banking subsidiary of CF Bancshares, Inc., was merged into The Bank in connection with our acquisition of CF Bancshares, Inc.

### CRITICAL ACCOUNTING ESTIMATES

In preparing financial information, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the periods shown. The accounting principles we follow and the methods of applying these principles conform with accounting principles generally accepted in the United States and general banking practices. Estimates and assumptions most significant to us are related primarily to our allowance for loan losses and are summarized in the following discussion and notes to the consolidated financial statements.

Management's determination of the adequacy of the allowance for loan losses, which is based on the factors and risk identification procedures discussed in the following pages, requires the use of judgments and estimates that may change in the future. Changes in the factors used by management to determine the adequacy of the allowance or the availability of new information could cause the allowance for loan losses to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require that additions be made to the allowance for loan losses based on their judgments and estimates.

### RECENT DEVELOPMENTS

Bristol, Florida Bank Group Situation. In January of 2003, our internal risk management function identified certain loans that had been extended upon the authorization and direction of the now former president of our Bristol, Florida bank group which consists of branches in Altha, Bristol and Blountstown, Florida. These loans exceeded that former employee's loan authority and were approved or otherwise extended in violation of The Bank's lending policies and procedures. It also appears that these loans were deliberately hidden from The Bank's management through direct manipulation of The Bank's loan files and other actions of the former employee. Based on our review of the loan documentation, including collateral and borrower financial information, we charged off approximately \$26.0 million of these loans and provided an additional

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\$9.5 million to our allowance for loan and lease losses. We are "adequately" capitalized for regulatory purposes. (For a further explanation of the regulatory capital requirements and our position relative to those requirements, please see Item 7 "Management's Discussion and Analysis of Financial Condition and Results Of Operations -- Financial Condition -- Regulatory Capital," herein and Note 15 to our consolidated financial statements set forth in Item 8 herein.)

The amount of our provision for loan losses was determined after a thorough loan review and consultation with The Bank's federal and state regulators. We believe that we will not need to make any additional provision related to these loans; however, no assurance can be given that any additional classifications or provision will not be required in the future. As a result of this review and the acts of our former employee, we have restated our quarterly financial statements for the periods ended June 30, 2002 and September 30, 2002. The reasons for, and the results of, this restatement are described in Note 21 the Consolidated Financial Statements set forth in Item 8 herein. Although the Bristol, Florida bank group loan problems resulted from a former employee's intentional circumvention of our existing internal controls, and although we discovered these problems as a result of the peer review system we implemented in the fourth quarter of 2002, we and our independent auditors are nonetheless treating those circumstances as reflecting material weaknesses in our internal controls with respect to the monitoring of loan risk ratings, the timely review of the loan portfolio by our loan review function, the monitoring of past due loans and the monitoring of loan approval and a loan officer's ability to originate loans in excess of authorized lending limits. These concerns are being addressed in part by the actions we instituted during the fourth quarter of 2002. Going forward, we intend to centralize the loan operations of all of our branch groups in order to provide an enhanced degree of centralized supervision, monitoring and accountability. We believe that we will have this centralization completed within the next twelve months. We have disclosed and discussed these issues and responses with our Audit Committee and independent auditors. For a further discussion please see Item 14 "Controls and Procedures."

We are vigorously working with legal counsel and regulatory and federal authorities to pursue all available remedies and avenues for collection. We anticipate making fidelity bond claims in an undetermined amount stemming from the unauthorized loan activity.

**Roanoke Branch Sale.** On March 13, 2003, The Bank sold its Roanoke branch, including all loans and deposits, pursuant to a Branch Sale Agreement, dated November 19, 2002, for gross proceeds of approximately \$3.3 million.

### RESULTS OF OPERATIONS

Year Ended December 31, 2002, Compared With Year Ended December 31, 2001

During the year ended December 31, 2002, we incurred a net loss of \$(18.4) million compared to net income of \$2.7 million in the year ended December 31, 2001. This loss was due to a \$51.9 million provision for loan losses, of which \$36.2 million related to Bristol. Our return on average assets in 2002 was (1.36)%, compared to 0.23% in 2001. Return on average equity was (19.89)% in 2002 compared to 3.53% in 2001. Average equity to average assets increased to 6.83% in 2002 from 6.62% in 2001.

Net interest income increased \$8.2 million, or 20.6% to \$48.0 million for the year ended December 31, 2002, from \$39.8 million for the year ended December 31, 2001. This was due to a decrease in interest expense of \$10.1 million, or 20.0% offset by a decrease in interest income of \$1.9 million, or 2.1%. This decrease in interest expense was primarily attributable to an \$11.2 million, or 27.8% decrease in interest expense on deposits. Average interest-bearing

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liabilities increased \$178.6 million, while the average interest rate decreased from 5.23% in 2001 to 3.53% in 2002.

Our net interest spread and net interest margin increased to 3.70% and 3.94%, respectively, in 2002, from 3.43% and 3.83% in 2001. During 2002, the average interest rate earned on interest-earning assets decreased due to the decline in interest rates during the year. However, this was offset by an increase in the volume of average loans and a decrease in interest rates paid on interest-bearing liabilities. The ratio of average interest-earning assets to average interest-bearing liabilities was 107.05% and 108.26% for 2002 and 2001, respectively.

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The average rate paid on our interest bearing liabilities was 3.53% compared to the average yield on our loan portfolio of 7.50% during the year.

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

The provision for loan losses was \$51.9 million for the year ended December 31, 2002 compared to \$7.5 million in 2001. During 2002, the Bristol bank group's provision for loan loss was \$36.2 million; the Albertville bank's provision for loan losses was \$3.4 million and the Huntsville bank's provision for loan losses was \$7.2 million. Net charge-offs increased \$33.8 million from \$3.9 million in 2001 to \$37.7 million in 2002. Net charge-offs, as a percentage of the provision for loan losses, were 72.7% in 2002, compared to 51.9% in 2001. The Bristol bank group contributed approximately \$26.2 million to total charge-offs during 2002; the Albertville bank contributed approximately \$2.3 million and the Huntsville bank contributed approximately \$5.1 million. After provisions and charge-offs the allowance for loan losses was 2.44% of loans, net of unearned income, at December 31, 2002 compared to 1.26% at December 31, 2001. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

Noninterest income increased \$5.3 million, or 54.7% to \$15.1 million in

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2002, from \$9.8 million in 2001. Income from mortgage banking operations for the year ended December 31, 2002 increased \$1.6 million, or 92.2% to \$3.3 million in 2002, from \$1.7 million in 2001. Income from customer service charges and fees increased \$1.7 million, or 42.6% to \$5.8 million from \$4.1 million in 2001. We also received \$1.1 million related to the settlement of litigation. Other noninterest income was \$4.3 million, an increase of \$1.7 million, or 66.1% from \$2.6 million in 2001. The increase in other noninterest income was primarily due to an increase of \$565,000 in the cash surrender value of life insurance policies and gains on the sale of loans of \$321,000.

Noninterest expense increased \$4.2 million, or 10.8% to \$42.7 million in 2002 from \$38.5 million in 2001. Salaries and employee benefits increased \$4.0 million, or 20.8% to \$23.5 million in 2002 compared to \$19.5 million in 2001. The increase in salaries and benefits primarily resulted from the increased salary expense associated with the acquisition of CF Bancshares, Inc. and the addition of personnel in the administration and operation areas, specifically, loan review, risk management, internal audit and credit administration. All other noninterest expenses increased \$128,000, or 0.7% to \$19.2 million, compared to \$19.1 million in 2001. This increase in other noninterest expenses consists primarily of a \$396,000 increase in occupancy and equipment expenses offset by a \$268,000 decrease in other operating expenses. Occupancy expenses increased during 2002 as a result of increased depreciation and maintenance related to our acquisition of CF Bancshares, Inc. During 2001, other operating expenses included goodwill amortization of \$562,000. In accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets," no amortization of goodwill was recorded in 2002.

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Our income tax benefit was \$(13.0) million in 2002 and our income tax expense was \$966,000 in 2001, resulting in effective tax rates of (41.3%) and 26.4%, respectively. The primary difference in the effective tax rate and the federal statutory rate of 34% for 2002 is due primarily to certain tax-exempt income and for 2001 from the recognition of a rehabilitation tax credit of \$522,000, respectively, generated from the restoration of our headquarters, the John A. Hand building.

Our determination of the realization of deferred tax assets is based partially on taxable income in prior carryback years and upon management's judgment of various future events and uncertainties, including future reversals of existing taxable temporary differences, the timing and amount of future income earned by our subsidiaries and the implementation of various tax planning strategies to maximize realization of the deferred tax assets. A portion of the amount of the deferred tax asset that can be realized in any year is subject to certain statutory federal income tax limitations. We believe that our subsidiaries will be able to generate sufficient operating earnings to realize the deferred tax benefits. We evaluate quarterly the realizability of the deferred tax assets and, if necessary, adjust any valuation allowance accordingly.

Year Ended December 31, 2001, Compared With Year Ended December 31, 2000

Our net income decreased \$1.7 million, or 38.3% to \$ 2.7 million in the year ended December 31, 2001, from \$4.4 million in the year ended December 31, 2000. This decrease was due primarily to increases in our provision for loan losses and noninterest expenses which were offset by increases in net interest income and noninterest income. Our return on average assets in 2001 was 0.23%, compared to 0.48% in 2000. Return on average equity was 3.53% in 2001 compared to 6.03% in 2000. Average equity to average assets was 6.62% in 2001 compared to 7.92% in 2000.

Net interest income increased \$5.2 million, or 15.1% to \$39.8 million for

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the year ended December 31, 2001, from \$34.6 million for the year ended December 31, 2000 due to an increase in interest income of \$15.3 million, or 20.4%, offset by an increase in interest expense of \$10.1 million, or 25.0%. These increases in net interest income and interest income were primarily attributable to a \$203.6 million, or 28.7% increase in average loans to \$914.0 million during 2001, from \$710.4 million during 2000. The growth in the loan portfolio was primarily attributable to increases in real estate construction and mortgage loans generated in the Birmingham, Alabama and Florida markets. This increase was offset by a \$224.3 million, or 30.2% increase in average interest-bearing liabilities to \$966.5 million during 2001, from \$742.2 million during 2000.

Our net interest spread and net interest margin were 3.43% and 3.83%, respectively, in 2001, compared to 3.80% and 4.29% in 2000. During 2001, the average interest rate earned on interest-earning assets decreased due to the decline in interest rates during the year. This, combined with an increase in the volume of higher cost sources of funds, such as certificates of deposit and Federal Home Loan Bank ("FHLB") borrowings, resulted in the decrease in our net interest margin and spread during the year. These funds were utilized to meet strong loan demand, which accounted for the increase in average interest-earning assets during 2001. The ratio of average interest-earning assets to average interest-bearing liabilities was 108.26% and 109.80% for 2001 and 2000, respectively. The average rate paid on time deposits and FHLB advances were 5.91% and 5.82%, respectively, during the year which was higher than interest rates paid on other sources of deposit funding; however, these funds were utilized to meet increased loan demand. The average yield of our loan portfolio was 9.10% during the year.

The provision for loan losses was \$7.5 million for the year ended December 31, 2001 compared to \$5.0 million in 2000. Net charge-offs decreased \$200,000, or 4.9% from \$4.1 million in 2000 to \$3.9 million in 2001. The ratio of net charge-offs to average loans averaged 0.60% for the five year period ended December 31, 2001, with a ratio of 0.42% in 2001 and 0.57% in 2000. Net charge-offs, as a percentage of the provision for loan losses, were 51.88% in 2001, compared to 81.98% in 2000. After provisions and charge-offs the allowance for loan losses was 1.26% of loans, net of unearned income at December 31, 2001, compared to 1.11% at December 31, 2000. The allowance for loan losses was increased based on management's assessment of historical loss experience, volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

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Noninterest income increased \$2.0 million, or 24.9% to \$9.8 million in 2001, from \$7.8 million in 2000, primarily as the result of investment securities gains which totaled \$1.4 million in 2001 compared to \$131,000 in 2000. During the third quarter of 2001, we entered into and settled an interest rate swap that was not designated as a hedging instrument. A gain of approximately \$610,000 was realized and recognized currently in earnings as investment securities gains. We did not enter into any other derivative transactions during the year. Income from mortgage banking operations for the year ended December 31, 2001 remained level compared to 2000 at \$1.7 million. Income from customer service charges and fees increased to \$4.1 million from \$4.0 million in 2000. Other noninterest income was \$2.6 million, an increase of \$545,000, or 26.6% from \$2.1 million in 2000. The increase in other noninterest income was primarily due to an increase in rental income of \$180,000 and gains on the sale of real estate of \$141,000.

Noninterest expense increased \$6.4 million, or 19.9% to \$38.5 million in 2001 from \$32.1 million in 2000. Salaries and employee benefits increased \$3.4

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million, or 20.8% to \$19.5 million in 2001 compared to \$16.1 million in 2000. The increase in salaries and benefits primarily resulted from the addition of personnel in the administration and operation areas, specifically, loan review, internal audit and credit administration. All other noninterest expenses increased \$3.0 million, or 18.9% to \$19.0 million, compared to \$16.0 million in 2000. This increase in other noninterest expenses consists primarily of a \$971,000 increase in occupancy and equipment expenses, a \$936,000 charge related to fraud and litigation settlement, a \$295,000 charge related to the data processing conversion of the Florida operations and a \$474,000 charge related to obsolete furniture and equipment. Occupancy expenses increased during 2001 as a result of increased depreciation and maintenance related to our headquarters and The Bank's operations center. During 2001 and 2000, other operating expenses included goodwill amortization of \$562,000 per year. In accordance with SFAS Statement No. 142, "Goodwill and Other Intangible Assets," no amortization of goodwill will be recorded in future periods.

Our income tax expense was \$966,000 and \$996,000 in 2001 and 2000, respectively, resulting in effective tax rates of 26.4% and 18.6%, respectively. The primary difference in the effective tax rate and the federal statutory rate (34%) for 2001 and 2000 arose from the recognition of a rehabilitation tax credit of \$522,000 and \$1.3 million, respectively, generated from the restoration of our headquarters, the John A. Hand building.

### NET INTEREST INCOME

The largest component of our net income is net interest income, which is the difference between the income earned on interest-earning assets and interest paid on deposits and borrowings. Net interest income is determined by the rates earned on our interest earning assets, rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, the degree of mismatch and the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Net interest income divided by average interest-earning assets represents our net interest margin.

Average Balances, Income, Expenses and Rates. The following tables depict, on a tax-equivalent basis for the periods indicated, certain information related to our average balance sheet and our average yields on

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assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

	YEARS ENDED DECEMBER 31,					
	2002			2001		
	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE
	(DOLLARS IN THOUSANDS)					
	ASSETS					
Interest-earning assets:						
Loans, net of unearned						
income (1) .....	\$1,124,977	\$84,337	7.50%	\$ 914,006	\$83,207	9.10%

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Investment securities:							
Taxable	55,312	2,857	5.17	80,773	4,736	5.86	
Tax-exempt (2).....	8,036	594	7.39	9,711	721	7.42	
	-----	-----		-----	-----		
Total investment securities.....	63,348	3,451	5.45	90,484	5,457	6.03	
Federal funds sold.....	21,047	350	1.66	31,426	1,310	4.17	
Other investments.....	16,414	533	3.25	10,419	622	5.97	
	-----	-----		-----	-----		
Total interest-earning assets.....	1,225,786	88,671	7.23	1,046,335	90,596	8.66	
Noninterest-earning assets:							
Cash and due from banks.....	30,161			29,324			
Premises and equipment.....	55,770			45,416			
Accrued interest and other assets.....	57,071			40,570			
Allowance for loan losses...	(14,314)			(9,728)			
	-----			-----			
Total assets.....	\$1,354,474			\$1,151,917			
	=====			=====			
		LIABILITIES AND STOCKHOLDERS' EQUITY					
Interest-bearing liabilities:							
Demand deposits.....	\$ 276,522	3,308	1.20	\$ 230,098	7,523	3.27	
Savings deposits.....	36,765	247	0.67	30,823	575	1.87	
Time deposits.....	648,195	25,721	3.97	548,445	32,427	5.91	
Other borrowings.....	152,618	8,626	5.65	134,745	7,834	5.82	
Guaranteed preferred beneficial interest in debentures.....	31,000	2,529	8.16	22,408	2,159	9.63	
	-----			-----	-----		
Total interest-bearing liabilities.....	1,145,100	40,431	3.53	966,519	50,518	5.23	
Noninterest-bearing liabilities:							
Demand deposits.....	106,320			100,968			
Accrued interest and other liabilities.....	10,521			8,147			
	-----			-----			
Total liabilities.....	1,261,941			1,075,634			
Stockholders' equity.....	92,533			76,283			
	-----			-----			
Total liabilities and stockholders' equity.....	\$1,354,474			\$1,151,917			
	=====			=====			
Net interest income/net interest spread.....		48,240	3.70%		40,078	3.43%	
			====			====	
Net yield on earning assets...			3.94%			3.83%	
			====			====	
Taxable equivalent adjustment:							
Investment securities(2)....		202			245		
		-----			-----		
Net interest income...		\$48,038			\$39,833		
		=====			=====		

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- (1) Nonaccrual loans are included in loans, net of unearned income. No adjustment has been made for these loans in the calculation of yields.
- (2) Interest income and yields are presented on a fully taxable equivalent basis

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using a tax rate of 34 percent.

