BANC CORP
Form 10-Q
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

OR

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

FOR THE TRANSITION PERIOD FROM ________________ TO ________________

Commission File number 0-25033

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

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

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

(205) 326-2265
(Registrant's Telephone Number, Including Area Code)

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Class	Outstanding as of June 30, 2003

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Common stock, $.001 par value	17,641,676

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 200 (UNAUDI
ASSETS	
Cash and due from banks	$ 41
Interest bearing deposits in other banks	10
Federal funds sold	25
Investment securities available for sale	93
Investment securities held to maturity (fair value of $2,053,000 in 2003 and $1,867,000 in 2002)	1
Mortgage loans held for sale	31
Loans, net of unearned income	1,104
Less: Allowance for loan losses	(22
Net loans	1,082
Premises and equipment, net	60
Accrued interest receivable	5
Stock in FHLB and Federal Reserve Bank	11
Other assets	76
TOTAL ASSETS	$ 1,440
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 124
Interest-bearing	1,010
TOTAL DEPOSITS	1,135
Advances from FHLB	173
Other borrowed funds	1
Long-term debt	2
Guaranteed preferred beneficial interests in our subordinated debentures (trust preferred securities)	31
Accrued expenses and other liabilities	8
TOTAL LIABILITIES	1,351
Stockholders' Equity	
Preferred stock, par value $.001 per share; authorized 5,000,000 shares; shares issued 62,000	
Common stock, par value $.001 per share; authorized 25,000,000 shares; shares issued 18,013,002 in 2003 and 18,009,002 in 2002; outstanding 17,641,676	

in 2003 and 17,605,124 in 2002	
Surplus - preferred	6
- common	68
Retained Earnings	17
Accumulated other comprehensive income	
Treasury stock, at cost	
Unearned ESOP stock	(2
Unearned restricted stock	
TOTAL STOCKHOLDERS' EQUITY	88
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,440

See Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED JUNE 30	
	2003	2002
INTEREST INCOME		
Interest and fees on loans	$ 19,682	$ 21,913
Interest on investment securities		
Taxable	822	767
Exempt from Federal income tax	67	110
Interest on federal funds sold	96	69
Interest and dividends on other investments	168	113
Total interest income	20,835	22,972
INTEREST EXPENSE		
Interest on deposits	6,152	7,199
Interest on other borrowed funds	2,220	2,161
Interest on guaranteed preferred beneficial interest in our subordinated debentures (trust preferred securities)	614	629
Total interest expense	8,986	9,989
NET INTEREST INCOME	11,849	12,983
Provision for loan losses	725	14,998
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	11,124	(2,015)
NONINTEREST INCOME		
Service charges and fees on deposits	1,656	1,685
Mortgage banking income	1,185	668
Gain on sale of securities	637	24
Gain on sale of branch	--	--
Other income	1,202	796

TOTAL NONINTEREST INCOME	4,680	3,173
NONINTEREST EXPENSES		
Salaries and employee benefits	6,371	6,069
Occupancy, furniture and equipment expense	2,196	1,974
Other	3,793	2,679
TOTAL NONINTEREST EXPENSES	12,360	10,722
Income (loss) before income taxes	3,444	(9,564)
INCOME TAX EXPENSE (BENEFIT)	940	(3,757)
NET INCOME (LOSS)	$ 2,504	$ (5,807)
BASIC NET INCOME (LOSS) PER SHARE	$ 0.14	$ (0.33)
DILUTED NET INCOME (LOSS) PER SHARE	$ 0.14	$ (0.33)
AVERAGE COMMON SHARES OUTSTANDING	17,472	17,684
AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION	17,884	17,684

See Notes to Condensed Consolidated Financial Statements.

	SIX MONTHS END JUNE 30
	2003
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$(21,911)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net (increase) decrease in interest bearing deposits in other banks	(811)
Net increase in federal funds sold	(14,000)
Proceeds from sales of securities available for sale	22,654
Proceeds from maturities of investment securities available for sale	28,142
Purchases of investment securities available for sale	(73,572)
Net decrease(increase) in loans	9,313
Purchases of premises and equipment	(1,468)
Net cash paid in branch sale	(31,949)
Net cash paid in business combination	--
Other investing activities	(219)
Net cash used by investing activities	(61,910)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in deposit accounts	71,937
Net (decrease) increase in FHLB advances and other borrowed funds	(189)
Proceeds received on long term debt	2,100
Payments made on long term debt	(70)
Proceeds from note payable	--
Principal payment on note payable	--
Proceeds from sale of common stock	25
Proceeds from sale of preferred stock	6,193

Purchase of ESOP shares	--	
Purchase of treasury stock	--	
Net cash provided by financing activities	79,996	
Net (decrease) increase in cash and due from banks	(3,825)	
Cash and due from banks at beginning of period	45,365	
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 41,540	$

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q, and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. For a summary of significant accounting policies that have been consistently followed, see Note 1 to the Consolidated Financial Statements included in Form 10-K for the year ended December 31, 2002. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Operating results for the three and six-month periods ended June 30, 2003, are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

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

Note 2 - Recent Accounting Pronouncements

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

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

on the Corporation's financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (Interpretation 45). Interpretation 45 requires certain guarantees to be recorded at fair value. In general, Interpretation 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or an equity security of the guaranteed party. The initial recognition and measurement provisions of Interpretation 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. On January 1, 2003, the Corporation began

recording a liability and an offsetting asset for the fair value of any standby letters of credit issued by the Corporation beginning January 1, 2003. The impact of this new accounting standard was not material to the financial condition or results of operations of the Corporation. Interpretation 45 also requires new disclosures, even when the likelihood of making any payments under the guarantee is remote. These disclosure requirements were effective for financial statements of interim or annual periods ending after December 15, 2002.

The Corporation, as part of its ongoing business operations, issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Corporation generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by the Corporation to guarantee a customer's repayment of an outstanding loan or debt instrument. In a performance standby letter of credit, the Corporation guarantees a customer's performance under a contractual nonfinancial obligation for which it receives a fee. The Corporation has recourse against the customer for any amount it is required to pay to a third party under which it receives a fee. The Corporation has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. Revenues are recognized ratably over the life of the standby letter of credit. At June 30, 2003, the Corporation had standby letters of credit outstanding with maturities ranging from less than one year to three years. The maximum potential amount of future payments the Corporation could be required to make under its standby letters of credit at June 30, 2003 was $19.8 million and represents the Corporation's maximum credit risk. At June 30, 2003, the Corporation had no significant liabilities and receivables associated with standby letters of credit agreements entered into subsequent to December 31, 2002 as a result of the Corporation's adoption of Interpretation 45 at January 1, 2003. Standby letters of credit agreements entered into prior to January 1, 2003, have a carrying value of zero. The Corporation holds collateral to support standby letters of credit when deemed necessary.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (Interpretation 46). Interpretation 46 addresses whether business enterprises must consolidate the financial statements of entities known as "variable interest entities". A variable interest entity is defined by Interpretation 46 to be a business entity which has one or both of the following characteristics: (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional support from other parties, which is provided through other interests that will absorb some or all of the expected losses at the entity; and (2) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: (a) direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights, (b) the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities, or (c) the right to receive the expected residual returns of the

entity if they occur, which is the compensation for risk of absorbing expected losses. Interpretation 46 does not require consolidation by transferors to qualifying special purpose entities. Interpretation 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Corporation is evaluating the impact of applying Interpretation 46 and has not yet completed it's analysis.

