NBC CAPITAL CORP
Form 10-K
March 28, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

Commission File Number 1-15773

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

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

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

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

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

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

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

Yes X No

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

Aggregate market value of the voting stock held by nonaffiliates as of March 18, 2002, was approximately:

$157,173,391

(based on most recent sale)

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

Common Stock, $1 par value - 6,173,710 shares outstanding as of March 18, 2002.

Documents incorporated by reference -

Portions of the Proxy Statement dated March 19, 2002 are incorporated by reference into Part III.

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PART I

ITEM 1 - BUSINESS

Forward Looking Statements

From time to time, NBC Capital Corporation (the Company) may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with terms of the safe harbor, the Company notes that a variety of factors could cause the

Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performances, development and results of the Company's business include, but are not limited to, the following: risks from changes in economic and industry conditions; changes in interest rates; risks inherent in making loans including repayment risks and value of collateral; dependence on senior management; and recently-enacted or proposed legislation. Statements contained in this filing regarding the demand for the Company and its subsidiaries' products and services, changing economic conditions, interest rates, and numerous other factors, may be forward-looking statements and are subject to uncertainties and risks. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

NBC Capital Corporation

The Company is a financial holding company which was organized under the laws of the State of Mississippi. On July 2, 1984, the Company acquired all of the outstanding common stock of the National Bank of Commerce (NBC), a national banking corporation. For the year ended December 31, 2001, the Company's subsidiaries accounted for approximately 99% of the Company's consolidated income and consolidated expenses.

National Bank of Commerce

NBC was originally formed through a series of mergers which began in 1972 and concluded on October 1, 1974. In March, 1991, NBC acquired the assets and assumed the liabilities of the Bank of Philadelphia. In 1994, the Company acquired NBC of Tuscaloosa (formerly First State Bank of Tuscaloosa). On December 31, 1998, the Company acquired all the outstanding common stock of First National Corporation of West Point ("FNC") in exchange for 864,736 shares of the Company's common stock. The acquisition was accounted for as a pooling of interest. FNC was merged into the Company and FNC's wholly-owned subsidiary banks, First National Bank of West Point and National Bank of the South, were merged into NBC. Concurrently, the Company's subsidiary, NBC of Tuscaloosa, was merged into NBC (formerly NBC of Mississippi). As a result of the acquisition and reorganization, NBC was the resulting financial institution. Also, First National Finance Company, a wholly-owned finance company subsidiary of FNC became a wholly-owned subsidiary of the Company. On August 31, 1999, the Company acquired all the outstanding stock of FFBS Bancorp, Inc. (FFBS). FFBS was the holding company of its wholly-owned savings bank, First Federal Bank for Savings (First Federal), Columbus, Mississippi. The Company exchanged 1,396,162 shares of its common stock and a nominal amount of cash in lieu of fractional shares for each common share of FFBS. First Federal was merged into NBC with NBC as the surviving institution. The transaction was accounted for as a pooling of interests and historical financial statements of the Company were restated to give effect of the acquisition. On September 30, 1999, NBC acquired the insurance agencies of Galloway-Wiggers Insurance Agency, Inc., Kyle Chandler Insurance Agency, Inc., Galloway-Chandler-McKinney, Inc., and Napier Insurance Agency, Inc. NBC exchanged 173,184 of the Company's common stock for all of the issued and outstanding stock of the insurance agencies. The insurance agencies were combined into a wholly-owned subsidiary of NBC, Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM). The acquisition was accounted for as a pooling of interests.

The historical financial statements of the Company were not restated as the changes would have been immaterial. On April 28, 2000, GCM acquired Heritage Insurance Agency, Ltd., an independent insurance agency located in Starkville, Mississippi, for $47,025 in cash and 14,028 shares of the Company's common stock. The acquisition was accounted for as a purchase.

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

NBC is engaged in the general banking business and activities closely related to banking as authorized by the banking laws and regulations of the United States. There were no significant changes in the business activities of NBC during 2001.

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

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

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

NBC Service Corporation

NBC Service Corporation (Service) is a wholly-owned subsidiary of NBC and was formed to provide additional financial services that otherwise might not be provided by NBC. For the years 2001 and 2000, its primary activity was limited to its investment in Commerce National Insurance Company (CNIC) of which Service owns 79%. Commerce National Insurance Company is a credit life insurance company whose primary source of income is from premiums on credit life insurance on loans issued by NBC.

Galloway-Chandler-McKinney Insurance Agency, Inc.

Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM) is a wholly-owned subsidiary of NBC. GCM operates as an independent insurance agency with its primary source of revenue coming from commissions and premiums on the sale of property and casualty insurance, life insurance, annuities, and other commercial lines. GCM is the result of the insurance agencies acquired on September 30, 1999, and April 28, 2000, as previously described. GCM has locations in Columbus, West Point, Amory, Starkville, and Aberdeen, Mississippi. At December 31, 2001, GCM had total assets of approximately $2.3 million, and for the year ended December 31, 2001, reported gross revenues of approximately $3.8 million.

NBC Insurance Services of Alabama, Inc.

NBC Insurance Services of Alabama is a wholly-owned subsidiary of NBC and was formed in 1999 for the purpose of selling annuity products in the State of Alabama. For the years ended December 31, 2001 and 2000, its activities were not significant.

First National Finance

First National Finance (Finance), a wholly-owned subsidiary of the Company, is a finance company that provides lending and financing services to consumers. It engages in consumer financing, and its loans are of a smaller amount and a higher interest rate than those of NBC. Its loan portfolio totaled approximately $900,000 at December 31, 2001. Finance is located in West Point, Mississippi. Finance was acquired as part of the FNC acquisition previously mentioned.

Competition

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

NBC also serves the City of Tuscaloosa, Alabama, with a main office and four branch locations. The bank competes with approximately eight other financial institutions, most of which are larger. The other institutions range in size from approximately $80 million to $45 billion. Asset size of the competitive banks is that of the parent bank and not of the branch. In Tuscaloosa, NBC also competes with numerous credit unions, finance companies, etc., many of which are branches of nationwide companies.

Supervision and Regulation

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

The Company is a financial holding company within the meaning of the Bank Holding Company Act of 1956 (the Act) and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a financial holding company, the Company is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board may also make examinations of the Company. In addition, the Federal Reserve Board has the authority to regulate provisions of certain holding company debt.

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

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

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

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

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

The Federal Reserve Board, FDIC and OCC have established risk-based capital guidelines for holding companies, such as the Company, and its subsidiary bank. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." The Company's strategy related to risk-based capital is to maintain capital levels which will be sufficient to qualify the Company's bank subsidiary for the "well capitalized" category under the guidelines set forth by the FDICIA. Maintaining capital ratios at the "well capitalized" level avoids certain restrictions which, for example, could impact the Company's bank subsidiary's FDIC assessment, trust services and asset/liability management. At December 31, 2001, the Tier 1 and total capital ratios, respectively, of the Company (consolidated) and NBC (individually) were well above the minimum 6% and 10% levels required to be categorized as a "well capitalized" insured depository institution.

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

(a) The first requirement establishes a minimum ratio of capital as a percentage of total assets. The FDIC, OCC, and Federal Reserve Board require institutions to maintain a minimum leverage ratio of Tier 1 capital (as defined) to total average assets based on the institution's rating under the regulatory CAMELS rating system. Institutions with CAMELS ratings of one that are not anticipating or experiencing significant growth and have well-diversified risk are required to maintain a minimum leverage ratio of 3 percent. An additional 100 to 200 basis points are required for all but these most highly rated institutions. At December 31, 2001, the Company's leverage capital ratio was 9.7%.

(b) The second requirement also establishes a minimum ratio of capital as a percentage of total assets, but gives weight to the relative risk of each asset. The FDIC, OCC, and Federal Reserve Bank require institutions to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 3.0 percent. Banks must also maintain a minimum ratio of total capital to risk-weighted assets of 8.0 percent. At December 31, 2001, the Company's Tier 1 and total capital ratios were 15.0% and 16.0%, respectively.

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

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

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

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

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

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

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

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

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

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

The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading, and other restrictions and requirements of the SEC under the Exchange Act.