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Analysis of Changes in Net Interest Income. The following table sets forth, on a taxable equivalent basis, the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the years ended December 31, 2002 and 2001.

	YEAR ENDED DECEMBER 31, (1)					
	2002 VS 2001			2001 VS 2000		
	INCREASE (DECREASE)	CHANGES DUE TO		INCREASE (DECREASE)	CHANGES DUE TO	
		RATE	VOLUME		RATE	VOLUME
	(DOLLARS IN THOUSANDS)					
Income from earning assets:						
Interest and fees on loans.....	\$ 1,130	\$ (16,113)	\$17,243	\$14,740	\$ (4,008)	\$
Interest on securities:						
Taxable.....	(1,879)	(511)	(1,368)	422	(473)	
Tax-exempt.....	(127)	(3)	(124)	(396)	(9)	
Interest on federal funds.....	(960)	(620)	(340)	380	(405)	
Interest on other investments.....	(89)	(356)	267	35	(60)	
	-----	-----	-----	-----	-----	-----
Total interest income.....	(1,925)	(17,603)	15,678	15,181	(4,955)	
	-----	-----	-----	-----	-----	-----
Expense from interest-bearing liabilities:						
Interest on demand deposits.....	(4,215)	(5,499)	1,284	982	(985)	
Interest on savings deposits.....	(328)	(423)	95	(477)	(359)	
Interest on time deposits.....	(6,706)	(11,902)	5,196	5,053	(1,191)	
Interest on other borrowings.....	792	(221)	1,013	2,880	33	
Interest on trust preferred securities.....	370	(366)	736	1,655	(23)	
	-----	-----	-----	-----	-----	-----
Total interest expense.....	(10,087)	(18,411)	8,324	10,093	(2,525)	
	-----	-----	-----	-----	-----	-----
Net interest income.....	\$ 8,162	\$ 808	\$ 7,354	\$ 5,088	\$ (2,430)	\$
	=====	=====	=====	=====	=====	=====

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

### MARKET RISK -- INTEREST RATE SENSITIVITY

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to a change in interest rates, exchange rates and equity prices. Our primary market risk is interest rate risk.

We evaluate interest rate sensitivity risk and then formulate guidelines regarding asset generation and repricing, funding sources and pricing and



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off-balance sheet commitments in order to decrease interest rate sensitivity risk. We use computer simulations to measure the net interest income effect of various interest rate scenarios. The modeling reflects interest rate changes and the related impact on net interest income over specified periods of time.

The primary objective of asset/liability management is to manage interest rate risk and achieve reasonable stability in net interest income throughout interest rate cycles. This is achieved by maintaining the proper balance of interest rate sensitive earning assets and interest rate sensitive liabilities. In general, management's strategy is to match asset and liability balances within maturity categories to limit our exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time. Our asset and liability management strategy is formulated and monitored by our Asset/Liability Management Committee, which is comprised of our head of asset/liability management, other senior officers and certain directors, in accordance with policies approved by the board of directors. Our internal Asset/Liability Committee meets weekly to review, among other things, the sensitivity of our assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, including those attributable to purchase and sale activity, and maturities of investments and borrowings. The committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition and reports regularly to the full board of directors of The Bank.

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One of the primary goals of the committee is to effectively manage the duration of our assets and liabilities so that the respective durations are matched as closely as possible. This duration adjustment can be accomplished either internally by restructuring our balance sheet, or externally by adjusting the duration of our assets or liabilities through the use of interest rate contracts, such as interest rate swaps, corridors, caps and floors. Our current strategy is to hedge internally through the use of core deposit accounts, which are not as rate sensitive as other deposit instruments, and FHLB advances, together with an emphasis on investing in shorter-term or adjustable rate assets which are more responsive to changes in interest rates, such as adjustable rate U.S. Government agency mortgage-backed securities, short-term U.S. Government agency securities and commercial business, real estate and consumer loans.

During the next twelve months, approximately \$4.8 million more interest-bearing assets than interest-earning liabilities can be repriced to current market rates. As a result, the one-year cumulative gap (the ratio of rate sensitive assets to rate sensitive liabilities) at December 31, 2002, was 100.55%, indicating an asset sensitive position. For the period ending December 31, 2003, our interest rate risk model, which relies on management's growth assumptions, indicates that projected net interest income will increase on an annual basis by 5.64%, or approximately \$3.09 million, assuming an instantaneous increase in interest rates of 200 basis points. Assuming an instantaneous decrease of 200 basis points, projected net interest income is expected to decrease on an annual basis by 5.44%, or approximately \$2.97 million. The effect on net interest income produced by these scenarios is within our asset and liability management policy, which allows the level of interest rate sensitivity to affect net interest income plus or minus 10 percent (+/-10%).

Our board has authorized the Asset/Liability Management Committee to utilize financial futures, forward sales, options and interest rate swaps, caps and floors, and other instruments, to the extent necessary, in accordance with Federal Reserve Board regulations and our internal policy. It is expected that financial futures, forward sales and options will be primarily used in hedging mortgage banking products, and interest rate swaps, caps and floors will be used as macro hedges against our securities, loan portfolios and our liabilities.

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We recognize that positions for hedging purposes are primarily a function of three main areas of risk exposure: (1) mismatches between assets and liabilities; (2) prepayment and other option-type risks embedded in our assets, liabilities and off-balance sheet instruments; and (3) the mismatched commitments for mortgages and funding sources. We will engage in only the following types of hedges: (1) those which synthetically alter the maturities or repricing characteristics of assets or liabilities to reduce imbalances; (2) those which enable us to transfer the interest rate risk exposure involved in our daily business activities; and (3) those which serve to alter the market risk inherent in our investment portfolio or liabilities and thus matching the effective maturities of the assets and liabilities.

The primary derivative instrument used by us to manage interest rate risk is the interest rate swap. An interest rate swap allows one party to swap a fixed rate for a floating rate or vice-versa. The amount of the swap is based on a "notional amount." We most commonly use swap transactions involving callable certificate of deposit issuance, in which we enter into a swap along the same terms as a certificate of deposit ("CD"). These transactions, in some cases, are more beneficial than single maturity issuance, because they allow us to obtain a liquidity hedge (by retaining the right to call the CD), as well as to obtain relatively low-rate funding. We can enter into callable interest rate swaps in conjunction with callable CD issuance, provided the terms of the swap are substantially the same as the terms of the CD.

As of December 31, 2002, we had outstanding interest rate swaps with a notional amount of \$10 million. This was comprised of two interest rate swaps to hedge the fair value of fixed-rate consumer certificates of deposits. These hedges were deemed to be structured as a perfect hedge by our management and as such were treated with the short-cut method of accounting under SFAS Statement No. 133.

We attempt to manage the one-year gap position as close to even as possible. This ensures us of avoiding wide variances in case of a rapid change in our interest rate environment. Also, certain products that are classified as being rate sensitive do not reprice on a contractual basis. These products include regular savings, interest-bearing transaction accounts, money market and NOW accounts. The rates paid on these accounts are typically not related directly to market interest rates, and management exercises some discretion in

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adjusting these rates as market rates change. In the event of a rapid shift in interest rates, management would attempt to take certain actions to mitigate the negative impact to net interest income. These actions include but are not limited to, restructuring of interest-earning assets, seeking alternative funding sources and entering into interest rate swap agreements.

Although interest rate sensitivity gap is a useful measurement that contributes to effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, the committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on our economic value of equity ("EVE"). EVE is defined as the net present value of our balance sheet's cash flows or the residual value of future cash flows. While EVE does not represent actual market liquidation or replacement value, it is a useful tool for estimating our balance sheet's existing earning capacity. The greater the EVE, the greater our earnings capacity. The following table sets forth our EVE as of December 31, 2002:

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CHANGE (IN BASIS POINTS) IN INTEREST RATES	EVE	CHANGE	
		AMOUNT	PERCENT
		(DOLLARS IN THOUSANDS)	
+200 BP.....	\$160,000	\$ 28,400	21.58%
+100 BP.....	144,500	13,100	9.95
0 BP.....	131,600	--	--
-100 BP.....	111,100	(20,500)	(15.58)
-200 BP.....	100,200	(31,400)	(23.86)

The above table is based on a prime rate of 4.25% and assumes an instantaneous uniform change in interest rates at all maturities.

LIQUIDITY

The goal of liquidity management is to provide adequate funds to meet changes in loan demand or any potential unexpected deposit withdrawals. Additionally, management strives to maximize our earnings by investing our excess funds in securities and other securitized loan assets with maturities matching our offsetting liabilities. See the "Selected Loan Maturity and Interest Rate Sensitivity" and "Maturity Distribution of Investment Securities".

Historically, we have maintained a high loan-to-deposit ratio. To meet our short-term liquidity needs, we maintain core deposits and have borrowing capacity through the FHLB, federal funds lines and a line of credit with a regional bank. Long-term liquidity needs are met primarily through these sources, the repayment of loans, sales of loans and the maturity or sale of investment securities, including short-term investments.

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We have entered into certain contractual obligations and commercial commitments which arise in the normal course of business and involve elements of credit risk, interest rate risk and liquidity risk. The following tables summarize these relationships by contractual cash obligations and commercial commitments:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	FOUR TO FIVE YEARS	AFTER FIVE YEARS
	(DOLLARS IN THOUSANDS)				
CONTRACTUAL OBLIGATIONS					
Advances from FHLB(1).....	\$173,750	\$18,660	\$84,000	\$250	\$ 70,840
Operating leases(2).....	1,425	203	328	250	644
Guaranteed preferred beneficial interest in The Banc Corporation's subordinated debentures(3).....	31,000	--	--	--	31,000
Total Contractual Cash Obligations.....	\$206,175	\$18,863	\$84,328	\$500	\$102,484

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- (1) See Note 7 to the Consolidated Financial Statements.  
 (2) See Note 5 to the Consolidated Financial Statements.  
 (3) See Note 8 to the Consolidated Financial Statements.

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	FOUR TO FIVE YEARS	AFTER FIVE YEARS
	(DOLLARS IN THOUSANDS)				
COMMERCIAL COMMITMENTS					
Commitments to extend credit(1).....	\$158,493	\$110,353	\$18,403	\$5,794	\$23,943
Standby letters of credit(1).....	26,329	17,553	8,776	--	--
	-----	-----	-----	-----	-----
Total Commercial Commitments.....	\$184,822	\$127,906	\$27,179	\$5,794	\$23,943
	=====	=====	=====	=====	=====

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- (1) See Note 13 to the Consolidated Financial Statements.

FINANCIAL CONDITION

Our total assets were \$1.41 billion at December 31, 2002, an increase of \$199 million, or 16.5% from \$1.21 billion as of December 31, 2001. The increase in total assets primarily related to an increase in net loans of \$139 million, cash surrender value of life insurance of \$16.1 million, deferred tax benefit of \$9.1 million and premises and equipment of \$14.0 million. The increase in total assets was funded primarily by an increase in customer deposits and borrowings from the FHLB. The acquisition of CF Bancshares, Inc. on February 15, 2002 added approximately \$100 million in total assets, approximately \$88 million in total loans and approximately \$77 million in total deposits.

Loans. Loans are the largest category of interest-earning assets and typically provide higher yields than other types of interest-earning assets. Loans involve inherent credit and liquidity risks which management attempts to control and mitigate. At December 31, 2002, total loans net of unearned income were \$1.14 billion, an increase of \$139.4 million from \$999.2 million at December 31, 2001. This compares to increases of \$191.0 million during 2001 from \$808.2 million at December 31, 2000 and \$175.4 million during

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2000 from \$632.8 million at December 31, 1999. The average yield of the loan portfolio was 7.50%, 9.10% and 9.64% for the years ended December 31, 2002, 2001 and 2000, respectively.

DISTRIBUTION OF LOANS BY CATEGORY

DECEMBER 31,

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	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Commercial and industrial.....	\$ 213,210	\$ 194,609	\$200,734	\$209,349	\$141,8
Real estate -- construction and land development.....	212,818	225,654	124,045	72,253	44,7
Real estate -- mortgages					
Single-family.....	272,899	241,517	229,067	138,238	101,8
Commercial.....	340,998	210,644	158,258	122,821	56,5
Other.....	14,581	32,427	14,774	9,203	5,0
Consumer.....	79,398	92,655	78,094	72,934	73,2
Other.....	5,931	2,556	3,993	8,606	9,7
Total loans.....	1,139,835	1,000,062	808,965	633,404	433,1
Unearned income.....	(1,298)	(906)	(820)	(627)	(1,2
Allowance for loan losses.....	(27,766)	(12,546)	(8,959)	(8,065)	(6,4
Net loans.....	\$1,110,771	\$ 986,610	\$799,186	\$624,712	\$425,4

The repayment of loans as they mature is a source of liquidity for us. The following table sets forth our loans by category maturing within specified intervals at December 31, 2002. The information presented is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity and repricing of the loan portfolio.

SELECTED LOAN MATURITY AND INTEREST RATE SENSITIVITY

	ONE YEAR OR LESS	OVER ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL	RATE STRUC MA OVER PREDETERMINED INTEREST RATE
	(DOLLARS IN THOUSANDS)				
Commercial and industrial.....	\$120,953	\$ 86,573	\$ 5,684	\$ 213,210	\$ 74,335
Real estate -- construction and land development...	136,954	66,849	9,015	212,818	47,447
Real estate -- mortgages					
Single-family.....	90,439	104,142	78,318	272,899	101,317
Commercial.....	76,459	201,670	62,869	340,998	132,299
Other.....	5,086	7,807	1,688	14,581	5,800
Consumer.....	30,166	47,924	1,308	79,398	48,072
Other.....	2,956	2,319	656	5,931	2,077
Total loans....	\$463,013	\$517,284	\$159,538	\$1,139,835	\$411,347
Percent to total loans.....	40.6%	45.4%	14.0%	100.0%	36.1%

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Allowance for Loan Losses. We maintain an allowance for loan losses at a level we believe is adequate to absorb estimated losses inherent in the loan portfolio. We prepare a quarterly analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, we estimate the allowance using specific reserves for impaired loans, and other factors, such as historical loss experience based

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on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information. The level of allowance for loan losses to net loans will vary depending on the quarterly analysis.

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

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

The allowance for loan loss calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a seven point scale with the loan officer having the primary responsibility for assigning risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by our internal Loan Review Department and senior management. Based on the assigned risk ratings, the loan portfolio is segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages are applied to these categories to estimate the amount of loan loss allowance, adjusted for previously mentioned risk factors.

Pursuant to SFAS Statement No. 114, impaired loans are specifically reviewed loans for which it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is expected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment.

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

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As stated above, risk ratings are subject to independent review by the Loan Review Department, which also performs ongoing, independent review of the risk management process, which includes underwriting, documentation and collateral control. The Loan Review Department is centralized and independent of the lending function. The loan review results are reported to the Audit Committee of the board of directors and senior management. We have also established a centralized loan administration services department to serve all of our bank locations, thereby providing standardized oversight for compliance approval authorities and bank lending policies and procedures as well as centralized supervision, monitoring and accessibility. In addition, this department will enhance the monitoring of loan risk ratings as well as the monitoring of a loan officer's ability to originate loans.

We historically have allocated our allowance for loan losses to specific loan categories. Although the allowance is allocated, it is available to absorb losses in the entire loan portfolio. This allocation is made for

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estimation purposes only and is not necessarily indicative of the allocation between categories in which future losses may occur.

### ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	DECEMBER 31,						
	2002		2001		2000		
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	
	(DOLLARS IN THOUSANDS)						
Commercial and industrial...	\$10,056	18.7%	\$ 6,536	19.5%	\$5,689	24.8%	\$4,46
Real estate -- construction and land development.....	1,317	18.7	919	22.5	392	15.3	223
Real estate -- Mortgages							
Single-family.....	3,636	23.9	1,273	24.2	916	28.3	500
Commercial.....	10,174	29.9	1,315	21.1	--	19.6	350
Other.....	396	1.3	333	3.2	--	1.8	21
Consumer.....	2,075	6.9	2,129	9.2	1,822	9.7	2,452
Other.....	112	.6	41	.3	50	.5	--
Unallocated.....	--	--	--	--	90	--	59
	\$27,766	100.0%	\$12,546	100.0%	\$8,959	100.0%	\$8,06

The allowance as a percentage of loans, net of unearned income, at December 31, 2002 was 2.44%, and the average of the allowance as a percentage of loans for the five-year period ended December 31, 2002 was 1.59%. The allowance for loan losses as a percentage of non-performing loans increased to 143.12% at December 31, 2002 from 100.99% at December 31, 2001.

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Net charge-offs increased \$33.8 million from \$3.9 million in 2001 to \$37.7 million in 2002. The Bristol bank group contributed approximately \$26.2 million to total charge-offs during 2002; the Albertville bank contributed approximately \$2.3 million and the Huntsville bank contributed approximately \$5.1 million which was primarily comprised of five relationships. Net charge-offs of commercial loans increased \$22.8 million from \$2.3 million in 2001 to \$25.1 million in 2002. Net charge-offs of real estate loans increased \$10.3 million from \$290,000 in 2001 to \$10.6 million in 2002. Net charge-offs of consumer loans increased \$900,000 from \$1.2 million in 2001 to \$2.1 million in 2002. Net charge-offs as a percentage of the provision for loan losses were 72.69% in 2002, up from 51.88% in 2001. Net charge-offs as a percentage of the allowance for loan losses were 135.74% in 2002, up from 30.82% in 2001.