Note 3 - Business Combination and Branch Sales

On June 18, 2003, the Corporation announced the execution of a definitive purchase and assumption agreement with Trustmark National Bank pursuant to which Trustmark National Bank will acquire seven Florida branches of the Bank, known as the Emerald Coast Division, serving the markets from Destin to Panama City for a $46.8 million deposit premium. The transaction is subject to regulatory approval and is expected to close during the third quarter of 2003.

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

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

The total cost of the acquisition was $15,636,000, which exceeded the fair value of the net assets of CF Bancshares by $7,445,000. The total costs included 16,449 shares of common stock valued at $108,563. The value of common stock issued was determined based on the average of the last sales price for the twenty (20) consecutive trading days ending three days prior to the special meeting of CF Bancshares shareholders held on November 28, 2001. Of this amount, approximately $2,900,000 consisted of a core deposit intangible which is being amortized over a ten-year period on the straight-line basis. The remaining $4,545,000 consists of goodwill. The Corporation's consolidated financial statements for the six-month period ended June 30, 2002 include the results of operations of CF Bancshares only for the period February 15, 2002, to June 30, 2002.

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

	For the six-month period ended June 30, 2002
Interest income	$ 45,648
Interest expense	20,805

Net interest income	24,843
Provision for loan losses	16,930
Noninterest income	6,101
Noninterest expense	21,755
Loss before income taxes	(7,741)
Income tax benefit	(3,145)
Net loss	$ (4,596)
Basic and diluted net loss per common share	$ (.28)

Note 4 - Segment Reporting

The Corporation has two reportable segments, the Alabama Region and the Florida Region. The Alabama Region consists of operations located throughout the state of Alabama. The Florida Region consists of operations located in or near the

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

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

	Alabama Region	Florida Region
Three months ended June 30, 2003		
Net interest income	$ 6,736	$ 5,113
Provision for loan losses	(275)	1,000
Noninterest income	3,934	746
Noninterest expense(1)	8,482	3,878
Income tax expense	648	292
Net income	1,815	689
Total assets	947,574	492,595
Three months ended June 30, 2002		
Net interest income	$ 7,350	$ 5,633
Provision for loan losses	1,696	13,302
Noninterest income	2,335	838
Noninterest expense(1)	7,253	3,469
Income tax expense(benefit)	256	(4,013)
Net income(loss)	480	(6,287)
Total assets	912,329	459,965

Six months ended June 30, 2003		
Net interest income	$ 12,825	$ 10,401
Provision for loan losses	831	1,094
Noninterest income	8,757	1,648
Noninterest expense(1)	16,141	7,730
Income tax expense	1,334	983
Net income	3,276	2,242
Six months ended June 30, 2002		
Net interest income	$ 13,813	$ 10,562
Provision for loan losses	2,326	13,787
Noninterest income	4,539	1,392
Noninterest expense(1)	14,002	6,517
Income tax expense(benefit)	714	(3,419)
Net income(loss)	1,310	(4,931)

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

Note 5 - Net Income Per Share

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

	Three Months Ended June 30		Six
	2003	2002	2003
Numerator:			
For basic and diluted, net income (loss)	$ 2,504	$ (5,807)	5,518
Denominator:			
For basic, weighted average common shares outstanding	17,472	17,684	17,461
Effect of dilutive stock options, restricted stock and convertible preferred	412	--	290
Average diluted common shares outstanding	17,884	17,684	17,751
Basic net income (loss) per share	$ .14	$ (.33)	$ .32
Diluted net income (loss) per share	$ .14	$ (.33)	$ .31

Note 6 - Comprehensive Income (Loss)

Total comprehensive income (loss) was $2,474,000 and $5,323,000, respectively, for the three and six-month periods ended June 30, 2003, and $(5,042,000) and $(2,777,000), respectively, for the three and six-month periods ended June 30, 2002. Total comprehensive income (loss) consists of net income (loss) and the unrealized gain or loss on the Corporation's available for sale securities portfolio arising during the period.

Note 7 - Income Taxes

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

Note 8 - Guaranteed Preferred Beneficial Interest in the Corporation's Subordinated Debentures (Trust Preferred Securities)

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

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

securities was 7.57%. As of June 30, 2003, the interest rate on these securities had repriced to 5.10%.

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

Note 9 - Stockholders' Equity

In May 2003, the Corporation received $6,193,000 in proceeds, net of issuance costs, from the sale of 62,000 shares of Series A Convertible Preferred Stock. Dividends will accrue on the liquidation value of $100 per share at the rate of LIBOR plus 5.75 not to exceed 12.5%. Dividends are noncumulative and reset semi-annually on June 1 and December 1. Each Series A Convertible Preferred Stock is convertible at any time beginning June 1, 2008. Such shares shall be convertible into the number of shares of common stock which result from dividing the conversion price at the time of conversion into the liquidation value. The initial conversion price is $8.00 per share. From the date of issuance the Corporation can redeem the preferred stock at the following prices stated as a percent of the liquidation value: 2003 - 105%; 2004 - 104%; 2005 - 103%; 2006 - 102%; 2007 - 101%; 2008 and thereafter - 100%. In the event of a merger prior to June 1, 2004, the Series A Convertible Preferred Stock may be redeemed by the Corporation at a redemption price of 106%.

In September of 2000, the Corporation's board of directors approved a stock buyback plan in an amount not to exceed $10,000,000. As of June 30, 2003, there were 113,204 shares held in treasury at a cost of $684,000.

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

On April 24, 2002, the Corporation issued 157,000 shares of restricted common stock to certain directors and key employees. Under the restricted stock agreements, the shares of restricted stock may not be sold or assigned in any manner until such shares have vested. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at a cost 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 periods ended June 30, 2003 and 2002, the Corporation has recognized $112,000 and $56,000 in restricted stock expense, respectively.

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 June 30, 2003 the ESOP has been internally leveraged with 273,400 shares of the Corporation's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares", in stockholders' equity.

