BANC CORP
Form 10-K
March 16, 2005

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 0-25033

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

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

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

Securities registered pursuant to Section 12(b) of the Act:
NONE
Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE $.001 PER SHARE
(Titles of Class)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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 this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as

defined in Exchange Act Rule 12b-2). Yes [X] No [ ]

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of March 11, 2005, based on a closing price of $10.97 per share of Common Stock, was $205,646,988.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: the number of shares outstanding as of March 3, 2005, of the registrant's only issued and outstanding class of common stock, its $.001 per share par value common stock, was 18,746,307.

DOCUMENTS INCORPORATED BY REFERENCE

The information set forth under Items 10, 11, 12, 13 and 14 of Part III of this Report is incorporated by reference from the registrant's definitive proxy statement for its 2005 annual meeting of stockholders that will be filed no later than April 30, 2005.

PART I

ITEM 1. BUSINESS.

GENERAL

We are a Delaware-chartered bank holding company headquartered in Birmingham, Alabama. We offer a broad range of banking and related services in 27 locations in Alabama and the eastern Florida panhandle through The Bank, our principal subsidiary. We had assets of approximately $1.423 billion, loans of approximately $936 million, deposits of approximately $1.067 billion and stockholders' equity of approximately $101 million at December 31, 2004. Our principal executive offices are located at 17 North 20th Street, Birmingham, Alabama 35203, and our telephone number is (205) 327-3600.

We were founded in 1997. During the fall of 1998, we acquired four financial institutions totaling $266 million in assets. As a result of these acquisitions and our de novo branches in Birmingham and Decatur, we grew from $69 million in assets and three branches as of September 30, 1997 to $441 million in assets ($630 million after giving effect to acquisitions completed in 1999 accounted for as poolings of interest) and 16 branches by December 31, 1998. We completed our initial public offering in December 1998.

Since 1999, we have focused on higher growth markets in Alabama and the panhandle of Florida. In Alabama, we concentrated on the Huntsville and Birmingham markets. We acquired BankersTrust of Alabama, Inc. ($35 million in assets) in July 1999, moving us into the Huntsville, Alabama market. As of December 31, 2004, approximately 13% of our loans and 9% of our deposits were located in the Huntsville market and 34% of our loans and 19% of our deposits were located in the Birmingham market.

In Florida, we acquired Emerald Coast Bancshares, Inc. ($92 million in assets) in February 1999, both C&L Banking Corporation ($49 million in assets) and C&L Bank of Blountstown ($56 million in assets) in June 1999, and CF Bancshares, Inc. ($105 million in assets) in February 2002. In August 2003, we sold our Emerald Coast branches for a $46.8 million deposit premium. As of December 31, 2004, approximately 26% of our loans and 25% of our deposits were located in Florida.

RECENT DEVELOPMENTS

On January 24, 2005, we entered into a series of agreements and

transactions under (or as a result of) which

- C. Stanley Bailey joined The Banc Corporation and The Bank as Chief Executive Officer, bringing with him a team of four other highly experienced bankers who have joined our senior management team;
- the new members of the management team, along with other investors, purchased 925,636 shares of our common stock at $8.17 per share, the current market price, in a private placement;
- James A. Taylor, our founding Chairman of the Board and Chief Executive Officer, stepped down as Chief Executive Officer but continues to serve as non-executive Chairman of the Board of The Banc Corporation, and James A. Taylor, Jr. stepped down as President and Chief Operating Officer but continues to serve as a director of The Banc Corporation; and
- agreed-upon separation payments and arrangements were made with Mr. Taylor and Mr. Taylor, Jr. in connection with the termination of their employment agreements, with such payments being primarily funded by the proceeds of the simultaneous private placement of stock described above.

We believe that these recent developments will strengthen our management team and better position The Banc Corporation and The Bank for future growth. See "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Recent Developments" and "Directors and Executive Officers of the Registrant; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management; Certain Relationships and Related Transactions and Principal Accounting Fees and Services."

2

STRATEGY

Operations. We focus on small- to medium-sized businesses, as well as professionals and individuals, emphasizing our local decision-making, effective response time and personalized service. As a result, we conduct our business on a decentralized basis with respect to deposit gathering and most credit decisions, emphasizing local knowledge and authority to make these decisions. We supplement this decentralized management approach with centralized loan administration, policy oversight, credit review, audit, asset/liability management, data processing, human resources and risk management systems. We implement these standardized administrative and operational policies at each of our locations while retaining local management and advisory directors to capitalize on their knowledge of the local community.

Products and Services. The Bank provides a wide range of retail and small business services, including noninterest-bearing and interest-bearing checking, savings and money market accounts, certificates of deposit and individual retirement accounts. In addition, The Bank offers an extensive array of real estate, consumer, small business and commercial real estate loan products. Other financial services include annuities, automated teller machines, debit cards, credit-related life and disability insurance, safety deposit boxes, internet banking, bill payment and telephone banking. The Bank attracts primary banking relationships through the customer-oriented service environment created by The Bank's personnel combined with competitive financial products.

Market Areas. Our primary markets are located in northern and central Alabama and the eastern panhandle of Florida.

We are headquartered in Birmingham, Alabama. We also have branches in:

ALABAMA		FLORIDA
Albertville	Andalusia	Altha
Boaz	Childersburg	Apalachicola
Decatur	Frisco City	Blountstown
Gadsden	Guntersville	Bristol
Huntsville	Kinston	Carrabelle
Madison	Monroeville	Mexico Beach
Mt. Olive	Opp	Port Saint Joe
Rainbow City	Samson	
Sylacauga	Warrior	

In addition to our branches, we operate a loan production office in Montgomery, Alabama.

Growth. Since our inception, we have grown through acquisitions, internal growth and branching. Following each of our acquisitions, we have expended substantial managerial, operating, financial and other resources to integrate these entities. Over the past three-and-a-half years, The Bank has centralized all loan files and all loan processing, and we have enhanced our internal audit and loan review staffing. As a result of the corresponding increase in personnel and the significant investment in infrastructure and systems, our efficiency ratio has been above average for our peer group.

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

We periodically evaluate business combination opportunities and conduct discussions, due diligence activities and negotiations in connection with those opportunities. As a result, business combination transactions involving cash, debt or equity securities might occur from time to time. Any future business combination or series of business combinations that we might undertake may be material to our business, financial condition or results of operations in terms of assets acquired or liabilities assumed. Any future acquisition is subject to approval by the appropriate bank regulatory agencies. See "Supervision and Regulation."

LENDING ACTIVITIES

General. We offer various lending services, including real estate, consumer and commercial loans, primarily to individuals and businesses and other organizations that are located in or conduct a substantial portion of their business in our market areas. Our total loans at December 31, 2004 were $936

million, or 73.4% of total earning assets. The interest rates we charge on loans vary with the risk, maturity and amount of the loan and are subject to competitive pressures, money market rates, availability of funds and government regulations. We do not have any foreign loans or loans for highly leveraged transactions.

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

We use generally recognized loan underwriting criteria, and attempt to minimize loan losses through various means. In particular, on larger credits, we generally rely on the cash flow of a debtor as the primary source of repayment and secondarily on the value of the underlying collateral. In addition, we attempt to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral. As of December 31, 2004, approximately 75.3% of our loan portfolio consisted of loans that had variable interest rates or matured within one year.

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

LOAN PORTFOLIO

Real Estate Loans. Loans secured by real estate are a significant component of our loan portfolio, constituting $768 million, or 82.0% of total loans, at December 31, 2004. At that date, $251 million, or 26.8% of our total loan portfolio, consisted of single-family mortgage loans. Nonresidential mortgage loans include commercial and industrial loans. At December 31, 2004, $268 million, or 28.6% of our total loan portfolio, consisted of these loans. Our commercial real estate loans primarily provide financing for income-producing properties such as shopping centers, multi-family complexes and office buildings and for owner-occupied properties (primarily light industrial facilities and office buildings). These loans are underwritten with loan-to-value ratios ranging, on average, from 65% to 85% based upon the type of property being financed and the financial strength of the borrower. For owner-occupied commercial buildings, we underwrite the financial capability of the owner, with an 85% maximum loan-to-value ratio. For income-producing improved real estate, we underwrite the strength of the leases, especially those of any anchor tenants, with minimum debt service coverage of 1.2:1 and an 85% maximum loan-to-value ratio. While evaluation of collateral is an essential part of the underwriting process for these loans, repayment ability is determined from analysis of the borrower's earnings and cash flow. Terms are typically three to five years and may have payments through the date of maturity based on a 15- to 30-year amortization schedule.

We make loans to finance the construction of and improvements to single-family and multi-family housing and commercial structures as well as loans for land development. At December 31, 2004, $249 million, or 26.6% of our total portfolio, consisted of such loans. Our construction lending is divided into

three general categories: owner-occupied commercial buildings; income-producing improved real estate; and single-family residential construction. For construction loans related to income-producing properties, the underwriting criteria are the same as outlined in the preceding paragraph. For single-family residential construction, we underwrite the financial strength and reputation of the builder, factoring in the general state of the economy and interest rates and the location of the home, with an 85% maximum loan-to-value ratio. The majority of land development loans consists of loans to convert raw land into residential subdivisions.

Commercial and Industrial Loans. We make loans for commercial purposes in various lines of business. These loans are typically made on terms up to five years at fixed or variable rates and are secured by eligible accounts receivable, inventory or equipment. We attempt to reduce our credit risk on commercial loans by limiting the loan to value ratio to 80% on loans secured by eligible accounts receivable, 50% on loans secured by inventory and 75% on loans secured by equipment. Commercial and industrial loans constituted $132 million, or 14.1% of our loan portfolio, at December 31, 2004. We also, from time to time, make unsecured commercial loans.

Consumer Loans. Our consumer portfolio includes installment loans to individuals in our market areas and consists primarily of loans to purchase automobiles, recreational vehicles, mobile homes and consumer goods. Consumer loans constituted $28 million, or 3.0% of our loan portfolio, at December 31, 2004. Consumer loans are underwritten based on the borrower's income, current debt, credit history and collateral. Terms generally range from one to six years on automobile loans and one to three years on other consumer loans.

CREDIT REVIEW AND PROCEDURES

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

We have a loan review process designed to promote early identification of credit quality problems. We employ a risk rating system that assigns to each loan a rating that corresponds to the perceived credit risk. Risk ratings are subject to independent review by a centralized loan review department and an independent, external loan review function, which also performs ongoing, independent review of the risk management process, including underwriting, documentation and collateral control. Regular reports are made to senior management and the Board of Directors regarding credit quality as measured by assigned risk ratings and other measures, including, but not limited to, the level of past due percentages and nonperforming assets. The loan review function is centralized and independent of the lending function.

DEPOSITS

Core deposits are our principal source of funds, constituting approximately 62.4% of our total deposits as of December 31, 2004. Core deposits consist of demand deposits, interest-bearing transaction accounts, savings deposits and certificates of deposit (excluding certificates of deposits over $100,000). Transaction accounts include checking, money market and NOW accounts that provide The Bank with a source of fee income and cross-marketing opportunities, as well as a low-cost source of funds. Time and savings accounts also provide a relatively stable and low-cost source of funding. The largest source of funds for The Bank is certificates of deposit. Certificates of deposit in excess of $100,000 are approximately $401 million, or 38% of our deposits. Approximately $204 million consist of wholesale, or "brokered", deposits.

Our other sources of funds consist primarily of advances from the Federal Home Loan Bank ("FHLB"). These advances are secured by FHLB stock, agency securities and a blanket lien on certain residential and commercial real estate loans. We also have available unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements.

Deposit rates are set periodically by our internal Asset/Liability Management Committee, which includes certain members of senior management. We believe our rates are competitive with those offered by

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

COMPETITION

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

EMPLOYEES

As of December 31, 2004, we employed approximately 364 full-time equivalent employees, primarily at The Bank. We believe that our employee relations have been and continue to be good.

SUPERVISION AND REGULATION

We are a bank holding company, which means that we are subject to the supervision, examination and reporting requirements of the Federal Reserve Board and the Bank Holding Company Act ("BHCA"). The BHCA and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

The supervision and regulation of bank holding companies and their subsidiaries are intended primarily for the protection of depositors, the deposit insurance funds of the Federal Deposit Insurance Corporation (the "FDIC") and the banking system as a whole, not for the protection of bank holding company stockholders or creditors. The following description summarizes some of the laws to which we are subject. References herein to applicable statutes and regulations are brief summaries thereof, do not purport to be

complete, and are qualified in their entirety by reference to such statutes and regulations.

The Banc Corporation owns all the stock of its subsidiary depository institution, The Bank, an Alabama-chartered state bank and member of the Federal Reserve System which is subject to regulation, supervision and examination by the Federal Reserve Board and the Alabama Banking Department. The insurance activities of The Bank's subsidiary TBNC Financial Management, Inc. are subject to regulation, supervision and examination by the Alabama and Florida Departments of Insurance.

Regulatory Restrictions on Dividends. Various federal and state statutory provisions limit the amount of dividends The Bank can pay to us without regulatory approval. Approval of the Federal Reserve Board is required for payment of any dividend by a state chartered bank that is a member of the Federal Reserve System if the total of all dividends declared by the bank in any calendar year would exceed the total of its net profits (as defined by regulatory agencies) for that year combined with its retained net profits for the preceding two years.

Under Alabama law, a bank may not pay a dividend in excess of 90% of its net earnings until the bank's surplus is equal to at least 20% of its capital. The Bank is also required by Alabama law to obtain the prior approval of the Superintendent of the Alabama Banking Department for its payment of dividends if the total

of all dividends declared by The Bank in any calendar year will exceed the total of (1) The Bank's net earnings (as defined by statute) for that year, plus (2) its retained net earnings for the preceding two years, less any required transfers to surplus. In addition, no dividends may be paid from The Bank's surplus without the prior written approval of the Superintendent.

In addition, federal bank regulatory authorities have authority to prohibit the payment of dividends by bank holding companies if their actions constitute unsafe or unsound practices. Our ability and The Bank's ability to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines. Currently, both The Banc Corporation and The Bank must obtain regulatory approval prior to paying dividends. The Federal Reserve Board approved the timely payment of distributions on our trust preferred securities in January, March, July and September 2004 and in January and March 2005 and on our preferred stock in June and December 2004.