Governmental Monetary Policies

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

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

Sources and Availability of Funds

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

Seasonability

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

Dependence Upon A Single Customer

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

Executive Officers

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

Name and Title	Age	Five Year Experience
L. F. Mallory, Jr. Chairman and Chief Executive Officer, NBC Capital Corporation and NBC	59	Chairman and Chief Executive Officer, NBC Capital Corporation and NBC
Mark A. Abernathy President and Chief Operating Officer, NBC Capital Corporation and NBC	45	President and Chief Operating Officer, NBC Capital Corporation and NBC since December, 1997, Executive Vice President and Chief Operating Officer of NBC Capital Corporation and NBC from August, 1994 - December, 1997
Hunter M. Gholson Secretary	69	Secretary of NBC Capital Corporation and NBC
Richard T. Haston Executive Vice President, CFO, and Treasurer, NBC Capital Corporation and Executive Vice President and CFO, NBC	55	Executive Vice President, Chief Financial Officer, and Treasurer, NBC Capital Corporation, and Executive Vice President and Chief Financial Officer, NBC
Bobby L. Harper	60	Chairman of Executive Committee, NBC

Chairman of the Executive Committee, NBC Capital Corporation and NBC and Executive Vice President, Banking Center Administration, NBC		Capital Corporation and NBC, and Executive Vice President, Banking Center Administration, NBC since January, 1999; President of NBC Columbus Banking Center from January, 1981 - January, 1999.
Tommy M. Tomlinson Vice President, NBC Capital Corporation and Executive Vice President, Credit Administration, NBC	48	Vice President, NBC Capital Corporation and Executive Vice President, Credit Administration, NBC, since January, 1999; Executive Vice President and Senior Credit Officer of the Starkville Banking Center, NBC, from January, 1996 - December 1998
Thomas J. Prince, Jr. Vice President, NBC Capital Corporation and Executive Vice President, Division Manager of Consumer Financial Services NBC	60	Vice President, NBC Capital Corporation and Executive Vice President, Division Manager of Consumer Financial Service, NBC, since April, 1998; President, NBC Aberdeen Banking Center from January, 1985 - April, 1998
Donald J. Bugea, Jr. Vice President, NBC Capital Corporation and Executive Vice President and Investment Officer, NBC	48	Vice President, NBC Capital Corporation and Executive Vice President and Investment Officer, NBC
John R. Davis Vice President, NBC Capital Corporation and Senior Vice President and Trust Officer, NBC	46	Vice President, NBC Capital Corporation and Senior Vice President and Trust Officer, NBC since January, 1999, Vice President and Trust Officer of NBC from January, 1991 - December, 1998
Clifton B. Fowler Vice President, NBC Capital Corporation and President, NBC Starkville Banking Center	53	Vice President, NBC Capital Corporation and President, NBC Starkville Banking Center

Personnel

At December 31, 2001, NBC had approximately 402 full-time employees, Finance had 3 full-time employees and GCM had approximately 43 full-time employees. The Company, Service, and CNIC had no employees at December 31, 2001.

ITEM 2 - PROPERTIES

The Company, Service and CNIC owned no properties at December 31, 2001. GCM and Finance operate out of leased office buildings.

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

Approximate

Type	Location	Office Space (Square Feet)
NBC:		
Main Office	Starkville, Mississippi	35,000
University Branch	Starkville, Mississippi	1,485
Motor Branch	Starkville, Mississippi	2,000
Operations Center	Starkville, Mississippi	26,000
Starkville Crossing	Starkville, Mississippi	2,000
Main Office	Columbus, Mississippi	36,000
Mortgage Loan Center	Columbus, Mississippi	14,000
North Columbus Branch	Columbus, Mississippi	1,440
Fairlane Branch	Columbus, Mississippi	2,400
Bluecutt Road Branch	Columbus, Mississippi	3,200
New Hope Branch	New Hope, Mississippi	1,500
Caledonia Branch	Caledonia, Mississippi	1,000
Main Office	Aberdeen, Mississippi	11,026
Maple Street Branch	Aberdeen, Mississippi	998
Highway 45 North Branch	Aberdeen, Mississippi	1,205
Main Office	Amory, Mississippi	8,550
Medical and Industrial Center Branch	Amory, Mississippi	950
Main Office	Brooksville, Mississippi	3,000
Main Office	Hamilton, Mississippi	1,800
Main Office	Maben, Mississippi	4,000
Main Office	Philadelphia, Mississippi	6,000
Northside Branch	Philadelphia, Mississippi	300
Southside Branch	Philadelphia, Mississippi	450
Westside Branch	Philadelphia, Mississippi	3,250
Main Office	Tuscaloosa, Alabama	30,000
Northport Branch	Tuscaloosa, Alabama	3,018
University Branch	Tuscaloosa, Alabama	2,480
North Tuscaloosa Branch	Tuscaloosa, Alabama	3,250
Highway 69 South Branch	Tuscaloosa, Alabama	2,000
Main Office	West Point, Mississippi	18,000
East Main Branch	West Point, Mississippi	1,900
Highway 45 South Branch	West Point, Mississippi	1,520
Highway 45 North Branch	West Point, Mississippi	825

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

ITEM 3 - LEGAL PROCEEDINGS

NBC is a defendant in a lawsuit in which a class is pursuing unspecified and punitive damages as a result of the placement of collateral protection insurance. NBC has reached a preliminary settlement in the amount of $450,000. The settlement is yet to be approved by the court.

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

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

None

PART II

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

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

(b) At December 31, 2001, the Company had approximately 2,700 security holders.

(c) Dividends on common stock were declared quarterly in 2001 and 2000 and totaled as follows:

	(In thousands) December 31,	
	2001	2000
Dividends declared, $.97 per share	$ -	$6,963
Dividends declared, $1.09 per share	6,997	-
	$6,997	$6,963

ITEM 6 - SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
INCOME DATA					
Interest and fees on loans	$ 51,852	$ 57,535	$ 52,219	$ 52,955	$ 51,682
Interest and dividends on securities	17,968	14,052	12,430	13,416	13,755
Other interest income	950	1,148	2,440	1,953	1,268
Total interest income	70,770	72,735	67,089	68,324	66,705

Interest expense	36,001	34,978	30,998	32,744	30,877
Net interest income	34,769	37,757	36,091	35,580	35,828
Provision for loan losses	1,720	1,280	1,769	3,187	1,482
Net interest income after provision for loan losses	33,049	36,477	34,322	32,393	34,346
Service charges on deposit accounts	5,942	5,306	5,230	4,720	4,653
Other income	10,524	8,456	7,824	4,871	3,759
Total noninterest income	16,466	13,762	13,054	9,591	8,412
Salaries and employee benefits	18,156	17,260	17,545	16,024	14,651
Occupancy and equipment expense	4,616	4,539	4,213	3,778	3,558
Other expenses	9,344	9,118	12,211	9,299	8,041
Total noninterest expenses	32,116	30,917	33,969	29,101	26,250
Income before income taxes	17,399	19,322	13,407	12,883	16,508
Income taxes	4,261	5,277	2,899	2,881	4,826
Net income	$ 13,138	$ 14,045	$ 10,508	$ 10,002	$ 11,682
PER SHARE DATA					
Net income - basic	$ 2.05	$ 1.96	$ 1.46	$ 1.43	$ 1.68
Net income - diluted	2.05	1.96	1.46	1.42	1.67
Dividends	1.09	.97	.87	.73	.66
FINANCIAL DATA					
Total assets	$1,050,802	$1,009,515	$973,570	$937,147	$900,886
Net loans	616,187	637,800	613,557	576,731	563,590
Total deposits	810,703	804,804	752,810	776,955	734,107
Total shareholders' equity	102,927	120,123	111,251	111,868	105,304

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

SUPPLEMENTAL STATISTICAL INFORMATION

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

A. Average balance sheets (consolidated):

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

Assets	2001	2000	1999
	(In Thousands)		
Cash and due from banks	$ 26,462	$ 28,968	$ 36,514
Securities:			
Taxable	185,076	133,497	128,605
Non-taxable	132,200	118,341	106,062
Total securities	317,276	251,838	234,667
Federal funds sold and other interest-bearing assets	22,816	17,962	50,951
Loans	629,248	630,851	605,561
Less allowance for loan losses	8,507	10,093	10,514
Net loans	620,741	620,758	595,047
Other assets	54,571	44,728	36,247
Total Assets	$1,041,866	$964,254	$953,426