On January 29, 2003, the Corporation completed a $2.1 million promissory note to reimburse the Corporation for the funds used to leverage the ESOP. The unreleased shares and a guarantee of the Corporation secure the promissory note, which is classified as long-term debt on the Corporation's statement of financial condition. As the debt is repaid, shares are released from collateral based on the proportion of debt service. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. The Corporation recognizes compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense reported by the Corporation is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that the Corporation recognized during the periods ended June 30, 2003, and 2002, was $55,000 and $13,000, respectively. The ESOP shares as of June 30, 2003 were as follows:

	June 30, 2003
Allocated shares	6,378
Estimated shares committed to be released ..	8,900
Unreleased shares	258,122
Total ESOP shares	273,400
Fair value of unreleased shares	$ 1,796,000

The Corporation has established a stock incentive plan for directors and certain key employees that provide for the granting of restricted stock and incentive

and nonqualified options to purchase up to 1,500,000 shares of the Corporation's common stock. The compensation committee of the Board determines the terms of the restricted stock and options granted.

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

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

	For the three-months ended		For the six-mon
	June 30, 2003	June 30, 2002	June 30, 2003
Net income (loss):			
As reported	$ 2,504	$ (5,807)	$ 5,518
Pro forma	2,321	(6,007)	5,156
Earnings (loss) per common share:			
As reported	$ .14	$ (.33)	$ .32
Pro forma	.13	(.34)	.30
Diluted earnings (loss)per common share:			
As reported	$ .14	$ (.33)	$ .31
Pro forma	.13	(.34)	.29

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

	June 30,	
	2003	2002
Risk free interest rate	3.33%	4.93%
Volatility factor	.34	.33

Weighted average life of options	3.50	4.50
Dividend yield	0.00	0.00

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

Basis of Presentation

The following is a discussion and analysis of our June 30, 2003 consolidated financial condition and results of operations for the three and six-month periods ended June 30, 2003 and 2002. All significant intercompany accounts and transactions have been eliminated. Our accounting and reporting policies conform to generally accepted accounting principles.

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

Recent Developments

On June 18, 2003, the Corporation announced the execution of a definitive purchase and assumption agreement with Trustmark National Bank pursuant to which Trustmark National Bank will acquire seven Florida branches of The Bank, known as the Emerald Coast Division, serving the markets from Destin to Panama City for a $46.8 million deposit premium. The transaction is subject to regulatory approval and is expected to close during the third quarter of 2003.

Financial Overview

Total assets were $1.440 billion at June 30, 2003, an increase of $34 million, or 2.4% from $1.406 billion as of December 31, 2002. Total loans, net of unearned income were $1.105 billion at June 30, 2003, a decrease of $34 million, or 2.96% from $1.139 billion as of December 31, 2002. Total deposits were $1.135 billion at June 30, 2003, an increase of $27.3 million, or 2.47% from $1.108 billion as of December 31, 2002. Total stockholders' equity was $88 million at June 30, 2003, an increase of $11 million, or 15.4% from $77 million as of December 31, 2002.

Results of Operations

Our net income for the three-month period ended June 30, 2003 (second quarter of 2003), was $2.5 million compared to a net loss of $5.8 million for the three-month period ended June 30, 2002 (second quarter of 2002), an increase of $8.3 million. Our basic and diluted net income per share was $.14 for the second quarter of 2003 which represents a $.47 increase from $(.33) per share for the second quarter of 2002.

Our net income for the six-month period ended June 30, 2003 (first six months of 2003) was $5.5 million compared to a net loss of $3.6 million for the six-month period ended June 30, 2002 (first six months of 2002), an increase of $9.1 million. Our basic net income per share was $.32 and diluted net income per share was $.31 for the first six months of 2003 which represents a $.54 and $.53 increase, respectively, from $(.22) per share for the first six months of 2002. Our return on average assets, on an annualized basis, was .70% for the first six months of 2003 compared to (.56)% for the first six months of 2002. Our return on average stockholders' equity, on an annualized basis, was 13.97% for the first six months of 2003 compared to (8.15)% for the first six months of 2002. Our book value per common share at June 30, 2003 was $4.66 compared to $4.35 as

of December 31, 2002 and our tangible book value per common share at June 30, 2003 was $3.93 compared to $3.59 as of December 31, 2002.

The growth in our net income during the first six months of 2003 compared with the first six months of 2002 is primarily the result of a decrease in loan loss provision and an increase in noninterest income which was partially offset by an increase in noninterest expenses. Provision for loan losses decreased $14.2 million, or 88.1%, from $16.1 million in the first six months of 2002 to $1.9 million in the first six months of 2003. Noninterest income increased $4.5 million, or 75.4%, from $5.9 million in the first six months of 2002 to $10.4 million in the first six months of 2003. Noninterest expense increased $3.4 million, or 16.3%, from $20.5 million in the first six months of 2002 to $23.9 million in the first six months of 2003.

Net interest income is the difference between the income earned on interest-earning assets and interest paid on interest-bearing liabilities used to support such assets. Net interest income decreased $1.1 million, or 8.7% to $11.8 million for the second quarter of 2003 from $12.9 million for the second quarter of 2002. The decrease in net interest income was primarily due to a $2.1 million or 9.3% decrease in total interest income offset by a $1.0 million, or 10.0% decrease in total interest expense. The decline in total interest income is primarily attributable to a decline in our yield on loans which is the result of declining market interest rates, significant charged off loans in 2002 and an increase in nonperforming loans.

The decline in total interest expense is primarily attributable to a 64-basis point decline in the average interest rate paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.92% for the second quarter of 2003 compared to 3.56% for the second quarter of 2002. Our net interest spread and net interest margin were 3.52% and 3.67%, respectively, for the second quarter of 2003, compared to 4.00% and 4.28% for the second quarter of 2002.

Our average interest-earning assets for the second quarter of 2003 increased $77 million, or 6.3% to $1.299 billion from $1.222 billion in the second quarter of 2002. This growth in our average interest-earning assets was primarily funded by a $107 million, or 9.5% increase in our average interest-bearing liabilities to $1.234 billion for the second quarter of 2003 from $1.127 billion for the second quarter of 2002. Our ratio of average interest-earning assets to average interest-bearing liabilities was 105.3% and 108.5% for the second quarters of 2003 and 2002, respectively. Our average interest-bearing assets produced a tax equivalent yield of 6.44% for the second quarter of 2003 compared to 7.56% for the second quarter of 2002. The 112-basis point decline in the yield was partially offset by a 64-basis point decline in the average rate paid on interest-bearing liabilities.