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

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe or unsound banking practices. The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe or unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if

those activities caused a substantial loss to a depository institution. The penalties can be as high as $1,000,000 for each day the activity continues.

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

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

The minimum guideline for the ratio (the "Total Risk-Based Capital Ratio") of total capital ("Total Capital") to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%. Our Total Risk-Based Capital Ratio is 11.51% as of December 31, 2004. At least half of Total Capital must comprise common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets ("Tier 1 Capital"). The remainder may consist of subordinated debt, other preferred stock and a limited amount of loan and lease loss reserves ("Tier 2 Capital"). The minimum guideline for Tier 1 Capital to risk-based assets is 4%. Our Tier 1 Capital to risk-weighted assets is 10.05% at December 31, 2004.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio (the "Leverage Ratio") of Tier 1 Capital to average assets, less goodwill and certain other intangible assets, of 3% for bank holding companies that meet certain specified criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3%, plus an additional cushion of 100 to 200 basis points. Our Leverage Ratio was 7.98% at December 31, 2004.

The federal bank regulatory agencies' risk-based capital and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria, assuming that they have the highest regulatory rating. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal and state bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. As of December 31, 2004, both The Banc Corporation and The Bank were "well capitalized". See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Restrictions on Transactions with Affiliates and Insiders. The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O apply to all federally insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all

loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. State banking laws also have similar provisions. In addition, the Sarbanes-Oxley Act of 2002 prohibits us from making loans to our directors or executive officers except those made in compliance with the restrictions described above.

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

Our bank subsidiary was assessed a $1.0 million FDIC deposit insurance premium in 2004. We currently expect this assessment to decline in future periods.

Community Reinvestment Act. The Bank is subject to the CRA. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications, applications to engage in new activities and applications to acquire the assets and assume the liabilities of another bank. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance records of the banks involved in the transaction are reviewed by federal banking agencies in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or thrift or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. The Bank has a satisfactory CRA rating from federal banking agencies.

USA Patriot Act. On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). The USA Patriot Act strengthened the ability of the U.S. government to detect and prosecute international money laundering and the financing of terrorism. Among its provisions, the USA Patriot Act requires that regulated financial institutions, including state member banks: (i) establish an anti-money laundering program that includes training and audit components; (ii) comply with regulations regarding the verification of the identity of any person seeking to open an account; (iii) take additional required precautions with non-U.S. owned accounts; and (iv) perform certain verification and certificate of money laundering risk for any foreign correspondent banking relationships. We have adopted policies,

procedures and controls to address compliance with the requirements of the USA Patriot Act under the existing regulations and will continue to revise and update our policies, procedures and controls to reflect changes required by the USA Patriot Act and implementing regulations.

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

INSTABILITY OF REGULATORY STRUCTURE

Various bills are routinely introduced in the United States Congress and state legislatures with respect to the regulation of financial institutions. Some of these proposals, if adopted, could significantly change the regulation of banks and the financial services industry. We cannot predict whether any of these proposals will be adopted or, if adopted, how these proposals would affect us.

EFFECT ON ECONOMIC ENVIRONMENT

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

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

AVAILABLE INFORMATION

We maintain an Internet website at www.thebankmybank.com. We make available free of charge through our website various reports that we file with the Securities and Exchange Commission, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports. These reports are made available as soon as reasonably practicable after these reports are filed with, or furnished to, the Securities and Exchange Commission. From our home page at www.thebankmybank.com, go to and click on "Investor Relations" to access these reports.

CODE OF ETHICS

We have adopted a code of ethics that applies to all of our employees, including our principal executive, financial and accounting officers. A copy of our code of ethics is available on our website. We intend to disclose information about any amendments to, or waivers from, our code of ethics that are required to be disclosed under applicable Securities and Exchange Commission regulations by providing appropriate information on our website. If at any time

our code of ethics is not available on our website, we will provide a copy of it free of charge upon written request.

ITEM 2. PROPERTIES.

Our headquarters are located at 17 North 20th Street, Birmingham, Alabama. As of December 21, 1999, The Banc Corporation and The Bank, who jointly owned the building, converted the building into

condominiums known as The Bank Condominiums. The Bank owns 11 condominium Units, comprising 14 floors, and The Banc Corporation owns four Units. This space includes a branch of The Bank, various administrative offices, operations facilities and our headquarters. We have sold four Units and have leased or are in the process of leasing seven Units. We intend to use the remaining space for future expansion of The Bank.

We operate through facilities at 28 locations. We own 24 of these facilities, lease four of these facilities and have one ground lease on a facility we own. Rental expense on the leased properties totaled approximately $286,000 in 2004.

ITEM 3. LEGAL PROCEEDINGS.

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

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

None.

PART II

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

MARKET FOR COMMON STOCK

Our common stock trades on Nasdaq under the ticker symbol "TBNC". As of March 11, 2005, there were approximately 882 record holders of our common stock. The following table sets forth, for the calendar periods indicated, the range of high and low reported sales prices:

	HIGH	LOW
2003		
First Quarter	$ 9.00	$4.90
Second Quarter	7.75	4.00
Third Quarter	7.90	6.40

Fourth Quarter	9.29	7.55
2004		
First Quarter	$ 8.77	$7.14
Second Quarter	7.56	6.25
Third Quarter	7.04	6.13
Fourth Quarter	8.74	6.93
2005		
First Quarter (through March 11, 2005)	$11.14	$8.00

On March 11, 2005, the last sale price for the common stock was $10.97 per share.

DIVIDENDS

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors. We derive cash available to pay dividends primarily, if not entirely, from dividends paid to us by our subsidiaries. There are certain restrictions that limit The Bank's ability to pay dividends to us and, in turn, our ability to pay dividends. Our ability to pay dividends to our stockholders will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability

to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our Board of Directors. Currently, we must obtain regulatory approval prior to paying dividends on our common stock, preferred stock, or our trust preferred securities. The Federal Reserve approved the timely payment of distributions on our trust preferred securities in January, March, July and September 2004 and January and March 2005 and the dividends on our preferred stock for June and December, 2004.

We paid dividends on our preferred stock aggregating $3.53 per preferred share in 2003 and $7.19 per preferred share in 2004. We do not currently pay dividends on our common stock, but expect to evaluate our common stock dividend policy from time to time as circumstances indicate, subject to applicable regulatory restrictions. The restrictions that may limit our ability to pay dividends are discussed in this Report in Item 1 under the heading "Supervision and Regulation -- Regulatory Restrictions on Dividends."

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected financial data from our consolidated financial statements and should be read in conjunction with our consolidated financial statements including the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The selected historical financial data as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 is derived from our audited consolidated financial statements and related notes included in this Form 10-K. See "Item 8. The Banc Corporation and Subsidiaries Consolidated Financial Statements."

AS OF AND FOR THE YEAR EN		
2004	2003	2002

	(DOLLARS IN THOUSANDS, EXCE		
SELECTED STATEMENT OF FINANCIAL CONDITION DATA:			
Total assets	$1,423,128	$1,171,626	$1,406,80
Loans, net of unearned income	934,868	856,941	1,138,53
Allowance for loan losses	12,543	25,174	27,76
Investment securities	288,308	141,601	73,12
Deposits	1,067,206	889,935	1,107,79
Advances from FHLB and other borrowings	205,546	131,919	174,92
Notes payable	3,965	1,925	-
Junior subordinated debentures owed to unconsolidated trusts	31,959	31,959	31,95
Stockholders' Equity	100,539	100,122	76,54
SELECTED STATEMENT OF INCOME DATA:			
Interest income	$ 66,160	$ 76,213	$ 88,54
Interest expense	28,123	33,487	40,51
Net interest income	38,037	42,726	48,03
Provision for loan losses	975	20,975	51,85
Noninterest income	10,527	14,592	15,12
Gain on sale of branches	739	48,264	-
Prepayment penalty -- FHLB advances	--	2,532	-
Loss on sale of loans	2,293	--	-
Noninterest expense	45,644	55,398	42,66
Income (loss) before income taxes(benefit)	391	26,677	(31,36
Income tax (benefit) expense	(796)	9,178	(12,95
Net income(loss)	1,187	17,499	(18,40
Preferred stock dividends	446	219	-
Net income(loss) applicable to common stockholders	$ 741	$ 17,280	$ (18,40
PER SHARE DATA:			
Net income(loss) -- basic	$ 0.04	$ 0.99	$ (1.0
-- diluted(1)(2)	$ 0.04	$ 0.95	$ (1.0
Weighted average shares outstanding -- basic	17,583	17,492	16,82
Weighted average shares outstanding -- diluted(1)(2)	17,815	18,137	16,82
Book value at period end	$ 5.31	$ 5.31	$ 4.3
Tangible book value per share	$ 4.62	$ 4.59	$ 3.5
Preferred shares outstanding at period end	62	62	-
Common shares outstanding at period end	17,750	17,695	17,60
PERFORMANCE RATIOS AND OTHER DATA:			
Return on average assets	0.09%	1.29%	(1.3
Return on average stockholders' equity	1.18	19.08	(19.8
Net interest margin(3)(4)	3.31	3.50	3.9
Net interest spread(4)(5)	3.20	3.35	3.7
Noninterest income to average assets	0.87	4.62	1.1
Noninterest expense to average assets	3.70	4.26	3.1
Efficiency ratio(6)	93.85	96.49	67.3
Average loan to average deposit ratio	92.16	100.69	105.3
Average interest-earning assets to average interest bearing liabilities	104.88	105.82	107.0
ASSETS QUALITY RATIOS:			
Allowance for loan losses to nonperforming loans	169.36%	78.59%	105.0
Allowance for loan losses to loans, net of unearned income	1.34	2.94	2.4
Nonperforming assets("NPA") to loans plus NPA's, net of unearned income	1.32	4.41	2.5
Nonaccrual loans to loans, net of unearned income	0.68	3.46	2.1
Net loan charge-offs to average loans	1.52	2.21	3.3

Net loan charge-offs as a percentage of:			
Provision for loan losses.................................	1,395.49	111.87	72.6
Allowance for loan losses.................................	108.47	93.21	135.7
CAPITAL RATIOS:			
Tier 1 risk-based capital ratio.............................	10.05%	12.60%	6.5
Total risk-based capital ratio..............................	11.51	14.07	8.8
Leverage ratio..	7.98	9.72	5.4

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(1)- Common stock equivalents of 287,000 shares were not included in computing diluted earnings per share for the year ended December 31, 2002 because their effects were antidilutive.
(2)- Common stock equivalents of 775,000 shares were not included in computing diluted earnings per share for the year ended December 31, 2004 because their effects were antidilutive.
(3)- Net interest income divided by average earning assets.
(4)- Calculated on a tax equivalent basis.
(5)- Yield on average interest earning assets less rate on average interest bearing liabilities.
(6)- Efficiency ratio is calculated by dividing noninterest expense, adjusted for FHLB prepayment penalties and the loss on sale of loans, by noninterest income, adjusted for gain on sale of branches, plus net interest income on a fully tax equivalent basis.

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

GENERAL

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

OVERVIEW

Our principal subsidiary is The Bank, an Alabama-chartered financial institution headquartered in Birmingham, Alabama, which operates 26 banking offices in Alabama and the eastern panhandle of Florida. Other subsidiaries include TBC Capital Statutory Trust II ("TBC Capital II"), a Connecticut statutory trust, TBC Capital Statutory Trust III ("TBC Capital III"), a Delaware business trust, and Morris Avenue Management Group, Inc. ("MAMG"), an Alabama corporation, all of which are wholly owned. TBC Capital II and TBC Capital III are unconsolidated special purpose entities formed solely to issue cumulative trust preferred securities. MAMG is a real estate management company that manages our headquarters, our branch facilities and certain other real estate owned by the Bank.

During 1998 and 1999, we acquired several banking organizations, which contributed significantly to our early development. During the fourth quarter of 1998, Commerce Bank of Alabama, Inc. and the banking subsidiaries of Commercial Bancshares of Roanoke, Inc., City National Corporation and First Citizens Bancorp, Inc. were merged with and into The Bank. Emerald Coast Bank became our subsidiary in February 1999, as a result of our merger with Emerald Coast Bancshares, Inc. C&L Bank became our subsidiary in June 1999 as a result of our acquisitions of C&L Bank of Blountstown and C&L Banking Corporation and its bank subsidiary, C&L Bank of Bristol. The banking subsidiary of BankersTrust of

Alabama, Inc., was merged into The Bank in July 1999. The Bank also acquired three new branches in Southeast Alabama in November of 1999. In June 2000, Emerald Coast Bank and C&L Bank merged into The Bank. During March 2002, Citizens Federal Savings Bank of Port St. Joe, the banking subsidiary of CF Bancshares, Inc., was merged into The Bank in connection with our acquisition of CF Bancshares, Inc.

In March 2003, we sold our branch in Roanoke, Alabama, which had assets of approximately $9.8 million and liabilities of $44.7 million. We realized a $2.3 million pre-tax gain on the sale. In August 2003, we sold seven branches of the Bank, serving the markets from Destin to Panama City, Florida for a $46.8 million deposit premium. These branches had assets of approximately $234 million and liabilities of $209 million. We realized a $46.0 million pre-tax gain on the sale. On February 6, 2004, we sold our Morris, Alabama branch, which had assets of approximately $1.0 million and liabilities of $8.2 million, for a $739,000 pre-tax gain. Because of the impact of these sales on our interest-bearing deposits and our loan portfolio, as well as the impact of the gains on sale on our net income, there are variations in the comparability between 2004 and 2003 of our financial position and results of operations. Where appropriate, we have tried to quantify these effects in the discussion that follows.

In January 2004, we transferred the majority of our nonperforming loans and approximately $7 million of other problem loans to our special assets department. Approximately $41.0 million in loans were transferred along with the related allowance for loan loss of $9.8 million. As of December 31, 2004, the balance of these loans totaled only $4.2 million. In September 2004 The Bank sold approximately $32 million, before allowance for loan losses, of certain nonperforming loans and other classified performing loans resulting in a pre-tax loss of $2.3 million. Prior to the sale, approximately $6.9 million related to these loans was recognized as a charge-off in September 2004 against the allowance for loan losses. The $6.9 million in allowance for loan losses associated with these loans had been provided in previous periods. Management is pursuing appropriate collection efforts on the remaining loans.