Liabilities and Stockholders' Equity	2001	2000	1999
	(In Thousands)		
Deposits:			
Noninterest-bearing	$ 96,249	$ 94,038	$ 89,950
Interest-bearing	714,491	685,287	674,606
Total deposits	810,740	779,325	764,556
Federal funds purchased and securities sold under agreements to repurchase	19,159	18,734	18,985
Borrowed funds	96,605	39,781	44,428
Other liabilities	13,167	10,806	11,735
Total liabilities	939,671	848,646	839,704
Stockholders' equity	102,195	115,608	113,722
Total Liabilities and Stockholders' Equity	$1,041,866	$964,254	$953,426

B. Analysis of Net Interest Earnings

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

	($ In Thousands) Average Balance		
	2001	2000	1999
EARNING ASSETS			
Loans	$629,248	$630,851	$605,561
Federal funds sold and other interest-bearing assets	22,816	17,962	50,951
Securities:			
Taxable	185,076	133,497	128,605
Nontaxable	132,200	118,341	106,062
Totals	969,340	900,651	891,179
INTEREST-BEARING LIABILITIES			
Interest-bearing deposits	714,491	685,287	674,606
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	115,764	58,515	63,413
Totals	830,255	743,802	738,019
Net Amounts	$139,085	$156,849	$153,160

	($ In Thousands) Interest for the Year Ended December 31,			Yields Earned And Rates Paid (%)		
	2001	2000	1999	2001	2000	1999
EARNING ASSETS						
Loans	$51,852	$57,535	$52,219	8.24	9.12	8.62
Federal funds sold and other interest-bearing assets	950	1,148	2,440	4.16	6.39	4.80
Securities:						
Taxable	11,165	7,966	6,981	6.03	5.97	5.43
Nontaxable	6,803	6,086	5,449	5.15	5.14	5.14
Totals	$70,770	$72,735	$67,089	7.30	8.08	7.53

	($ In Thousands) Interest for the Year Ended December 31,			Yields Earned And Rates Paid (%)		
	2001	2000	1999	2001	2000	1999
INTEREST-BEARING LIABILITIES						

Interest-bearing deposits	$29,866	$31,559	$28,399	4.18	4.61	4.21
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	6,135	3,419	2,599	5.30	5.84	4.10
Totals	36,001	34,978	30,998	4.34	4.70	4.20
Net interest income	$34,769	$37,757	$36,091			
Net yield on earning assets				3.59	4.19	4.05

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

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

(3) Interest income on loans includes related fees.

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

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

	(In Thousands) 2001 Over 2000			(In Thousands) 2000 Over 1999		
	Change Due To:			Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
EARNING ASSETS						
Loans	$(5,683)	$(5,540)	$ (143)	$ 5,316	$ 3,082	$ 2,234
Federal funds sold and other interest-bearing assets	(198)	(881)	683	(1,292)	1,382	(2,674)
Securities:						
Taxable	3,199	88	3,111	985	712	273
Nontaxable	717	4	713	637	6	631
Totals	$(1,965)	$(6,329)	$ 4,364	$ 5,646	$ 5,182	$ 464

	(In Thousands) 2001 Over 2000			(In Thousands) 2000 Over 1999		
	Change Due To:			Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
INTEREST-BEARING LIABILITIES						
Interest-bearing						

deposits	$(1,693)	$(4,004)	$2,311	$3,160	$3,931	$ (771)
Interest on borrowed funds and federal funds purchased and securities sold under agreements to repurchase	2,717	(396)	3,113	820	1,002	(182)
Totals	$ 1,024	$(4,400)	$5,424	$3,980	$4,933	$ (953)

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

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

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

II. INVESTMENT PORTFOLIO

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

	(In Thousands) December 31,		
	2001	2000	1999
U. S. Treasury	$ 306	$ 4,544	$ 7,732
U. S. Government agencies and mortgage-backed securities	185,751	137,684	106,946
States and political subdivisions	113,871	124,011	105,330
Other	40,798	15,551	10,272
Total book value	$340,726	$281,790	$230,280

B. The following table sets forth the maturities of investment and mortgage-backed securities (carrying values) at December 31, 2001, and the weighted average yield of such securities:

	($ In Thousands) Weighted Average Yield					
	0 - 1 Year	Yield (%)	1 - 5 Years	Yield (%)	5 - 10 Years	Yield (%)
Securities:						
U. S. Treasury	$ 206	6.4%	$ 100	2.8%	$ -	-
U. S. Government agencies	606	5.9%	1,494	6.9%	1,970	6.7%
States and political subdivisions	6,280	7.8%	66,653	7.2%	23,452	9.1%

Other	7,833	4.9%	2,070	6.8%	456	6.5%
Total	$14,925		$70,317		$25,878	

	10+ Years	Yield (%)
U. S. Government agencies	$ 469	7.0%
State and political	17,486	8.8%
Other (including equity securities)	30,439	5.4%
Total	$48,394	

	Book Value	Yield (%)
Mortgage-backed securities	$181,212	5.9%

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

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

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

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

At December 31, 2001, there were no securities from any issues in excess of 10% of stockholders' equity that were not securities of the U. S. Government or U. S. Government agencies or corporations.

III. LOAN PORTFOLIO

A. Type of loans

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

	(In Thousands) December 31,				
Type	2001	2000	1999	1998	1997
Commercial, financial and					

agriculture	$101,630	$103,045	$101,503	$ 81,365	$ 78,491
Real estate - construction	31,461	33,638	26,185	27,253	27,636
Real estate - mortgage	387,667	402,987	390,205	366,219	352,550
Installment loans to individuals	94,424	105,564	101,624	104,470	106,603
Other	7,758	2,255	4,234	7,526	7,155
Total loans	622,940	647,489	623,751	586,833	572,435
Unearned interest	-	-	-	-	(317)
	$622,940	$647,489	$623,751	$586,833	$572,118

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

	(In Thousands) December 31, 2001			
	Maturing or Repricing			
Type	Within 1 Year	After 1 Year Through 5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$ 75,322	$ 23,730	$ 2,578	$101,630
Real estate - construction	27,921	3,464	76	31,461
	$103,243	$ 27,194	$ 2,654	$133,091

	(In Thousands) December 31, 2001		
	Maturing or Repricing		
Type	After 1 Year Through 5 Years	Over 5 Years	Total
Loans with:			
Predetermined interest rates	$ 13,021	$ 2,641	$ 15,662
Floating interest			

rates	14,173	13	14,186
	$ 27,194	$ 2,654	$ 29,848

C. Nonperforming loans

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

Type	(In Thousands) December 31, 2001	2000	1999	1998	1997
Loans accounted for on a nonaccrual basis	$2,050	$1,384	$ 270	$ 927	$2,648
Accruing loans past due 90 days or more	$1,850	$2,356	$2,975	$2,902	$1,660
Renegotiated "troubled" debt	$ 665	$ 294	$ 132	$ 337	$ 826

2. There were no loan concentrations in excess of 10% of total loans at December 31, 2001. However, lending activities are affected by the economic trends within the areas served by the Company and its subsidiaries. This, in turn, can be influenced by the areas' larger employers, such as Mississippi State University, University of Alabama, Columbus Air Force Base, and the Mercedes-Benz Automotive Plant.

3. There were no outstanding foreign loans at December 31, 2001.

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

5. If all nonaccrual loans had been current throughout their terms, interest income would have not been significantly different for the years ended 2001, 2000 and 1999.

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

of bankruptcy, or 5) management's judgment that nonaccrual is appropriate.

7. At December 31, 2001, the recorded investment in loans identified as impaired totaled approximately $2.5 million. The allowance for loan losses related to these loans approximated $1.4 million. The average recorded investment in impaired loans during the year ended December 31, 2001, was $4.1 million. Total interest recognized on impaired loans and the amount recognized on a cash basis were not significant.