Net interest income decreased $1.2 million, or 4.71% to $23.2 million for the first six months of 2003 from $24.4 million for the first six months of 2002. The decrease in net interest income was primarily due to a $3.0 million, or 6.7% decrease in total interest income offset by a $1.8 million, or 9.0% decrease in total interest expense. The decline in total interest expense is primarily attributable to a 207-basis point decline in the average interest rate paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 3.02% for the first six months of 2003 compared to 3.71% for the first six months of 2002. Our net interest spread and net interest margin were 3.47% and 3.61%, respectively, for the first six months of 2003, compared to 3.89% and 4.15%, respectively, for the first six months of 2002.

Our average interest-earning assets for the first six months of 2003 increased $110 million, or 9.2% to $1.301 billion from $1.191 billion in the first six months of 2002. This growth in our average interest-earning assets was primarily funded by a $131 million, or 11.8% increase in our average interest-bearing

liabilities to $1.237 billion for the first six months of 2003 from $1.106 million for the first six months of 2002. The ratio of our average interest-earning assets to average interest-bearing liabilities was 105.1% and 107.6% for the first six months of 2003 and 2002, respectively. Our average interest-bearing assets produced a tax equivalent yield of 6.49% for the first six months of 2003 compared to 7.60% for the first six months of 2002. The 111-basis point decline in the yield was offset by both a 69-basis point decline

in the average rate paid on interest-bearing liabilities and a $50 million, or 4.5 % increase in the average volume of loans from $1.101 billion in the first six months of 2002 to $1.151 billion in the first six months of 2003.

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

	THREE MONTHS ENDED JUN			
		2003		
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERA BALAN
			(Dollars in thousan	
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1).......	$ 1,144,563	$ 19,682	6.90%	$ 1,129
Investment securities				
Taxable............................	60,363	822	5.46	52
Tax-exempt(2)......................	6,162	102	6.61	8
Total investment securities......	66,525	924	5.57	61
Federal funds sold..................	32,253	96	1.19	20
Other investments...................	55,973	168	1.20	10
Total interest-earning assets....	1,299,314	20,870	6.44	1,221
Noninterest-earning assets:				
Cash and due from banks................	34,214			32
Premises and equipment................	61,151			54
Accrued interest and other assets......	70,567			48
Allowance for loan losses.............	(28,761)			(13
Total assets....................	$ 1,436,485			$ 1,342
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits......................	$ 298,865	713	0.96	$ 282
Savings deposits.....................	35,523	28	0.32	38
Time deposits........................	693,702	5,411	3.13	619
Other borrowings.....................	174,748	2,220	5.10	154
Guaranteed preferred beneficial interest in our subordinated debentures	31,000	614	7.94	31
Total interest-bearing liabilities	1,233,838	8,986	2.92	1,126
Noninterest-bearing liabilities:				

Demand deposits.......................	114,695			106
Accrued interest and other liabilities.	6,275			9
Stockholders' equity..................	81,677			100
Total liabilities and stockholders' equity...........	$ 1,436,485			$ 1,342
Net interest income/net interest spread................................		11,884	3.52%	
Net yield on earning assets.............			3.67%	
Taxable equivalent adjustment:				
Investment securities(2)...............		35		
Net interest income.............		$ 11,849		

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

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

The following table sets forth, on a taxable equivalent basis, the effect that the varying levels of our interest-earning assets and interest-bearing liabilities and the applicable rates have had on the changes in net interest income for the three months ended June 30, 2003 and 2002.

	THREE MONTHS ENDED JUNE 30, (1) 2003 VS 2002		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans	$(2,231)	$(2,515)	$ 284
Interest on securities:			
Taxable	55	(57)	112
Tax-exempt	(65)	(17)	(48)
Interest on federal funds	27	(9)	36
Interest on other investments	55	(133)	188
Total interest income	(2,159)	(2,731)	572
Expense from interest-bearing liabilities:			
Interest on demand deposits	(199)	(247)	48
Interest on savings deposits	(40)	(35)	(5)
Interest on time deposits	(808)	(1,496)	688
Interest on other borrowings	59	(204)	263
Interest on guaranteed preferred beneficial interest in our subordinated debentures	(15)	(15)	--
Total interest expense	(1,003)	(1,997)	994

Net interest income	$(1,156)	$ (734)	$(422)
	=======	=======	=====

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

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

	SIX MONTHS ENDED JUNE 30,			
	2003			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
	(Dollars in thousands)			
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1).......	$ 1,150,899	$ 39,526	6.93%	$ 1,101,111
Investment securities				
Taxable.............................	54,081	1,540	5.74	52,115
Tax-exempt(2).......................	7,158	241	6.79	8,302
Total investment securities......	61,239	1,781	5.86	60,417
Federal funds sold..................	33,895	199	1.18	18,268
Other investments...................	54,655	345	1.27	10,886
Total interest-earning assets....	1,300,688	41,851	6.49	1,190,682
Noninterest-earning assets:				
Cash and due from banks................	33,650			30,110
Premises and equipment.................	61,108			52,337
Accrued interest and other assets......	71,335			48,110
Allowance for loan losses..............	(33,278)			(13,592)
Total assets....................	$ 1,433,503			$ 1,307,647
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
Demand deposits.......................	$ 293,391	1,407	0.97	$ 277,437
Savings deposits......................	35,725	69	0.39	37,324
Time deposits.........................	702,254	11,430	3.28	609,600
Other borrowings......................	174,777	4,406	5.08	151,018
Guaranteed preferred beneficial interest in our subordinated debentures	31,000	1,231	8.01	31,000
Total interest-bearing liabilities	1,237,147	18,543	3.02	1,106,379
Noninterest-bearing liabilities:				
Demand deposits.......................	110,180			102,706
Accrued interest and other liabilities.	6,535			9,016

Stockholders' equity	79,641			89,546
Total liabilities and stockholders' equity	$ 1,433,503			$ 1,307,647
Net interest income/net interest spread		23,308	3.47%	
Net yield on earning assets			3.61%	
Taxable equivalent adjustment:				
Investment securities(2)		82		
Net interest income		$ 23,226		

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

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

The following table sets forth, on a taxable equivalent basis, the effect that the varying levels of our interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the six months ended June 30, 2003 and 2002.