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

### SUMMARY OF LOAN LOSS EXPERIENCE

	YEAR				
	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Allowance for loan losses at beginning of year.....	\$ 12,546	\$ 8,959	\$ 8,065	\$ 6,466	\$ 3,7
Allowance of acquired bank.....	1,059	--	--	3,591	3
Charge-offs:					
Commercial and industrial.....	25,162	2,415	3,133	4,531	1,2
Real estate -- construction and land development.....	1,704	48	524	--	
Real estate -- mortgages					
Single-family.....	2,608	184	223	197	3
Commercial.....	6,140	130	9	53	
Other.....	141	20	--	36	
Consumer and other loans.....	2,343	1,517	726	975	1,2
Total charge-offs.....	38,098	4,314	4,615	5,792	2,9
Recoveries:					
Commercial and industrial.....	93	65	193	418	1
Real estate -- construction and land development.....	14	65	--	--	
Real estate -- mortgages					
Single-family.....	23	--	83	62	
Commercial.....	--	27	4	67	
Other.....	38	--	--	43	
Consumer and other loans.....	239	290	268	360	4
Total recoveries.....	407	447	548	950	6
Net charge-offs.....	37,691	3,867	4,067	4,842	2,3
Provision for loan losses.....	51,852	7,454	4,961	2,850	4,6
Allowance for loan losses at end of year...	\$ 27,766	\$ 12,546	\$ 8,959	\$ 8,065	\$ 6,4
Loans at end of period, net of unearned income.....	\$1,138,537	\$999,156	\$808,145	\$632,777	\$431,9



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Average loans, net of unearned income.....	1,124,977	914,006	710,414	535,754	340,8
Ratio of ending allowance to ending loans.....	2.44%	1.26%	1.11%	1.27%	1.
Ratio of net charge-offs to average loans.....	3.35	0.42	0.57	0.90	0.
Net charge-offs as a percentage of:					
Provision for loan losses.....	72.69	51.88	81.98	169.89	49.
Allowance for loan losses.....	135.74	30.82	45.40	60.04	35.
Allowance for loan losses as a percentage of nonperforming loans.....	143.12	100.99	90.85(1)	216.22	172.

-----

(1) The Bank had an approximately \$5.0 million commercial loan to a single bank customer which became non-performing during 2000. The loan was well secured and no loss was anticipated. The current balance at December 31, 2002 is approximately \$500,000 and no losses have been incurred.

Nonperforming Loans. Nonperforming loans increased \$7.0 million to \$19.4 million as of December 31, 2002 from \$12.4 million as of December 31, 2001. As a percent of net loans, nonperforming loans increased

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from 1.24% at December 31, 2001 to 1.70% at December 31, 2002. The following table represents our nonperforming loans for the dates indicated.

NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

	DECEMBER 31,				
	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Nonaccrual.....	\$17,165	\$ 7,941	\$9,340	\$3,097	\$1,49
Accruing loans 90 days or more delinquent.....	2,235	4,482	334	575	93
Restructured.....	--	--	187	58	--
	\$19,400	\$12,423	\$9,861	\$3,730	\$2,43
Nonperforming loans as a percent of loans.....	1.70%	1.24%	1.22%	.59%	.5

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

	DECEMBER 31,				
	2002	2001	2000	1999	1998
	(DOLLARS IN THOUSANDS)				
Commercial and industrial.....	\$ 5,056	\$ 3,078	\$6,580	\$1,780	\$ 56
Real estate -- construction and land development....	1,819	2,895	867	288	15

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Real estate -- mortgages					
Single-family.....	3,284	3,089	551	333	73
Commercial.....	7,425	2,400	1,284	893	52
Other.....	568	145	--	80	--
Consumer.....	1,234	669	389	298	38
Other.....	14	147	190	58	6
	-----	-----	-----	-----	-----
Total nonperforming loans.....	\$19,400	\$12,423	\$9,861	\$3,730	\$2,43
	=====	=====	=====	=====	=====

A delinquent loan is placed on nonaccrual status when it becomes 90 days or more past due and management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. When a loan is placed on nonaccrual status, all interest which has been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest income. No additional interest income is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. When a problem loan is finally resolved, there may ultimately be an actual write-down or charge-off of the principal balance of the loan to the allowance for loan losses.

Due to the amount of loans that were charged off and placed on non-accrual during 2002, interest income on loans will decrease, affecting our net income in 2003. Net charge offs increased to \$37.7 million in 2002 from \$3.9 million in 2001. Non-accrual loans increased to \$17.2 million at December 31, 2002 from \$7.9 million at December 31, 2001. We expect to have some recoveries from the charged off loans and are working with our customers whose loans have been placed on non-accrual to either move their relationship to another financial institution or return their loan to a performing status. We are vigorously working with legal counsel and regulatory and federal authorities to pursue all available remedies and avenues for collection. We anticipate making fidelity bond claims in an undetermined amount stemming from the unauthorized loan activity. Classified assets increased significantly during 2002 primarily as a result of the Bristol, Florida situation discussed previously. Approximately 88% of the increase in classified assets is from the Bristol, Florida loan portfolio. The remaining 12% of the increase is centered primarily in the Huntsville and Albertville, Alabama banks.

Impaired Loans. At December 31, 2002, our recorded investment in impaired loans totaled \$26.4 million, an increase of \$16.3 million from \$10.1 million at December 31, 2001. The increase in the amount of impaired loans is attributable to several commercial and commercial real estate loans in the Bristol, Florida loan portfolio. Based on management's current understanding of the financial condition of the borrowers, we

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believe that many of these loans will be repaid other than according to their original terms. As of December 31, 2002, we considered \$14.8 million of the Bristol bank group's loans impaired under SFAS Statement No. 114; \$3.1 million of the Albertville bank's loans were impaired and \$5.0 million of the Huntsville bank's loans were impaired. At December 31, 2002 and 2001, there were approximately \$9.3 million and \$3.1 million in allowance for loan losses specifically allocated to impaired loans. We have approximately \$224,000 in commitments to loan additional funds to the borrowers whose loans are impaired.

The following is a summary of impaired loans and the specifically allocated allowance for loan losses by category as of December 31, 2002:

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	OUTSTANDING BALANCE	SPECIFIC ALLOWANCE
	(DOLLARS IN THOUSANDS)	
Commercial and industrial.....	\$10,752	\$4,273
Real estate -- construction and land development.....	2,106	497
Real estate -- mortgages		
Commercial.....	12,966	4,484
Other.....	536	95
Other.....	2	--
	-----	-----
Total.....	\$26,362	\$9,349
	=====	=====

Potential Problem Loans. In addition to impaired loans, management has identified \$6.4 million in potential problem loans as of December 31, 2002. Of the \$6.4 million in potential problem loans, \$2.3 million or 36% is attributable to the Bristol, Florida group. Potential problem loans are loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and may result in disclosure of such loans as nonperforming in future periods. Of the total, \$2.9 million, or 45% is secured by 1-4 family residential real estate and \$1.5 million or 23% is secured by commercial real estate. As of December 31, 2002, The Bank has allocated \$1.2 million in loan loss reserve to absorb potential losses on these accounts.

Investment Securities. The investment securities portfolio comprised 5.74% of our total interest-earning assets as of December 31, 2002. Total securities averaged \$63.3 million in 2002, compared to \$90.5 million in 2001 and \$81.0 million in 2000. The investment securities portfolio produced average tax equivalent yields of 5.45%, 6.03% and 6.71% for the years ended December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, our investment securities portfolio had an amortized cost of \$72.2 million and an estimated fair value of \$73.0 million.

The following table sets forth the amortized costs of the securities we held at the dates indicated.

INVESTMENT PORTFOLIO

	DECEMBER 31,					
	HELD TO MATURITY			AVAILABLE FOR SALE		
	2002	2001	2000	2002	2001	2000
	(DOLLARS IN THOUSANDS)					
U.S. Treasury and agencies.....	\$ --	\$--	\$ --	\$16,769	\$18,807	\$39,
State and political subdivisions.....	--	--	2,867	8,654	8,749	12,
Mortgage-backed securities.....	--	--	1,522	32,706	39,313	38,
Other securities.....	1,996	--	--	12,082	2,512	1,
	-----	-----	-----	-----	-----	-----
Total investment securities.....	\$1,996	\$--	\$4,389	\$70,211	\$69,381	\$91,
	=====	==	=====	=====	=====	=====

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The following table shows the scheduled maturities and average yields of securities held at December 31, 2002.

MATURITY DISTRIBUTION OF INVESTMENT SECURITIES

	MATURING						
	WITHIN ONE YEAR		AFTER ONE BUT WITHIN FIVE YEARS		AFTER FIVE BUT WITHIN TEN YEARS		AFTER
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT
	(DOLLARS IN THOUSANDS)						
Securities available for sale:							
U.S. Treasury and agencies.....	\$ 467	5.82%	\$11,296	2.49%	\$ 6	5.49%	\$ 5,0
State and political subdivision.....	625	4.06	862	4.64	1,144	4.19	6,0
Mortgage-backed securities.....	173	6.12	702	6.51	1,847	6.36	29,9
Other securities.....	1,874	2.97	509	3.10	262	5.51	9,4
Total.....	\$3,139	5.02%	\$13,369	3.04%	\$3,259	5.53%	\$50,4
Securities held to maturity:							
Corporate debt.....	\$ --	--%	\$ 1,996	5.80%	\$ --	--%	\$

Short-Term Investments. Short-term investments as of December 31, 2002 consisted of federal funds sold of \$11.0 million compared to \$20.0 million as of December 31, 2001. Federal funds sold averaged \$21.0 million during 2002, compared to \$31.4 million in 2001 and \$14.6 million in 2000 and produced average yields of 1.66%, 4.17% and 6.36%, respectively. Federal funds are a primary source of our liquidity and are generally invested on an overnight basis. In addition to federal funds sold, we will also invest in short-term commercial paper. As of December 31, 2002, we did not hold any commercial paper.

In addition to liquidity management, we also utilize short-term investments when the level of funds committed to lending and investment portfolios changes, or the level of deposit generation changes.

Deposits. During 2002, average total deposits increased \$157.5 million, or 17.3% to \$1.07 billion, from \$910.3 million in 2001. During 2001, average total deposits increased \$167.5 million, or 22.6% from \$742.8 million in 2000, which increased \$145.6 million, or 24.4% from \$597.2 million in 1999. Deposit growth has been generated primarily through internal growth in our various markets. We also acquired approximately \$77 million in deposits in our acquisition of CF Bancshares, Inc.

The following table sets forth our average deposits by category for the periods indicated.

AVERAGE DEPOSITS

AVERAGE FOR THE YEAR

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	2002		2001		2000
	AVERAGE AMOUNT OUTSTANDING	AVERAGE RATE PAID	AVERAGE AMOUNT OUTSTANDING	AVERAGE RATE PAID	AVERAGE AMOUNT OUTSTANDING
	(DOLLARS IN THOUSANDS)				
Noninterest bearing demand deposits.....	\$ 106,320	--%	\$100,968	--%	\$ 91,420
Interest-bearing demand deposits.....	276,522	1.20	230,098	3.27	172,579
Savings deposits.....	36,765	.67	30,823	1.87	35,141
Time deposits.....	648,195	3.97	548,445	5.91	443,686
	-----	----	-----	----	-----
Total average deposits.....	\$1,067,802	2.74%	\$910,334	4.45%	\$742,826
	=====	=====	=====	=====	=====

Noninterest-bearing deposits totaled \$119.1 million at December 31, 2002, an increase of 25.9%, or \$24.5 million from \$94.6 million at December 31, 2001. Of the \$24.5 million increase in noninterest-bearing deposits, 30.2%, or \$7.4 million were generated in branches located in the Alabama region, the other 69.8%, or \$17.1 million were generated in branches in the Florida region. Noninterest-bearing deposits comprised 10.7% of total deposits at December 31, 2002, compared to 9.9% at December 31, 2001.

Interest-bearing deposits totaled \$988.7 million at December 31, 2002, an increase of 15.3%, or \$131.1 million from \$857.6 million at December 31, 2001. Of the \$131.1 million increase in interest-bearing

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deposits, 8.2%, or \$10.8 million were generated in branches located in the Alabama region, the other 91.8%, or \$120.3 million were generated in branches in the Florida region

During 2002, average interest-bearing deposits increased \$152.1 million, or 18.8% to \$961.5 million, from \$809.4 million in 2001, compared to an increase during 2001 of \$158.0 million, or 24.2% from \$651.4 million in 2000, which increased \$135.7 million, or 26.3% from \$515.7 million in 1999. Interest-bearing deposits comprised 89.3% of total deposits at December 31, 2002, compared to 90.1% at December 31, 2001 and carried an average rate of 3.04%, 5.01% and 5.37% for the years ended December 31, 2002, 2001 and 2000, respectively.

Deposits, particularly core deposits, have historically been our primary source of funding and have enabled us to meet successfully both our short-term and long-term liquidity needs. Our core deposits, which exclude our time deposits greater than \$100,000, represent 73.5% of our total deposits at December 31, 2002 compared to 72.8% at December 31, 2001. We anticipate that such deposits will continue to be our primary source of funding in the future. Our loan-to-deposit ratio was 102.8% at December 31, 2002, compared to 104.9% at December 31, 2001. The maturity distribution of our time deposits over \$100,000 at December 31, 2002 is shown in the following table.

MATURITIES OF TIME DEPOSITS OF \$100,000 OR MORE

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AT DECEMBER 31, 2002

UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 12 MONTHS	TOTAL
(DOLLARS IN THOUSANDS)				
\$55,102..	\$99,236	\$102,681	\$74,281	\$331,300
=====	=====	=====	=====	=====

Approximately 16.6% of our time deposits over \$100,000 had scheduled maturities within three months of December 31, 2002. We believe customers who hold a large denomination certificate of deposit tend to be extremely sensitive to interest rate levels, making these deposits less reliable source of funding for liquidity planning purposes than core deposits.

**Borrowed Funds.** During 2002, average borrowed funds increased \$17.8 million, or 13.2% to \$152.6 million, from \$134.8 million during 2001, which increased \$49.0 million, or 57.1% from \$85.8 million during 2000. The average rate paid on borrowed funds during 2002, 2001 and 2000 was 5.65%, 5.82% and 5.78%, respectively. Because of a relatively high loan-to-deposit ratio, the existence and stability of these funding sources are important to our maintenance of short-term and long-term liquidity.

Borrowed funds as of December 31, 2002 consist primarily of advances from the FHLB. The following is a summary, by year of contractual maturity, of advances from the FHLB as of December 31, 2002 and 2001:

YEAR	2002		2001	
	WEIGHTED AVERAGE RATE	BALANCE	WEIGHTED AVERAGE RATE	BALANCE
(DOLLARS IN THOUSANDS)				
2003.....	4.96%	\$ 18,660	4.99%	\$ 15,660
2004.....	5.21	25,000	5.21	25,000
2005.....	4.15	59,000	6.31	32,400
2006.....	6.70	250	--	--
2008.....	5.74	5,500	5.51	2,500
2009.....	5.26	2,000	5.26	2,000
2010.....	6.22	31,340	6.18	26,340
2011.....	4.97	32,000	4.97	32,000
Total.....	4.98%	\$173,750	5.58%	\$135,900
		=====		=====

Certain advances are subject to call by the FHLB as follows: 2003, \$149.8 million; 2004, \$2.0 million; and 2005, \$3.0 million. The \$149.8 million in FHLB advances subject to call during 2003 carry a weighted average

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interest rate of 4.90% ranging from 1.16% to 7.07%. We do not expect the FHLB to call these advances considering the current interest rate environment.

The advances are secured by FHLB stock, agency securities and a blanket

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lien on certain residential and commercial real estate loans, all with a carrying value of approximately \$541.5 million at December 31, 2002. We have remaining approximately \$96 million in unused lines of credit with the FHLB subject to the availability of qualified collateral.

As of December 31, 2002, we had available a \$15 million line of credit with a regional bank. Interest is one and three-quarters (1.75%) percentage points in excess of the applicable LIBOR Index Rate, and the line matures May 1, 2005. The loan agreement contains various covenants pertaining to the maintenance of regulatory capital, specified levels of classified assets and the amount of stockholders' equity. At December 31, 2002, we were in breach of the classified assets covenant of that loan agreement. As a result, the lending bank must consent to each advance under the line of credit. As of December 31, 2002 and 2001, there were no outstanding balances on this line.

We also have available approximately \$30 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements.

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

On July 16, 2001, TBC Capital III, a Delaware business trust established by us, received \$16,000,000 in proceeds in exchange for \$16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private placement. TBC Capital III used the proceeds to purchase an equal principal amount of our variable rate subordinated debentures. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12.5% per annum ceiling for the first ten years. As of the date of issuance, the interest rate on the securities was 7.57%. As of December 31, 2002, the interest rate on the securities was 5.61%.

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

A portion of the proceeds from the offerings was used to repay borrowings under our line of credit with the balance to be used for general corporate purposes including additional capital investment in our bank subsidiary.