Management reviews the adequacy of the allowance for loan losses on a quarterly basis. The provision for loan losses represents the amount determined by management necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. (See "Critical Accounting Estimates" below)

For 2004 our provision for loan losses totaled $975,000 even though we recorded net charge-offs of $13.6 million. Additional provision for loan losses was not required because we had made allowances in previous periods to cover these losses and we experienced significant recoveries, totaling $3.7 million, during 2004. We also experienced a decline in classified loans during the year.

The primary source of our revenue is net interest income, which is the difference between income earned on interest-earning assets, such as loans and investments, and interest paid on interest-bearing liabilities, such as deposits and borrowings. Our results of operations are also affected by the provision for loan losses and other noninterest expenses such as salaries and benefits, occupancy expenses and provision for income taxes. The effects of these noninterest expenses are partially offset by noninterest sources of revenue such as service charges and fees on deposit accounts and mortgage banking income. Our volume of business is influenced by competition in our markets and overall economic conditions including such factors as market interest rates, business spending and consumer confidence.

During 2004, our net interest income decreased by 11.0% primarily due to a

decline in average interest-earning assets. The decline in our interest-earning assets resulted primarily from a decline in the average volume of our loan portfolio as a result of the sale of certain branches in 2003.

CRITICAL ACCOUNTING ESTIMATES

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

Allowance for Loan Losses

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

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. These calculations are based on many complex factors, including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

Goodwill Impairment

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. We test goodwill on an annual basis, or more frequently if events or circumstances indicate that there may have been impairment. The goodwill impairment test estimates the fair value of each reporting unit, through discounted cash flow methodology, to determine the fair value of our reporting units, which is then compared to the carrying amount. The goodwill impairment test requires management to make judgments in determining the assumptions used in the fair value calculations. Management believes goodwill is not impaired

and is properly recorded in the financial statements; however future events could cause management to adjust its assumptions regarding a particular reporting unit.

RECENT DEVELOPMENTS

On January 24, 2005, we announced that we had entered into a series of

agreements setting forth

- The employment of C. Stanley Bailey as Chief Executive Officer and a director of the corporation and chairman of our banking subsidiary, C. Marvin Scott as President of the corporation and our banking subsidiary, and Rick D. Gardner as Chief Operating Officer of the corporation and our banking subsidiary;

- The purchase by Mr. Bailey, Mr. Scott and Mr. Gardner, along with other investors, of 925,636 shares of common stock of the corporation at $8.17 per share in a private placement consummated simultaneously with the employment of Mr. Bailey, Mr. Scott and Mr. Gardner; and

- Arrangements under which James A. Taylor would continue to serve as Chairman of the Board of the corporation and James A. Taylor, Jr. would continue to serve as a director of the corporation, but would cease to serve as Chief Executive Officer and President, respectively, of the corporation and as officers and directors of our banking subsidiary.

Our employment agreement with Mr. Taylor entitled him to certain payments based on his current compensation upon the occurrence of specified circumstances, and gave him the option to demand the discounted present value of such payments in a lump sum. The transactions described above would have triggered our obligations to make such payments to Mr. Taylor. On January 24, 2005, we entered into an agreement with Mr. Taylor pursuant to which, in lieu of the payments to which he would have been entitled under his employment agreement, we paid to Mr. Taylor $3,940,155 on January 24, 2005, and will pay $3,152,124 on January 24, 2006, and $788,031 on January 24, 2007. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, the transfer of a "key man" life insurance policy to Mr. Taylor, and the maintenance of such policy by us for five years (with the cost of maintaining such policy included in the above amounts), in each case substantially as required by his employment agreement. Our obligation to provide such payments and benefits to Mr. Taylor is absolute and will survive the death or disability of Mr. Taylor.

Our employment agreement with Mr. Taylor, Jr. entitled him to certain payments based on his current compensation upon the occurrence of specified circumstances, and gave him the option to demand the discounted present value of such payments in a lump sum. The transactions described above would have triggered our obligations to make such payments to Mr. Taylor, Jr.. On January 24, 2005, we entered into an agreement with Mr. Taylor, Jr. pursuant to which, in lieu of the payments to which he would have been entitled under his employment agreement, we paid to Mr. Taylor, Jr., $1,382,872 on January 24, 2005. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, Jr. and for the immediate vesting of his unvested incentive awards and deferred compensation in each case substantially as required by his employment agreement. Our obligation to provide such payments and benefits to Mr. Taylor, Jr. is absolute and will survive the death or disability of Mr. Taylor, Jr.

The new equity investment described above, which involved gross proceeds of over $7.5 million to us, will be adequate to allow us to fulfill our cash payment obligations, net of tax effect, to Mr. Taylor and Mr. Taylor, Jr., and to pay certain other costs of the transactions. Accordingly, the transactions will have a nominal effect on our regulatory capital position and our banking subsidiary. In connection with the transaction, we expect to recognize after-tax expenses of approximately $7.7 million or $0.41 per common share in the first quarter of 2005.

Under Mr. Bailey's, Mr. Scott's and Mr. Gardner's respective employment agreements, we are obligated to grant, and have granted as of January 24, 2005, options to acquire 711,970 shares of common stock to Mr. Bailey, 355,985 shares

to Mr. Scott, and 355,985 shares to Mr. Gardner, for a total of 1,423,940 each at an

exercise price of $8.17 per share. Such options have a ten-year term and vest and become exercisable as follows:

- 50% on April 24, 2005;

- 20% on the later of (x) the date on which the average closing price per share of our common stock over a 15-consecutive-trading-day period (the "Market Value price" is at least $10 but less than $12, and (y) June 29, 2005 (the "Alternate Vesting Date");

- 15% on the later of (x) the date on which the Market Value price is at least $12 but less than $14, and (y) the Alternate Vesting Date; and

- 15% on the later of (x) the date on which the Market Value price is at least $14, and (y) the Alternate Vesting Date.

- To the extent not otherwise vested, on January 24, 2010.

In addition, on January 24, 2005, we entered into certain Employment Agreement Standstill Agreements ("standstill agreements") with our chief financial officer and general counsel ("executives"). The management changes described above gave the executives the right to exercise certain provisions under their employment agreements. Under the standstill agreements, the executives have agreed to remain in their present positions and their employment agreements remain in full force. We and the executives have agreed as part of the standstill agreements to discuss any proposed changes in the executives' continued employment relationship with us. At any time following the first anniversary of the standstill agreements, if we and the executive have not reached a new agreement, such executive may terminate his employment for any reason and receive all rights, payments, privileges and benefits currently provided for under his employment agreement. If both executives were to terminate their employment after the first anniversary date, we would incur a pre-tax expense in the quarter in which such termination occurred ranging from $2.0 to $2.5 million.

RESULTS OF OPERATIONS

Year Ended December 31, 2004, Compared with Year Ended December 31, 2003

Our net income for the year ended December 31, 2004 was $1.2 million compared to $17.5 million for the year ended December 31, 2003. Net income available to common stockholders was $741,000 for the year ended December 31, 2004 compared to $17.3 million for the year ended December 31, 2003. Our basic and diluted net income per common share was $.04 for the year ended December 31 2004 compared to $.99 (basic) and $.95 (diluted) per common share for the year ended December 31, 2003. Our return on average assets was .09% in 2004 compared to 1.29% in 2003. Our return on average stockholders' equity was 1.18% in 2004 compared to 19.08% in 2003. Our book value per common share at December 31, 2004 and 2003 was $5.31 and our tangible book value per common share at December 31, 2004 increased to $4.62 from $4.59 as of December 31, 2003. Average equity to average assets increased to 7.78% in 2004 from 6.74% in 2003.

The decrease in net income for the year ended December 31, 2004 compared to the year ended December 31, 2003 is the result of a decline in our net interest margin and other noninterest income offset by a decline in the provision for loan losses and other noninterest expenses. These variations, which are

primarily the result of the sale of our Emerald Coast branches, are more fully discussed in the following paragraphs.

Net interest income is the difference between the income earned on interest-earning assets and interest expensed on interest-bearing liabilities used to support such assets. Net interest income decreased $4.7 million, or 11.0%, to $38.0 million for the year ended December 31, 2004, from $42.7 million for the year ended December 31, 2003. This was due to a decrease in interest income of $10.1 million, or 13.2%, offset by a decrease in total interest expense of $5.4 million, or 16.0%. This decrease in total interest income was primarily attributable to a $15.2 million, or 21.2%, decrease in interest income on loans which is the result of a $169 million decline in the average volume of our loan portfolio due to the sale of certain branches in 2003. This decrease was offset by a $5.2 million, or 140.7%, increase in interest income on taxable investment securities. Our average investment security portfolio increased $110.4 million, or 118.1%.

The decline in total interest expense is primarily attributable to a 34-basis point decline in the average interest rates paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.56% for the year ended December 31, 2004 compared to 2.90% for the year ended December 31, 2003. This decline was due primarily to a decline in the average rates paid on FHLB advances and time deposits. Our net interest spread and net interest margin were 3.20% and 3.31%, respectively, for the year ended December 31, 2004, compared to 3.35% and 3.50%, respectively, for the year ended December 31, 2003.

Our average interest-earning assets for the year ended December 31, 2004 decreased $71.4 million, or 5.8%, to $1.150 billion from $1.222 billion for the year ended December 31, 2003. This decline in our average interest-earning assets was due to the sale of our Emerald Coast branches in the third quarter of 2003. The ratio of our average interest-earning assets to average interest-bearing liabilities was 104.9% and 105.8% for the years ended December 31, 2004 and 2003, respectively. Our average interest-bearing assets produced a taxable equivalent yield of 5.76% for the year ended December 31, 2004 compared to 6.25% for the year ended December 31, 2003. The 49-basis point decline in the yield was partially offset by a 34-point basis decline in the average rate paid on interest-bearing liabilities.

The provision for loan losses represents the amount determined by management necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio. Management reviews the adequacy of the allowance for loan losses on a quarterly basis. The allowance for loan losses calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using an eight-point scale with loan officers having the primary responsibility for assigning risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by our internal loan review function and senior management. Based on the assigned risk ratings, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages are applied to these categories to estimate the amount of loan loss allowance, adjusted for previously mentioned risk factors. Impaired loans are reviewed specifically and separately under Statement of Financial Accounting Standards ("SFAS") Statement No. 114 to determine the appropriate reserve allocation. Management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan's effective

interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan losses at an appropriate level. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

The provision for loan losses was $975,000 for the year ended December 31, 2004 compared to $21.0 million in 2003. This decline in provision is the result of several factors, including the collection of certain classified loans totaling approximately $6.0 million in the first quarter of 2004; significant recoveries of charged-off loans totaling $3.7 million for 2004; adjustments to the risk factors related to 1-4 family residential loans in the second quarter of 2004; and a $101 million net increase in real estate construction loans,which carry a lower historical loss allocation. In addition, approximately 25% of our net loan growth for the year is related to a single credit with a very low risk rating that was originated in the second quarter and is fully secured by marketable securities. Also, nonperforming loans decreased significantly to .79% of loans at December 31, 2004 from 3.74% at December 31, 2003. During 2004, we had net charged-off loans totaling $13.6 million compared to net charged-off loans of $23.5 million for 2003. Approximately $6.9 million of loans charged off or partially charged off in the third quarter of 2004 were included as part of the loan sale in September 2004. The net amount of charged-off loans for 2004 was covered by specific and standard allocations of allowance for loan losses which had been provided in previous periods. The ratio of net charged-off loans to average loans was 1.52% for 2004 compared to 2.21% for 2003. The allowance for loan losses

totaled $12.5 million, or 1.34% of loans, net of unearned income, at December 31, 2004 compared to $25.2 million, or 2.94% of loans, net of unearned income, at December 31, 2003. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

Noninterest income decreased $51.6 million, or 82.1%, to $11.3 million in 2004, from $62.9 million in 2003. This decrease is primarily due to the gains on sales of branches of $48.3 million in 2003 and was partially offset by a $739,000 gain we realized on the sale of our Morris branch during 2004. Income from mortgage banking operations for the year ended December 31, 2004 decreased $2.4 million, or 58.8%, to $1.7 million in 2004 from $4.1 million in 2003. Income from customer service charges and fees decreased $610,000, or 10.5%, to $5.2 million in 2004 from $5.8 million in 2003. Other noninterest income was $3.7 million, a decrease of $423,000, or 10.2%, from $4.2 million in 2003. The decline in service charges is related to the decline in deposit accounts, which resulted from the sale of certain branches during 2003. The decline in mortgage banking income is the result of the lessening demand for refinancing that occurred in 2004 and the sale of the Emerald Coast branches.

We realized net losses on the sale or write-down of investment securities of $74,000 in 2004 compared to net gains of $588,000 in 2003. During the fourth quarter of 2004, we realized an "other-than-temporary" non-cash, non-operating impairment charge of $507,000 related to certain Fannie Mae ("FNMA") and Freddie Mac ("FHLMC") preferred stock that we carry in our available-for-sale investment portfolio. The net effect of this impairment charge after tax is $320,000, or $.02 per common share. Because any unrealized losses on securities carried in

the available-for-sale portfolio are recorded as other comprehensive losses approximately $250,000 of this loss, net of tax effect, had been charged to stockholders' equity in previous periods. These securities are high-yielding investment grade securities that are widely held by other financial institutions but in light of recent events at these agencies management has determined that these unrealized market losses are other-than-temporary under generally accepted accounting principles.

Noninterest expense decreased $10.0 million, or 17.3%, to $47.9 million in 2004 from $57.9 million in 2003. Salaries and employee benefits decreased $6.0 million, or 20.3%, to $23.5 million in 2004 compared to $29.5 million in 2003 primarily due to the sale of certain branches during 2003. All other noninterest expenses decreased $3.7 million, or 14.6%, to $22.2 million from $25.9 million in 2003, primarily due to the sale of certain branches during 2003. During 2004, we incurred approximately $5.9 million in certain expenses which included $2.0 million related to increased foreclosure and repossession activity, $747,000 in valuation write-downs, $220,000 in net losses on sales of foreclosed property, $1.2 million in legal fees, $827,000 in audit and accounting fees and $1.0 million in FDIC premiums. Management does not expect these expenses to be at these levels in the future. We currently expect our FDIC premiums for the period ending December 31, 2005 to be approximately $480,000.