D. Other interest-bearing assets

There were no other interest-bearing non-performing assets at December 31, 2001.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

	($ In Thousands) December 31,				
	2001	2000	1999	1998	1997
Beginning balance	$ 9,689	$10,194	$10,102	$ 8,528	$ 8,175
Charge-offs:					
Domestic:					
Commercial, financial and agricultural	(2,840)	(499)	(566)	(575)	(379)
Real estate	(780)	(206)	(444)	(451)	(145)
Installment loans and other	(1,580)	(1,497)	(1,047)	(960)	(1,073)
Total charge-offs	(5,200)	(2,202)	(2,057)	(1,986)	(1,597)
Recoveries:					
Domestic:					
Commercial, financial and agricultural	119	55	89	124	269
Real estate	61	17	25	76	97
Installment loans and other	364	345	266	173	227
Total recoveries	544	417	380	373	593
Net charge-offs	(4,656)	(1,785)	(1,677)	(1,613)	(1,004)
Allowance of sold finance company	-	-	-	-	(125)
Provision charged to operations	1,720	1,280	1,769	3,187	1,482

Ending balance	$ 6,753	$ 9,689	$10,194	$10,102	$ 8,528
Ratio of net charge-offs to average loans outstanding	.74	.29	.28	.28	.18
Ratio of allowance for loan losses to loans outstanding at year end	1.08	1.50	1.63	1.72	1.49

B. Determination of Allowance for Loan Losses

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

The following schedule sets forth the components of the allowance for loan losses at December 31, 2001 and 2000. This allocation is based upon the consistent, quarterly evaluation of the adequacy of the allowance for loan losses. The entire allowance for loan losses is available to absorb loan losses in any category.

	2001		2000	
(In thousands)	Loan Balance	Allowance For Loan Losses	Loan Balance	Allowance For Loan Losses
Allocated component:				
Impaired loans	$ 2,471	$ 1,353	$ 3,158	$ 1,634
Graded loans	33,221	2,674	30,946	3,196
Homogeneous pools	187,751	1,071	211,986	1,075
Other loans	399,497	1,271	401,399	1,079
Unallocated component	-	384	-	2,075
	$622,940	$ 6,753	$647,489	$ 9,689

The allowance allocated to impaired loans for the years 2001 and 2000 was based upon the estimated fair value of the underlying collateral. Graded loans are those loans that exhibit some form of weakness. Allocations to this group are based upon the historical loan loss experience of the grades assigned and upon specific allocations to specific loans. An allowance is allocated to the various pools of loans considered to be homogenous based upon the historical loan losses of each pool. Other loans consist of those loans not graded or impaired or considered homogenous. These loans are grouped by risk assignments which are based upon consideration of collateral values, borrower financial condition and performance, debt service capacity, cash flows, market share, and other indicators. Allocations of the allowance to these loans are based upon historical loan loss experience of the risk assignment.

C. Loans and Risk Descriptions

Real Estate Loans

NBC originates loans secured by commercial real estate, one-to-four family residential properties, and multi-family dwelling units (5 or more units). At December 31, 2001, these loans totaled $419 million or approximately 67% of the loan portfolio.

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

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

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

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

Consumer and Other Loans

NBC offers consumer loans in the form of home improvement loans, mobile home loans, automobile loans and unsecured personal loans. These loans totaled $94 million or 15% of total loans at December 31, 2001. Consumer loans are originated in order to provide a wide range of financial services to customers and because the terms and normally higher interest rates on such loans help maintain a profitable spread between the average loan yield and the cost of funds.

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

NBC makes commercial business loans on both a secured and unsecured basis with terms which generally do not exceed five years. Non-real estate commercial loans primarily consist of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans. A personal guaranty of payment by the principals of any borrowing entity is often required and the financial statements and income tax returns of the entity and its guarantors are reviewed. At December 31, 2001, NBC's commercial business loans represented approximately 16% of its total loan portfolio.

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

V. DEPOSITS

($ In Thousands)

	2001		2000		1999	
	Amount	Rate	Amount	Rate	Amount	Rate
A. Average deposits:						
Domestic:						
Noninterest-bearing	$ 96,249	-	$ 94,038	-	$ 89,950	-
Interest-bearing demand (1)	296,160	2.9%	254,458	3.6%	312,642	2.3%
Savings	39,196	1.5%	48,414	2.1%	34,913	2.5%
Time	379,135	5.4%	382,415	5.6%	327,051	6.2%
Foreign	N/A		N/A		N/A	
Total	$810,740		$779,325		$764,556	

(1) Includes Money Market accounts

B. Other categories

None

C. Foreign deposits

Not material

D. Time certificate of deposit of $100,000 or more and maturities at December 31, 2001

(In Thousands)

	Total	3 Months Or Less	3 Months Through 6 Months	6 Months Through 12 Months	Over 12 Months
Time certificates of deposit of $100,000 or more	$147,885	$62,692	$31,906	$29,290	$23,997

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

Not applicable

VI. RETURN ON EQUITY AND ASSETS

The following financial ratios are presented for analytical purposes:

	December 31, 2001	2000	1999
Return on assets (net income divided by total average assets)	1.3	1.4	1.1
Return on equity (net income divided by average equity)	12.5	12.2	9.3
Dividend payout ratio (dividends per share divided by basic net income per share)	53.2	49.5	59.5
Equity to asset ratio (average equity divided by average total assets)	9.8	12.0	11.9

VII. SHORT-TERM BORROWINGS

	($ In Thousands) Securities Sold Under Agreement to Repurchase	Treasury Tax and Loan Note Payable
Balance at December 31, 2001	$16,625	$ 683
Weighted average interest rate at December 31, 2001	2.23%	1.43%
Maximum amount outstanding at any month end for the year 2001	$21,765	$ 2,508
Average amount outstanding during the year 2001	18,922	1,750
Weighted average interest rate during the year	3.45%	3.37%

VIII. CAPITAL ADEQUACY DATA

Total consolidated capital of the Company was as follows:

	($ In Thousands) December 31, 2001	2000
Total stockholders' equity (excluding unrealized gain/loss)	$101,277	$120,191
Allowance for loan losses, as allowed	6,753	9,606
Other components of capital	-	-
Total primary capital	108,030	129,797
Total secondary capital	-	-
Total capital	108,030	129,797
Less intangible assets and other adjustments	(1,415)	(3,235)
Total capital, as defined for regulatory purposes	$106,615	$126,562

Tier 1 and total capital as a percentage of "risk-weighted" assets at December 31, 2001 and 2000, are as follows:

	December 31, 2001	2000
Tier 1 capital percentage	15.0%	18.1%
Total capital percentage	16.0%	19.4%

The Company's capital ratios exceed the minimum capital requirements at December 31, 2001, and management expects this to continue.

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

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

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

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

The two major trends that can have a material impact on the Corporation's financial condition and results of operations are the trend in interest rates and the overall trend in the economy. Currently, management expects, based on the available information, that interest rates will trend upward and the overall economy in its market will improve somewhat during 2002. The Corporation's 2002 projections, budgets and goals are based on these expectations. If these trends move differently than expected in either direction or speed, it could have a material impact on the Corporation's financial condition and results of operations. The areas of the Corporation's operations most directly impacted would be net interest margin, loan and deposit growth and provision for loan losses.

ACCOUNTING ISSUES

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

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

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

During 2001, the Financial Accounting Standards Board issued release 142, which changed the accounting for goodwill, effective for years beginning after December 15, 2001. Beginning in 2002, goodwill will no longer be amortized. The amount of goodwill recorded on the financial statement at December 31, 2001 will remain at that level until or unless it becomes impaired under the definition of impairment in FAS 142. At that time, the impaired portion of goodwill would be written off against current earnings. At December 31, 2001, the Corporation had approximately $2 million of goodwill on its Balance Sheet, which will remain at that level unless it becomes impaired. The amortization of goodwill for 2001 was approximately $260,000.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Since 1997, the total assets of the Corporation have increased 16.6%. During this same period, loans have increased 9.3%, while deposits grew by 10.4%. In 1998, net loans grew by approximately $13.1 million. This growth was funded by deposits, which increased by approximately $42.8 million. In 1999, the trend reversed, as competition for deposits increased not only from within the banking industry, but from throughout the financial services industry as evidenced by billions of dollars flowing into the stock markets. During 1999, as net loans grew by $36.8 million, deposits declined by approximately $24.1 million. Approximately 79% of this decline in deposits occurred during the last sixty days of 1999. This situation required the Corporation to look to other funding sources such as reallocating funds from lower yielding assets and additional borrowings from the Federal Home Loan Bank. During 2000, this trend again reversed as the equity markets turned down and cash began flowing back into the banking system. As a result, the Corporation was able to fund its net loan growth of approximately $24.2 million with a growth in deposits of approximately $52 million. During 2001, net loans declined by $21.6 million, mostly as a result of a decline in the Adjustable Rate Mortgage ("ARM") loans that the Corporation carried in its loan portfolio. The reason for the decline was the interest rate environment. During that period the Federal Reserve lowered rates eleven times, totaling 4.75%. Because of these lower rates, many homeowners refinanced their existing ARM loans to fixed rate loans. Due to the interest rate risk, the Corporation does not normally carry fixed rate mortgage loans on its books. As a result of this decline in loans and an overall soft loan demand, the Corporation did not need to aggressively price deposits, and therefore, had only a modest $5.9 million growth in deposits during the year. See the section entitled "Liquidity, Asset / Liability Management" for additional comments on sources and uses of cash during 2001.