Stockholder's Equity. Stockholder's equity decreased \$400,000 during 2002 to \$76.5 million at December 31, 2002 from \$76.9 million at December 31, 2001. The decrease in stockholders' equity during 2002 primarily consisted of a net loss of approximately \$18.4 million arising from increased net charge-offs and loan loss provisions related mainly to the Bristol, Florida loan portfolio offset by a secondary common stock offering completed during the first quarter

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of 2002 resulting in net proceeds of \$19.3 million. Stockholders' equity was also decreased by certain restricted stock and employee stock ownership plan transactions as described in the following paragraphs. In September of 2000, our board of directors approved a stock repurchase plan in an amount not to exceed \$10,000,000. Since September of 2000, 200,274 shares of common stock were

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repurchased, of which 63,418 shares were reissued during 2001 and 2002. As of December 31, 2002, there were 136,856 shares held in treasury at a total cost of \$808,000.

On April 1, 2002, we issued 157,500 shares of restricted common stock to certain directors and key employees under our Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner for a five-year period that began on April 1, 2002. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting at the end of each of the third, fourth and fifth year. The restricted stock was issued at a total value of \$1,120,000 and is classified as a contra-equity account, "Unearned restricted stock," in stockholders' equity. The \$1,120,000 is being amortized as expense as the stock is earned during the restricted period. For the period ended December 31, 2002, we have recognized \$168,000 in restricted stock expense.

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

On January 29, 2003, the ESOP trustees finalized a \$2.1 million promissory note to reimburse us for funds used to leverage the ESOP. The unreleased shares and our guaranty secure the promissory note, which will be classified as long-term debt on our consolidated statement of financial condition. As the ESOP repays the debt, with our monthly contributions, shares are released from collateral based on the proportion of debt service. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. We recognize compensation expense as the shares are earned and committed to be released during the period. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense we report is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that we recognized during the period ended December 31, 2002 was \$52,000. The ESOP shares as of December 31, 2002 were as follows:

	DECEMBER 31, 2002
	-----
Allocated shares.....	--
Estimated shares committed to be released.....	6,378
Unreleased shares.....	267,022
	-----
Total ESOP shares.....	273,400
	=====



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Fair value of unreleased shares..... \$2,072,000  
 =====

Regulatory Capital. The table below represents our and our subsidiary's actual regulatory and minimum regulatory capital requirements at December 31, 2002 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Risk-Based Capital						
The Banc Corporation.....	\$104,483	8.81%	\$94,873	8.00%	\$118,591	10.00%
The Bank.....	94,393	8.04	93,894	8.00	117,368	10.00
Tier 1 Risk-Based Capital						
The Banc Corporation.....	78,212	6.60	47,327	4.00	71,155	6.00
The Bank.....	79,722	6.79	46,947	4.00	70,421	6.00
Leverage Capital						
The Banc Corporation.....	78,212	5.67	55,134	4.00	68,918	5.00
The Bank.....	79,722	5.78	55,198	4.00	68,997	5.00

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### IMPACT OF INFLATION

Unlike most industrial companies, our assets and liabilities are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the effects of changes in the general rate of inflation and changes in prices. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. We seek to manage the relationships between interest sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

### FORWARD-LOOKING STATEMENTS

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

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

Although we believe that the expectations reflected in our forward-looking

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statements are reasonable, these statements involve risks and uncertainties which are subject to change based on various important factors (some of which are beyond our control). The following factors, among others, could cause our financial performance to differ materially from our goals, plans, objectives, intentions, expectations and other forward-looking statements: (1) the strength of the United States economy in general and the strength of the regional and local economies in which we conduct operations; (2) the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; (3) inflation, interest rate, market and monetary fluctuations; (4) our ability to successfully integrate the assets, liabilities, customers, systems and management we acquire or merge into our operations; (5) our timely development of new products and services to a changing environment, including the features, pricing and quality compared to the products and services of our competitors; (6) the willingness of users to substitute competitors' products and services for our products and services; (7) the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies; (8) our ability to resolve any legal proceeding on acceptable terms and its effect on our financial condition or results of operations; (9) technological changes; (10) changes in consumer spending and savings habits; and (11) regulatory, legal or judicial proceedings.

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

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

### ITEM 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Please refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk -- Interest Rate Sensitivity," which is incorporated herein by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements of The Banc Corporation meeting the requirements of Regulation S-X are filed on the succeeding pages of this Item 8 of this Annual Report on Form 10-K.

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## THE BANC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
The Banc Corporation

We have audited the accompanying consolidated statements of financial condition of The Banc Corporation and Subsidiaries (Corporation) as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in stockholders' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Banc Corporation and Subsidiaries at 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.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Corporation changed its method of accounting for goodwill.

/s/ Ernst & Young LLP

Birmingham, Alabama  
April 3, 2003

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## THE BANC CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31,	
2002	2001
-----	
(IN THOUSANDS)	

ASSETS

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Cash and due from banks.....	\$ 45,365	\$ 31,682
Interest-bearing deposits in other banks.....	10,025	495
Federal funds sold.....	11,000	20,000
Securities available for sale.....	71,129	68,847
Securities held to maturity (fair value of \$1,867,000 in 2002).....	1,996	-
Mortgage loans held for sale.....	764	1,131
Loans.....	1,139,835	1,000,062
Unearned income.....	(1,298)	(906)
	-----	-----
Loans, net of unearned income.....	1,138,537	999,156
Allowance for loan losses.....	(27,766)	(12,546)
	-----	-----
Net loans.....	1,110,771	986,610
Premises and equipment, net.....	61,849	47,829
Accrued interest receivable.....	6,876	7,562
Stock in FHLB and Federal Reserve Bank.....	10,903	8,505
Other assets.....	75,136	33,744
	-----	-----
Total assets.....	\$1,405,814	\$1,206,405
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

Noninterest-bearing demand.....	\$ 119,088	\$ 94,655
Interest-bearing demand.....	285,981	250,947
Savings.....	35,146	28,517
Time deposits \$100,000 and over.....	331,300	259,143
Other time.....	336,283	318,973
	-----	-----
Total deposits.....	1,107,798	952,235
Advances from FHLB.....	173,750	135,900
Other borrowed funds.....	1,172	813
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures.....	31,000	31,000
Accrued expenses and other liabilities.....	15,553	9,604
	-----	-----
Total liabilities.....	1,329,273	1,129,552

Stockholders' equity:

Preferred stock, par value \$.001 per share; shares authorized 5,000,000; shares issued -0-.....	--	--
Common stock, par value \$.001 per share; shares authorized 25,000,000; shares issued 18,009,002 in 2002 and 14,385,021 in 2001; outstanding 17,605,124 in 2002 and 14,217,371 in 2001.....	18	14
Surplus.....	68,315	47,756
Retained earnings.....	11,571	30,329
Accumulated other comprehensive income (loss).....	550	(322)
Treasury stock, at cost -- 136,856 and 167,650 shares, respectively.....	(808)	(924)
Unearned ESOP stock.....	(2,153)	--
Unearned restricted stock.....	(952)	--
	-----	-----
Total stockholders' equity.....	76,541	76,853

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Total liabilities and stockholders' equity.....	\$1,405,814	\$1,206,405
	=====	=====

See accompanying notes.

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THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Interest income:			
Interest and fees on loans.....	\$ 84,337	\$83,207	\$68,467
Interest on taxable securities.....	2,857	4,736	4,314
Interest on tax exempt securities.....	392	476	737
Interest on federal funds sold.....	350	1,310	930
Interest and dividends on other investments.....	533	622	587
	-----	-----	-----
Total interest income.....	88,469	90,351	75,035
Interest expense:			
Interest on deposits.....	29,276	40,525	34,967
Interest expense on advances from FHLB and other borrowed funds.....	8,626	7,834	4,954
Interest on guaranteed preferred beneficial interest in our subordinated debentures.....	2,529	2,159	504
	-----	-----	-----
Total interest expense.....	40,431	50,518	40,425
Net interest income.....	48,038	39,833	34,610
Provision for loan losses.....	51,852	7,454	4,961
	-----	-----	-----
Net interest (loss) income after provision for loan losses.....	(3,814)	32,379	29,649
Noninterest income:			
Service charges and fees.....	5,848	4,102	3,986
Mortgage banking income.....	3,253	1,692	1,654
Securities gains.....	627	1,383	131
Litigation settlement.....	1,082	--	--
Other.....	4,313	2,596	2,051
	-----	-----	-----
Total noninterest income.....	15,123	9,773	7,822
Noninterest expense:			
Salaries and employee benefits.....	23,495	19,451	16,101
Occupancy and equipment.....	7,260	6,864	5,893
Other.....	11,914	12,182	10,124
	-----	-----	-----
Total noninterest expenses.....	42,669	38,497	32,118

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(Loss) income before income taxes.....	(31,360)	3,655	5,353
Income tax (benefit) expense.....	(12,959)	966	996
Net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,357
Average common shares outstanding.....	16,829	14,272	14,384
Average common shares outstanding, assuming dilution.....	16,829	14,302	14,387
Basic net (loss) income per common share.....	\$ (1.09)	\$ .19	\$ .30
Diluted net (loss) income per common share.....	(1.09)	.19	.30

See accompanying notes.

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THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNREALIZED ESOP SHARES
	-----	-----	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE DATA)					
Balance at January 1, 2000.....	\$14	\$47,756	\$23,283	\$ (2,205)	\$ --	
Comprehensive income:						
Net income.....	--	--	4,357	--	--	
Other comprehensive income net of tax of \$1,155; unrealized losses on securities available for sale, arising during the period, net of reclassification adjustment.....	--	--	--	1,880	--	
Comprehensive income.....						
Purchase of 40,000 shares of treasury stock.....	--	--	--	--	(210)	
Balance at December 31, 2000.....	14	47,756	27,640	(325)	(210)	
Comprehensive income:						
Net income.....	--	--	2,689	--	--	
Other comprehensive income net of tax of \$2; unrealized gain on securities available for sale, arising during the period, net of reclassification adjustment.....	--	--	--	3	--	
Comprehensive income.....						
Purchase of 137,650 shares of treasury stock.....	--	--	--	--	(780)	
Sale of 10,000 shares of						

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treasury stock.....	--	--	--	--	66	
	---	-----	-----	-----	-----	-----
Balance at December 31, 2001.....	14	47,756	30,329	(322)	(924)	
Comprehensive loss:						
Net loss.....	--	--	(18,401)	--	--	
Other comprehensive income						
net of tax of \$581;						
unrealized gain on						
securities available for						
sale, arising during the						
period, net of						
reclassification						
adjustment.....	--	--	--	872	--	
Comprehensive loss.....	--	--	--	--	--	
Purchase of 22,624 shares of						
treasury stock.....	--	--	--	--	(164)	
Sale of 53,418 shares of						
treasury stock.....	--	85	--	--	280	
Cash dividends declared, \$0.02						
per share.....	--	--	(357)	--	--	
Issuance of 3,450,000 shares of						
common stock, net of direct						
costs.....	4	19,246	--	--	--	
Issuance of 16,449 shares of						
common stock in business						
combinations.....	--	109	--	--	--	
Issuance of 157,500 shares of						
restricted common stock.....	--	1,120	--	--	--	
Amortization of unearned						
restricted stock.....	--	--	--	--	--	
Purchase of 273,400 shares by						
ESOP.....	--	--	--	--	--	(2,2
Release of 6,378 shares by						
ESOP.....	--	(1)	--	--	--	
	---	-----	-----	-----	-----	-----
Balance at December 31, 2002.....	\$18	\$68,315	\$11,571	\$ 550	\$ (808)	(2,1
	===	=====	=====	=====	=====	=====

See accompanying notes.

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THE BANC CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,357
Adjustments to reconcile net (loss) income to net cash			
provided by operations:			
Depreciation.....	3,305	3,017	2,598

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Net premium amortization (discount accretion) on securities.....	403	(31)	(371)
Gain on sale of securities available for sale.....	(627)	(1,383)	(131)
Provision for loan losses.....	51,852	7,454	4,961
Decrease (increase) in accrued interest receivable.....	1,071	1,053	(2,329)
Deferred income tax benefit.....	(9,198)	(1,800)	(1,286)
Other operating activities, net.....	(9,205)	1,566	2,429
Decrease (increase) in mortgage loans held for sale.....	367	3,194	(2,197)
	-----	-----	-----
Net cash provided by operating activities.....	19,567	15,759	8,031
<b>INVESTING ACTIVITIES</b>			
(Increase) decrease in interest bearing deposits in other banks.....	(9,530)	1,932	(565)
Decrease (increase) in federal funds sold.....	9,000	(16,880)	2,723
Decrease in short-term commercial paper.....	--	--	14,719
Proceeds from sales of securities available for sale.....	17,403	68,786	4,578
Proceeds from maturities of securities available for sale...	35,914	96,406	13,244
Proceeds from maturities of securities held to maturity.....	--	--	1,076
Purchase of securities available for sale.....	(51,644)	(136,916)	(40,385)
Purchase of securities held to maturity.....	(1,996)	--	--
Net increase in loans.....	(83,185)	(199,143)	(179,647)
Net cash paid in business combinations.....	(8,619)	--	--
Purchase of premises and equipment.....	(14,236)	(7,617)	(9,605)
Other investing activities, net.....	(16,586)	568	(3,461)
	-----	-----	-----
Net cash used in investing activities.....	(123,479)	(192,864)	(197,323)
 <b>FINANCING ACTIVITIES</b>			
Net increase in demand and savings deposits.....	17,388	73,102	23,242
Net increase in time deposits.....	60,684	51,829	121,545
Increase in FHLB advances.....	22,600	31,600	41,800
Net decrease in borrowings on credit line.....	--	--	(7,104)
Proceeds from note payable.....	14,000	--	--
Principal payment on note payable.....	(14,000)	--	--
Net increase (decrease) in other borrowed funds.....	359	279	(115)
Proceeds from guaranteed preferred beneficial interest in our subordinated debentures.....	--	16,000	15,000
Proceeds from issuance of common stock.....	19,290	66	--
Purchase of treasury stock.....	(164)	(780)	(210)
Cash dividends paid.....	(357)	--	--
Purchase of ESOP shares.....	(2,205)	--	--
	-----	-----	-----
Net cash provided by financing activities.....	117,595	172,096	194,158
	-----	-----	-----
Increase (decrease) in cash and due from banks.....	13,683	(5,009)	4,866
Cash and due from banks at beginning of year.....	31,682	36,691	31,825
	-----	-----	-----
Cash and due from banks at end of year.....	\$ 45,365	\$ 31,682	\$ 36,691
	=====	=====	=====
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Interest.....	\$ 41,395	\$ 48,339	\$ 38,132
Income taxes.....	3,900	2,794	1,523
Assets acquired in business combinations.....	101,765	--	--
Liabilities assumed in business combinations.....	93,146	--	--
Transfer of held to maturity securities to available for sale.....	--	4,389	--



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See accompanying notes.

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## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Banc Corporation ("Corporation"), through its subsidiaries, provides a full range of banking and bank-related services to individual and corporate customers across Alabama and the panhandle of Florida. The accounting and reporting policies of the Corporation conform with generally accepted accounting principles and to general practice within the banking industry. The following summarizes the most significant of these policies.

##### Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements and notes to consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany transactions or balances have been eliminated in consolidation.

On February 15, 2002, the Corporation acquired CF Bancshares, Inc. and its bank subsidiary Citizens Federal Savings Bank of Port Saint Joe ("CF Bancshares") in a business combination accounted for as a purchase. As such, the Corporation's consolidated financial statements include the results of operations of CF Bancshares only from its date of acquisition. See Note 14 for more disclosure regarding the Corporation's business combinations.

Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation. The guaranteed preferred beneficial interests in the Corporation's subordinated debentures (trust preferred securities) have been reclassified as long-term debt and the related distributions have been reclassified as interest expense. These trust preferred securities were previously classified as minority interest in the consolidated statement of financial condition with the associated distributions classified as noninterest expense in the consolidated statement of operations.

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

##### Cash and Cash Equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the statements of financial condition caption "Cash and Due from Banks."

The Corporation's banking subsidiary is required to maintain minimum average reserve balances by the Federal Reserve Bank, which is based on a percentage of deposits. The amount of the reserves at December 31, 2002 was approximately \$1,341,000.

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### Investment Securities

Investment securities are classified as either held to maturity, available for sale or trading at the time of purchase. The Corporation defines held to maturity securities as debt securities which management has the positive intent and ability to hold to maturity.

Held to maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the effective yield method.

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Securities available for sale are reported at fair value and consist of bonds, notes, debentures, and certain equity securities not classified as trading securities nor as securities to be held to maturity. Unrealized holding gains and losses, net of deferred taxes, on securities available for sale are excluded from earnings and reported in accumulated other comprehensive income (loss) within stockholders' equity.

Gains and losses on the sale of securities available for sale are determined using the specific-identification method.

##### Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest income with respect to loans is accrued on the principal amount outstanding, except for interest on certain consumer loans which is recognized over the term of the loan using a method, which approximates a level yield.

Accrual of interest is discontinued on loans, which are past due greater than ninety days unless the loan is well secured and in the process of collection. "Well secured," means that the debt must be secured by collateral having sufficient realizable value to discharge the debt, including accrued interest, in full. "In the process of collection," means that collection of the debt is proceeding in due course either through legal action or other collection effort that is reasonably expected to result in repayment of the debt in full within a reasonable period of time, usually within one hundred eighty days of the date the loan became past due. Any unpaid interest previously accrued on these loans placed on nonaccrual is reversed from income. Interest payments received on these loans are applied as a reduction of the loan principal balance.

Under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting for Creditors for Impairment of a Loan", impaired loans are specifically reviewed loans for which it is probable that the Corporation will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loans observable market price, or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is

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expected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment. Payments received on impaired loans for which the ultimate collectibility of principal is uncertain are generally applied first as principal reductions.