Our income tax benefit was $796,000 in 2004 and our income tax expense was $9.2 million in 2003. The primary difference in the effective tax rate and the federal statutory rate of 34% for 2004 is due primarily to certain tax-exempt income and the recognition of rehabilitation tax credits of $725,000 generated from the restoration of our headquarters, the John A. Hand Building.

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

Year Ended December 31, 2003, Compared with Year Ended December 31, 2002

Our net income for the year ended December 31, 2003 was $17.5 million compared to a net loss of $(18.4) million for the year ended December 31, 2002. Our basic net income per common share was $.99 and diluted net income per common share was $.95 for the year ended December, 31 2003 compared to a net loss

per common share of $(1.09) per share for the year ended December 31, 2002. Our return on average assets was 1.29% in 2003 compared to (1.36)% in 2002. Our return on average stockholders' equity increased to 19.08% in 2003 from (19.89)% in 2002. Our book value per common share at December 31, 2003 increased to $5.31 from $4.35 as of December 31, 2002 and our tangible book value per common share at December 31, 2003 increased to $4.59 from $3.59 as of December 31, 2002. Average equity to average assets decreased to 6.74% in 2003 from 6.83% in 2002.

The growth in our net income for the year ended December 31, 2003 compared to the year ended December 31, 2002 is the result of a $48.3 million gain on the sale of branches and a decrease in loan loss provision, which was partially offset by an increase in noninterest expenses. Provision for loan losses

decreased $30.9 million, or 59.6% from $51.9 million for the year ended December 31, 2002 to $21.0 million for the year ended December 31, 2003. Noninterest income, exclusive of the branch sales and the settlement of certain litigation, increased $551,000, or 3.9% from $14.0 million for the year ended December 31, 2002 to $14.6 million for the year ended December 31, 2003. Noninterest expense, exclusive of prepayment penalty on FHLB advances, increased $12.7 million, or 29.8%, from $42.7 million for the year ended December 31, 2002 to $55.4 million for the year ended December 31, 2003.

Net interest income decreased $5.3 million, or 11.1%, to $42.7 million for the year ended December 31, 2003 from $48.0 million for the year ended December 31, 2002. This was due to a decrease in interest income of $12.3 million, or 13.9%, offset by a decrease in total interest expense of $7.0 million, or 17.3%. This decrease in total interest income was primarily attributable to a $13.0 million, or 15.4%, decrease in interest income on loans as a result of declining market interest rates, significant charged-off loans and a high level of nonperforming loans.

The decline in total interest expense is primarily attributable to a 63-basis point decline in the average interest rates paid on interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.90% for the year ended December 31, 2003 compared to 3.53% for the year ended December 2002. Our net interest spread and net interest margin were 3.35% and 3.50%, respectively, for the year ended December 31, 2003 compared to 3.70% and 3.93%, respectively, for the year ended December 31, 2002.

Our average interest-earning assets for the year ended December 31, 2003 decreased $5.0 million, or 0.4%, to $1.222 billion from $1.227 billion for the year ended December 31, 2002. This decline in our average interest-earning assets was due to the sale of our Emerald Coast branches in the third quarter of 2003. The ratio of our average interest-earning assets to average interest-bearing liabilities was 105.8% and 107.0% for the years ended December 31, 2003 and 2002, respectively. Our average interest-bearing assets produced a taxable equivalent yield of 6.25% for the year ended December 31, 2003 compared to 7.23% for the year ended December 31, 2002. The 98-basis point decline in the yield was partially offset by a 63-point basis decline in the average rate paid on interest-bearing liabilities.

The provision for loan losses was $21.0 million for the year ended December 31, 2003 compared to $51.9 million in 2002. During 2003, $16.4 million, or 78.1%, of the provision for loan losses was attributable to four of our bank groups: the Bristol bank group's provision was $8.2 million; the Albertville bank's group's provision was $2.1 million; the Andalusia bank group's provision was $4.3 million and the Huntsville bank group's provision was $1.8 million. In the third and fourth quarters of 2003, approximately $13.2 million (before writedowns) in Bristol relationships filed Chapter 11 bankruptcy. This resulted in increased charge-offs and additional provision for loan losses in these quarters. Net charge-offs decreased $14.2 million, from $37.7 million in 2002 to $23.5 million in 2003. Net charge-offs, as a percentage of the provision for loan losses, were 111.9% in 2003 compared to 72.7% in 2002. During 2003, $20.0 million of charged-off loans, or 81.6% of total charged-off loans were attributable to the same four bank groups: the Bristol bank group contributed approximately $12.1 million to total charge-offs during 2003; the Albertville bank group contributed approximately $3.2 million; the Andalusia bank group contributed approximately $2.1 million and the Huntsville bank group contributed approximately $2.6 million. After provisions and charge-offs, the allowance for loan losses was 2.94% of loans, net of unearned income, at December 31, 2003 compared to 2.44% at December 31, 2002. See "Financial Condition -- Allowance for Loan Losses" for additional discussion.

Non-interest income increased $47.7 million, or 315.6%, to $62.8 million in 2003, from $15.1 million in 2002. This increase includes gains on sales of branches of $48.3 million in 2003. Income from mortgage banking operations for the year ended December 31, 2003 increased $781,000, or 24%, to $4.0 million in 2003, from $3.3 million in 2002. Income from customer service charges and fees remained constant at $5.8 million in 2003 and 2002. Other non-interest income was $4.2 million, a decrease of $157,000, or 3.6%, from $4.3 million in 2002.

Noninterest expense increased $15.2 million, or 35.8%, to $57.9 million in 2003 from $42.7 million in 2002. Salaries and employee benefits increased $6.0 million, or 25.4%, to $29.5 million in 2003 compared to $23.5 million in 2002. In addition to normal merit raises, the increase in salaries and benefits related primarily to the accrual of employee bonuses of $1.9 million and a $1.9 million liability adjustment related to certain deferred compensation plans (See Note 12 to the consolidated financial statements).

All other noninterest expenses increased $9.3 million, or 48%, to $28.5 million from $19.2 million in 2002. Other noninterest expenses increased during 2003 primarily as a result of a prepayment penalty on FHLB advances, an increase in our FDIC premiums, a loss on the sale of our former Huntsville and Port St. Joe branch buildings, one-time expenses related to the relocation of our data processing center to our corporate headquarters, an increase in professional fees and losses on other real estate. Our bank subsidiary was assessed a $725,000 quarterly FDIC deposit insurance premium for the third quarter of 2003 which increased to $880,000 during the fourth quarter of 2003. Our assessment for the first quarter of 2004 was lowered to $417,000.

In connection with the sale of our Emerald Coast branches our full-time equivalent ("FTE") employee count went down by approximately 66. We instituted other staff reductions of approximately 50 FTE employees that were completed during the fourth quarter of 2003, reducing the overall staff from 443 FTE employees at June 30, 2003 to 376 FTE employees as of December 31, 2003. The staff reductions were in the areas of tellers, processors and other administrative support. During this same period, we increased staff in the centralized risk management areas of Loan Administration Services, Internal Audit, Special Assets, Compliance and Security.

Our income tax expense was $9.2 million in 2003 and our income tax benefit was $(13.0) million in 2002, resulting in effective tax rates of 34.4% and (41.3)%, respectively. The primary difference in the effective tax rate and the federal statutory rate of 35% for 2003 is due primarily to certain tax-exempt income and the recognition of a rehabilitation tax credit of $960,000 generated from the restoration of our headquarters, the John A. Hand Building. The primary difference in the effective tax rate and the federal statutory rate of 34% for 2002 is due primarily to certain tax-exempt income.

NET INTEREST INCOME

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

Average Balances, Income, Expenses and Rates. The following tables depict, on a taxable equivalent basis for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from daily averages.

	YEAR ENDED DECEMBER 31,					
	2004			2003		
	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE	AVERAGE BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE
	(DOLLARS IN THOUSANDS)					
	ASSETS					
Interest-earning assets:						
Loans, net of unearned income(1)	$ 894,406	$56,184	6.28%	$1,063,451	$71,335	6.71%
Investment securities						
Taxable	203,996	8,897	4.36	93,523	3,696	3.95
Tax-exempt(2)	3,868	217	5.61	4,045	280	6.93
Total investment securities	207,864	9,114	4.38	97,568	3,976	4.08
Federal funds sold	15,454	202	1.31	27,375	298	1.09
Other investments	32,637	734	2.25	33,373	699	2.09
Total interest-earning assets	1,150,361	66,234	5.76	1,221,767	76,308	6.25
Noninterest-earning assets:						
Cash and due from banks	26,238			33,508		
Premises and equipment	58,535			58,857		
Accrued interest and other assets	81,970			75,279		
Allowance for loan losses	(20,530)			(28,395)		
Total assets	$1,296,574			$1,361,016		
	LIABILITIES AND STOCKHOLDERS' EQUITY					
Interest-bearing liabilities:						
Demand deposits	$ 262,346	$ 3,225	1.23%	$ 277,326	$ 2,651	.96%
Savings deposits	29,383	48	0.16	34,809	100	.29
Time deposits	590,070	15,915	2.70	638,555	19,617	3.07
Other borrowings	183,052	6,356	3.47	171,948	8,597	5.00
Subordinated debentures	31,959	2,579	8.07	31,959	2,522	7.89
Total interest-bearing liabilities	1,096,810	28,123	2.56	1,154,597	33,487	2.90
Noninterest-bearing liabilities:						
Demand deposits	88,695			105,482		
Accrued interest and other						

liabilities............	10,154			9,219		
Total liabilities...	1,195,659			1,269,298		
Stockholders' equity......	100,915			91,718		
Total liabilities and stockholders' equity...........	$1,296,574			$1,361,016		
Net interest income/net interest spread..........		38,111	3.20%		42,821	3.35%
Net yield on earning assets...................			3.31%			3.50%
Taxable equivalent adjustment:						
Investment securities(2)..........		74			95	
Net interest income...........		$38,037			$42,726	

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

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

Analysis of Changes in Net Interest Income. The following table sets forth, on a taxable equivalent basis, the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the years ended December 31, 2004 and 2003.

	YEAR ENDED DECEMBER 31(1)					
	2004 VS 2003			2003 VS 2002		
		CHANGES DUE TO			CHANGES DUE TO	
	INCREASE (DECREASE)	RATE	VOLUME	INCREASE (DECREASE)	RATE	VOLUME
	(DOLLARS IN THOUSANDS)					
Income from earning assets:						
Interest and fees on loans....	$(15,151)	$(4,353)	$(10,798)	$(13,002)	$(8,559)	$(4,44
Interest on securities:						
Taxable....................	5,201	420	4,781	839	(792)	1,63
Tax-exempt.................	(63)	(52)	(11)	(314)	(35)	(27
Interest on federal funds.....	(96)	52	(148)	(52)	(140)	8
Interest on other investments................	35	51	(16)	87	(318)	40

Total interest income..............	(10,074)	(3,882)	(6,192)	(12,442)	(9,844)	(2,59
Expense from interest-bearing liabilities:						
Interest on demand deposits...	574	723	(149)	(657)	(667)	1
Interest on savings deposits...................	(52)	(39)	(13)	(147)	(134)	(1
Interest on time deposits.....	(3,702)	(2,271)	(1,431)	(6,104)	(5,728)	(37
Interest on other borrowings.................	(2,241)	(2,768)	527	(29)	(1,053)	1,02
Interest on subordinated debentures.................	57	57	--	(86)	(86)	-
Total interest expense.............	(5,364)	(4,298)	(1,066)	(7,023)	(7,668)	64
Net interest income...	$ (4,710)	$ 414	$ (5,126)	$ (5,419)	$(2,176)	$(3,24

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

MARKET RISK -- INTEREST RATE SENSITIVITY

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

We evaluate interest rate sensitivity risk and then formulate guidelines regarding asset generation and repricing, funding sources and pricing and off-balance sheet commitments in order to moderate interest rate sensitivity risk. We use computer simulations to measure the net interest income effect of various interest rate scenarios. The modeling reflects interest rate changes and the related impact on net interest income over specified periods of time.

The primary objective of asset/liability management is to manage interest rate risk and achieve reasonable stability in net interest income throughout interest rate cycles. This is achieved by maintaining the proper balance of interest rate sensitive earning assets and interest rate sensitive liabilities. In general, management's strategy is to match asset and liability balances within maturity categories to limit our exposure to earnings variations and variations in the value of assets and liabilities as interest rates change over time. Our asset and liability management strategy is formulated and monitored by our Asset/Liability Management Committee, which is composed of our head of asset/liability management and other senior officers, in accordance with policies approved by the board of directors. Our internal Asset/Liability Committee meets weekly to review, among other things, the sensitivity of our assets and liabilities to interest rate changes, the

book and market values of assets and liabilities, unrealized gains and losses, including those attributable to purchase and sale activity, and maturities of investments and borrowings. This committee also approves and establishes pricing and funding decisions with respect to overall asset and liability composition

and reports regularly to the full board of directors of The Bank.

One of the primary goals of our committee is to effectively manage the duration of our assets and liabilities so that the respective durations are matched as closely as possible. These duration adjustments can be accomplished either internally by restructuring our balance sheet, or externally by adjusting the duration of our assets or liabilities through the use of interest rate contracts, such as interest rate swaps, caps and floors. The recent rate cycle has included rates at a 50-year low. This in turn has caused many managers to allow liquidity to increase, and thus decrease earnings, or alternatively, to manage to management's expectation for earnings and duration over the term of the cycle. We chose the latter and sought to maximize investment earnings during this cycle while managing our 1-4 family residential portfolio to achieve maximum earnings in a rising rate cycle with a shorter average maturity than many of our peers. Our current strategy is to hedge externally through the use of non-core deposits and other liabilities that have priced favorably to typical core related deposits. Going forward, our focus will return to core funding as interest rates are expected to rise.