Shareholders' Equity has represented a consistent strength of the Corporation throughout the years, as noted in the summary of Selected Financial Data. Shareholders' equity has decreased 2.3% since 1997. From 1997 through 2000, Shareholder's Equity increased from $105.3 million to $120.1 million or 14.1%. The decline in 2001 resulted from the purchase of approximately $25 million of Treasury Stock, which was accounted for as a reduction of Shareholder's Equity on the Balance Sheet. See the section entitled "Capital" for additional information concerning this stock repurchase. Shareholder's equity also includes Accumulated Other Comprehensive Income which is composed of unrealized gain (loss), net of taxes on "Available-for-Sale Securities" of ($68,000) and $1,650,000 at

December 31, 2000 and 2001, respectively, as required to be reported under FASB 115.

In 1998, consolidated net income declined by $1.7 million as a result of incurring approximately $1.8 million of merger related expenses (net of taxes) associated with the acquisition of First National Corporation of West Point ("FNC"). Net income increased in 1999 by $506,000, even though the Corporation incurred approximately $2.5 million of merger related expenses (net of taxes) associated with the acquisitions of FFBS Bancorp, Inc., ("FFBS") and Galloway-Chandler-McKinney Insurance Agency, Inc. ("GCM"). In 1998 and 1999, fully diluted earnings per share were $1.42 and $1.46, respectively, after being impacted by approximately $.26 in 1998 and $.36 in 1999, for the above-mentioned non-recurring merger costs. In 2000, fully diluted earnings per share increased by 34.2% to $1.96 per share, as net income increased from $10.5 million in 1999 to $14 million in 2000. In 2001, net income declined to $13.1 million; however, fully diluted earnings per share increased to $2.05, a 4.6% increase, due to 10.8% fewer weighted average shares outstanding as a result of the previously mentioned repurchase of the Corporation's stock. The following paragraphs discuss the decline in net income in 2001, compared to 2000. The 1997 and 1998 earnings per share amounts have been restated to reflect the 1998 merger with FNC and the 1999 merger with FFBS.

Regular cash dividends have increased in each of the years outlined in the summary of Selected Financial Data. The 1997 and 1998 dividend per share amounts have been restated to reflect the 1998 merger with FNC and the 1999 merger with FFBS.

Net interest income ("NII"), the primary source of earnings for the Corporation, represents income generated from earning assets, less the interest expense of funding those assets. NII increased 4.6% in 2000 and declined by 7.9% in 2001. Changes in NII may be divided into two components; first, the change in average earning assets (volume component) and second, the change in the net interest spread (rate component). Net interest spread represents the difference between yields on earning assets and rates paid on interest bearing liabilities. Net interest spread (including loan fees) for 2000 increased to 3.38% from 3.33% in 1999. The primary reason for this increase was an increase in average loan yields of approximately 59 basis points. This increase in loan yields was partially offset by an overall increase in the average cost of deposits of approximately 40 basis points. The volume component also contributed to this increase in NII, as earning assets grew $9.8 million or 1.1% during 2000.

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

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

The 7.9% decline in NII during 2001 resulted from a decline in net interest spread from 3.38% in 2000 to 2.96%. The primary reason for this decline was a decrease in average loan yields of approximately 88 basis points. This decrease in loan yields was partially offset by a decrease in the average cost of deposits of 43 basis points and a decrease in the cost of other borrowed funds of 54 basis points. The volume component of NII also helped offset this decline in loan yields, as average-earning assets grew $68.7 million or 7.6%.

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

	($ In Thousands) Average Balance	
	Year Ended 12/31/01	Year Ended 12/31/00
EARNING ASSETS:		
Loans	$629,248	$630,851
Federal funds sold and other interest-bearing assets	22,816	17,962
Securities:		
Taxable	185,076	133,497
Nontaxable	132,200	118,341
Totals	$969,340	$900,651
INTEREST-BEARING LIABILITIES:		
Interest-bearing deposits	$714,491	$685,287
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other	115,764	58,515
Totals	$830,255	$743,802

($ In Thousands)

	Interest For		Yields Earned and Rates Paid (%)	
	Year Ended 12/31/01	Year Ended 12/31/00	Year Ended 12/31/01	Year Ended 12/31/00
EARNING ASSETS:				
Loans	$ 51,852	$ 57,535	8.24	9.12
Federal funds sold and other interest-bearing assets	950	1,148	4.16	6.39
Securities:				
Taxable	11,165	7,966	6.03	5.97
Nontaxable	6,803	6,086	5.15	5.14
Totals	$ 70,770	$ 72,735	7.30	8.08
INTEREST-BEARING LIABILITIES:				
Interest-bearing deposits	$ 29,866	$ 31,559	4.18	4.61
Borrowed funds, federal funds sold, securities sold under agreements to repurchase and other	6,135	3,419	5.30	5.84
Totals	36,001	34,978	4.34	4.70
Net interest income	$ 34,769	$ 37,757		
Net yield on earning assets			3.59	4.19

Note: Yields on a tax equivalent basis would be:

Nontaxable securities	7.92	7.91
Total earning assets	7.68	8.44
Net yield on earning assets	3.96	4.56

The Corporation's Provision for Loan Losses is utilized to replenish the Reserve for Loan Losses on its balance sheet. The reserve is maintained at a level deemed adequate by the Board of Directors, after its evaluation of the risk exposure contained in the Corporation's loan portfolio. The methodology used to make this determination is performed on a quarterly basis by the senior credit officers and the loan review staff. As a part of this evaluation, certain loans are individually reviewed to determine if there is an impairment of the bank's ability to collect the loan and the related interest. This determination is generally made based on collateral value. If it is determined that an impairment exists, a specific portion of the reserve is allocated to these individual loans. All other loans are grouped into homogeneous pools and risk exposure is determined by considering the following list of factors (this list is not all-inclusive and the factors reviewed may change as circumstances change): Historical loss experiences; trends in delinquencies and non-accruals and national, regional and local economic conditions. (These economic conditions would include, but not be limited to, general real estate conditions, the current interest rate environment and trends, unemployment levels and other information, as deemed appropriate.) Even though there has been increased competition for good quality credits in the Corporation's market, the quality of our portfolio remains strong. Net charge-offs for 1999, 2000 and 2001 were .28%, .29% and .72% of average net loans outstanding for each year, respectively. Had it not been for a single $2 million loan charged off in June of 2001 (this loan will be discussed in more detail in the following paragraph), the ratio for 2001 would have been .41%. Classified loans to capital have increased from 16.6% at December 31, 2000 to 18.1% at December 31, 2001. The classified loans have actually decreased by approximately $1 million during 2001; however, equity has decreased by $17.2 million because of the stock repurchase. Recomputing the classified loans to equity ratio for 2001 on a comparable basis with 2000, without considering the increase in treasury stock, would have decreased the ratio to 14.3%. The Reserve for Loan Losses as a percentage of total loans has declined from 1.50% of total loans at the end of 2000 to 1.08% at the end of 2001. Based on these evaluations, the reserve amounts maintained at the end of 2001 and 2000 were deemed adequate to cover exposure within the Corporation's loan portfolio.