The allowance for loan loss is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectibility of principal is unlikely. The allowance is the amount that management believes will be adequate to absorb probable losses on existing loans.

Management reviews the adequacy of the allowance on a quarterly basis. The allowance for classified loans is established based on risk ratings assigned by loan officers. Loans are risk rated using a seven point scale, and loan officers are responsible for the timely reporting of changes in the risk ratings. This process, and the assigned risk ratings, are subject to review by the Corporation's internal loan review function. Based on the assigned risk ratings, the loan portfolio is segregated into the regulatory classifications of: Special Mention, Substandard, Doubtful or Loss. Generally, recommended regulatory reserve percentages are applied to these categories to estimate the amount of loan loss unless the loan has been specifically reviewed for impairment. Reserve percentages assigned to homogeneous and non-rated loans are based on historical charge-off experience adjusted for other risk factors.

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Significant problem credits are individually reviewed by management. Generally, these loans are commercial or real estate construction loans selected for review based on their balance, assigned risk rating, payment history, and other risk factors at the time of management's review. Losses are estimated on each loan based on management's review. These individually reviewed credits are excluded from the classified loan loss calculation discussed above.

To evaluate the overall adequacy of the allowance to absorb losses inherent in the Corporation's loan portfolio, the Corporation considers general economic conditions, geographic concentrations, and changes in the nature and volume of the loan portfolio.

##### Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or market, determined on a net aggregate basis. Differences between the carrying amount of mortgage loans held for sale and the amounts received upon sale are credited or charged to income at the time the proceeds of the sale are collected. The fair values are based on quoted market prices of similar loans, adjusted for differences in loan characteristics.

##### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the estimated service lives of the assets using straight-line and accelerated methods, generally using five to forty years for premises and five to ten years for furniture and equipment.

Expenditures for maintenance and repairs are charged to operations as

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incurred; expenditures for renewals and betterments are capitalized and written off by depreciation charges. Property retired or sold is removed from the asset and related accumulated depreciation accounts and any profit or loss resulting therefrom is reflected in the statement of income.

### Intangible Assets

At December 31, 2002 and 2001, goodwill, net of accumulated amortization, totaled \$10,672,000 and \$6,086,000, respectively. The Corporation adopted Financial Accounting Standards Board ("FASB") Statement 142 on January 1, 2002. Statement 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of Statement 142.

At December 31, 2002, the Corporation also had \$2,612,000 of core deposit intangibles from the CF Bancshares acquisition, which is being amortized over ten years. (See Recent Accounting Pronouncements)

### Other Real Estate

Other real estate, acquired through partial or total satisfaction of loans, is carried at the lower of cost or fair value, less estimated selling expenses, in other assets. At the date of acquisition, any difference between the fair value and book value of the asset is charged to the allowance for loan losses. Subsequent gains or losses on the sale or losses from the valuation of other real estate are included in other expense. Other real estate totaled \$2,360,000 and \$3,608,000 at December 31, 2002 and 2001, respectively.

### Income Taxes

The consolidated financial statements are prepared on the accrual basis. The Corporation accounts for income taxes using the liability method pursuant to SFAS No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and

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## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

#### Off Balance Sheet Financial Instruments

In the ordinary course of business the Corporation has entered into off balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements and commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

#### Per Share Amounts

Earnings per share computations are based on the weighted average number of shares outstanding during the periods presented.

Diluted earnings per share computations are based on the weighted average number of shares outstanding during the period, plus the dilutive effect of

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stock options and restricted stock awards.

### Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation (Statement 123) establishes a "fair value" based method of accounting for stock-based compensation plans and allows entities to adopt that method of accounting for their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by the Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees (Opinion 25). The Corporation has elected to follow Opinion 25 and related interpretations in accounting for its employee stock options. Under Opinion 25, because the exercise price of the Corporation's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Statement 123 requires the disclosure of pro forma net income and earnings per share determined as if the Corporation had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model. Option valuation models require the input of subjective assumptions. Because these assumptions are subjective, the effects of applying Statement 123 for pro forma disclosures are not likely to be representative of the effects on reported net income for future years (see Note 9).

### Derivative Financial Instruments and Hedging Activities

SFAS Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value.

Derivative financial instruments that qualify under SFAS 133 in a hedging relationship are designated, based on the exposure being hedged, as either fair value or cash flow hedges. Fair value hedge relationships mitigate exposure to the change in fair value of an asset, liability or firm commitment. Under the fair value hedging model, gains or losses attributable to the change in fair value of the derivative instrument, as well as the gains and losses attributable to the change in fair value of the hedged item, are recognized in earnings in the period in which the change in fair value occurs.

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. Under the cash flow hedging model, the effective portion of the gain or loss related to the

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## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

derivative instrument is recognized as a component of other comprehensive income. The ineffective portion of the gain or loss related to the derivative instrument, if any, is recognized in earnings during the period of change. Amounts recorded in other comprehensive income are amortized to earnings in the period or periods during which the hedged item impacts earnings. For derivative financial instruments not designated as a fair value or cash flow hedges, gains and losses related to the change in fair value are recognized in earnings during the period of change in fair value.

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The Corporation formally documents all hedging relationships between hedging instruments and the hedged item, as well as its risk management objective and strategy for entering various hedge transactions. The Corporation performs an assessment, at inception and on an ongoing basis, of whether the hedging relationship has been highly effective in offsetting changes in fair values or cash flows of hedged items and whether they are expected to continue to be highly effective in the future.

During 2002, the Corporation entered into interest-rate swap agreements to manage interest-rate risk exposure. The interest-rate swap agreements utilized by the Corporation effectively modify the Corporation's exposure to interest risk by converting \$10,000,000 fixed-rate certificates of deposit to a LIBOR floating rate. These derivative instruments are included in other assets or other liabilities on the statement of financial condition. For the year ended December 31, 2002, there was no ineffectiveness recorded to earnings related to these fair value hedges.

### Recent Accounting Pronouncements

In July 2001, the SFAS issued Statement No. 141, "Business Combinations" (Statement 141), and Statement No. 142, "Goodwill and Other Intangible Assets" (Statement 142). Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies the criteria for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. Statement 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 requires intangible assets with definite useful lives to be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with the SFAS Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (Statement 121).

The Corporation adopted the provisions of Statement 141 in 2001 and the provisions of Statement 142 on January 1, 2002. Any goodwill and any intangible assets determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001, are not to be amortized (See Note 14) but are to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 were to continue to be amortized until the adoption of Statement 142.

Statement 141 required, upon adoption of Statement 142, that the Corporation evaluate its existing intangible assets and goodwill that were acquired in previous purchase business combinations and make any necessary reclassifications to conform to the new criteria in Statement 141. Upon adoption of Statement 142, the Corporation is required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Corporation is required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Due to the Bristol Florida bank group situation the Corporation reassessed the residual value of the goodwill in the Florida segment and determined that there is no impairment loss.

On October 3, 2001, the FASB issued Statement of Financial Accounting Statement 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement 144). Statement 144 supersedes Statement 121 and provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of Statement 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. Statement 144 also supersedes the provisions of APB Opinion 30 with regard to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred (rather than as of the measurement date as presently required by APB 30). In addition, more dispositions will qualify for discontinued operations treatment in the statement of income. This statement was effective for the Corporation in January 2002 and did not have a material impact on its financial condition or results of operations.

In October of 2002, the FASB released statement, SFAS No. 147, "Acquisitions of Certain Financial Institutions," (Statement 147) amending Statements No. 72 and 144 and FASB Interpretation No. 9 allowing financial institutions meeting certain criteria to reclassify unidentifiable intangible asset balances to goodwill and cease amortization beginning as of January 1, 2002. Except for transactions between two or more mutual enterprises, this Statement removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with Statements No. 141, and No. 142. In addition, Statement 147 amends Statement No. 144, to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement 144 requires for other long-lived assets that are held and used.

This Statement is effective for acquisitions which occur after September 30, 2002; the transition provisions for previously recognized unidentifiable intangibles are effective after September 30, 2002 with earlier application permitted. As such, the Corporation has reclassified to goodwill approximately \$5.1 million in unidentifiable intangible assets which arose from a business combination in North Alabama. Amortization expense of \$113,000, net after-tax, has been reversed from the third quarter 2002 income statement. The after-tax effect of the reversal is not considered material to previously issued financial statements.

At December 31, 2002, the Corporation had unamortized goodwill in the amount of \$10,672,000, which is subject to the provisions of Statements 141 and 142. The adoption of Statement 142 and 147 resulted in the loss before tax benefit of approximately \$562,000 and a decrease in net loss of approximately \$393,000, or approximately \$.02 per share in 2002. During the first quarter of 2002, the Corporation performed the first of the required impairment tests of goodwill and intangible assets with indefinite lives. No impairment was noted.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

The following table sets forth the reconciliation of net (loss) income and (loss) earnings per share excluding goodwill amortization for the twelve-month period ended December 31, 2002 compared to the twelve-month period ended December 31, 2001 (in thousands, except per share data):

	FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31,	
	2002	2001
Reported net (loss) income.....	\$(18,401)	\$2,689
Add back: goodwill amortization.....	--	393
	-----	-----
Adjusted net (loss) income.....	\$(18,401)	\$3,082
	=====	=====
Basic net (loss) income per common share:		
Reported net (loss) income.....	\$ (1.09)	\$ .19
Add back: goodwill amortization.....	--	.02
	-----	-----
Adjusted net (loss) income.....	\$ (1.09)	\$ .21
	=====	=====

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

### 2. INVESTMENT SECURITIES



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The amounts at which investment securities are carried and their approximate fair values at December 31, 2002 and 2001 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	-----	-----	-----	-----
	(IN THOUSANDS)			
DECEMBER 31, 2002				
Investment securities available for sale:				
U.S. agency securities.....	\$16,769	\$157	\$ 17	\$16,909
State, county and municipal securities.....	8,654	232	35	8,851
Mortgage-backed securities.....	32,706	567	23	33,250
Corporate debt.....	6,516	32	--	6,548
Other securities.....	5,566	5	--	5,571
	-----	-----	-----	-----
Total.....	\$70,211	\$993	\$ 75	\$71,129
	=====	=====	=====	=====
Investment securities held to maturity:				
Corporate debt.....	\$ 1,996	\$ --	\$129	\$ 1,867
	=====	=====	=====	=====
DECEMBER 31, 2001				
Investment securities available for sale:				
U.S. agency securities.....	\$18,807	\$ 65	\$ --	\$18,872
State, county and municipal securities.....	8,749	117	193	8,673
Mortgage-backed securities.....	39,313	204	739	38,778
Corporate debt.....	399	14	--	413
Other securities.....	2,113	--	2	2,111
	-----	-----	-----	-----
Total.....	\$69,381	\$400	\$934	\$68,847
	=====	=====	=====	=====

Securities with an amortized cost of \$41,953,000 and \$62,744,000 at December 31, 2002 and 2001, respectively, were pledged to secure United States government deposits and other public funds and for other purposes as required or permitted by law.

The transition provisions of SFAS No. 133 provide that at the date of initial application (January 1, 2001), debt securities categorized as held-to-maturity may be transferred into the available-for-sale category without calling into question the Corporation's intent to hold other debt securities until maturity. As such, on January 1, 2001, the Corporation transferred debt securities with a carrying value of \$4,389,000 and a market value of \$4,317,000 to the available-for-sale category and the \$72,000 unrealized loss on the transfer was recorded in other comprehensive income.

### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 2. INVESTMENT SECURITIES -- (CONTINUED)

The amortized cost and estimated fair values of investment securities at December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to

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call or prepay obligations with or without call or prepayment penalties.

	SECURITIES HELD TO MATURITY		SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Due in one year or less.....	\$ --	\$ --	\$ 2,965	\$ 2,998
Due after one year through five years.....	1,996	1,867	12,667	12,859
Due after five years through ten years.....	--	--	1,412	1,465
Due after ten years.....	--	--	20,461	20,557
Mortgage-backed securities.....	--	--	32,706	33,250
	=====	=====	=====	=====
	\$1,996	\$1,867	\$70,211	\$71,129
	=====	=====	=====	=====

Gross realized gains on sales of investment securities available for sale in 2002, 2001 and 2000 were \$629,000, \$1,461,000 and \$169,000, respectively, and gross realized losses for the same periods were \$2,000, \$78,000 and \$38,000, respectively.

The components of other comprehensive income for the years ended December 31, 2002 and 2001 are as follows:

	PRE-TAX AMOUNT	INCOME TAX EXPENSE	NET OF INCOME TAX
	(IN THOUSANDS)		
2002			
Unrealized gain on available for sale securities.....	\$2,080	\$ 813	\$1,267
Less reclassification adjustment for gains realized in net loss.....	627	232	395
	-----	-----	-----
Net unrealized gain.....	\$1,453	\$ 581	\$ 872
	=====	=====	=====
2001			
Unrealized gain on available for sale securities.....	\$1,388	\$ 527	\$ 861
Less reclassification adjustment for gains realized in net income.....	1,383	525	858
	-----	-----	-----
Net unrealized gain.....	\$ 5	\$ 2	\$ 3
	=====	=====	=====
2000			
Unrealized gains on available for sale securities.....	\$3,166	\$1,205	\$1,961
Less reclassification adjustment for gains realized in net income.....	131	50	81
	-----	-----	-----
Net unrealized gain.....	\$3,035	\$1,155	\$1,880
	=====	=====	=====

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## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 3. LOANS

At December 31, 2002 and 2001, the composition of the loan portfolio was as follows:

	2002	2001
	(IN THOUSANDS)	
Commercial and industrial.....	\$ 213,210	\$ 194,609
Real estate -- construction and land development.....	212,818	225,654
Real estate -- mortgage		
Single-family.....	272,899	241,517
Commercial.....	340,998	210,644
Other.....	14,581	32,427
Consumer.....	79,398	92,655
All other loans.....	5,931	2,556
	\$1,139,835	\$1,000,062
	=====	=====

At December 31, 2002 and 2001, the Corporation's recorded investment in loans considered to be impaired under SFAS No. 114 was \$26,400,000 and \$10,100,000, respectively. At December 31, 2002 and 2001, there were approximately \$9,300,000 and \$3,100,000, respectively, in the allowance for loan losses specifically allocated to impaired loans. The average recorded investment in impaired loans during 2002, 2001 and 2000 was approximately \$16,175,000, \$12,500,000 and \$15,100,000, respectively. Interest income recognized on loans considered impaired totaled approximately \$575,000, \$385,000 and \$857,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

The Corporation had approximately \$224,000 of commitments to loan additional funds to the borrowers whose loans were impaired at December 31, 2002.

#### 4. ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses for the years ended December 31, 2002, 2001 and 2000 follows:

	2002	2001	2000
	(IN THOUSANDS)		
Balance at beginning of year.....	\$ 12,546	\$ 8,959	\$ 8,065
Allowance of acquired bank.....	1,059	--	--
Provision for loan losses.....	51,852	7,454	4,961
Loan charge-offs.....	(38,098)	(4,314)	(4,615)
Recoveries.....	407	447	548
	\$ 27,766	\$12,546	\$ 8,959
	=====	=====	=====

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. PREMISES AND EQUIPMENT

Components of premises and equipment at December 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
	(IN THOUSANDS)	
Land.....	\$ 9,888	\$ 5,244
Premises.....	46,827	38,819
Furniture and equipment.....	17,167	12,570
	-----	-----
	73,882	56,633
Less accumulated depreciation and amortization.....	(13,046)	(9,947)
	-----	-----
Net book value of premises and equipment in service.....	60,836	46,686
Real estate under renovation or held for sale.....	1,013	1,143
	-----	-----
Total.....	\$ 61,849	\$47,829
	=====	=====

Depreciation expense for the years ended December 31, 2002, 2001 and 2000 was \$3,305,000, \$3,017,000 and \$2,598,000, respectively.

Future minimum lease payments under the operating leases are summarized as follows:

	PROPERTY	EQUIPMENT	TOTAL
	-----	-----	-----
Year ending December 31			
2003.....	\$ 125	\$ 78	\$ 203
2004.....	125	49	174
2005.....	125	29	154
2006.....	125	--	125
2007.....	125	--	125
2008 and thereafter.....	644	-	644
	-----	-----	-----
Total minimum lease payments.....	\$1,269	\$156	\$1,425
	=====	=====	=====

Rental expense relating to operating leases amounted to approximately \$766,000, \$918,000 and \$757,003 for the years ended December 31, 2002, 2001 and 2000, respectively.

6. DEPOSITS

The following schedule details interest expense on deposits:

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	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
Interest-bearing demand.....	\$ 3,308	\$ 7,523	\$ 6,541
Savings.....	247	575	1,052
Time deposits \$100,000 and over.....	10,701	9,955	8,257
Other time.....	15,020	22,472	19,117
Total.....	\$29,276	\$40,525	\$34,967

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

6. DEPOSITS -- (CONTINUED)

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

2003.....	\$512,762
2004.....	69,295
2005.....	31,813
2006.....	12,589
2007 and thereafter.....	41,124
	-----
	\$667,583
	=====

7. BORROWED FUNDS

The following is a summary, by year of maturity, of advances from the Federal Home Loan Bank ("FHLB") as of December 31, 2002 and 2001 (in thousands):

YEAR	2002		2001	
	WEIGHTED AVERAGE RATE	BALANCE	WEIGHTED AVERAGE RATE	BALANCE
2003.....	4.96%	\$ 18,660	4.99%	\$ 15,660
2004.....	5.21	25,000	5.21	25,000
2005.....	4.15	59,000	6.31	32,400
2006.....	6.70	250	--	--
2008.....	5.74	5,500	5.51	2,500
2009.....	5.26	2,000	5.26	2,000
2010.....	6.22	31,340	6.18	26,340
2011.....	4.97	32,000	4.97	32,000

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	----	-----	----	-----
Total.....	4.98%	\$173,750	5.58%	\$135,900
	====	=====	====	=====

The above schedule is by contractual maturity. Call dates for the above are as follows: 2003, \$149,840,000; 2004, \$2,000,000; and 2005, \$3,000,000.