During the next twelve months, approximately $101 million more interest-earning assets than interest-bearing liabilities can reprice to current market rates. As a result, the one-year cumulative gap (the ratio of rate-sensitive assets to rate-sensitive liabilities) at December 31, 2004, was 1.14%, indicating an asset-sensitive position. For the period ending December 31, 2004, our interest rate risk model, which relies on management's growth assumptions, indicates that projected net interest income will increase on an annual basis by 9.5%, or approximately $4.4 million, assuming an instantaneous increase in interest rates of 200 basis points. Assuming an instantaneous decrease of 200 basis points, projected net interest income is expected to decrease on an annual basis by 14.1%, or approximately $6.6 million. The effect on net interest income produced by these scenarios is within our asset and liability management policy in the rising rate scenario, but outside our asset liability policy in the falling rate scenario. Our policy allows the level of interest rate sensitivity to affect net interest income plus or minus 10%. However, we do not expect rates to decline 200 basis points in the next twelve months.

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

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

The primary derivative instrument we use is the interest rate swap. An interest rate swap allows one party to swap a fixed rate to another party for a floating rate or vice-versa. The amount of the swap is based on a "notional amount." We most commonly use swap transactions in concert with issuing long-term, fixed rate, callable certificates of deposit. The CD's call features

allow flexibility in liquidity management. The swaps convert the CD's to relatively low-cost, floating rate funding.

As of December 31, 2004, we had outstanding interest rate swaps with a notional amount of $36.5 million. These consisted of nine interest rate swaps to hedge the fair value of fixed-rate, callable consumer certificates of deposits. These hedges were deemed by our management to be structured as a perfect hedge and as such were treated with the short-cut method of accounting under SFAS Statement No. 133.

We attempt to manage the one-year gap position as close to even as possible. This helps us to avoid wide variances in the event of a rapid change in our interest rate environment. Also, certain products that are classified as being rate-sensitive do not reprice on a contractual basis. These products include regular savings accounts, interest-bearing transaction accounts, money market accounts and NOW accounts. The rates paid on these accounts are typically not related directly to market interest rates, and management exercises some discretion in adjusting these rates as market rates change. In the event of a rapid shift in interest rates, management would attempt to take certain actions to mitigate the negative impact to net interest income. These actions include, but are not limited to, restructuring of interest-earning assets, seeking alternative funding sources and entering into interest rate swap agreements.

Although the interest rate sensitivity gap is a useful measurement that contributes to effective asset and liability management, it is difficult to predict the effect of changing interest rates based solely on that measure. As a result, the committee also regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on our economic value of equity ("EVE"). EVE is defined as the net present value of our balance sheet's cash flows or the residual value of future cash flows. While EVE does not represent actual market liquidation or replacement value, it is a useful tool for estimating our balance sheet's existing earnings capacity. The greater the EVE, the greater our earnings capacity. The following table sets forth our EVE as of December 31, 2004:

CHANGE (IN BASIS POINTS) IN INTEREST RATES	EVE	CHANGE AMOUNT	CHANGE PERCENT
	(DOLLARS IN THOUSANDS)		
+ 200 BP	$153,389	$ 11,528	8.13%
+ 100 BP	148,833	6,972	4.91
0 BP	141,861	--	--
- 100 BP	131,126	(10,735)	(7.57)
- 200 BP	109,222	(32,639)	(23.01)

The above table is based on a prime rate of 5.25% and assumes an instantaneous uniform change in interest rates at all maturities.

LIQUIDITY

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

Interest Rate Sensitivity" and "Maturity Distribution of Investment Securities".

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

We have entered into certain contractual obligations and commercial commitments in the normal course of business that involve elements of credit risk, interest rate risk and liquidity risk.

The following tables summarize these relationships by contractual cash obligations and commercial commitments:

	PAYMENTS DUE BY PERIOD (DOLLARS IN THOUSANDS)				
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	FOUR TO FIVE YEARS	AFTER FIVE YEARS
CONTRACTUAL OBLIGATIONS					
Advances from FHLB(1)............	$156,090	$25,000	$35,250	$32,500	$63,340
Operating leases(2)..............	1,878	411	745	152	570
Note payable(3)..................	3,965	2,460	420	420	665
Repurchase agreements(4).........	49,456	42,456	7,000	--	--
Junior subordinated debentures owed to unconsolidated trusts(5)......................	31,959	--	--	--	31,959
Employment separation agreements(6)..................	9,263	5,323	3,940	--	--
Total Contractual Cash Obligations..........	$252,611	$75,650	$47,355	$33,072	$96,534

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(1) See Note 7 to the Consolidated Financial Statements.
(2) See Note 5 to the Consolidated Financial Statements.
(3) See Note 9 to the Consolidated Financial Statements.
(4) See Note 8 to the Consolidated Financial Statements
(5) See Note 10 to the Consolidated Financial Statements.
(6) See Note 24 to the Consolidated Financial Statements.

	PAYMENTS DUE BY PERIOD (DOLLARS IN THOUSANDS)				
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS	FOUR TO FIVE YEARS	AFTER FIV YEARS
COMMERCIAL COMMITMENTS					

Commitments to extend credit(1).....	$135,347	$101,358	$31,828	$2,136	$25
Standby letters of credit(1)........	24,407	17,710	6,697	--	--
Total Commercial Commitments.............	$159,754	$119,068	$38,525	$2,136	$25

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(1) See Note 15 to the Consolidated Financial Statements.

In addition, the FHLB has issued for our banking subsidiary's benefit a $20,000,000 irrevocable letter of credit in favor of the Chief Financial Officer of the State of Florida to secure certain deposits of the State of Florida. The letter of credit expires January 6, 2006 upon sixty days' prior notice; otherwise, it automatically extends for a successive one-year term.

FINANCIAL CONDITION

Our total assets were $1.423 billion at December 31, 2004, an increase of $251 million, or 21.5% from $1.172 billion as of December 31, 2003. Our average total assets for 2004 were $1.297 billion, which was supported by average total liabilities of $1.196 billion and average total stockholders' equity of $101 million.

Loans, net of unearned income. Our loans, net of unearned income, totaled $935 million at December 31, 2004, an increase of 9.1%, or $78 million from $857 million at December 31, 2003. Mortgage loans held for sale totaled $8.1 million at December 31, 2004, an increase of $1.7 million from $6.4 million at December 31, 2003. Average loans, including mortgage loans held for sale, totaled $894 million for 2004 compared to $1.063 billion for 2003. The decrease in average loan volume from 2003 to 2004 is attributable to the sale of certain branches in 2003. Loans, net of unearned income, comprised 73.4% of interest-earning assets at December 31, 2004, compared to 83.6% at December 31, 2003. Mortgage loans held for sale

comprised .64% of interest-earning assets at December 31, 2004, compared to .62% at December 31, 2003. The average yield of the loan portfolio was 6.28%, 6.71% and 7.50% for the years ended December 31, 2004, 2003 and 2002, respectively. The decline in average yield is primarily the result of a general decline in market rates.

The following table details the distribution of our loan portfolio by category for the periods presented:

DISTRIBUTION OF LOANS BY CATEGORY

	DECEMBER 31,				
	2004	2003	2002	2001	2000
	(DOLLARS IN THOUSANDS)				
Commercial and industrial........	$131,979	$142,072	$ 213,210	$ 194,609	$200,734
Real estate -- construction and land development...............	249,188	147,917	212,818	225,654	124,045

Real estate -- mortgages					
Single-family	250,718	231,064	272,899	241,517	229,067
Commercial	242,279	250,032	340,998	210,644	158,258
Other	25,745	31,645	14,581	32,427	14,774
Consumer	28,431	46,201	79,398	92,655	78,094
Other	8,045	8,923	5,931	2,556	3,993
Total loans	936,385	857,854	1,139,835	1,000,062	808,965
Unearned income	(1,517)	(913)	(1,298)	(906)	(820)
Allowance for loan losses	(12,543)	(25,174)	(27,766)	(12,546)	(8,959)
Net loans	$922,325	$831,767	$1,110,771	$ 986,610	$799,186

The repayment of loans as they mature is a source of liquidity for us. The following table sets forth our loans by category maturing within specified intervals at December 31, 2004. The information presented is based on the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity and repricing of the loan portfolio.

SELECTED LOAN MATURITY AND INTEREST RATE SENSITIVITY

					RATE STRUCTURE F MATURING OVER O	
	ONE YEAR OR LESS	OVER ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL	PREDETERMINED INTEREST RATE	F ADJ
			(DOLLARS IN THOUSANDS)			
Commercial and industrial	$ 86,276	$ 41,312	$ 4,391	$131,979	$ 28,655	
Real estate -- construction and land development	141,719	102,326	5,143	249,188	31,987	
Real estate -- mortgages						
Single-family	22,865	49,712	178,141	250,718	59,566	
Commercial	64,409	142,358	35,512	242,279	82,202	
Other	5,328	17,925	2,492	25,745	9,556	
Consumer	9,784	18,213	434	28,431	18,344	
Other	6,053	1,621	371	8,045	995	
Total loans	$336,434	$373,467	$226,484	$936,385	$231,305	
Percent to total loans	35.9%	39.9%	24.2%	100.0%	24.7%	

26

Allowance for Loan Losses. We maintain an allowance for loan losses within a range we believe is adequate to absorb estimated losses inherent in the loan portfolio. We prepare a quarterly analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, we estimate the allowance using specific reserves for impaired loans,

and other factors, such as historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and non-accruals, economic conditions and other pertinent information. The level of allowance for loan losses to net loans will vary depending on the quarterly analysis.

We manage and control risk in the loan portfolio through adherence to credit standards established by the board of directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting and approval procedures, sets limits on credit concentration and enforces regulatory requirements. In addition, we have engaged Credit Risk Management, LLC, an independent loan review firm, to supplement our existing independent loan review function.

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

The allowance for loan loss calculation is segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using an eight-point scale with the loan officer having the primary responsibility for assigning risk ratings and for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by our internal loan review function and senior management. Based on the assigned risk ratings, the criticized and classified loans in the portfolio are segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Generally, regulatory reserve percentages (5%, Special Mention; 15%, Substandard; 50%, Doubtful; 100% Loss) are applied to these categories to estimate the amount of loan loss allowance required, adjusted for previously mentioned risk factors.

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

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

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

We historically have allocated our allowance for loan losses to specific loan categories. Although the allowance is allocated, it is available to absorb losses in the entire loan portfolio. This allocation is made for estimation purposes only and is not necessarily indicative of the allocation between categories in which future losses may occur.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	DECEMBER 31,						
	2004		2003		2002		
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT
	(DOLLARS IN THOUSANDS)						
Commercial and industrial..............	$ 3,736	14.1%	$10,110	16.6%	$10,056	18.7%	$ 6,53
Real estate -- construction and land development....	1,009	26.6	1,099	17.2	1,317	18.7	91
Real estate -- mortgages							
Single-family...........	1,582	26.8	4,538	26.9	3,636	23.9	1,27
Commercial..............	4,594	25.9	7,613	29.1	10,174	29.9	1,31
Other...................	257	2.7	320	3.7	396	1.3	33
Consumer..................	1,336	3.0	1,374	5.4	2,075	6.9	2,12
Other.....................	29	.9	120	1.1	112	0.6	4
Unallocated..............	--	--	--	--	--	--	-
	$12,543	100.0%	$25,174	100.0%	$27,766	100.0%	$12,54

The allowance as a percentage of loans, net of unearned income, at December 31, 2004 was 1.34% compared to 2.94% as of December 31, 2003. The allowance for loan losses as a percentage of loans, net of unearned income, declined primarily due to $6.9 million of loans charged off or partially charged off in the third quarter of 2004 that were included as part of the loan sale. The allowance related to these loans had been provided for in previous periods. Net charge-offs decreased $9.9 million, from $23.5 million in 2003 to $13.6 million in 2004. Net charge-offs of commercial loans decreased $4.1 million, from $10.3 million in 2003 to $6.2 million in 2004. Net charge-offs of real estate loans decreased $3.5 million, from $9.9 million in 2003 to $6.4 million in 2004. Net charge-offs of consumer loans decreased $1.5 million, from $2.8 million in 2003 to $1.3 million in 2004. Net charge-offs as a percentage of the allowance for loan losses were 108.47% in 2004, up from 93.21% in 2003.

The allowance for loan losses as a percentage of nonperforming loans increased to 169.36% at December 31, 2004 from 78.59% at December 31, 2003 due to a decrease in nonperforming loans of $24.6 million which is primarily due to the third quarter loan sale. Approximately $2.0 million in allowance for loan losses has been allocated to nonperforming loans as of December 31, 2004. As of

December 31, 2004, nonperforming loans totaled $7.4 million, which $4.7 million, or 63.5%, was loans secured by real estate compared to $19.7 million, or 61.6%, as of December 31, 2003. Of the $2.0 million in allowance for loan losses allocated to nonperforming loans, $1.1 million is attributable to these real estate loans, with the remaining $892,000 allocated to remaining nonperforming loans, which consist primarily of commercial loans. (See "Nonperforming Loans").

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

SUMMARY OF LOAN LOSS EXPERIENCE

	YEAR				
	2004	2003	2002	2001	2000
	(DOLLARS IN THOUSANDS)				
Allowance for loan losses at beginning of year	$ 25,174	$ 27,266	$ 12,546	$ 8,959	$ 8,0
Allowance of (branches sold) acquired bank	--	(102)	1,059	--	
Charge-offs:					
Commercial and industrial	7,690	10,823	25,162	2,415	3,1
Real estate -- construction and land development	765	630	1,704	48	5
Real estate -- mortgages					
Single-family	1,012	1,505	2,608	184	2
Commercial	5,820	6,696	6,140	130	
Other	86	1,187	141	20	
Consumer	1,881	3,092	2,343	1,517	7
Other	87	517	--	--	
Total charge-offs	17,341	24,450	38,098	4,314	4,6
Recoveries:					
Commercial and industrial	1,468	554	93	65	1
Real estate -- construction and land development	4	23	14	65	
Real estate -- mortgages					
Single-family	470	23	23	--	
Commercial	737	49	--	27	
Other	97	48	38	--	
Consumer	549	282	239	290	2
Other	410	6	--	--	
Total recoveries	3,735	985	407	447	5
Net charge-offs	13,606	23,465	37,691	3,867	4,0
Provision for loan losses	975	20,975	51,852	7,454	4,9
Allowance for loan losses at end of year	$ 12,543	$ 25,174	$ 27,766	$ 12,546	$ 8,9
Loans at end of period, net of unearned income	$934,868	$ 856,941	$1,138,537	$999,156	$808,1
Average loans, net of unearned income	894,406	1,063,451	1,124,977	914,006	710,4

Ratio of ending allowance to ending loans	1.34%	2.94%	2.44%	1.26%	1.
Ratio of net charge-offs to average loans	1.52	2.21	3.35	.42	0.
Net charge-offs as a percentage of:					
Provision for loan losses	1395.49	111.87	72.69	51.88	81.
Allowance for loan losses	108.47	93.21	135.74	30.82	45.
Allowance for loan losses as a percentage of nonperforming loans	169.36	78.59	105.00	100.99	90.