	SIX MONTHS ENDED JUNE 30, (1) 2003 VS 2002		
		CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from interest-earning assets:			
Interest and fees on loans	$(3,222)	$(5,087)	$ 1,865
Interest on securities:			
Taxable	125	70	55
Tax-exempt	(68)	(29)	(40)
Interest on federal funds	43	(60)	103
Interest on other investments	115	(258)	373
Total interest income	(3,007)	(5,364)	2,356
Expense from interest-bearing liabilities:			
Interest on demand deposits	(451)	(552)	101
Interest on savings deposits	(56)	(51)	(5)
Interest on time deposits	(1,408)	(3,189)	1,781
Interest on other borrowings	125	(508)	633
Interest on guaranteed preferred beneficial interest in our subordinated debentures	(45)	(45)	--
Total interest expense	(1,835)	(4,345)	2,510
Net interest income	$(1,172)	$(1,019)	$ (154)

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

Noninterest income. Our noninterest income increased $1.5 million or 47.5% to $4.7 million for the second quarter of 2003 from $3.2 million for the second quarter of 2002, primarily due to an increase in mortgage banking income and gains on sales of securities. Our mortgage banking income increased $517,000, or 77.4% to $1.2 million in the second quarter of 2003 from $668,000 in the second quarter of 2002. Our gains on sales of securities increased $613,000 to $637,000 in the second quarter of 2003 from $24,000 in the second quarter of 2002.

Our noninterest income increased $4.5 million, or 75.4% to $10.4 million for the first six months of 2003 from $5.9 million for the first six months of 2002, primarily due to a gain on the sale of our Roanoke branch of $2.2 million. Our mortgage banking income increased $678,000, or 49.06% to $2.1 million in the first six months of 2003 from $1.4 million in the first six months of 2002. Our gains on sales of securities increased $639,000 to $663,000 in the first six months of 2003 from $24,000 in the first six months of 2002.

Noninterest expense. Our noninterest expense increased $1.6 million, or 15.3% to $12.3 million for second quarter of 2003 from $10.7 million for the second quarter of 2002. As a percentage of our net interest income, noninterest expenses increased from 82.5% during the second quarter of 2002 to 104.3% during the second quarter of 2003. This increase in noninterest expenses increased our efficiency ratio to 74.6% during the second quarter of 2003 compared to 66.1% during the second quarter of 2002 and 67.3% for the year 2002. Salaries and benefits increased $302,000, or 4.98% to $6.4 million for the second quarter of 2003 from $6.1 million for the second quarter of 2002. All other noninterest expenses increased $1.3 million, or 28.3% to $5.9 million for the second quarter of 2003 from $4.6 million for the second quarter of 2002. Other noninterest expenses increased during the second quarter of 2003 primarily as a result of expenses related to the relocation of our data processing center to

our corporate headquarters, which will be completed in the fourth quarter of 2003, the sale of our branch office building in Port St.
Joe and losses on other real estate.

Our noninterest expense increased $3.4 million, or 16.3% to $23.9 million for first six months of 2003 from $20.5 million for the first six months of 2002. As a percentage of our net interest income, noninterest expenses increased from 84.2% during the first six months of 2002 to 102.8% during the first six months of 2003. This increase in noninterest expenses increased our efficiency ratio to 70.8% during the first six months of 2003 compared to 67.5% during the first six months of 2002 and 67.3% for the year 2002. Salaries and benefits increased $1.1 million, or 9.2% to $12.7 million for the first six months of 2003 from $11.6 million for the first six months of 2002. All other noninterest expenses increased $2.3 million, or 25.8% to $11.2 million for the first six months of 2003 from $8.9 million for the first six months of 2002. Other noninterest expenses increased for the first six months of 2003 primarily due to the one-time expenses referred to in the previous paragraph plus increases in professional fees and costs associated with increased mortgage activity.

Income tax expense. Our income tax expense was $940,000 for the second quarter of 2003, compared to income tax benefit of $3.8 million for the second quarter of 2002 and $2.3 million tax expense for the first six months of 2003, compared to income tax benefit of $2.7 million for the first six months of 2002. The primary difference in the effective rate and the federal statutory rate (34%) for the three and six-month periods ended June 30, 2003 is due to certain

tax-exempt income from investments and insurance policies.

Provision for Loan Losses. Our provision for loan losses represents the amount determined by management necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Management reviews the adequacy of the allowance on a quarterly basis. The allowance for loan losses is established using an eight-point scale, with the loan officers having the primary responsibility for assigning the risk ratings and for the timely reporting of changes in the risk ratings. This process and the assigned risk ratings are subject to review by our internal Loan Review Department. Based on the assigned risk ratings, the loan portfolio is segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, recommended regulatory reserve percentages are applied to these categories to estimate the amount of loan loss allowance required. Impaired loans are reviewed specifically and separately under Statement of Financial Accounting Standards Statement No. 114 ("Statement 114") to determine the appropriate reserve allocation. Management compares the investment in an impaired loan against the present value of expected cash flows 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 nonaccruals, economic conditions, and other pertinent information. Based on future evaluations, additional provision for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level. See "Financial Condition - Allowance for Loan Losses" for additional discussion.

The provision for loan losses was $725,000 for the second quarter of 2003 compared to $15.0 million for the second quarter of 2002 and $1.9 million for the first six months of 2003 compared to $16.1 million for the first six months of 2002. During the first six months of 2003, the Corporation had net-charged off loans totaling $7.0 million compared to net charged-off loans of $14.5 million in the first six months of 2002. The ratio of net charged-off loans to the provision for loan losses was 365.9% in the first six months of 2003 compared to 90.1% for the first six months of 2002 and 72.7% for the year 2002. The annualized ratio of net charged-off loans to average loans was 1.23% in the

first six months of 2003 compared to 2.66% for the first six months of 2002 and 4.12% for the year 2002. The allowance for loan losses totaled $22.6 million, or 2.04% of loans, net of unearned income at June 30, 2003 compared to $27.8 million, or 2.44% of loans, net of unearned income at December 31, 2002. See "Allowance for Loan Losses" section for additional discussion.

Financial Condition

Our total assets were $1.440 billion at June 30, 2003, an increase of $34.4 million, or 2.44% from $1.406 billion as of December 31, 2002. Our average total assets for the first six months of 2003 totaled $1.434 billion, which was supported by average total liabilities of $1.354 billion and average total stockholders' equity of $80 million.

Short-term liquid assets. Our short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) increased $11.0 million, or 16.57%, to $77.4 million at June 30, 2003 from $66.4 million at December 31, 2002. This increase resulted primarily from excess funds invested in federal funds sold and interest-bearing deposits at the Federal Home Loan Bank ("FHLB"). These excess funds were attributable primarily to an increase in deposits. These deposits were invested in short-term liquid assets primarily to

improve our liquidity position. At June 30, 2003, our short-term liquid assets comprised 5.4% of total assets compared to 4.7% at December 31, 2002. We continually monitor our liquidity position and will increase or decrease our short-term liquid assets as necessary.