The advances are secured by a blanket lien on certain residential and commercial real estate loans all with a carrying value of approximately \$541,459,000 at December 31, 2002.

As of December 31, 2002 the Corporation had available a \$15,000,000 line of credit with a regional bank. Interest is one and three-quarters (1.75%) percentage points in excess of the applicable LIBOR Index Rate and the line matures May 1, 2005. The loan agreement contains various covenants pertaining to the maintenance of regulatory capital, specified levels of classified assets and the amount of stockholders' equity. At December 31, 2002, the Corporation was in breach of the classified assets covenant of that agreement. As a result, the lending bank must consent to each advance under the line of credit. As of December 31, 2002 and 2001, there were no outstanding balances on this line.

### 8. GUARANTEED PREFERRED BENEFICIAL INTEREST IN THE CORPORATION'S SUBORDINATED DEBENTURES

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

### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### 8. GUARANTEED PREFERRED BENEFICIAL INTEREST IN THE CORPORATION'S SUBORDINATED DEBENTURES -- (CONTINUED)

On July 16, 2001, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust established by the Corporation, received \$16,000,000 in proceeds in exchange for \$16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of variable rate subordinated debentures of the Corporation. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% annum ceiling for the first ten years. As of December 31, 2002 and 2001, the interest rate on the securities was 5.61% and 7.57%, respectively.

The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital II and III on a subordinated basis with respect to the preferred securities. The Corporation accounts for TBC Capital II and III as minority interests. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in the Corporation's subordinated debentures." The sole assets of TBC Capital II and III are the subordinated debentures issued by the Corporation. Both the preferred securities of TBC Capital II and III and the subordinated debentures of the Corporation each have 30-year lives. However, both the Corporation and TBC Capital II and

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III have call options, with a premium after five years through ten years and call options at par after ten years, subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements. Currently, the Corporation must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distribution on our trust preferred securities in March 2003.

A portion of the proceeds from the offering were used to repay borrowings under the Corporation's line of credit with the balance to be used for general corporate purposes including additional capital investment in the Corporation's bank subsidiary.

### 9. CASH AND STOCK INCENTIVE PLANS

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

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### 9. CASH AND STOCK INCENTIVE PLANS -- (CONTINUED)

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

	DECEMBER 31,				
	2002		2001		2000
	NUMBER	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER
Under option, beginning of year.....	1,032,009	\$6.44	981,509	\$8.99	715,669
Granted.....	401,000	7.56	735,000	6.58	376,000
Exercised.....	--	--	--	--	--
Cancelled.....	--	--	(566,000)	10.87	--
Forfeited.....	(25,000)	6.48	(118,500)	7.25	(110,160)
Under option, end of year.....	1,408,009	6.76	1,032,009	6.44	981,509
Exercisable at end of year.....	553,309		283,209		425,809
Weighted-average fair value per option of options granted during the year.....	\$ 2.95		\$ 2.71		\$ 2.69

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On December 31, 2001, the Corporation cancelled previously issued stock options totaling 566,000. The most recent option grant date prior to the cancellation was June 19, 2001, the Corporation's normal timing for grants. The Corporation's first grant date after December 31, 2001 was July 31, 2002.

A further summary about options outstanding at December 31, 2002 is as follows:

EXERCISE PRICE	OPTIONS OUTSTANDING		
	NUMBER OUTSTANDING	WEIGHTED- AVERAGE CONTRACTUAL LIFE IN YEARS	NUM EXERC
\$5.68.....	50,000	8.00	20
5.94.....	2,500	8.25	1
6.00.....	204,000	7.55	122
6.24.....	29,009	3.50	29
6.31.....	50,000	7.46	30
6.50.....	32,500	9.21	6
6.65.....	666,000	8.55	266
6.77.....	5,000	9.04	1
7.00.....	8,000	7.80	4
7.67.....	361,000	9.58	72
	1,408,009		553
	=====		=====

As of December 31, 2002, there were no shares of the Corporation's common stock available for future grants.

The Corporation recognizes compensation cost for stock-based employee compensation awards in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. The Corporation

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 9. CASH AND STOCK INCENTIVE PLANS -- (CONTINUED)

recognized no compensation cost for stock-based employee compensation awards for the years ended December 31, 2002, 2001 and 2000. If the Corporation had recognized compensation cost in accordance with SFAS No. 123, net income and earnings per share would have been reduced as follows (amounts in thousands, except per share data):

DECEMBER 31,		
2002	2001	2000
-----	-----	-----



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Net (loss) income:			
As reported.....	\$ (18,401)	\$2,689	\$4,357
Pro forma.....	(19,231)	2,254	3,344
Basic net (loss) income per share:			
As reported.....	\$ (1.09)	\$ .19	\$ .30
Pro forma.....	(1.14)	.16	.23
Diluted net (loss) income per share:			
As reported.....	(1.09)	.19	.30
Pro forma.....	(1.14)	.16	.23

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

	2002	2001	2000
	----	----	----
Risk free interest rate.....	3.92%	4.60%	5.34%
Volatility factor.....	.28%	.29%	.30%
Weighted average life of options (in years).....	6.00	6.00	6.00
Dividend yield.....	0.00%	0.00%	0.00%

On April 1, 2002, the Corporation issued 157,500 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner for a five-year period that began on April 1, 2002. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at a total value of \$1,120,000, and is classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. The \$1,120,000 is being amortized as expense as the stock is earned during the restricted period. The amount of restricted shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest. Once vested, the shares become outstanding for basic earnings per share. For the period ended December 31, 2002, the Corporation has recognized \$168,000 in restricted stock expense.

The Corporation adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002 that covers all eligible employees that have attained the age of twenty-one and have completed a year of service. As of December 31, 2002, the ESOP has been internally leveraged with 267,022 shares of the Corporation's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares," in stockholders' equity.

On January 29, 2003, the ESOP trustees finalized a \$2,100,000 promissory note to reimburse the Corporation for the funds used to leverage the ESOP. The unreleased shares and a guarantee of the Corporation secure the promissory note, which will be classified as long-term debt on the Corporation's statement of financial condition. As the ESOP repays the debt, with monthly contributions from the Corporation, shares are released from collateral based on the proportion of debt service. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### 9. CASH AND STOCK INCENTIVE PLANS -- (CONTINUED)

total compensation. The Corporation recognizes compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense reported by the Corporation is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that the Corporation recognized during the period ended December 31, 2002 was \$52,000. The ESOP shares as of December 31, 2002 were as follows:

	DECEMBER 31, 2002
	-----
Allocated shares.....	--
Estimated shares committed to be released.....	6,378
Unreleased shares.....	267,022
	-----
Total ESOP shares.....	273,400
	=====
Fair value of unreleased shares.....	\$2,072,000
	=====

### 10. RETIREMENT PLANS

The Corporation sponsors a profit-sharing plan that permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet certain age and length of service requirements. The Corporation matches contributions at its discretion. The Corporation's contributions to the plan were \$255,000, \$243,000 and \$108,000 in 2002, 2001 and 2000, respectively.

The Corporation has nonqualified benefit plans that are designed to provide retirement and death benefits to certain executive officers and directors. The benefit amounts are based on the excess amount earned on single premium life insurance policies owned by the Corporation. Under the plan, the Corporation recovers both its investment and opportunity costs before allocating any benefits to the participants. Benefit payments to participants are not guaranteed since they are dependent on the excess earnings generated by the life insurance policies. Payments under these plans are scheduled to begin in 2003 for some participants who will reach retirement age. In connection with the plans, the Corporation has purchased single premium life insurance policies with cash surrender values of approximately \$15,006,000 and \$13,704,000 at December 31, 2002 and 2001, respectively. Compensation expense related to these plans totaled \$669,000, \$378,000 and \$401,000 for 2002, 2001 and 2000, respectively.

### 11. INCOME TAXES

The components of the income tax (benefit) expense are as follows (in thousands):

	2002	2001	2000
--	------	------	------

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	-----	-----	-----
Current:			
Federal.....	\$ (3,355)	\$ 2,335	\$ 1,768
State.....	(406)	431	514
	-----	-----	-----
Total current (benefit) expense.....	(3,761)	2,766	2,282
Deferred:			
Federal.....	(7,806)	(1,725)	(1,210)
State.....	(1,392)	(75)	(76)
	-----	-----	-----
Total deferred tax benefit.....	(9,198)	(1,800)	(1,286)
	-----	-----	-----
Total income tax (benefit) expense.....	\$ (12,959)	\$ 966	\$ 996
	=====	=====	=====

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. INCOME TAXES -- (CONTINUED)

Significant components of the Corporation's deferred tax assets and liabilities as of December 31, 2002 and 2001 are as follows (in thousands):

	2002	2001
	-----	-----
Deferred tax assets:		
Rehabilitation tax credit.....	\$ 4,633	\$1,986
Provision for loan losses.....	10,274	4,321
Net operating loss carryforward.....	713	--
Alternative minimum tax credit carryover.....	465	228
Unrealized loss on securities.....	--	215
Other.....	2,018	1,480
	-----	-----
Total deferred tax assets.....	18,103	8,230
Deferred tax liabilities:		
Difference in book and tax basis of premises and equipment.....	2,633	2,604
Depreciation.....	628	434
Unrealized gain on securities.....	367	--
Other.....	297	68
	-----	-----
Total deferred tax liabilities.....	3,925	3,106
	-----	-----
Net deferred tax asset.....	\$14,178	\$5,124
	=====	=====

The effective tax rate differs from the expected tax using statutory rate of 34%. Reconciliation between the expected tax and the actual income tax (benefit) expense follows (in thousands):

2002	2001	2000
------	------	------

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	-----	-----	-----
Expected tax (benefit) expense at 34% of (loss) income			
before taxes.....	\$(10,662)	\$1,243	\$ 1,820
Add (deduct):			
Rehabilitation tax credit.....	(384)	(522)	(1,255)
State income taxes, net of federal tax benefit.....	(1,115)	106	351
Effect of interest income exempt from Federal income			
taxes.....	(182)	(214)	(267)
Basis reduction.....	131	178	428
Increase in cash surrender value of life insurance.....	(414)	(202)	(190)
Other items -- net.....	(333)	377	109
	-----	-----	-----
Income tax (benefit) expense.....	\$(12,959)	\$ 966	\$ 996
	=====	=====	=====

The Corporation has net operating loss carryforwards for two states of approximately \$4,600,000 in Alabama and \$7,600,000 in Florida which can be carried forward eight years and twenty years, respectively.

The Corporation has available at December 31, 2002 unused rehabilitation tax credits that can be carried forward and utilized against future Federal income tax liability. Unused credits and expiration dates are as follows:

Year of expiration:	
2018.....	\$1,734
2019.....	738
2020.....	1,255
2021.....	522
2022.....	384
	-----
	\$4,633
	=====

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. INCOME TAXES -- (CONTINUED)

This credit was established as a result of the restoration and enhancement of the John A. Hand building, which is designated as an historical structure and serves as the corporate headquarters for the Corporation. This credit is equal to 20% of certain qualified expenditures incurred by the Corporation prior to December 31, 2002. The Corporation is required to reduce its tax basis in the John A. Hand building by the amount of the credit.

Applicable income tax expense of \$232,000, \$525,000 and \$50,000 on securities gains for the years ended December 31, 2002, 2001 and 2000, respectively, is included in income taxes.

12. RELATED PARTY TRANSACTIONS

The Corporation has entered into transactions with its directors, executive officers, significant stockholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the

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same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2002 and 2001 were \$12,739,000 and \$14,888,000, respectively. Activity during the year ended December 31, 2002 is summarized as follows (in thousands):

BALANCE DECEMBER 31, 2001	ADVANCES	REPAYMENTS	OTHER CHANGES	BALANCE DECEMBER 31, 2002
-----	-----	-----	-----	-----
14\$,888...	\$4,870	\$(9,560)	\$2,531	\$12,729
=====	=====	=====	=====	=====

At December 31, 2002, the deposits of such related parties in the subsidiary banks amounted to approximately \$2,845,000.

In July 1998, prior to its acquisition by the Corporation, Emerald Coast Bancshares, Inc. sold the land and building of its main office and two branch offices to an entity under the control of certain members of Emerald Coast Bancshares' Board of Directors for the fair value of approximately \$3,794,700. The sales were accounted for under a sale-leaseback arrangement. The deferred gain on the sales amounted to \$87,000 and is being amortized into income over the lease terms. At December 31, 2001, the deferred gain amounted to approximately \$27,000. Terms of the leases are described Note 5. Rental expense under these operating leases amounted to approximately \$175,000 in 2002 and \$473,000 in 2001 and 2000, respectively.

In June 2002, The Bank purchased these properties for their fair value of approximately \$3,892,200.

The Corporation sold commercial real estate to certain directors realizing gains of \$305,000 and \$161,000 in 2001 and 2000, respectively. The Corporation received consideration of \$650,000 and \$250,000 in 2001 and 2000, respectively, for the commercial real estate sales.

During 2002, the Corporation, through its real estate management subsidiary, received from an affiliated company \$180,000 in rental income and \$105,000 in personnel and management related fees. As of December 31, 2002 and 2001, approximately \$156,000 and \$112,000, respectively in receivables were due from the affiliated company. These respective receivables have been paid in full subsequent to December 31, 2002 and 2001 in the normal course of business.

On September 27, 2002, The Bank sold an undivided 87.5% ownership interest in a \$4 million loan that was held in our portfolio to an entity controlled by a director of the Corporation for \$3.5 million. The sale was nonrecourse and no gain or loss was recognized.

### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 13. COMMITMENTS AND CONTINGENCIES

The consolidated financial statements do not reflect the Corporation's

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various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. The following is a summary of the Corporation's maximum exposure to credit loss for loan commitments and standby letters of credit (in thousands):

	DECEMBER 31,	
	2002	2001
Commitments to extend credit.....	\$158,493	\$134,768
Standby letters of credit.....	26,329	6,706

Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Corporation's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded in the consolidated statement of financial condition. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Corporation.

During 2001, 2002 and subsequent to year-end, the Corporation settled various litigation matters. Additionally, Preston Peete v. The Bank et al Case No. CV-00-804, Circuit Court of Morgan County, Alabama, was tried to a jury verdict on November 16, 2001, resulting in a judgment against The Bank for approximately \$211,000 in compensatory damages and \$422,000 in punitive damages and a judgment in favor of The Bank against Mr. Peete in the amount of \$105,000. The net amount awarded to Mr. Peete totaled approximately \$528,000. The Corporation adequately provided for estimated loss exposure from these settlements and judgments in the 2001 consolidated financial statements.

The Corporation is also a defendant or co-defendant in various lawsuits incidental to the banking business. Management, after consultation with legal counsel, believes that liabilities, if any, arising from such litigation and claims will not result in a material adverse effect on the consolidated financial statements of the Corporation.

#### 14. MERGERS AND ACQUISITIONS

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

The total cost of the acquisition was \$15,636,000, which included 16,449 shares of common stock valued at \$108,563. The value of common stock issued was determined based on the average of the closing sales price for the twenty (20) consecutive trading days ending three days prior to the special meeting of CF Bancshares shareholders held on November 28, 2001. The purchase price exceeded the fair value of the net assets of CF Bancshares by \$7,445,000. Of this amount, approximately \$2,900,000 consisted of a core deposit intangible which is being amortized over a ten-year period on the straight-line basis. The remaining \$4,545,000 is goodwill (See Note 1). The Corporation's consolidated financial statements include the results of operations of CF Bancshares only for the

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period February 15, 2002 to December 31, 2002.

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 14. MERGERS AND ACQUISITIONS -- (CONTINUED)

The following unaudited summary information presents the consolidated results of operations of the Corporation on a pro forma basis, as if CF Bancshares had been acquired on January 1, 2001. The pro forma summary does not necessarily reflect the results of operations that would have occurred if the acquisition had occurred as of the beginning of the period presented, or the results that may occur in the future (in thousands, except per share data).

	FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31,	
	2002	2001
Interest income.....	\$ 89,364	\$98,069
Interest expense.....	40,858	54,955
	48,506	43,114
Net interest income.....	48,506	43,114
Provision for loan losses.....	52,669	7,700
Noninterest income.....	15,293	10,580
Noninterest expense.....	43,905	41,120
	(32,775)	4,874
(Loss) income before income taxes.....	(32,775)	4,874
Income tax (benefit) expense.....	(13,399)	1,580
	\$ (19,376)	\$ 3,294
Net (loss) income.....	\$ (19,376)	\$ 3,294
	\$ (1.15)	\$ .23
Basic and diluted net (loss) income per common share...	\$ (1.15)	\$ .23

#### 15. REGULATORY RESTRICTIONS

A source of funds available to the Corporation is the payment of dividends by its subsidiary. Banking regulations limit the amount of dividends that may be paid without prior approval of the subsidiary's regulatory agency. As of December 31, 2002, there are no retained earnings available to be paid as dividends by the subsidiary without prior approval by the subsidiary's regulatory agency. Currently, we must obtain regulatory approval prior to paying dividends on our common stock or our trust preferred securities.