Nonperforming Assets. Nonperforming assets decreased $25.6 million, to $12.4 million as of December 31, 2004 from $38.0 million as of December 31, 2003, primarily due to the third quarter loan sale. As a percentage of net loans, nonperforming assets decreased from 4.41% at December 31, 2003 to 1.32% at December 31, 2004. The following table represents our nonperforming assets for the dates shown.

NONPERFORMING ASSETS

	DECEMBER 31,				
	2004	2003	2002	2001	2000
	(DOLLARS IN THOUSANDS)				
Nonaccrual	$ 6,344	$29,630	$24,715	$ 7,941	$ 9,34
Accruing loans 90 days or more delinquent	431	1,438	1,729	4,482	33
Restructured	631	966	--	--	18
Total Nonperforming loans	7,406	32,034	26,444	12,423	9,86
Other real estate owned	4,906	5,806	2,360	4,264	3,17
Repossessed assets	103	219	102	382	95
Total Nonperforming assets	$12,415	$38,059	$28,906	$17,069	$13,98
Nonperforming loans as a percent of loans	.79%	3.74%	2.32%	1.24%	1.22
Nonperforming assets as a percent of loans plus nonperforming assets	1.32%	4.41%	2.53%	1.70%	1.72

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

	DECEMBER 31,				
	2004	2003	2002	2001	2000
	(DOLLARS IN THOUSANDS)				
Commercial and industrial	$2,445	$11,621	$ 9,661	$ 3,078	$6,58
Real estate -- construction and land development	187	1,735	2,226	2,895	86
Real estate -- mortgages					

Single-family	2,060	5,472	3,672	3,089	55
Commercial	2,273	12,378	8,434	2,400	1,28
Other	183	162	888	145	-
Consumer	250	465	1,548	669	38
Other	8	201	15	147	19
Total nonperforming loans	$7,406	$32,034	$26,444	$12,423	$9,86

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

In January of 2004, we transferred the majority of our nonperforming loans and approximately $7.0 million of other problem loans to our special assets department. Approximately $41.0 million in loans were transferred with the related allowance for loan loss of $9.8 million. As of December 31, 2004, the balance of these loans totaled only $4.2 million. In September 2004 our banking subsidiary sold approximately $32 million, before allowance for loan losses, in certain nonperforming loans and other classified, performing loans, resulting in a pre-tax loss of $2.3 million. Prior to the sale, approximately $6.9 million related to these

loans was recognized as a charge-off in September 2004 against the allowance for loan losses. The $6.9 million in allowance for loan losses associated with these loans had been provided in previous periods.

Impaired Loans. At December 31, 2004, our recorded investment in impaired loans under FAS 114 totaled $5.1 million, a decrease of $20.3 million from $25.4 million at December 31, 2003. Of this $20.3 million decrease, $17.6 million was attributable to third quarter loan sale. $2.2 million, or 43% of our impaired loans, are in the special assets group along with $884,000 in allocated allowance for loan losses. A significant portion of the remaining $2.9 million is concentrated in three of our banking groups (Albertville -- $764,000, Bristol -- $587,000, and Andalusia -- $660,000), with approximately $801,000 specifically allocated to these loans, providing 39% coverage. We have approximately $125,000 in commitments to loan additional funds to the borrowers whose loans are impaired. $2.8 million, or 54%, of the $5.1 million in impaired loans are secured by real estate.

The following is a summary of impaired loans and the specifically allocated allowance for loan losses by category as of December 31, 2004 and 2003:

	DECEMBER 31, 2004		DECEMBER 31, 200	
	OUTSTANDING	SPECIFIC	OUTSTANDING	SPECI

	BALANCE	ALLOWANCE	BALANCE	ALLOW
		(DOLLARS IN THOUSANDS)		
Commercial and industrial	$2,338	$1,077	$10,732	$3,8
Real estate -- construction and land development	217	81	1,666	2
Real estate -- mortgages				
Commercial	2,413	813	12,800	3,4
Other	162	24	202	
Total	$5,130	$1,995	$25,400	$7,6

Potential Problem Loans. In addition to nonperforming loans, management has identified $2.4 million in potential problem loans as of December 31, 2004. Potential problem loans decreased $300,000 from $2.7 million as of December 31, 2003. Potential problem loans are loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present repayment terms and may result in disclosure of such loans as nonperforming in future periods. Overall, $1.7 million, or 72%, is secured by real estate, of which $548,000 is secured by 1-4 family residential real estate. Our special assets group is involved in many of these loans, and management is working closely with these customers to prevent these loans from migrating into nonperforming status. We have allocated $277,000 in allowance for loan losses to absorb potential losses on these loans.

Investment Securities. The investment securities portfolio comprised 22.8% of our total interest-earning assets as of December 31, 2004. Total securities averaged $207.9 million in 2004, compared to $97.6 million in 2003 and $63.3 million in 2002. The investment securities portfolio produced average taxable equivalent yields of 4.38%, 4.08% and 5.45% for the years ended December 31, 2004, 2003 and 2002, respectively. At December 31, 2004, our investment securities portfolio had an amortized cost of $290.1 million and an estimated fair value of $288.3 million.

During 2004 we had sufficient capital to support some leveraging strategies to produce income, minimize duration risk and produce liquidity for future loan demand. Using a target yield of 4.0% to achieve our goals and expecting a slow-rising interest rate environment, we believed the risk was manageable. (See "Market Risk -- Interest Rate Sensitivity.") As noted above, our investment portfolio had dropped significantly in average yield from 5.45% in 2002 to a low of 4.08% in 2003.

Our leverage strategies included the use of repurchase agreements and brokered funding. The average rate for 2004 on our repurchase agreements was 2.11% and the average rate on our brokered deposits was 2.40%. Our investment portfolio produced an average yield of 4.38% for 2004 and had a weighted average yield of 4.62% as of December 31, 2004.

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

INVESTMENT PORTFOLIO

DECEMBER 31,

	HELD TO MATURITY			AVAILABLE FOR SALE		
	2004	2003	2002	2004	2003	200
	(DOLLARS IN THOUSANDS)					
U.S. Treasury and agencies....................	$--	$--	$ --	$180,717	$ 72,261	$16,
State and political subdivisions.............	--	--	--	7,195	1,947	8,
Mortgage-backed securities...................	--	--	--	61,241	42,452	32,
Other securities..............................	--	--	1,996	40,978	25,240	12,
Total investment securities.........	$--	$--	$1,996	$290,131	$141,900	$70,

The following table shows the scheduled maturities and average yields of securities held at December 31, 2004.

MATURITY DISTRIBUTION OF INVESTMENT SECURITIES

	MATURING						
	WITHIN ONE YEAR		AFTER ONE BUT WITHIN FIVE YEARS		AFTER FIVE BUT WITHIN TEN YEARS		TE
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOU
	(DOLLARS IN THOUSANDS)						
Securities available for sale:							
U.S. Treasury and agencies........	$--	--%	$63,082	3.99%	$ 73,410	4.84%	$ 44,
State and political subdivision...	--	--	1,482	2.65	2,005	3.97	3,
Mortgage-backed securities........	97	5.08	89	7.70	37,549	3.78	23,
Other securities..................	--	--	829	4.39	6,182	5.56	33,
Total......................	$97	5.08%	$65,482	3.97%	$119,146	4.53%	$105,

Short-term liquid assets. Our short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) increased $2.4 million, or 5.5%, to $45.9 million at December 31, 2004 from $43.5 million at December 31, 2003. At December 31, 2004, our short-term liquid assets comprised 3.2% of total assets, compared to 3.7% at December 31, 2003. We continually monitor our liquidity position and will increase or decrease our short-term liquid assets as necessary.

Deposits. Noninterest-bearing deposits totaled $89.5 million at December 31, 2004, an increase of 3.9%, or $3.4 million from $86.1 million at December 31, 2003. Noninterest-bearing deposits comprised 8.39% of total deposits at December 31, 2004, compared to 9.67% at December 31, 2003. $65.2 million, or 72.8% of total noninterest-bearing deposits, were in our Alabama branches while $24.3 million, or 27.2%, were in our Florida branches.

Interest-bearing deposits totaled $978 million at December 31, 2004, an increase of 21.6%, or $174 million, from $804 million at December 31, 2003. Interest-bearing deposits averaged $882 million in 2004 compared to $951 million in 2003, a decrease of $69 million, or 7.2%. The decline in our average

interest-bearing deposits is due to the sale of certain branches in 2003.

The average rate paid on all interest-bearing deposits during 2004 was 2.18% compared to 2.35% in 2003. Of total interest-bearing deposits, $741 million, or 75.8%, were in the Alabama branches while $237 million, or 24.2%, were in the Florida branches.

32

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

AVERAGE DEPOSITS

	AVERAGE FOR THE YEAR				
	2004		2003		2
	AVERAGE AMOUNT OUTSTANDING	AVERAGE RATE PAID	AVERAGE AMOUNT OUTSTANDING	AVERAGE RATE PAID	AVERAGE AMOUNT OUTSTANDIN
	(DOLLARS IN THOUSANDS)				
Noninterest-bearing demand deposits......................	$ 88,695	--%	$ 105,482	--%	$ 106,320
Interest-bearing demand deposits......................	262,346	1.23	277,326	.96	276,522
Savings deposits................	29,383	.16	34,809	.29	36,765
Time deposits...................	590,070	2.70	638,555	3.07	648,195
Total average deposits............	$970,494	1.98%	$1,056,172	2.12%	$1,067,802

Deposits, particularly core deposits, have historically been our primary source of funding and have enabled us to meet successfully both our short-term and long-term liquidity needs. Our core deposits, which exclude our time deposits greater than $100,000, represent 62.4% of our total deposits at December 31, 2004 compared to 67.7% at December 31, 2003. We anticipate that such deposits will continue to be our primary source of funding in the future. Our loan-to-deposit ratio was 87.6% at December 31, 2004, compared to 96.3% at December 31, 2003. The maturity distribution of our time deposits over $100,000 at December 31, 2004 is shown in the following table.

MATURITIES OF TIME DEPOSITS OF $100,000 OR MORE

AT DECEMBER 31, 2004				
UNDER 3 MONTHS	3-6 MONTHS	6-12 MONTHS	OVER 12 MONTHS	TOTAL
(DOLLARS IN THOUSANDS)				
$77,878	$52,766	$108,426	$162,200	$401,270

Approximately 19.4% of our time deposits over $100,000 had scheduled maturities within three months of December 31, 2004. We believe customers who hold a large denomination certificate of deposit tend to be extremely sensitive to interest rate levels, making these deposits a less reliable source of funding for liquidity planning purposes than core deposits.

Borrowed Funds. During 2004, average borrowed funds increased $11.2 million, or 6.5%, to $183.1 million, from $171.9 million during 2003, which increased $19.3 million, or 12.6%, from $152.6 million during 2002. The average rate paid on borrowed funds during 2004, 2003 and 2002 was 3.47%, 5.00%, and 5.65%, respectively. Because of a relatively high loan-to-deposit ratio, the existence and stability of these funding sources are important to our maintenance of short-term and long-term liquidity.

33

Borrowed funds as of December 31, 2004 consist primarily of advances from the FHLB. The following is a summary, by year of contractual maturity, of advances from the FHLB as of December 31, 2004 and 2003:

YEAR	2004 WEIGHTED AVERAGE RATE	2004 BALANCE	2003 WEIGHTED AVERAGE RATE	2003 BALANCE
	(DOLLARS IN THOUSANDS)			
2004	--%	$ --	5.21%	$ 25,000
2005	2.47	25,000	1.16	25,000
2006	2.13	25,250	6.70	250
2007	1.44	10,000	--	--
2008	5.74	5,500	5.74	5,500
2009	2.32	27,000	5.26	2,000
2010	6.22	31,340	6.22	31,340
2011	4.97	32,000	4.97	32,000
Total	3.70%	$156,090	4.60%	$121,090

Certain advances are subject to call by the FHLB as follows: 2005 -- $73.3 million and 2006 -- $25.0 million. The $73.3 million in FHLB advances subject to call during 2005 carry a weighted average interest rate of 5.02%. The actual interest rates range from 1.44% to 7.26% and are both fixed and variable. We do not expect the FHLB to call these advances considering the current interest rate environment.

The advances are secured by FHLB stock, agency securities and a blanket lien on certain residential and commercial real estate loans, all with a carrying value of approximately $232.6 million at December 31, 2004. We have remaining approximately $15.1 million in unused lines of credit with the FHLB subject to the availability of qualified collateral.

As of December 31, 2004 we had borrowed $2.3 million under a $10 million line of credit with a regional bank. The note is secured by real estate and stock of The Bank. The note is due in October 2005 and interest is payable at 30-day LIBOR plus 2.50%.

As of December 31, 2004, we had entered into security repurchase agreements totaling $49.5 million. The average volume of repurchase agreements during 2004 was $24.8 million and carried an average interest rate of 2.11%. The average rate of outstanding repurchase agreements as of December 31, 2004 is 2.49%.

We have available approximately $30.0 million in unused federal funds lines of credit with regional banks, subject to certain restrictions and collateral requirements.

Junior subordinated debentures. We have sponsored two trusts, TBC Capital Statutory Trust II ("TBC Capital II") and TBC Capital Statutory Trust III ("TBC Capital III"), of which we own 100% of the common securities. The trusts were formed for the purpose of issuing mandatory redeemable trust preferred securities to third-party investors and investing the proceeds from the sale of such trust preferred securities solely in our junior subordinated debt securities (the debentures). The debentures held by each trust are the sole assets of that trust. Distributions on the trust preferred securities issued by each trust are payable semi-annually at a rate per annum equal to the interest rate being earned by the trust on the debentures held by that trust. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. We have entered into agreements which, taken collectively, fully and unconditionally guarantee the trust preferred securities subject to the terms of each of the guarantees. The debentures held by the TBC Capital II and TBC Capital III capital trusts are first redeemable, at a premium, in whole or in part, by us on September 7, 2010 and July 25, 2006, respectively.