The Provision for Loan Losses declined from $1,769,000 in 1999 to $1,280,000 in 2000; however, it increased in 2001 to $1,720,000. The provision in 1999 was higher due to the level of credit risk in the loans that came into the portfolio from the acquisitions completed during 1998 and 1999. The provision included a special provision of $780,000 made by FFBS as a condition of its merger with the Corporation. The level of the provision for 2000 was reduced due to the improvement in the overall quality of the portfolio and to allow the balance in the Reserve for Loan Losses to be at an appropriate level to cover the credit risk in the portfolio. In 2001, the provision was increased to $1,720,000, as net charge-offs increased from $3.5 million in 2000 to $4.6 million in 2001. The primary reason for the increased charge-offs was that in June, the Corporation charged-off a $2 million commercial loan that defaulted. This loan had previously not been classified as a problem loan and there were special circumstances surrounding the default. The Corporation has filed a claim with its bonding company to recover the entire $2 million; however, it is too early to predict whether there will be a recovery. Due to the overall condition of the economy and the continuing softening in the market, management intends to increase the provision for loan losses in 2002 to a level that we anticipate will protect the Corporation from any unforeseen deterioration in the quality of the loan portfolio.

Non-interest income includes various service charges, fees and commissions collected by the Corporation, including insurance commissions earned by GCM, the wholly owned insurance agency subsidiary of National Bank of Commerce. During 2001, non-interest income grew 19.6% to $16.5 million. This increase resulted from the Corporation's continued focus on diversifying its income sources so that it can be less dependent on net interest income. Several different sources contributed to this increase during 2001. Service charges on deposit accounts increased by 12% to $5.9 million as a result of an on-going effort by management to do a better job of billing and collecting fees. The Corporation's Trust Department Income increased by 6.3% to $1.7 million. This increase was smaller than the prior year's increase. The activities in this area grew steadily during 2001; however, the amount of income collected from management fees is directly related to the market value of the account assets, which in many cases was negatively impacted by the decline in the equity markets during the year. Additionally, other non-interest income increased by $1.8 million or 69%. This increase came primarily from two sources. First, the fees from mortgage-related activities increased 205.7%, or $984,000, as a result of a favorable interest rate environment, which produced heavy refinancing activity throughout the year. Second, earnings from a $10 million purchase of Bank Owned Life Insurance ("BOLI") caused this category of other non-interest income to increase by $621,000. This purchase of BOLI was executed to help cover the increasing cost of employee benefits. These increases were partially offset by a decline of 8.3%, or $347,000, in Insurance Commissions, Fees and Premiums. This decline in Insurance Commissions, Fees and Premiums relates directly to the volume of insurance products sold. During the first quarter of 2001, a great deal of time and effort was spent handling claims that resulted from a major storm that hit the service area. This took away from time that would have been spent developing new business. Also, GCM experienced a reduction in incentive rebates from its insurance carriers because of underwriting losses that resulted from these same storms. During 2000, non-interest income increased by $708,000, or 5.4%. This increase was caused primarily by increases in the Corporation's Trust Department Income and Insurance Commissions, Fees and Premiums. Trust Department Income increased by $211,000 or 15.0%, resulting from continued growth in overall trust related activities. During 2000, Insurance Commissions, Fees and Premiums increased by $555,000, or 15.2%, over 1999 levels. This increase was caused by an increase in the volume of insurance written during the year and by the purchase of Heritage Insurance Agency in April of 2000. This acquisition was accounted for as a purchase and all commissions, fees and premiums generated by Heritage from the date of the purchase are included in the Corporation's numbers for 2000.

The Corporation recognized $459,000 in securities gains during 2001, compared to a loss of $22,000 for 2000 and a gain of $37,000 for 1999. This relative large gain in 2001 resulted primarily from several securities that had been purchased at a discount being called because of the low interest rate environment.

Non-interest expense represents ordinary overhead expenses, including salaries, bonuses and benefits. The Corporation maintains a formal salary administration program that considers extensive comparative salary data and other indices supplied by a leading outside consulting firm. This data is utilized to assure that salaries are in line and competitive with comparable jobs in the marketplace. Incentive bonuses that were expensed in 1999 and 2000 were paid to employees based on the attainment of predetermined profit goals. The predetermined profit goals were not reached in 2001; therefore, no significant bonuses were accrued. Overall, non-interest expense increased by approximately $1.2 million or, 3.9%, during 2001. This increase resulted primarily from a $896,000, or 5.2%, increase in Salaries and Employee Benefits and a $226,000, or 2.5%, increase in Other Operating Expenses. Salaries and Employee Benefits increased as the result of an increase in employee benefit cost and a reduction in the FASB 91 deferral because of the reduction in loan volume. Salaries were basically unchanged during the year. The Corporation made significant changes in the employee benefits that became effective at the beginning of 2001. Management knew that these changes would increase the cost of benefits in the early years, but would eventually allow management to better control and possibly reduce the cost of benefits in future years. To offset these increases, the Corporation purchased the Bank-Owned Life Insurance mentioned earlier in this discussion. The increase in Other Operating Expenses resulted from increases in several expense categories, none of which were individually considered to be material. During 2000, overall non-interest expense decreased by approximately $3.1 million or 9.0%. This decrease resulted from a $285,000, or 1.6%, decrease in Salaries and Employee Benefits, a $326,000, or 7.7%, increase in Net Occupancy and Furniture and Equipment Expense and a $3.0 million, or 99.3%, decrease in Merger and Integration Expenses. Salaries and Employee Benefits decreased as the result of the successful integration of the two acquisitions completed during the third quarter of 1999. The increase in Net Occupancy and Furniture and Equipment Expense resulted primarily from a large purchase of data processing hardware and software in late 1999 and early 2000 as part of an overall platform automation project approved in 1999. Also, there were normal increases in utility and repairs and maintenance expenses. The large reduction in Merger and Integration Expenses was due to the merger-related expenses incurred in 1999, which were not repeated in 2000.

Changes in the Corporation's income tax expense have generally paralleled changes in pre-tax income. The Corporation's effective tax rates were 21.6% in 1999, 27.3% in 2000 and 24.5% in 2001. The decrease in the effective rate in 2001 resulted from a $14 million increase in assets that provide either tax-free or tax advantaged earnings. The large increase in the effective rate in 2000 was the result of the acquisitions completed in the third quarter of 1999. The tax-exempt income as a percentage of total pre-tax income declined from 46.7% in 1999 to 34.0% in 2000 for the combined Corporations. Also, GCM was a Sub S Corporation prior to the acquisition, and therefore, it had no income tax expense to be included in the 1999 consolidated statements. The Corporation's ability to reduce income tax expense by acquiring additional tax-free investments is limited by the Alternative Minimum Tax Provision, the market supply of acceptable municipal securities, the level of tax exempt yields and the Corporation's normal liquidity and balance sheet structure requirements.

LIQUIDITY, ASSET/LIABILITY MANAGEMENT

Liquidity may be defined as the ability of the Corporation to meet cash flow requirements created by decreases in deposits and/or other sources of funds or increases in loan demand. The Corporation has not experienced any problems with liquidity over any of the years noted and anticipates that all liquidity requirements will be met comfortably in the future. The Corporation's traditional sources of funds from deposit increases, maturing loans and investments and earnings have generally allowed it to consistently generate sufficient funds for liquidity needs. As the result of a $24.5 million decrease in loans and a $5.9 million increase in deposits, the Corporation's loan/deposit ratio has decreased from 80.5% in 2000 to 76.8% in 2001. In addition, the Corporation increased its borrowing from the Federal Home Loan Bank during 2001 by approximately $55.3 million, while other borrowed funds declined by $1.7 million. These additional funds were used primarily in two areas. First, approximately $25 million was used to repurchase the Corporation's common stock. For additional information on this purchase, please refer to the discussion under the "Capital" section of this document. Second, approximately $40 million was used for arbitrage transactions. In these arbitrage transactions, the Corporation borrowed this money at a specific rate and used it to purchase U. S. Government Agency Securities at a higher rate. This locks in a positive interest spread on these transactions over the life of the instruments. The remaining funds generated during the year were primarily invested in the securities portfolio causing the balance to increase by approximately $58.9 million, including the $40 million in the arbitrage securities and the purchase of $10 million dollars of Bank Owned Life Insurance. All the remaining liquidity needs for the year were provided from normal operating activities.

The Corporation offers repurchase agreements to accommodate excess funds of some of its larger depositors. Management believes that these repurchase agreements stabilize traditional deposit sources as opposed to risking the potential loss of these funds to alternative investment arrangements. Repurchase Agreements, which are viewed as a source of funds to the Corporation, totaled $16.6 million and $16.3 million at December 31, 2001 and 2000, respectively. The level of repurchase agreement activity is limited by the availability of investment portfolio securities to be pledged against the accounts. Due to the limited amount of repurchase agreements and the fact that the underlying securities remain under the control of National Bank of Commerce, the exposure of the Corporation for this service is not considered material.