Investment Securities. Our total investment securities increased $22.5 million, or 31.6% to $95.6 million at June 30, 2003, from $73.1 million at December 31, 2002. Mortgage-backed securities, which comprised 38.2% of the total investment portfolio at June 30, 2003, increased $3.3 million, or 9.9%, to $36.5 million from $33.2 million at December 31, 2002. Investments in U.S. Treasury and agency securities, which comprised 36.6% of the total investment portfolio at June 30, 2003, increased $18.1 million, or 107.1%, to $35.0 million from $16.9 million at December 31, 2002. The total investment portfolio at June 30, 2003 comprised 7.5% of all interest-earning assets compared to 5.8% at December 31, 2002 producing an average tax equivalent yield of 5.6% for the second quarter of 2003 compared to 6.1% for the second quarter of 2002 and 5.9% for the first six months of 2003 compared to 5.8% for the first six months of 2002.

Loans, net of unearned income. Our loans, net of unearned income, totaled $1.105 billion at June 30, 2003, a decrease of 3.0%, or $34 million from $1.139 billion at December 31, 2002. Mortgage loans held for sale totaled $31.2 million at June 30, 2003, an increase of $30.4 million from $764,000 at December 31, 2002. Average loans, including mortgage loans held for sale, totaled $1.151 billion for the first six months of 2003 compared to $1.101 million for the first six months of 2002. Average loans, including mortgage loans held for sale, totaled $1.145 billion for the second quarter of 2003 compared to $1.130 billion for the second quarter of 2002. Loans, net of unearned income, comprised 86.4% of interest-earning assets at June 30, 2003, compared to 91.5% at December 31, 2002. Mortgage loans held for sale comprised 2.4% of interest-earning assets at June 30, 2003, compared to .1% at December 31, 2002. The loan portfolio produced an average yield of 6.9% for the second quarter and first six months of 2003 compared to 7.8% for the second quarter and first six months of 2002. This decline in yield was offset by basis point declines of 64 and 69 in the average cost of the funds for the second quarter and first six months of 2003, respectively, that support our loan portfolio. The following table details the distribution of our loan portfolio by category as of June 30, 2003 and December 31, 2002:

DISTRIBUTION OF LOANS BY CATEGORY

	JUNE 30, 2003		
	AMOUNT	PERCENT OF TOTAL	AMOU
Commercial and industrial	$ 197,092	17.8%	$ 21
Real estate -- construction and land development	208,187	18.8	21
Real estate -- mortgage			
Single-family	257,029	23.2	27
Commercial	329,532	29.8	31
Other	40,264	3.7	3
Consumer	65,025	5.9	7
Other	8,864	.8	
Total loans	1,105,993	100.0%	1,13
Unearned income	(1,138)		(

Allowance for loan losses	(22,555)	(2
Net loans	$ 1,082,300	$ 1,11

Deposits. Noninterest-bearing deposits totaled $124.6 million at June 30, 2003, an increase of 4.6%, or $5.5 million from $119.1 million at December 31, 2002. Noninterest-bearing deposits comprised 11.0% of total deposits at June 30, 2003, compared to 10.8% at December 31, 2002. Of total noninterest-bearing deposits $72.0 million, or 57.8% were in our Alabama branches while $52.6 million, or 42.2% were in our Florida branches.

Interest-bearing deposits totaled $1.011 billion at June 30, 2003, an increase of 2.2%, or $21.8 million from $989 million at December 31, 2002. Interest-bearing deposits averaged $1.031 billion for the first six months of 2003 compared to $924.4 million for the first six months of 2002, an increase of $106.6 million, or 11.5%. Our average interest-bearing deposits for the second quarter of 2003 totaled $1.028 billion compared to $940.9 million for the second quarter of 2002, an increase of $87.1 million, or 9.3%.

The average rate paid on all interest-bearing deposits during the first six months of 2003 was 2.5% compared to 3.3% for the first six months of 2002 and 2.4% for the second quarter of 2003 compared to 3.1% for the second quarter of 2002. Of total interest-bearing deposits $610.1 million, or 60.3% were in the Alabama branches while $400.4 million, or 39.7% were in the Florida branches.

Borrowings. Advances from the FHLB totaled $174.0 million at June 30, 2003 and December 31, 2002. Borrowings from the FHLB were used primarily to fund growth in the loan portfolio and have a weighted average rate of approximately 5.1%. These advances are secured by FHLB stock, agency securities and a blanket lien on certain residential real estate loans and commercial loans.

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

On July 16, 2001, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust established by us, received $16,000,000 in proceeds in exchange for $16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private placement. TBC Capital III

used the proceeds to purchase an equal principal amount of our variable rate subordinated debentures. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% 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 June 30, 2003, the interest rate was 5.10%.

We have fully and unconditionally guaranteed all obligations of TBC Capital II and TBC Capital III on a subordinated basis with respect to the preferred securities. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in our subordinated debentures." The sole assets of TBC Capital II and TBC Capital III are our subordinated debentures. The preferred securities of TBC Capital II and TBC Capital III and our subordinated debentures each have 30-year lives. However, we

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.

Accrued Expenses and Other Liabilities. Accrued expenses and other liabilities decreased $6.7 million from $15.6 million at December 31, 2002, to $8.9 million at June 30, 2003. This $6.7 million decline is primarily due to the repurchase of $5.3 million in loans sold with recourse during 2002.

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

We manage and control risk in the loan portfolio through adherence to credit standards established by the board of directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting/approval procedures, 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 functions. We believe that this system will help us to improve our timely review of the loan portfolio.

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

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

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

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

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

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

	SIX-MONTH PERIOD ENDED JUNE 30, 2003	YEAR ENDED DECEMBER 31, 2002
	(Dollars in thousands)	
Allowance for loan losses at beginning of period.......	$ 27,766	$ 12,546
Allowance of (branch sold) acquired bank	(92)	1,058
Charge-offs:		
Commercial and industrial	3,071	25,162
Real estate -- construction and land development.....	71	1,704
Real estate -- mortgage		
Single-family	38	2,608
Commercial	3,255	6,140
Other	215	141
Consumer	874	2,343
Total charge-offs	7,524	38,098
Recoveries:		
Commercial and industrial	382	94
Real estate -- construction and land development.....	3	14
Real estate -- mortgage		
Single-family	19	23
Commercial	--	--
Other	15	38
Consumer	61	239
Total recoveries	480	408
Net charge-offs	7,044	37,690
Provision for loan losses	1,925	51,852
Allowance for loan losses at end of period	$ 22,555	$ 27,766
Loans at end of period, net of unearned income	$ 1,104,855	$ 1,138,537
Average loans, net of unearned income	1,150,899	1,124,977
Ratio of ending allowance to ending loans	2.04%	2.44%

Ratio of net charge-offs to average loans (1)	1.23%	3.35%
Net charge-offs as a percentage of:		
Provision for loan losses	365.92%	72.69%
Allowance for loan losses (1)	62.98%	135.74%
Allowance for loan losses as a percentage of nonperforming loans	62.84%	105.00%

(1)Annualized.