As a result of applying the provisions of FIN 46, governing when an equity interest should be consolidated, we were required to deconsolidate these subsidiary trusts from our financial statements in the fourth quarter of 2003. The deconsolidation of the net assets and results of operations of the trusts had virtually no impact on our financial statements or liquidity position, since we continue to be obligated to repay the debentures held by the trusts and guarantee repayment of the trust preferred securities issued by the trusts.

The consolidated debt obligation related to the trusts increased from $31,000,000 to $31,959,000 upon deconsolidation, with the difference representing our common ownership interest in the trusts.

The trust preferred securities held by the trusts qualify as Tier 1 capital under Federal Reserve Board guidelines.

Consolidated debt obligations related to the trusts follow:

	DECEMBER 31, 2004	DECEMBER 31, 2003
	(IN THOUSANDS)	
10.6% junior subordinated debentures owed to TBC Capital Statutory Trust II due September 7, 2030	$15,464	$15,464
6-month LIBOR plus 3.75% junior subordinated debentures owed to TBC Capital Statutory Trust III due July 25, 2031	16,495	16,495
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	$31,959	$31,959

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As of December 31, 2004 and December 31, 2003, the interest rate on the $16,495,000 subordinated debentures was 5.74% and 4.90%, respectively.

Currently, we must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of our semi-annual distributions on our trust preferred securities in January, March, July and September 2004 and January and March 2005.

Stockholders' Equity. Stockholders' equity increased $417,000 during 2004 to $100.5 million at December 31, 2004 from $100.1 million at December 31, 2003. The increase in stockholders' equity resulted primarily from net income of $1.2 million for the year ended December 31, 2004 offset by an increase in accumulated other comprehensive loss of $914,000 and preferred stock dividends of $446,000. As of December 31, 2004, we had 18,025,932 shares of common stock issued and 17,749,846 outstanding. As of December 31, 2004, there were 58,014 shares held in treasury at a total cost of $390,000.

On April 1, 2002, we issued 157,500 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner for a five-year period that began on April 1, 2002. During this restricted period, the participants are eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at $7.00 per share, or $1,120,000, and classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. During 2003, 15,000 shares of this restricted common stock were forfeited. The number of restricted shares outstanding as of December 31, 2004 was 142,500 and the remaining amount in the unearned restricted stock account was $449,000. This balance is being amortized as expense as the stock is earned during the restricted period. The amounts of restricted shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest. Once vested, the shares become outstanding for basic earnings per share. For the periods ended December 31, 2004 and 2003, the Corporation has recognized $199,000 and $181,000 in restricted stock expense.

We adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002 that covers all eligible employees who are at least 21 years old and have completed a year of service. As of December 31, 2004, the ESOP has been leveraged with 273,400 shares of our common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP stock," in stockholders' equity.

On January 29, 2003, the ESOP trustees finalized a $2.1 million promissory note to reimburse us for the funds used to leverage the ESOP. The unreleased shares and our guarantee secure the promissory note, which has been classified as notes payable on our statement of financial condition. As the debt is repaid, shares are released from collateral based on the proportion of debt service. Principal payments on the debt are $17,500 per month for 120 months. The interest rate is adjusted to the Wall Street Journal prime rate.

Released shares are allocated to each eligible employee at the end of a plan year based on the ratio of the employee's eligible compensation to total compensation. We recognize compensation expense during a period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic

and diluted earnings per share computations. The amount of compensation expense we report is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that we recognized during the periods ended December 31, 2004, 2003 and 2002 was $189,000, $152,000 and $51,000, respectively. The ESOP shares as of December 31, 2004 were as follows:

	DECEMBER 31, 2004
Allocated shares	28,628
Estimated shares committed to be released	26,700
Unreleased shares	218,072
Total ESOP shares	273,400
Fair value of unreleased shares	$1,795,000

Regulatory Capital. The table below represents our and our wholly owned banking subsidiary's actual regulatory and minimum regulatory capital requirements at December 31, 2004 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Risk-Based Capital						
The Banc Corporation	$126,288	11.51%	$87,788	8.00%	$109,735	10.00%
The Bank	123,074	11.37	86,614	8.00	108,268	10.00
Tier 1 Risk-Based Capital						
The Banc Corporation	110,326	10.05	43,894	4.00	65,841	6.00
The Bank	110,531	10.21	43,307	4.00	64,961	6.00
Leverage Capital						
The Banc Corporation	110,326	7.98	55,292	4.00	69,115	5.00
The Bank	110,531	8.05	54,915	4.00	68,644	5.00

IMPACT OF INFLATION

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

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Some of the disclosures in this Annual Report on Form 10-K, including any statements

preceded by, followed by or which include the words "may," "could," "should," "will," "would," "hope," "might," "believe," "expect," "anticipate," "estimate," "intend," "plan," "assume" or similar expressions constitute forward-looking statements.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, financial condition, results of operations, future performance and business, including our expectations and estimates with respect to our revenues, expenses, earnings, return on equity,

return on assets, efficiency ratio, asset quality, the adequacy of our allowance for loan losses and other financial data and capital and performance ratios.

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Consolidated financial statements of The Banc Corporation meeting the

requirements of Regulation S-X are filed on the succeeding pages of this Item 8 of this Annual Report on Form 10-K.

THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

CONTENTS

Report of Independent Registered Public Accounting Firm as of December 31, 2004 and for the year then ended.......... 39
Report of Independent Registered Public Accounting Firm as of December 31, 2003 and 2002 and for each of the two years in the period ended December 31, 2003............... 40
Consolidated Statements of Financial Condition.............. 41
Consolidated Statements of Operations....................... 42
Consolidated Statements of Changes in Stockholders' Equity... 43
Consolidated Statements of Cash Flows....................... 44
Notes to Consolidated Financial Statements.................. 45

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of The Banc Corporation:

We have audited the accompanying consolidated statement of financial condition of The Banc Corporation, and Subsidiaries (Corporation), as of December 31, 2004 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. 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 audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2004, and the results of their consolidated operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Carr, Riggs & Ingram, LLC

Montgomery, Alabama

March 15, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
The Banc Corporation

We have audited the accompanying consolidated statements of financial condition of The Banc Corporation and Subsidiaries (Corporation) as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2003. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Banc Corporation and Subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Birmingham, Alabama
March 15, 2004

THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	DECEMBER 31,	
	2004	2003
	(IN THOUSANDS)	
ASSETS		
Cash and due from banks	$ 23,489	$ 31,679
Interest-bearing deposits in other banks	11,411	11,869
Federal funds sold	11,000	--
Securities available for sale	288,308	141,601
Mortgage loans held for sale	8,095	6,408
Loans	936,385	857,854

Unearned income	(1,517)	(913)
Loans, net of unearned income	934,868	856,941
Allowance for loan losses	(12,543)	(25,174)
Net loans	922,325	831,767
Premises and equipment, net	60,434	57,979
Accrued interest receivable	6,237	5,042
Stock in FHLB and Federal Reserve Bank	11,787	8,499
Cash surrender value of life insurance	38,369	31,723
Other assets	41,673	45,059
Total assets	$1,423,128	$1,171,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand	$ 89,487	$ 86,100
Interest-bearing demand	295,214	241,105
Savings	28,381	31,691
Time deposits $100,000 and over	401,270	287,018
Other time	252,854	244,021
Total deposits	1,067,206	889,935
Advances from FHLB	156,090	121,090
Federal funds borrowed and security repurchase agreements	49,456	10,829
Notes payable	3,965	1,925
Junior subordinated debentures owed to unconsolidated subsidiary trusts	31,959	31,959
Accrued expenses and other liabilities	13,913	15,766
Total liabilities	1,322,589	1,071,504
Stockholders' equity:		
Convertible preferred stock, par value $.001 per share; shares authorized 5,000,000; shares issued and outstanding 62,000 in 2004 and 2003	--	--
Common stock, par value $.001 per share; shares authorized 25,000,000; shares issued 18,025,932 in 2004 and 18,018,202 in 2003; outstanding 17,749,846 in 2004 and 17,694,595 in 2003	18	18
Surplus -- preferred	6,193	6,193
-- common stock	68,428	68,363
Retained earnings	29,591	28,851
Accumulated other comprehensive loss	(1,094)	(180)
Treasury stock, at cost -- 58,014 and 78,835 shares, respectively	(390)	(501)
Unearned ESOP stock	(1,758)	(1,974)
Unearned restricted stock	(449)	(648)
Total stockholders' equity	100,539	100,122
Total liabilities and stockholders' equity	$1,423,128	$1,171,626

See accompanying notes.

41

THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Interest income:			
Interest and fees on loans	$56,184	$71,335	$ 84,337
Interest on taxable securities	8,897	3,696	2,857
Interest on tax exempt securities	143	185	392
Interest on federal funds sold	202	298	350
Interest and dividends on other investments	734	699	612
Total interest income	66,160	76,213	88,548
Interest expense:			
Interest on deposits	19,188	22,368	29,276
Interest expense on advances from FHLB and other borrowed funds	6,356	8,597	8,626
Interest on subordinated debentures	2,579	2,522	2,608
Total interest expense	28,123	33,487	40,510
Net interest income	38,037	42,726	48,038
Provision for loan losses	975	20,975	51,852
Net interest income (loss) after provision for loan losses	37,062	21,751	(3,814)
Noninterest income:			
Service charges and fees	5,204	5,814	5,848
Mortgage banking income	1,664	4,034	3,253
Securities (losses) gains	(74)	588	627
Gain on sale of branches	739	48,264	--
Litigation settlement	--	--	1,082
Increase in cash surrender value of life insurance	1,643	1,641	1,219
Other	2,090	2,515	3,094
Total noninterest income	11,266	62,856	15,123
Noninterest expenses:			
Salaries and employee benefits	23,481	29,461	23,495
Occupancy and equipment	8,047	8,115	7,260
Prepayment penalty on FHLB advances	--	2,532	--
Loss on sale of loans	2,293	--	--
Other	14,116	17,822	11,914
Total noninterest expenses	47,937	57,930	42,669
Income (loss) before income taxes	391	26,677	(31,360)
Income tax (benefit) expense	(796)	9,178	(12,959)
Net income (loss)	1,187	17,499	(18,401)
Preferred stock dividends	446	219	--
Net income (loss) applicable to common stockholders	$ 741	$17,280	$(18,401)
Weighted average common shares outstanding	17,583	17,492	16,829
Weighted average common shares outstanding, assuming dilution	17,815	18,137	16,829

Basic net income (loss) per common share..............	$ 0.04	$ .99	$ (1.09)
Diluted net income (loss) per common share............	0.04	.95	(1.09)

See accompanying notes.

THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK	SURPLUS COMMON	SURPLUS PREFERRED	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIV (LOSS) INCOME
	(IN THOUSANDS, EXCEPT SHARE DATA)				
Balance at January 1, 2002..............	$14	$47,756	$ --	$ 30,329	$ (322)
Comprehensive income:					
Net loss............................	--	--	--	(18,401)	--
Other comprehensive income, net of tax expense of $581, unrealized gain on securities available for sale, arising during the period, net of reclassification adjustment........................	--	--	--	--	872
Comprehensive loss....................					
Purchase of 22,624 shares of treasury stock..............................	--	--	--	--	--
Issuance of 53,418 shares of treasury stock..............................	--	85	--	--	--
Cash dividends declared, $0.02 per share..............................	--	--	--	(357)	--
Issuance of 3,450,000 shares of common stock, net of direct costs..........	4	19,246	--	--	--
Issuance of 16,449 shares of common stock in business combinations.......	--	109	--	--	--
Issuance of 157,500 shares of restricted common stock.............	--	1,120	--	--	--
Amortization of unearned restricted stock..............................	--	--	--	--	--
Purchase of 273,400 shares by ESOP.....	--	--	--	--	--
Release of 6,378 shares by ESOP........	--	(1)	--	--	--
Balance at December 31, 2002............	18	68,315	--	11,571	550
Comprehensive income:					
Net income..........................	--	--	--	17,499	--
Other comprehensive loss, net of tax benefit of $487, unrealized loss on securities available for sale, arising during the period, net of reclassification adjustment........	--	--	--	--	(730)
Comprehensive income..................					
Issuance of 58,021 shares of treasury stock..............................	--	42	--	--	--
Preferred dividends declared..........	--	--	--	(219)	--
Issuance of 62,000 shares of preferred					

stock, net of direct costs..........	--	--	6,193	--	--
Stock options exercised...............	--	156	--	--	--
Forfeiture of unearned restricted stock..............................	--	(123)	--	--	--
Amortization of unearned restricted stock..............................	--	--	--	--	--
Release of 22,250 shares by ESOP.......	--	(27)	--	--	--
Balance at December 31, 2003............	18	68,363	6,193	28,851	(180)
Comprehensive income:					
Net income..........................	--	--	--	1,187	--
Other comprehensive loss, net of tax benefit of $609, unrealized loss on securities available for sale, arising during the period, net of reclassification adjustment........	--	--	--	--	(914)
Comprehensive income..................					
Issuance of 20,821 shares of treasury stock..............................	--	43	--		--
Preferred dividends declared..........	--	--	--	(446)	--
Stock options exercised...............	--	49	--	(1)	--
Amortization of unearned restricted stock..............................	--	--	--	--	--
Release of 26,700 shares by ESOP.......	--	(27)	--	--	--
Balance at December 31, 2004............	$18	$68,428	$6,193	$ 29,591	$(1,094)

	UNEARNED ESOP STOCK	UNEARNED RESTRICTED STOCK	TOTAL STOCKHOLDERS' EQUITY
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Balance at January 1, 2002..............	$ --	$ --	$ 76,853
Comprehensive income:			
Net loss...........................	--	--	(18,401)
Other comprehensive income, net of tax expense of $581, unrealized gain on securities available for sale, arising during the period, net of reclassification adjustment........................	--	--	872
Comprehensive loss....................			(17,529)
Purchase of 22,624 shares of treasury stock..............................	--	--	(164)
Issuance of 53,418 shares of treasury stock..............................			365
Cash dividends declared, $0.02 per share..............................	--	--	(357)
Issuance of 3,450,000 shares of common stock, net of direct costs..........	--	--	19,250
Issuance of 16,449 shares of common stock in business combinations.......	--	--	109
Issuance of 157,500 shares of restricted common stock.............	--	(1,120)	--
Amortization of unearned restricted stock..............................	--	168	168
Purchase of 273,400 shares by ESOP.....	(2,205)	--	(2,205)

Release of 6,378 shares by ESOP........	52	--	51
Balance at December 31, 2002............	(2,153)	(952)	76,541
Comprehensive income:			
Net income..........................	--	--	17,499
Other comprehensive loss, net of tax benefit of $487, unrealized loss on securities available for sale, arising during the period, net of reclassification adjustment........	--	--	(730)
Comprehensive income..................			16,769
Issuance of 58,021 shares of treasury stock..............................	--	--	349
Preferred dividends declared..........	--	--	(219)
Issuance of 62,000 shares of preferred stock, net of direct costs..........	--	--	6,193
Stock options exercised...............	--	--	156
Forfeiture of unearned restricted stock..............................	--	123	--
Amortization of unearned restricted stock..............................	--	181	181
Release of 22,250 shares by ESOP.......	179	--	152
Balance at December 31, 2003............	(1,974)	(648)	100,122
Comprehensive income:			
Net income..........................	--	--	1,187
Other comprehensive loss, net of tax benefit of $609, unrealized loss on securities available for sale, arising during the period, net of reclassification adjustment........	--	--	(914)
Comprehensive income..................			273
Issuance of 20,821 shares of treasury stock..............................			154
Preferred dividends declared..........	--	--	(446)
Stock options exercised...............	--	--	48
Amortization of unearned restricted stock..............................	--	199	199
Release of 26,700 shares by ESOP.......	216	--	189
Balance at December 31, 2004............	$(1,758)	$ (449)	$100,539

See accompanying notes.