The following table shows the contractual obligations for the Corporation as of December 31, 2001:

Obligations

(In Thousands)	Total	Due in less than 1 year	Due in 1-3 years	Due in 3-5 years	Due After 5 years
Long-term debt	$109,911	$ 38,157	$ 37,361	$ 29,487	$ 4,906
Operating leases	3,090	261	781	318	1,730
Securities sold under repurchase agreements	16,625	16,625	-	-	-
Other borrowings	682	682	-	-	-
Total cash obligations	$130,308	$ 55,725	$ 38,142	$ 29,805	$ 6,636

The following table shows the other commercial commitments for the Corporation as of December 31, 2001:

Commercial Commitments

(In Thousands)	Total	Expires in less than 1 year	Expires in 1-3 years	Expires in 3-5 years	Expires after 5 years
Lines of Credit (unfunded commitments)	$94,876	$70,567	$17,105	$ 4,132	$ 3,072
Standby letters of credit	$ 4,880	$ 612	$ 1,363	$ 2,095	-

The Corporation believes that normal earnings and other traditional sources of cash flow, along with additional borrowings from the Federal Home Loan Bank, if necessary, will provide the cash to allow it to meet these obligations with no adverse effect on liquidity. At December 31, 2001, the Corporation had the ability to borrow approximately $64 million from the Federal Home Loan Bank and had other short-term borrowing lines (Federal Funds Purchased Lines) of approximately $91 million from upstream correspondent banks.

The Corporation has no plans for the refinancing or redemption of any liabilities other than normal maturities and payments relating to the borrowings from the Federal Home Loan Bank. The Corporation does not have plans at this time for any discretionary spending that would have a material impact on liquidity other than its announced stock repurchase program. At December 31, 2001, the Corporation had the authority, at its discretion, to purchase 290,500 additional shares of its common stock. If purchased at the year-end closing price of $30.74, this purchase would require approximately $8.9 million. These purchases will be made over an unknown period of time and the necessary funds will be provided from normal sources.

The Corporation has maintained a consistent and disciplined asset/liability management policy during each of the years noted in the summary. This policy focuses on interest rate risk and sensitivity. During 2001, the Corporation did not engage in any non-exchange-traded contracts such as currency or interest rate swaps, nor did it purchase or hold any derivative securities.

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

Due to the potential volatility of interest rates, the Corporation's goal is to stabilize the net interest margin by maintaining a neutral rate sensitive position. At year-end 2001, the Corporation's balance sheet reflected approximately $88.1 million more in rate sensitive liabilities than assets that were scheduled to reprice within one year. This represents 8.4% of total assets and would indicate that the Corporation is slightly liability sensitive. This computation results from a static gap analysis that weights assets and liabilities equally. It is the Corporation's policy to maintain a static gap position of no more than a plus or minus 10% of aggregate assets over a moving twenty-four month period. The Corporation's position is considered essentially neutral when using simulation modeling that provides different weighting for assets and liabilities. Management believes that interest rates will increase slightly during 2001. As a result, it is felt that the Corporation's current position places it in an acceptable interest rate risk posture. Management does not believe that it is in the Corporation's best interest to speculate on changes in interest rate levels. Although earnings could be enhanced if predictions were correct, they could also be put at significant risk if interest rates move against predictions.

CAPITAL

Retained earnings have served as the Corporation's exclusive source of capital growth over the five years noted in the summary of Selected Financial Data. In 1998, Stockholders' Equity increased by approximately $6.6 million as a result of net income and the Corporation's normal dividend payout. In 1999, total Stockholders' Equity showed a decline of approximately $600,000. The reason for this decline was that Accumulated

Other Comprehensive Income, which is composed primarily of unrealized gains (losses) on available-for-sale securities, moved from a gain of $1.4 million in 1998 to a loss of $2.6 million in 1999. This movement resulted from an increasing rate environment during 1999, which caused a decline in market value of these investment securities. The interest rate trend reversed in 2000, and as a result, the Accumulated Other Comprehensive Income improved from a loss of $2.6 million to a loss of only $68,000. This, along with net income, net of dividends paid, resulted in Stockholder's Equity increasing from $111.3 million at the end of 1999 to $120.1 million at the end of 2000. In 2001, Stockholder's Equity decreased by $17.2 million or 14.3%. This decrease resulted from a large purchase of Treasury Stock during the first quarter and the normal payment of dividends. These decreases were partially offset by the net income for the year and a continued downward trend in interest rates, which caused the Accumulated Other Comprehensive Income to increase from a loss of $68,000 at December 31 2000, to a gain of $1,650,000 at December 31, 2001.

During 2001, the amount of Treasury Stock increased from $1,043,000 to $25,997,000, as the number of shares held in the treasury increased from 37,235 to 1,029,702. The majority of the increase resulted from a March 22, 2001 transaction in which the Corporation repurchased 976,676 shares of its common stock (13.6% of its outstanding shares) from its largest shareholder group for approximately $24.5 million. The Corporation had and continues to have excess consolidated capital when compared to its peers, and management believed that this repurchase of its stock was a quick and efficient method of utilizing a portion of the excess capital. The completion of this transaction resulted in reducing the Corporation's equity to assets ratio to a more appropriate level. Additional information on this transaction can be found in Form 8-K filed by the Corporation on April 5, 2001. On July 2, 2001, the Corporation announced a Stock Repurchase Program to repurchase 310,000 additional shares or up to 5% of its common stock. During 2001, 19,500 shares were purchased under this program for approximately $563,000, or an average of $28.85 per share. Also during 2001, the Corporation issued 6,011 shares upon the exercise of stock options granted under a plan carried over from FFBS.

Current regulatory requirements call for a basic leverage ratio of 5.0% for an institution to be considered "well-capitalized." At the end of 2001, NBC maintained a 9.7% leverage ratio, which means it significantly exceeded the ratio required for a "well-capitalized" institution.

Regulatory authorities also evaluate a financial institution's capital under certain risk-weighted formulas (high-risk assets would require a higher capital allotment, lower risk assets a lower capital allotment). In this context, a "well-capitalized" bank is required to have a Tier 1 risk-based capital ratio (excludes reserve for loan losses) of 6.0% and a total risk-based capital ratio (includes reserve for loan losses) of 10.0%. At the end of 2001, the Corporation had a Tier 1 ratio of 15.0% and a total risk-based capital ratio of 16.0%, again placing the Corporation well above the level required for a "well-capitalized" institution.

The Corporation's capital position obviously exceeds regulatory requirements, even for "well-capitalized" institutions. Even though capital has decreased 2.3% since 1997 to total 9.8% of assets at December 31, 2001, management still considers this level of capital to be excessive in relation to the amount needed to support the assets of the Corporation. As a result, management is continuing to consider alternatives to safely leverage the remaining excess capital in an effort to increase the earnings of the Corporation and improve Return of Average Equity. Some of the items under consideration are the additional purchase of the

Corporation's stock, acquisitions and additional arbitrage transactions. There are no material commitments for the use of capital resources that can not be funded through currently available liquidity sources.

MARKET INFORMATION

Effective April 20, 2000, the Corporation listed its stock on the American Stock Exchange and is currently traded on the AMEX under the symbol NBY. Prior to that time, the stock was traded on the NASDAQ Inter-Dealer Market under the symbol NBCA. SunTrust Bank, Atlanta acts as Transfer Agent for the Corporation. The following table sets forth, for the periods indicated, the range of sales prices of the Corporation's common stock as reported on the Inter-Dealer Market through March of 2000 and the AMEX for the remainder of 2000 and 2001 and the dividends declared for each period:

YEAR	QUARTER	HIGH	LOW	CASH DIVIDEND DECLARED PER QUARTER
2000	First	$29.000	$20.000	$ 0.24
	Second	21.375	20.000	0.24
	Third	20.625	18.625	0.24
	Fourth	20.000	18.750	0.25
2001	First	$22.500	$18.875	$ 0.25
	Second	29.450	21.450	0.28
	Third	33.750	27.250	0.28
	Fourth	32.500	29.900	0.28

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

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

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

($ In Thousands)
December 31, 2001

Interest Sensitive Within (Cumulative)			
Within 3 Months	Within 12 Months	Within 5 Years	Total of Interest-Earning Assets

Interest-earning assets:				
Loans	$273,666	$467,759	$621,749	$622,940
Investment and mortgage-backed securities	21,537	46,164	227,033	340,726
Federal funds sold and other	14,773	14,773	14,773	14,773
Totals	$309,976	$528,696	$863,555	$978,439
Interest-bearing liabilities:				
Deposits	$343,058	$561,332	$649,040	$709,134
Borrowed funds	36,435	55,464	122,312	127,219
	$379,493	$616,796	$771,352	$836,353
Sensitivity gap:				
Dollar amount	$(69,517)	$(88,100)	$ 92,203	$142,086
Percent of total interest-earning assets	(7.1%)	(9.0%)	9.4%	14.5%

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

At December 31, 2001, total interest-earning assets maturing or repricing within one year were less than interest-bearing liabilities maturing or repricing within the same time period by approximately $88.1 million (cumulative), representing a negative cumulative one year gap of 9.0% of earning assets. Management of the Company believes this position to be acceptable in the current interest rate environment.