The allowance for loan losses as a percentage of loans, net of unearned income, at June 30, 2003 was 2.04% compared to 2.44% as of December 31, 2002. The allowance for loan losses as a percentage of nonperforming loans decreased to 62.8% at June 30, 2003 from 105.0% at December 31, 2002 due to the $7.04 million in net charge-off loans during the first six months 2003 on which an allowance had been previously provided. In addition, the amount of nonperforming loans increased as well. The increase in nonperforming loans primarily resulted from the amount of potential problem loans (See "Potential Problem Loans") migrating to a nonperforming status during the first six months of 2003. This migration of potential problem loans did not have a significant effect on the allowance for loan losses at June 30, 2003 because approximately $774,000 and $1.2 million of the allowance had been allocated to these loans at March 31, 2003 and December 31, 2002, respectively.

Net charge-offs were $7.04 million for the first six months of 2003. Net charge-offs to average loans on an annualized basis totaled 1.23% for the first six months of 2003. Net commercial loan charge-offs totaled $2.7 million, or 38.2% of total net charge-off loans for the first six months of 2003 compared to 66.5% of total net charge-off loans for the year 2002. Net commercial real estate loan charge-offs totaled $3.2 million, or 46.2% of total net charge-off loans for the first six months of 2003 compared to 16.3% of total net charge-off loans for the year 2002. Net consumer loan charge-offs totaled $685,000, or 9.7% of total net charge-off loans for the first six months of 2003 compared to 5.6% of total net charge-off loans for the year 2002.

The amount of past due loans 30 days or more ("past due loans"), net of nonaccrual loans, improved during the second quarter of 2003. Past due loans at June 30, 2003 totaled $13.4 million, or 1.21% of total loans, a decrease from $50.9 million, or 4.48% at March 31, 2003.

Nonperforming Loans. Nonperforming loans increased $9.5 million to $35.9 million as of June 30, 2003 from $26.4 million as of December 31, 2002. As a percentage of net loans, nonperforming loans increased from 2.32% at December 31, 2002 to 3.25% at June 30, 2003. The increase in nonperforming loans resulted primarily from the amount of potential problem loans (See "Potential Problem Loans") reported at March 31, 2003 and December 31, 2002 migrating to a nonperforming status. The following table represents our nonperforming loans for the dates indicated.

NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

	JUNE 30, 2003	DECEMBER 31, 2002
	(Dollars in thousands)	
Nonaccrual	$32,906	$24,715
Past due (contractually past due 90 days or more) ..	2,246	1,729
Restructured	743	--

	$35,895	$26,444
Nonperforming loans as a percent of loans..........	3.25%	2.32%

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

	JUNE 30 2003	DECEMBER 31, 2002
	(Dollars in thousands)	
Commercial and industrial	$11,955	$ 9,661
Real estate -- construction and land development..	2,688	2,226
Real estate -- mortgages		
Single-family	5,536	3,672
Commercial	13,707	8,434
Other	723	888
Consumer	1,232	1,548
Other	54	15
Total nonperforming loans	$35,895	$26,444

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

there may ultimately be an actual write-down or charge-off of the principal balance of the loan to the allowance for loan losses, which may necessitate additional charges to earnings.

Impaired Loans. At June 30, 2003, the recorded investment in impaired loans totaled $28.3 million with approximately $6.4 million in allowance for loan losses specifically allocated to impaired loans. This represents an increase of $1.9 million from $26.4 million at December 31, 2002. A significant portion of our impaired loans are centered in three of our bank groups; Bristol bank group - $16.0 million, Albertville bank group - $3.1 million and Huntsville bank group - $4.4 million. We have approximately $339,000 in commitments to lend 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 June 30, 2003:

	OUTSTANDING BALANCE	SPECIFIC ALLOWANCE
	(Dollars in thousands)	

Commercial and industrial	$11,211	$ 3,166
Real estate -- construction and land development	2,719	558
Real estate -- mortgages		
Commercial	13,795	2,610
Other	572	93
Total	$28,297	$ 6,427

In addition to impaired loans, management has identified $4.0 million in potential problem loans as of June 30, 2003. Potential problem loans are loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and may result in disclosure of such loans as nonperforming in future periods. Of the $4.0 million in potential problem loans at June 30, 2003, $1.8 million or 44% are attributable to the Bristol, Florida group. Of the $1.8 million attributable to the Bristol Florida group, $1.4 million or 36% is concentrated in a single credit to a commercial customer. Overall, 20% of these potential problem loans are secured by 1-4 family residential real estate, and 40% of these potential problem loans are secured by commercial real estate and raw land. Management will work closely with these customers in an attempt to prevent these loans from migrating into nonperforming status. The bank has allocated $472,000 in loan loss reserve to absorb potential losses on these accounts.

Stockholders Equity. At June 30, 2003, total stockholders' equity was $88.4 million, an increase of $11.9 million from $76.5 million at December 31, 2002. The increase in stockholders' equity resulted primarily from net income of $5.5 million for the first six months of 2003 and $6.2 million in proceeds from the issuance of our Series A Convertible Preferred Stock. As of June 30, 2003 we had 18,013,002 shares of common stock issued and 17,641,676 outstanding. In September of 2000, our board of directors approved a stock buyback plan in an amount not to exceed $10,000,000. As of June 30, 2003, there were 113,204 shares held in treasury at a cost of $684,000.

In May 2003, the Corporation received $6.2 million in proceeds, net of issuance costs, from the sale of 62,000 shares of Series A Convertible Preferred Stock. Dividends will accrue on the liquidation value of $100 per share at the rate of LIBOR plus 5.75 not to exceed 12.5%. Dividends are noncumulative and reset semi-annually on June 1 and December 1. Each Series A Convertible Preferred Stock is convertible at any time beginning June 1, 2008. Such shares shall be convertible into the number of shares of common stock which result from dividing the conversion price at the time of conversion into the liquidation value. The initial conversion price is $8.00 per share. From the date of issuance the Corporation can redeem the preferred stock at the following prices stated as a percent of the liquidation value: 2003 -

105%; 2004 - 104%; 2005 - 103%; 2006 - 102%; 2007 - 101%; 2008 and thereafter - 100%. In the event of a merger prior to June 1, 2004, the Series A Convertible Preferred Stock can be redeemed by us at a redemption price of 106%.

On April 24, 2002, we issued 157,500 shares of restricted common stock to certain directors and key employees. Under the restricted stock agreements, the shares of restricted stock may not be sold or assigned in any manner until such shares have vested. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at a cost 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 periods ended June 30, 2003 and 2002, we recognized $112,000 and $56,000 in restricted stock expense, respectively.