The Corporation and its subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and its subsidiary must meet specific capital guidelines that involve quantitative measures of the Corporation's and its subsidiary's assets, liabilities, and certain off-balance sheet items as calculated under

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regulatory accounting practices. The Corporation's and its subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and its subsidiary to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2002 and 2001 that the Corporation and its subsidiary meet all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Reserve Bank stated that as of September 30, 2002, the Corporation and its subsidiary met or exceeded all requirements necessary to be deemed "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Corporation and its subsidiary must maintain minimum total risk-based, Tier I risk-based and Tier I leverage

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 15. REGULATORY RESTRICTIONS -- (CONTINUED)

ratios as set forth in the table below. Since that notification the Corporation has incurred significant credit losses and restated its results for the second and third quarters of 2002 (Note 21). The Corporation would continue to be categorized as "well-capitalized" for the second and third quarters and the subsidiary would be categorized as "adequately capitalized" for the second and third quarters. The Corporation and its subsidiary are "adequately capitalized" at December 31, 2002.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
AS OF DECEMBER 31, 2002						
Total Capital (to Risk Weighted Assets)						
Corporation.....	\$104,483	8.81%	\$94,873	8.00%	\$118,591	10.00%
The Bank.....	94,393	8.04	93,894	8.00	117,368	10.00
Tier I Capital (to Risk Weighted Assets)						
Corporation.....	78,212	6.60	47,437	4.00	71,155	6.00
The Bank.....	79,722	6.79	46,947	4.00	70,421	6.00
Tier I Capital (to Average Assets)						
Corporation.....	78,212	5.67	55,134	4.00	68,918	5.00
The Bank.....	79,722	5.78	55,198	4.00	68,997	5.00
AS OF DECEMBER 31, 2001						
Total Capital (to Risk Weighted Assets)						
Corporation.....	\$114,538	11.41%	\$80,326	8.00%	\$100,408	10.00%
The Bank.....	103,521	10.40	79,668	8.00	99,585	10.00



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Tier I Capital (to Risk Weighted Assets)						
Corporation.....	94,785	9.44	40,163	4.00	60,245	6.00
The Bank.....	91,072	9.15	39,834	4.00	59,751	6.00
Tier I Capital (to Average Assets)						
Corporation.....	94,785	7.92	47,856	4.00	59,820	5.00
The Bank.....	91,072	7.61	47,864	4.00	59,830	5.00

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Corporation in estimating fair values of financial instruments as disclosed herein:

Cash and short-term instruments. The carrying amounts of cash and short-term instruments, including interest bearing deposits in other banks, federal funds sold and short-term commercial paper, approximate their fair value.

Securities available for sale and securities held to maturity. Fair values for securities are based on quoted market prices. The carrying values of stock in FHLB and Federal Reserve Bank approximate fair values.

Mortgage loans held for sale. The carrying amounts of mortgage loans held for sale approximate their fair value.

Net loans. Fair values for variable-rate loans that reprice frequently and have no significant change in credit risk are based on carrying values. Fair values for all other loans are estimated using discounted cash flow analyses using interest rates currently being offered for loans with similar terms to borrowers of similar credit

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

16. FAIR VALUES OF FINANCIAL INSTRUMENTS -- (CONTINUED)

quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Accrued interest receivable. The carrying amounts of accrued interest receivable approximate their fair values.

Derivative instruments. The fair value of derivatives utilized by the Corporation for interest rate risk management purposes is obtained from dealer quotes. These values represent the estimated amount the Corporation would receive or pay to terminate the contracts or agreements.

Deposits. The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit ("CDs") approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Advances from FHLB. Rates currently available to the Corporation for debt with similar terms and remaining maturities are used to estimate fair value of

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existing debt.

Note payable and other borrowed funds. The carrying amounts of note payable and other borrowed funds approximate their fair values.

Guaranteed preferred beneficial interest in the Corporation's subordinated debentures. Rates currently available to the Corporation for preferred offerings with similar terms and maturities are used to estimate fair value.

Limitations. Fair value estimates are made at a specific point of time and are based on relevant market information which is continuously changing. Because no quoted market prices exist for a significant portion of the Corporation's financial instruments, fair values for such instruments are based on management's assumptions with respect to future economic conditions, estimated discount rates, estimates of the amount and timing of future cash flows, expected loss experience, and other factors. These estimates are subjective in nature involving uncertainties and matters of significant judgment; therefore, they cannot be determined with precision. Changes in the assumptions could significantly affect the estimates.

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 16. FAIR VALUES OF FINANCIAL INSTRUMENTS -- (CONTINUED)

The estimated fair values of the Corporation's financial instruments are as follows:

	DECEMBER 31, 2002		DECEMBER 31, 2001	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
<b>Financial assets:</b>				
Cash and due from banks.....	\$ 45,365	\$ 45,365	\$ 31,682	\$ 31,682
Interest bearing deposits in other banks.....	10,025	10,025	495	495
Federal funds sold.....	11,000	11,000	20,000	20,000
Securities available for sale.....	71,129	71,129	68,847	68,847
Securities held to maturity.....	1,996	1,867	--	--
Mortgage loans held for sale.....	764	764	1,131	1,131
Net loans.....	1,110,771	1,119,069	986,610	1,012,939
Stock in FHLB and Federal Reserve Bank.....	10,903	10,903	8,505	8,505
Accrued interest receivable.....	6,876	6,876	7,562	7,562
Derivative asset position.....	47	47	--	--
<b>Financial liabilities:</b>				
Deposits.....	1,107,798	1,119,296	952,235	962,971
Advances from FHLB.....	173,750	188,351	135,900	144,957
Other borrowed funds.....	1,172	1,172	813	813
Guaranteed preferred beneficial interest in the Corporation's subordinated debentures.....	31,000	32,986	31,000	33,500
Derivative liability position.....	47	47	--	--

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### 17. OTHER NONINTEREST EXPENSE

Other noninterest expense consisted of the following (in thousands):

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
	-----	-----	-----
Professional fees.....	\$ 2,288	\$ 1,984	\$ 2,366
Directors fees.....	348	475	653
Insurance and assessments.....	1,025	800	638
Postage, stationery and supplies.....	1,462	1,250	1,100
Advertising.....	714	555	562
Foreclosure losses.....	837	1,033	910
Fraud loss and litigation settlement.....	--	936	12
Other operating expense.....	5,240	5,149	3,883
	-----	-----	-----
Total.....	\$11,914	\$12,182	\$10,124
	=====	=====	=====

### 18. CONCENTRATIONS OF CREDIT RISK

All of the Corporation's loans, commitments and standby letters of credit have been granted to customers in the Corporation's market area. The concentrations of credit by type of loan or commitment are set forth in Notes 3 and 13, respectively.

The Corporation maintains cash balances and federal funds sold at several financial institutions. Cash balances at each institution are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$100,000. At various times throughout the year cash balances held at these institutions will exceed federally

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## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 18. CONCENTRATIONS OF CREDIT RISK -- (CONTINUED)

insured limits. The Bank's management monitors these institutions on a quarterly basis in order to determine that the institutions meet "well-capitalized" guidelines as established by the FDIC.

#### 19. NET (LOSS) INCOME PER SHARE

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

	2002	2001	2000
	-----	-----	-----
Numerator:			

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For basic and diluted, net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,357
	=====	=====	=====
Denominator:			
For basic, weighted average common shares			
outstanding.....	16,829	14,272	14,384
Effect of dilutive stock options.....	--	30	3
	-----	-----	-----
Average common shares outstanding, assuming dilution...	16,829	14,302	14,387
	=====	=====	=====
Basic net (loss) income per common share.....	\$ (1.09)	\$ .19	\$ .30
	=====	=====	=====
Diluted net (loss) income per common share.....	\$ (1.09)	\$ .19	\$ .30
	=====	=====	=====

Options on 248,000 shares of common stock were not included in computing diluted net income per share for the year ended December 31, 2002 because their effects were antidilutive.

### 20. PARENT COMPANY

The condensed financial information for The Banc Corporation (Parent Company only) is presented as follows (in thousands):

	DECEMBER 31,	
	2002	2001
	-----	-----
STATEMENTS OF FINANCIAL CONDITION		
Assets:		
Cash.....	\$ 893	\$ 3,283
Investment in subsidiaries.....	97,909	97,709
Loans.....	--	200
Intangibles, net.....	214	214
Premises and equipment -- net.....	8,629	6,423
Other assets.....	2,510	2,618
	-----	-----
	\$110,155	\$110,447
	=====	=====
Liabilities:		
Accrued expenses and other liabilities.....	\$ 1,655	\$ 1,635
Subordinated debentures.....	31,959	31,959
Stockholders' equity.....	76,541	76,853
	-----	-----
	\$110,155	\$110,447
	=====	=====

### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

### 20. PARENT COMPANY -- (CONTINUED)

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	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
STATEMENTS OF OPERATIONS			
Income:			
Dividends from subsidiaries.....	\$ 47	\$ 67	\$ 16
Interest.....	78	80	50
Other income.....	2,699	2,366	1,278
	-----	-----	-----
	2,824	2,513	1,344
Expense:			
Directors' fees.....	48	42	54
Salaries and benefits.....	3,228	2,147	1,103
Occupancy expense.....	470	355	240
Interest expense.....	2,733	2,353	930
Other.....	780	844	1,173
	-----	-----	-----
	7,259	5,741	3,500
Loss before income taxes and equity in undistributed			
(loss) earnings of subsidiaries.....	(4,435)	(3,228)	(2,156)
Income tax benefit.....	1,730	850	1,072
	-----	-----	-----
Loss before equity in undistributed (loss) earnings of			
subsidiaries.....	(2,705)	(2,378)	(1,084)
Equity in undistributed (loss) earnings of			
subsidiaries.....	(15,696)	5,067	5,441
	-----	-----	-----
Net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,357
	=====	=====	=====

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

20. PARENT COMPANY -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
STATEMENTS OF CASH FLOWS			
OPERATING ACTIVITIES			
Net (loss) income.....	\$ (18,401)	\$ 2,689	\$ 4,357
Adjustments to reconcile net (loss) income to net cash			
used by operating activities:			
Amortization and depreciation expense.....	228	219	148
Equity in undistributed loss (earnings) of			
subsidiaries.....	15,696	(5,067)	(5,441)
Gain on sale of property.....	(46)	(305)	(165)
Increase in other liabilities.....	39	605	842
Decrease (increase) in other assets.....	356	(996)	(1,324)
	-----	-----	-----

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Net cash used by operating activities.....	(2,128)	(2,855)	(1,583)
INVESTING ACTIVITIES			
Purchases of premises and equipment.....	(2,264)	(442)	(3,387)
Purchase of securities available for sale.....	(337)	--	--
Proceeds from sale of securities available for sale.....	383	--	--
Proceeds from sale of property.....	200	450	450
Net cash paid in acquisition.....	(15,172)	--	--
Capital contribution to subsidiaries.....	--	(11,495)	(2,064)
	-----	-----	-----
Net cash used in investing activities.....	(17,190)	(11,487)	(5,001)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock.....	19,654	66	--
Purchase of treasury stock.....	(164)	(780)	(210)
Purchase of ESOP shares.....	(2,205)	--	--
Decrease in borrowings on credit line.....	--	--	(7,104)
Proceeds from note payable.....	14,000	--	--
Principal payment on note payable.....	(14,000)	--	--
Cash dividends paid.....	(357)	--	--
Proceeds from issuance of subordinated debentures.....	--	16,495	15,464
	-----	-----	-----
Net cash provided by financing activities.....	16,928	15,781	8,150
Net (decrease) increase in cash.....	(2,390)	1,439	1,566
Cash at beginning of year.....	3,283	1,844	278
	-----	-----	-----
Cash at end of year.....	\$ 893	\$ 3,283	\$ 1,844
	=====	=====	=====

21. SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

On February 6, 2003, the Corporation announced it had identified certain loans extended upon the authorization of the now former president of The Bank's Bristol, Florida bank group. These loans exceeded the former employee's loan authority and were approved or otherwise extended in violation of The Bank's lending policies and procedures. Upon discovering these violations, the Corporation, assisted by outside counsel, along with federal and state banking regulators conducted an extensive review of the loan portfolio at the Bristol bank group.

Based on this review, it was determined that certain loan documents had been improperly executed during the second quarter of 2002. It was also determined that certain problem loans had been sold during the second and third quarters of 2002 by the former employee and simultaneously a full recourse agreement was

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THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

21. SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) -- (CONTINUED)

executed that was concealed from any other members of the Corporation's management. The loans were sold for their carrying value and no gain or loss was recorded. In addition, loan payments had been made through additional extensions of credit in order to conceal problems that existed in the loan portfolio as of that time. As a result, the Corporation has restated its quarterly financial statements for the three and six month periods ended June 30, 2002 and for the three and nine month periods ended September 30, 2002.

The loans for which documents were improperly executed have been reflected

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as charge-offs as of the date they were executed, and all interest which accrued on them has been reversed and additional provision for loan losses has been made for the amounts charged off. The loans which were erroneously reported as sold have been recorded on the condensed consolidated statements of condition as of June 30 and September 30, 2002 and additional provision for loan losses has been made for these loans based on the risk ratings assigned as of these dates. Loans for which material payments had been made through additional extensions of credit have been risk rated appropriately and additional provision for loan losses has been made for these loans on the risk ratings assigned. In addition, any interest capitalized into principal through extensions of credit to borrowers determined not to be creditworthy has been reversed.

As a result of the restatement, the Corporation had a net loss for the three months ended June 30, 2002 of \$(5,807,000) or \$(.33) per share compared to net income of \$2,502,000 or \$.14 per share as previously reported and net income for the three months ended September 30, 2002 of \$2,073,000 or \$.12 per share compared to net income of \$2,550,000 or \$.15 per share as previously reported.

A summary of the effects of the restatement on the Corporation's consolidated statement of condition and statements of operations follows:

	SECOND QUARTER AS ORIGINALLY REPORTED -----	SECOND QUARTER AS RESTATE -----	THIRD QUARTER AS ORIGINALLY REPORTED -----
2002			
Total interest income.....	\$23,165	\$22,972	\$23,196
Total interest expense.....	9,989	9,989	10,257
Net interest income.....	13,176	12,983	12,939
Provision for loan losses.....	2,002	14,998	2,530
Securities gains.....	24	24	503
Income (loss) before income taxes.....	3,625	(9,564)	3,625
Net income (loss).....	2,502	(5,807)	2,550
Basic net income (loss) per share.....	.14	(.33)	.15
Diluted net income (loss) per share.....	.14	(.33)	.14

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### THE BANC CORPORATION AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 21. SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) -- (CONTINUED)

A summary of the unaudited results of operations for each quarter of 2002 and 2001 follows (in thousands, except per share data):

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
2002				
Total interest income.....	\$21,781	\$22,972	\$22,879	\$ 20,837
Total interest expense.....	10,389	9,989	10,257	9,796
Net interest income.....	11,392	12,983	12,622	11,041

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Provision for loan losses.....	1,115	14,998	2,969	32,770
Securities gains.....	--	24	503	100
Income (loss) before income taxes.....	3,238	(9,564)	2,869	(27,903)
Net income (loss).....	2,186	(5,807)	2,073	(16,853)
Basic net income (loss) per share.....	.15	(.33)	.12	(.97)
Diluted net income (loss) per share.....	.15	(.33)	.12	(.97)
2001				
Total interest income.....	\$22,561	\$23,047	\$22,823	\$ 21,920
Total interest expense.....	12,925	12,715	11,882	10,837
Net interest income.....	9,636	10,332	10,941	11,083
Provision for loan losses.....	795	835	925	4,899
Securities gains.....	37	120	993	233
Distributions on guaranteed preferred beneficial interest in our subordinated debentures.....	398	397	657	707
Income (loss) before income taxes.....	2,207	1,927	2,296	(2,775)
Net income (loss).....	1,579	1,395	1,575	(1,860)
Basic and diluted net income (loss) per share.....	.11	.10	.11	(.13)

### 22. SUBSEQUENT EVENT (UNAUDITED)

On March 13, 2003, the Corporation's banking subsidiary sold its Roanoke branch, which had assets of \$9,800,000 and liabilities of \$44,672,000, pursuant to a Branch Sale Agreement, dated as of November 19, 2002, for approximately \$3.3 million. The Corporation realized a gain on the sale of approximately \$2.3 million.

Subsequent to year end, the Corporation contributed certain floors it owned in the Corporation's headquarters with a book value of \$2,500,000 to The Bank as a capital contribution.

### 23. SEGMENT REPORTING

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

The Corporation evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers. Net interest revenue is used as the basis for performance evaluation rather than its components, total interest revenue and total interest expense. The accounting

## THE BANC CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 23. SEGMENT REPORTING -- (CONTINUED)

policies used by each reportable segment are the same as those discussed in Note 1. All costs have been allocated to the reportable segments. Therefore, combined segment amounts agree to the consolidated totals.