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

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

Risk control is utilized based upon the setting of guidelines as to the tolerance for interest rate exposure. These guidelines are set by senior management and approved by the board of directors. The December, 2001, model reflects a decrease of 10% in income and a 30% decrease in market value equity for a 200 basis point increase in interest rates. The same model shows a 3% increase in income and a 13% increase in market value equity for a 200 basis points decrease in interest rates. The guidelines allow for no more than a + - 10% change in income, and no more than a + - 25% change in market value equity. However, at December 31, 2001, management believes the changes in income and market value equity as reflected in the model are acceptable in the current rate environment.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NBC CAPITAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2001 AND 2000

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
NBC Capital Corporation

We have audited the accompanying consolidated balance sheets of NBC Capital Corporation and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the consolidated financial position of NBC Capital Corporation and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/S/ T. E. LOTT & COMPANY

Starkville, Mississippi
January 18, 2002

NBC CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

	2001	2000
ASSETS	(In thousands)	
Cash and due from banks (Note M)	$ 28,752	$ 29,439
Interest-bearing deposits with banks	1,263	2,289
Federal funds sold	13,510	13,422
Total cash and cash equivalents	43,525	45,150
Securities available-for-sale (Note C)	293,043	231,994
Securities held-to-maturity (Note C) (estimated fair value of $50,623 in 2001 and $53,343 in 2000)	47,683	49,796
Total securities	340,726	281,790
Loans (Note D)	622,940	647,489
Less allowance for loan losses (Note D)	(6,753)	(9,689)
Net loans	616,187	637,800
Interest receivable	8,352	10,521
Premises and equipment (Note E)	15,377	16,285

Intangible assets	2,857	3,235
Other assets	23,778	14,734
Total Assets	$1,050,802	$1,009,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing deposits	$ 101,569	$ 96,788
Interest-bearing deposits, $100,000 or more	147,885	147,541
Other interest-bearing deposits	561,249	560,475
Total deposits	810,703	804,804
Interest payable	2,284	3,420
Securities sold under agreements to repurchase (Note F)	16,625	16,326
Other borrowed funds (Note F)	110,594	57,027
Other liabilities	7,669	7,815
Total liabilities	947,875	889,392
Commitments and contingent liabilities (Note N)		
Shareholders' equity (Notes B, I and M):		
Common stock - $1 par value, authorized 10,000,000 shares in 2001 and 2000; issued 7,212,662 shares in 2001 and 2000	7,213	7,213
Surplus	51,429	51,529
Retained earnings	68,632	62,492
Accumulated other comprehensive income (Note G)	1,650	(68)
Treasury stock, at cost (Note K)	(25,997)	(1,043)
Total shareholders' equity	102,927	120,123
Total Liabilities and Shareholders' Equity	$1,050,802	$1,009,515

The accompanying notes are an integral part of these statements.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001	2000	1999
	(In thousands, except per share data)		
INTEREST INCOME			
Interest and fees on loans	$ 51,852	$ 57,535	$ 52,219

Interest and dividends on securities:			
Taxable	11,165	7,966	6,981
Tax-exempt interest	6,803	6,086	5,449
Other	950	1,148	2,440
Total interest income	70,770	72,735	67,089
INTEREST EXPENSE			
Interest on time deposits of $100,000 or more	7,788	7,692	6,096
Interest on other deposits	22,078	23,867	22,303
Interest on borrowed funds	6,135	3,419	2,599
Total interest expense	36,001	34,978	30,998
Net interest income	34,769	37,757	36,091
Provision for loan losses (Note D)	1,720	1,280	1,769
Net interest income after provision for loan losses	33,049	36,477	34,322
OTHER INCOME			
Service charges on deposit accounts	5,942	5,306	5,230
Insurance commissions, fees, and premiums	3,857	4,204	3,649
Other service charges and fees	2,935	1,938	1,916
Trust Department income	1,717	1,616	1,405
Securities gains (losses), net	459	(22)	37
Other	1,556	720	817
Total other income	16,466	13,762	13,054
OTHER EXPENSE			
Salaries	15,026	14,976	14,696
Employee benefits (Note J)	3,130	2,284	2,849
Net occupancy expense	2,311	2,161	2,048
Furniture and equipment expense	2,305	2,378	2,165
Merger and integration expense (Note B)	-	22	3,070
Other	9,344	9,096	9,141
Total other expense	32,116	30,917	33,969
Income before income taxes	17,399	19,322	13,407
Income taxes (Note H)	4,261	5,277	2,899
Net income	$ 13,138	$ 14,045	$ 10,508
Net income per share:			

Basic	$ 2.05	$ 1.96	$ 1.46
Diluted	2.05	1.96	1.46

The accompanying notes are an integral part of these statements.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Comprehensive Income	Common Stock	Surplus	Retained Earnings	Unearned Compensation	Treasury Stock	Accumulated Other Comprehensive Income	Total
	(In thousands)							
Balance, January 1, 1999		$7,045	$52,554	$ 51,552	$ (657)	$ (2)	$ 1,376	$111,868
Comprehensive income:								
Net income for 1999	$10,508	-	-	10,508	-	-	-	10,508
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	(4,016)	-	-	-	-	-	(4,016)	(4,016)
Comprehensive income	$ 6,492							
Issuance of common stock for acquisition accounted for as a pooling of interests (Note B)		173	(232)	-	-	-	2	(57)
Cash dividends declared, $.87 per								

share		-	-	(5,983)	-	-	-	(5,983)
Purchase of treasury stock (Note K)		-	-	-	-	(1,900)	-	(1,900)
Purchase of fractional shares		-	(11)	-	-	-	-	(11)
Treasury shares issued for acquisition (Note K)		(21)	(814)	-	-	835	-	-
Exercise of stock options		-	(327)	-	-	486	-	159
Pre-merger transactions of pooled entities:								
Dividends		-	-	(667)	-	-	-	(667)
Other		16	675	-	657	2	-	1,350
Balance, December 31, 1999		7,213	51,845	55,410	-	(579)	(2,638)	111,251
Comprehensive income:								
Net income for 2000	$14,045	-	-	14,045	-	-	-	14,045
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	2,570	-	-	-	-	-	2,570	2,570
Comprehensive income	$16,615							
Cash dividends declared, $.97 per share		-	-	(6,963)	-	-	-	(6,963)
Purchase of treasury stock (Note K)		-	-	-	-	(1,164)	-	(1,164)
Treasury shares issued for acquisition (Note K)		-	(184)	-	-	479	-	295
Exercise of stock options		-	(132)	-	-	221	-	89
Balance,								

December 31, 2000		7,213	51,529	62,492	-	(1,043)	(68)	120,123
Comprehensive income:								
Net income for 2001	$13,138	-	-	13,138	-	-	-	13,138
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	1,718	-	-	-	-	-	1,718	1,718
Comprehensive income	$14,856							
Cash dividend declared, $1.09 per share		-	-	(6,998)	-	-	-	(6,998)
Purchase of treasury stock (Note K)		-	-	-	-	(25,122)	-	(25,122)
Exercise of stock options		-	(100)	-	-	168	-	68
Balance, December 31, 2001		$7,213	$51,429	$ 68,632	$ -	$(25,997)	$ 1,650	$102,927