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 June 30, 2003, 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, we issued a $2.1 million promissory note to reimburse us for the funds used to leverage the ESOP. The unreleased shares and our guarantee secure the promissory note, which has been classified as long-term debt on our consolidated statement of financial condition. As the debt is repaid, 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. 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. We recognized compensation expense during the period ended June 30, 2003 of $55,000. The ESOP shares as of June 30, 2003, were as follows:

	June 30, 2003
Allocated shares	6,378
Estimated shares committed to be released	8,900
Unreleased shares	258,122
Total ESOP shares	273,400
Fair value of unreleased shares	$1,796,000

Regulatory Capital.The table below represents our and our subsidiary's regulatory and minimum regulatory capital requirements at June 30, 2003 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Risk-Based Capital						
Corporation	$116,409	10.09%	$ 92,267	8.00%	$115,334	10.00%
The Bank	109,159	9.55	91,458	8.00	114,322	10.00
Tier 1 Risk-Based Capital						
Corporation	94,360	8.18	46,134	4.00	69,200	6.00
The Bank	94,645	8.28	45,729	4.00	68,593	6.00
Leverage Capital						
Corporation	94,360	6.65	56,770	4.00	70,963	5.00

The Bank	94,645	6.71	56,436	4.00	70,545	5.00

Liquidity

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

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Some of the disclosures in this Quarterly Report on Form 10-Q, including, among others, 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 are based upon and include, implicitly and explicitly, our assumptions 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 and other financial data and capital and performance ratios.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, these statements involve risks and uncertainties which that 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 what is reflected in our forward-looking statements: the strength of the United States economy in general and the strength of the regional and local economies in which we conduct operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; our ability to successfully integrate the assets, liabilities, customers, systems and management we acquire or merge into our operations; our timely development of new products and services to a changing environment, including the features, pricing and quality compared to the products and services of our competitors; the willingness of users to substitute competitors' products and services for our products and services; the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies; our ability to resolve any legal proceeding on acceptable terms and its effect on our financial condition or results of operations; technological changes; changes in consumer spending and savings habits; and regulatory, legal or judicial proceedings.

If one or more of our assumptions proves incorrect or there are unanticipated changes in the factors affecting our financial performance, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this

report. Therefore, we caution you not to place undue reliance on our forward-looking statements.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATIONS

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

As of June 30, 2003, 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 that Evaluation, our management, including our CEO and CFO have concluded that, (subject to the limitations noted below), our disclosure controls and procedures were effective as of June 30, 2003. There have been no changes in our internal controls, (other than those discussed below), over financial reporting that occurred during the fiscal quarter ended June 30, 2003, that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

CHANGES IN INTERNAL CONTROLS

Prior to the discovery of the Bristol, Florida bank group situation (that was disclosed and described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002) which ultimately caused us to restate

our financial statements for the second and third quarters of 2002, we were in the process of enhancing our internal controls for financial reporting. In the fourth quarter of 2002, we instituted a peer review system to supplement our existing independent loan review function; we increased our loan review staffing; and we also established a centralized loan administration services department to serve all of our bank locations, thereby providing standardized oversight for compliance with approval authorities and bank lending policies and

procedures. We also hired additional personnel for our credit risk management department.

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In May 2003, we received $6,193,000 in proceeds, net of issuance costs, from the sale of 62,000 shares of Series A Convertible Preferred Stock. Dividends will accrue on the liquidation value of $100 per share at the rate of LIBOR plus 5.75 not to exceed 12.5%. Dividends are noncumulative and reset semi-annually on June 1 and December 1. Each Series A Convertible Preferred Stock is convertible at any time beginning June 1, 2008. Such shares shall be convertible into the number of shares of common stock which result from dividing the conversion price at the time of conversion into the liquidation value. The initial conversion price is $8.00 per share. From the date of issuance, we can redeem the preferred stock at the following prices stated as a percent of the liquidation value: 2003, 105%; 2004, 104%; 2005, 103%; 2006, 102%; 2007, 101%; 2008 and thereafter 100%. In the event of a merger prior to June 1, 2004, the Series A Convertible Preferred Stock can be redeemed by us at a redemption price of 106%.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On June 18, 2003, our Annual Meeting of Stockholders was held at which shares of common stock represented at the Annual Meeting were voted in favor of the directors listed below as follows:

Director	For	Against	Withheld
1. Peter N. DiChiara	11,781,484	-	366,215
2. Steven C. Hays	11,779,484	-	368,215
3. Randell E. Jones	11,799,984	-	367,715
4. Jerry M. Smith.	11,321,594	-	826,105
5. Michael E. Stephens	11,781,484	-	366,215
6. Marie Swift	11,323,094	-	824,605
7. Johnny Wallis	11,323,094	-	824,605

In addition to the directors elected at the meeting, the following individuals will continue to serve as directors until the end of their respective terms:

James R. Andrews, M.D.
David R.Carter
K. Earl Durden
Thomas E. Jernigan,Jr.
James Mailon Kent, Jr.
Harold Ripps
James A. Taylor
T. Mandell Tillman
Neal R. Berte, Ed. D.
W. T. Campbell, Jr.
John F. Gittings
Mayer Mitchell
Ronald Orso, M.D.
Larry D. Striplin, Jr.
James A. Taylor, Jr.

In addition, shares of common stock represented at the Annual Meeting were voted in favor of the ratification of Ernst & Young LLP as independent auditors as follows:

For	Against	Abstain	Broker Nonvotes	Withheld
11,925,924	167,979	53,796	-	-

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

3 Certificate of Designation of Preferences and Rights of Series A Convertible Preferred Stock of The Banc Corporation.

31.01 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.02 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.01 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.02 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

We furnished a Current Report on Form 8-K dated April 15, 2003 under Item 9 Regulation FD Disclosure of Form 8-K containing as an Exhibit a press release dated April 14, 2003.

We furnished a Current Report on Form 8-K dated April 25, 2003 under Item 9 Regulation FD Disclosure of Form 8-K containing as an Exhibit a press release dated April 24, 2003.

We filed a Current Report on Form 8-K dated May 23, 2003 under Item 5 of Form 8-K containing as an Exhibit a press release dated May 22, 2003.

We filed a Current Report on Form 8-K dated June 18, 2003 under Item 5 of Form 8-K containing as an Exhibit a press release dated June 18, 2003.

SIGNATURES

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

The Banc Corporation
(Registrant)

Date: August 14, 2003

By:/s/ James A. Taylor, Jr.

James A. Taylor, Jr.
President and Chief Operating Officer
(Duly authorized officer of the registrant)

Date: August 14, 2003

By:/s/ David R. Carter

David R. Carter
Executive Vice President and Chief Financial Officer
(Principal accounting officer of the registrant)