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	ALABAMA REGION -----	FLORIDA REGION -----	COMBINED -----
2002			
Net interest income.....	\$ 27,383	\$ 20,655	\$ 48,038
Provision for loan losses.....	14,133	37,719	51,852
Noninterest income.....	11,911	3,212	15,123
Noninterest expense (1).....	29,336	13,333	42,669
Income tax (benefit) expense.....	(1,623)	(11,336)	(12,959)
Net (loss) income.....	(2,552)	(15,849)	(18,401)
Total assets.....	937,647	468,167	1,405,814
2001			
Net interest income.....	\$ 24,719	\$ 15,114	\$ 39,833
Provision for loan losses.....	5,093	2,361	7,454
Noninterest income.....	8,364	1,409	9,773
Noninterest expense (1).....	28,687	9,810	38,497
Income tax (benefit) expense.....	(349)	1,315	966
Net (loss) income.....	(348)	3,037	2,689
Total assets.....	855,346	351,059	1,206,405
2000			
Net interest income.....	\$ 22,303	\$ 12,307	\$ 34,610
Provision for loan losses.....	3,526	1,435	4,961
Noninterest income.....	6,326	1,496	7,822
Noninterest expense (1).....	25,324	6,794	32,118
Income tax (benefit) expense.....	(778)	1,774	996
Net income.....	557	3,800	4,357
Total assets.....	767,559	261,656	1,029,215

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

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

None.

PART III

ITEMS 10, 11, 12 AND 13. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, EXECUTIVE COMPENSATION; SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT; AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth under the captions "Directors and Executive Officers of the Registrant," "Election of Directors," "Committees of the Company's Board of Directors and Meeting Attendance," "Executive Compensation and Other Information," "Security Ownership of Certain Beneficial Owners and Management," and "Certain Relationships and Related Transactions" included in The Banc Corporation's definitive proxy statement to be filed no later than April 30, 2003, in connection with The Banc Corporation's 2003 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES.

CEO AND CFO CERTIFICATION

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

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

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

### CHANGES IN INTERNAL CONTROLS

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

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

These concerns are being addressed in part by the actions we instituted during the fourth quarter of 2002. Going forward, we intend to centralize the loan operations of all of our branch groups in order to provide an enhanced degree of centralized supervision, monitoring and accountability. We believe that we will have this centralization completed within the next twelve months.

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

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### PART IV

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

##### (a) Financial Statements, Financial Schedules and Exhibits.

- (1) The consolidated financial statements of The Banc Corporation and its subsidiaries filed as a part of this Annual Report on Form 10-K are listed in Item 8 of this Annual Report on Form 10-K, which is hereby incorporated by reference herein.
- (2) All schedules to the consolidated financial statements of The Banc Corporation and its subsidiaries have been omitted because they are not required under the related instructions or are inapplicable, or because the required information has been provided in the consolidated financial statements or the notes thereto.
- (3) The exhibits required by Regulation S-K are set forth in the following list and are filed either by incorporation by reference from previous filings with the Securities and Exchange Commission or by attachment to this Annual Report on Form 10-K as indicated below.

#### EXHIBIT

NO.

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#### EXHIBIT

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- |       |    |   |
|-------|----|---|
| (2)-1 | -- | Reorganization Agreement and Plan of Merger, dated as of August 30, 2001, by and between The Banc Corporation, TBC Merger Corporation, The Bank, Citizens Federal Savings Bank of Port St. Joe and CF Bancshares, Inc., filed as Annex A to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.  |
| (3)-1 | -- | Restated Certificate of Incorporation of The Banc Corporation, filed as Exhibit (3)-1 to the Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), is hereby incorporated herein by reference.   |
| (3)-2 | -- | Bylaws of The Banc Corporation, filed as Exhibit (3)-2 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), are hereby incorporated herein by reference.  |
| (4)-1 | -- | Amended and Restated Declaration of Trust, dated as of September 7, 2000, by and among State Street Bank and Trust Company of Connecticut, National Association, as Institutional Trustee, The Banc Corporation, as Sponsor, David R. Carter and James A. Taylor, Jr., as Administrators, filed as Exhibit (4)-1 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference. |
| (4)-2 | -- | Guarantee Agreement, dated as of September 7, 2000, by and between The Banc Corporation and State Street Bank and Trust Company of Connecticut, National Association, filed as Exhibit (4)-2 to The Banc Corporation's Annual Report on   |

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- Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
- (4)-3 -- Indenture, dated as of September 7, 2000, by and among The Banc Corporation as issuer and State Street Bank and Trust Company of Connecticut, National Association, as Trustee, filed as Exhibit (4)-3 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
  - (4)-4 -- Placement Agreement, dated as of August 31, 2000, by and among The Banc Corporation, TBC Capital Statutory Trust II, Keefe Bruyette & Woods, Inc., and First Tennessee Capital Markets, filed as Exhibit (4)-4 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
  - (4)-5 -- Amended and Restated Declaration of Trust, dated as of July 16, 2001, by and among The Banc Corporation, The Bank of New York, David R. Carter, and James A. Taylor, Jr. filed as Exhibit (4)-5 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.

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EXHIBIT  
NO.  
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EXHIBIT  
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- (4)-6 -- Guarantee Agreement, dated as of July 16, 2001, by The Banc Corporation and The Bank of New York filed as Exhibit (4)-6 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
- (4)-7 -- Indenture, dated as of July 16, 2001, by The Banc Corporation and The Bank of New York filed as Exhibit (4)-7 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
- (4)-8 -- Placement Agreement, dated as of June 28, 2001, among TBC Capital Statutory Trust III, and The Banc Corporation and Sandler O'Neill & Partners, L.P. filed as Exhibit (4)-8 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
- (10)-1 -- Second Amended and Restated 1998 Stock Incentive Plan of The Banc Corporation, filed as Annex A to The Banc Corporation's Proxy Statement for the 2000 Annual Meeting of Shareholders is hereby incorporated herein by reference.
- (10)-2 -- Commerce Bank of Alabama Incentive Stock Compensation Plan, filed as Exhibit (4)-3 to The Banc Corporation's Registration Statement on Form S-8, dated February 22, 1999 (Registration No. 333-72747), is hereby incorporated herein by reference.
- (10)-3 -- The Banc Corporation 401(k) Plan, filed as Exhibit (4)-2 to The Banc Corporation's Registration Statement on Form S-8, dated January 21, 1999 (Registration No. 333-7953), is hereby incorporated herein by reference.
- (10)-4 -- Employment Agreement by and between The Banc Corporation and James A. Taylor, filed as Exhibit (10)-1 to The Banc

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- Corporation's Quarterly Report on Form 10-Q for quarter ended March 31, 2002 is hereby incorporated herein by reference.
- (10)-5 -- Deferred Compensation Agreement by and between The Banc Corporation and James A. Taylor, filed as Exhibit (10)-2 to The Banc Corporation's Registration Statement on Form S-1 (Registration No. 333-67011), is hereby incorporated herein by reference.
- (10)-6 -- Employment Agreement, dated as of September 19, 2000, by and between The Banc Corporation and James A. Taylor, Jr., filed as Exhibit (10)-8 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated herein by reference.
- (10)-7 -- Employment Agreement, dated as of January 1, 1999, by and between The Bank and Marie Swift filed as Exhibit (10)-9 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1998, is hereby incorporated herein by reference.
- (10)-8 -- Form of Deferred Compensation Agreement by and between The Banc Corporation and the individuals listed on Schedule A attached thereto filed as Exhibit (10)-11 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated herein by reference.
- (10)-9 -- Form of Deferred Compensation Agreement by and between The Bank and the individuals listed on Schedule A attached thereto filed as Exhibit (10)-11 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated by reference herein.
- (10)-10 -- Employment Agreement dated as of September 19, 2000, by and between The Banc Corporation and David R. Carter, filed as Exhibit (10)-14 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated herein by reference.

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EXHIBIT  
NO.

EXHIBIT

- (10)-11 -- Employment Agreement, dated as of July 13, 2000 by and between The Banc Corporation and Don J. Giardina, filed as Exhibit 10 to The Banc Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, is hereby incorporated herein by reference.
- (10)-12 -- Employment Agreement, dated as of January 16, 2001, by and between The Banc Corporation and F. Hampton McFadden, Jr., filed February 28, 2002 as Exhibit (10)-13 to The Banc Corporation's Registration Statement on Form S-1 (Registration No. 333-82428) is hereby incorporated herein by reference.
- (10)-13 -- The Banc Corporation and Subsidiaries Employee Stock Ownership Plan.
- (21) -- Subsidiaries of The Banc Corporation.
- (23)-1 -- Consent of Ernst & Young LLP.

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(b) Reports on Form 8-K.

On October 24, 2002, The Banc Corporation filed a current report on Form 8-K, dated October 24, 2002, under Item 9 Regulation FD disclosure announcing earnings and the creation of its risk management department.

(c) Exhibits.

The exhibits required to be filed with this Annual Report on Form 10-K pursuant to Item 601, of Regulation S-K are listed under "Exhibits" in Part IV, Item 15(a) (3) of this Annual Report on Form 10-K, and are hereby incorporated herein by reference.

(d) Financial Statement Schedules.

The Financial Statement Schedules required to be filed with this Annual Report on Form 10-K are listed under "Financial Statement Schedules" in Part IV, Item 15(a) (2) of this Annual Report on Form 10-K, and are hereby incorporated herein by reference.

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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.

THE BANC CORPORATION

By: /s/ JAMES A. TAYLOR

-----  
James A. Taylor  
Chairman of the Board and  
Chief Executive Officer

April 14, 2003

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Taylor, Jr. and David R. Carter, and each of them, the true and lawful agents and attorneys-in-fact with full power and authority in either of said agents and attorneys-in-fact, acting singly, to sign for the undersigned as Director or an officer of the Corporation, or as both, the Corporation's 2002 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission, Washington, D.C. under the Securities Exchange Act of 1934, and to sign any amendment or amendments to such Annual Report, including an Annual Report pursuant to 11-K to be filed as an amendment to the Form 10-K; hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact as herein authorized.

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 capacities and on the date indicated.

SIGNATURE  
-----

TITLE  
-----

DATE  
-----

/s/ JAMES A. TAYLOR

Chairman of the Board and Chief

April 14

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----- James A. Taylor	Executive Officer (Principal Executive Officer)	
/s/ DAVID R. CARTER	Executive Vice President Chief Financial Officer and Director	April 14
----- David R. Carter	(Principal Financial and Accounting Officer)	
/s/ JAMES MAILON KENT, JR.	Vice Chairman	April 14
----- James Mailon Kent, Jr.		
/s/ LARRY D. STRIPLIN, JR.	Vice Chairman	April 14
----- Larry D. Striplin, Jr.		
/s/ K. EARL DURDEN	Vice Chairman	April 14
----- K. Earl Durden		
/s/ JAMES R. ANDREWS, M.D.	Director	April 14
----- James R. Andrews, M.D.		
/s/ NEAL R. BERTE, ED.D	Director	April 14
----- Neal R. Berte, Ed.D		
/s/ W. T. CAMPBELL, JR.	Director	April 14
----- W. T. Campbell, Jr.		

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SIGNATURE -----	TITLE -----	DATE ---
/s/ PETER N. DICHIARA	Director	April 14
----- Peter N. DiChiara		
/s/ JOHN F. GITTINGS	Director	April 14
----- John F. Gittings		
/s/ STEVEN C. HAYS	Director	April 14
----- Steven C. Hays		
/s/ THOMAS E. JERNIGAN, JR.	Director	April 14
----- Thomas E. Jernigan, Jr.		
/s/ RANDALL E. JONES	Director	April 14
----- Randall E. Jones		

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/s/ MAYER MITCHELL	Director	April 14
-----		
Mayer Mitchell		
/s/ RONALD W. ORSO, M.D.	Director	April 14
-----		
Ronald W. Orso, M.D.		
/s/ HAROLD W. RIPPS	Director	April 14
-----		
Harold W. Ripps		
/s/ JERRY M. SMITH	Director	April 14
-----		
Jerry M. Smith		
/s/ MICHAEL E. STEPHENS	Director	April 14
-----		
Michael E. Stephens		
/s/ MARIE SWIFT	Director	April 14
-----		
Marie Swift		
/s/ JAMES A. TAYLOR, JR.	Director	April 14
-----		
James A. Taylor, Jr.		
/s/ T. MANDELL TILLMAN	Director	April 14
-----		
T. Mandell Tillman		
/s/ JOHNNY WALLIS	Director	April 14
-----		
Johnny Wallis		

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CERTIFICATIONS

I, James A. Taylor, certify that:

1. I have reviewed this annual report on Form 10-K of The Banc 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:



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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 function):

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.

By: /s/ JAMES A. TAYLOR

-----  
James A. Taylor  
Chairman and Chief Executive Officer

Date: April 14, 2003

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### CERTIFICATIONS

I, David R. Carter, certify that:

1. I have reviewed this annual report on Form 10-K of The Banc 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

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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 function):

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.

By: /s/ DAVID R. CARTER

-----  
David R. Carter  
Executive Vice President and  
Chief Financial Officer

Date April 14, 2003

EXHIBIT INDEX

EXHIBIT NO. -----	EXHIBIT -----
(2)-1 --	Reorganization Agreement and Plan of Merger, dated as of August 30, 2001, by and between The Banc Corporation, TBC Merger Corporation, The Bank, Citizens Federal Savings Bank of Port St. Joe and CF Bancshares, Inc., filed as Annex A to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein

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- by reference.
- (3)-1 -- Restated Certificate of Incorporation of The Banc Corporation, filed as Exhibit (3)-1 to the Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), is hereby incorporated herein by reference.
  - (3)-2 -- Bylaws of The Banc Corporation, filed as Exhibit (3)-2 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), are hereby incorporated herein by reference.
  - (4)-1 -- Amended and Restated Declaration of Trust, dated as of September 7, 2000, by and among State Street Bank and Trust Company of Connecticut, National Association, as Institutional Trustee, The Banc Corporation, as Sponsor, David R. Carter and James A. Taylor, Jr., as Administrators, filed as Exhibit (4)-1 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
  - (4)-2 -- Guarantee Agreement, dated as of September 7, 2000, by and between The Banc Corporation and State Street Bank and Trust Company of Connecticut, National Association, filed as Exhibit (4)-2 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
  - (4)-3 -- Indenture, dated as of September 7, 2000, by and among The Banc Corporation as issuer and State Street Bank and Trust Company of Connecticut, National Association, as Trustee, filed as Exhibit (4)-3 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
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  - (4)-8 -- Placement Agreement, dated as of June 28, 2001, among TBC Capital Statutory Trust III, and The Banc Corporation and Sandler O'Neill & Partners, L.P. filed as Exhibit (4)-8 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
  - (10)-1 -- Second Amended and Restated 1998 Stock Incentive Plan of The Banc Corporation, filed as Annex A to The Banc Corporation's Proxy Statement for the 2000 Annual Meeting of Shareholders is hereby incorporated herein by reference.

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EXHIBIT NO. -----	EXHIBIT -----
(10)-2	-- Commerce Bank of Alabama Incentive Stock Compensation Plan, filed as Exhibit (4)-3 to The Banc Corporation's Registration Statement on Form S-8, dated February 22, 1999 (Registration No. 333-72747), is hereby incorporated herein by reference.
(10)-3	-- The Banc Corporation 401(k) Plan, filed as Exhibit (4)-2 to The Banc Corporation's Registration Statement on Form S-8, dated January 21, 1999 (Registration No. 333-7953), is hereby incorporated herein by reference.
(10)-4	-- Employment Agreement by and between The Banc Corporation and James A. Taylor, filed as Exhibit (10)-1 to The Banc Corporation's Quarterly Report on Form 10-Q for quarter ended March 31, 2002 is hereby incorporated herein by reference.
(10)-5	-- Deferred Compensation Agreement by and between The Banc Corporation and James A. Taylor, filed as Exhibit (10)-2 to The Banc Corporation's Registration Statement on Form S-1 (Registration No. 333-67011), is hereby incorporated herein by reference.
(10)-6	-- Employment Agreement, dated as of September 19, 2000, by and between The Banc Corporation and James A. Taylor, Jr., filed as Exhibit (10)-8 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated herein by reference.
(10)-7	-- Employment Agreement, dated as of January 1, 1999, by and between The Bank and Marie Swift filed as Exhibit (10)-9 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1998, is hereby incorporated herein by reference.
(10)-8	-- Form of Deferred Compensation Agreement by and between The Banc Corporation and the individuals listed on Schedule A attached thereto filed as Exhibit (10)-11 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated herein by reference.
(10)-9	-- Form of Deferred Compensation Agreement by and between The Bank and the individuals listed on Schedule A attached thereto filed as Exhibit (10)-11 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated by reference herein.
(10)-10	-- Employment Agreement dated as of September 19, 2000, by and between The Banc Corporation and David R. Carter, filed as Exhibit (10)-14 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated herein by reference.
(10)-11	-- Employment Agreement, dated as of July 13, 2000 by and between The Banc Corporation and Don J. Giardina, filed as Exhibit 10 to The Banc Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, is hereby incorporated herein by reference.
(10)-12	-- Employment Agreement, dated as of January 16, 2001, by and between The Banc Corporation and F. Hampton McFadden, Jr.,

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filed February 28, 2002 as Exhibit (10)-13 to The Banc Corporation's Registration Statement on Form S-1 (Registration No. 333-82428) is hereby incorporated herein by reference.

- (10)-13 -- The Banc Corporation and Subsidiaries Employee Stock Ownership Plan.
- (21) -- Subsidiaries of The Banc Corporation.
- (23)-1 -- Consent of Ernst & Young LLP.