THE BANC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(IN THOUSANDS)		

OPERATING ACTIVITIES			
Net income (loss)	$ 1,187	$ 17,499	$ (18,401)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation	3,374	3,519	3,305
Net premium amortization on securities	653	1,021	403
Loss (gain) on sale of securities	74	(588)	(627)
Loss on sale of loans	2,293	--	--
Provision for loan losses	975	20,975	51,852
(Increase) decrease in accrued interest receivable	(1,199)	1,087	1,071
Deferred income tax expense (benefit)	1,634	2,936	(9,198)
Gain on sale of branches	(739)	(48,264)	--
(Increase) decrease in mortgage loans held for sale	(1,687)	(5,570)	367
Other operating activities, net	261	7,379	(9,205)
Net cash provided by (used in) operating activities	6,826	(6)	19,567
INVESTING ACTIVITIES			
Decrease (increase) in interest bearing deposits in other banks	458	(1,844)	(9,530)
(Increase) decrease in federal funds sold	(11,000)	11,000	9,000
Proceeds from sales of securities available for sale	84,485	40,902	17,403
Proceeds from maturities of securities available for sale	65,560	68,692	35,914
Proceeds from sales of securities held to maturity	--	2,070	--
Purchase of securities available for sale	(306,400)	(174,484)	(51,644)
Purchase of securities held to maturity	--	--	(1,996)
Proceeds from sale of loans	23,883	--	--
Net (increase) decrease in loans	(118,370)	14,417	(83,185)
Net cash (paid) received in business combinations	(6,626)	36,703	(8,619)
Purchase of premises and equipment	(5,960)	(7,165)	(14,236)
Purchase of life insurance	(5,000)	--	(15,000)
Other investing activities, net	(3,788)	2,404	(1,586)
Net cash used in investing activities	(282,758)	(7,305)	(123,479)
FINANCING ACTIVITIES			
Net increase in demand and savings deposits	59,338	92,998	17,388
Net increase (decrease) in time deposits	126,134	(57,425)	60,684
Increase (decrease) in FHLB advances	35,000	(52,660)	22,600
Proceeds from note payable	2,250	2,100	14,000
Principal payment on note payable	(210)	(175)	(14,000)
Net increase in other borrowed funds	45,627	2,657	359
Proceeds from issuance of preferred stock	--	6,193	--
Proceeds from issuance of common stock	49	156	19,290
Purchase of treasury stock	--	--	(164)
Cash dividends paid	(446)	(219)	(357)
Purchase of ESOP shares	--	--	(2,205)
Net cash provided by (used in) financing activities	267,742	(6,375)	117,595
(Decrease) increase in cash and due from banks	(8,190)	(13,686)	13,683
Cash and due from banks at beginning of year	31,679	45,365	31,682
Cash and due from banks at end of year	$ 23,489	$ 31,679	$ 45,365
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid (received) during the year for:			
Interest	$ 27,322	$ 35,963	$ 41,395
Income taxes	(2,708)	2,059	3,900
Assets acquired in business combinations	--	--	101,765
Liabilities assumed in business combinations	--	--	93,146
Trade date purchase of debt securities not yet settled	--	10,429	--
Trade date sale of debt securities not yet settled	--	3,067	--

See accompanying notes.

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements and notes to consolidated financial statements include the accounts of the Corporation and its consolidated subsidiaries. (See "Recent Accounting Pronouncements" concerning FIN 46.) All significant intercompany transactions or balances have been eliminated in consolidation.

On February 15, 2002, the Corporation acquired CF Bancshares, Inc. and its bank subsidiary Citizens Federal Savings Bank of Port Saint Joe ("CF Bancshares") in a business combination accounted for as a purchase. As such, the Corporation's consolidated financial statements include the results of operations of CF Bancshares only from its date of acquisition. See Note 16 for more disclosure regarding the Corporation's business combinations.

Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation.

Use of Estimates

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

Cash and Cash Equivalents

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

The Corporation's banking subsidiary is required to maintain minimum average reserve balances by the Federal Reserve Bank, which is based on a percentage of deposits. The amount of the reserves at December 31, 2004 was approximately $381,000.

Investment Securities

Investment securities are classified as either held to maturity, available

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

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

Securities available for sale are reported at fair value and consist of bonds, notes, debentures, and certain equity securities not classified as trading securities nor as securities to be held to maturity. Unrealized holding

gains and losses, net of deferred taxes, on securities available for sale are excluded from earnings and reported in accumulated other comprehensive (loss) income within stockholders' equity.

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

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. The Corporation defers certain nonrefundable loan origination and commitment fees and the direct costs of originating or acquiring loans. The net deferred amount is amortized over the estimated lives of the related loans as an adjustment to yield. Interest income with respect to loans is accrued on the principal amount outstanding, except for loans classified nonaccrual.

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

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

impairment. Payments received on impaired loans for which the ultimate collectibility of principal is uncertain are generally applied first as principal reductions. Impaired loans and other nonaccrual loans are returned to accrual status if the loan is brought contractually current as to both principal and interest and repayment ability is demonstrated, or if the loan is in the process of collection and no loss is anticipated.

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

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

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

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

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

Mortgage Loans Held for Sale

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

Premises and Equipment

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

Expenditures for maintenance and repairs are charged to operations as incurred; expenditures for renewals and betterments are capitalized and written off by depreciation charges. Property retired or sold is removed from the asset and related accumulated depreciation accounts and any gain or loss resulting there from is reflected in the statement of operations.

The Corporation reviews any long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Intangible Assets

At December 31, 2004 and 2003, goodwill, net of accumulated amortization, totaled $10,336,000. The Corporation adopted SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), on January 1, 2002. SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized but instead tested for impairment at least annually in accordance with the provisions of SFAS 142.

The Corporation has determined that its reporting units for purposes of this testing are the operating branches which are included as part of its reportable segments: the Alabama Region and the Florida Region. Goodwill was allocated to each reporting unit based on locations of past acquisitions.

The first step in testing requires that the fair value of each reporting unit be determined. If the carrying amount of any reporting unit exceeds its fair value, goodwill impairment may be indicated.

The Corporation performed a transitional impairment test of goodwill as of January 1, 2002 using discounted cash flow methodology to determine the fair value of its reporting units which was compared to the carrying amount. The fair value exceeded the carrying amount and no impairment existed.

The Corporation performs the annual impairment test as of December 31. As of December 31, 2004 and 2003, it was determined no impairment existed.

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

At December 31, 2004 and 2003, the Corporation also had $2,040,000 and $2,326,000, respectively, of core deposit intangibles from the CF Bancshares acquisition, which is being amortized over ten years. Amortization expense was $286,000, $286,000 and $247,000, respectively, for the years ended December 31, 2004, 2003 and 2002. Aggregate amortization expense for the years ending December 31, 2005 through December 31, 2009 is estimated to be $1,430,000, or $286,000 per year.

Other Real Estate

Other real estate, acquired through partial or total satisfaction of loans, is carried at the lower of cost or fair value, less estimated selling expenses, in other assets. At the date of acquisition, any difference between the fair value and book value of the asset is charged to the allowance for loan losses. Subsequent gains or losses on the sale or losses from the valuation of and the cost of maintaining and operating other real estate are included in other expense. Other real estate totaled $4,906,000 and $5,806,000 at December 31,

2004 and 2003, respectively.

Security Repurchase Agreements

Securities sold under agreements to repurchase are generally accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities, generally U.S. government and Federal agency securities, pledged as collateral under these financing arrangements cannot be sold or repledged by the secured party.

Income Taxes

The consolidated financial statements are prepared on the accrual basis. The Corporation accounts for income taxes using the liability method pursuant to SFAS No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

Off-Balance Sheet Financial Instruments

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

Per Share Amounts

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

Diluted earnings per common share computations are based on the weighted average number of common shares outstanding during the period, plus the dilutive effect of stock options, convertible preferred stock and restricted stock awards.

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123") establishes a "fair value" based method of accounting for stock-based compensation plans and allows entities to adopt that method of accounting for their employee stock compensation plans. However, it also allows an entity to continue to

measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by the Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees (Opinion 25). The Corporation has elected to follow Opinion 25 and related interpretations in accounting for its employee stock options. Under Opinion 25, because the exercise price of the Corporation's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

SFAS 123 requires the disclosure of pro forma net income and earnings per share (see Note 11) determined as if the Corporation had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model. Option valuation models require the input of subjective assumptions. See "Recent Accounting Pronouncements" regarding SFAS No. 123R, Share-Based Payment.

Derivative Financial Instruments and Hedging Activities

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

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

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. Under the cash flow hedging model, the effective portion of the gain or loss related to the derivative instrument, if any, is recognized in earnings during the period of change. Amounts recorded in other comprehensive income are amortized to earnings in the period or periods during which the hedged item impacts earnings. For derivative financial instruments not designated as a fair value or cash flow hedges, gains and losses related to the change in fair value are recognized in earnings during the period of change in fair value.

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

During 2004, 2003 and 2002, the Corporation entered into interest-rate swap agreements to manage interest-rate risk exposure. The interest-rate swap agreements utilized by the Corporation effectively modify the Corporation's exposure to interest risk by converting $36,500,000 and $11,000,000 fixed-rate certificates of deposit as of December 31, 2004 and 2003, respectively to a LIBOR floating rate. These derivative instruments have been designated as fair value hedges and are included in other assets or other liabilities on the statement of financial condition. For the years ended December 31, 2004, 2003 and 2002, there was no ineffectiveness recorded to earnings related to these fair value hedges.

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

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment ("SFAS 123R"), which is a revision of SFAS 123 and supersedes Opinion 25. The new standard, which will be effective for the Corporation in the third quarter of 2005, requires companies to recognize an expense in the statement of operations for the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation method. This expense will be recognized over the period during which an employee is required to provide service in exchange for the award. SFAS 123R carries forward prior guidance on accounting for awards to non-employees. If an equity award is modified after grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately prior to the modification. The Corporation is evaluating the impact on the Corporation's results of operations from adopting SFAS 123R, but expects it to be comparable to the pro forma effects of applying the original SFAS 123 (see Note 11).

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 03-1, The Meaning of Other-Than-Temporary and Its Application to Certain Investments. The issue applies to debt and equity securities within the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), and equity securities that are not subject to the scope of SFAS No. 115 and not accounted for under the equity method of accounting (i.e., cost method investments). Issue 03-1 outlines a three-step model for assessing other-than-temporary impairment. The model involves first determining whether an investment is impaired, then evaluating whether the impairment is other-than-temporary, and if it is, recognizing an impairment loss equal to the difference between the investment's cost and its fair value. The model was to be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. However, in September 2004 the FASB staff issued FASB Staff Position ("FSP") EITF Issue 03-1-4, which delayed the effective date for the measurement and recognition guidance contained in Issue 03-01. The guidance for analyzing securities for impairment will be effective with the final issuance of FSP EITF Issue 03-1-a. The disclosure guidance of Issue 03-1 remains effective and required quantitative and qualitative disclosures for investments accounted for under SFAS No. 115 for the first annual reporting period ending after December 15, 2003. In addition, disclosures related to cost method investments are effective for annual reporting periods ending after June 15, 2004. Comparative information for the periods prior to the period of initial application is not required.

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3 ("SOP 03-3"), Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in purchase business combinations and applies to all nongovernmental entities. SOP 03-3 does not apply to loans originated by the entity. SOP 03-3 limits the yield that may be accepted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and nonaccretable difference in the statement of condition. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life.

Decreases in cash flows expected to be collected should be recognized as impairment. SOP 03-3 prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of SOP 03-3. The prohibition of the valuation allowance carryover applies to the

purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The changes required by SOP 03-3 are not expected to have a material impact on results of operations, financial position or liquidity of the Corporation.

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

The Corporation, as part of its ongoing business operations, issues financial guarantees in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Corporation generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by the Corporation to guarantee a customer's repayment of an outstanding loan or debt instrument. In a performance standby letter of credit, the Corporation guarantees a customer's performance under a contractual nonfinancial obligation for which the Corporation receives a fee. The Corporation has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. Revenues are recognized ratably over the life of the standby letter of credit. At December 31, 2004, the Corporation had standby letters of credit outstanding with maturities ranging from less than one year to four years. The maximum potential amount of future payments the Corporation could be required to make under its standby letters of credit at December 31, 2004 was $24.4 million, which represents the Corporation's maximum credit risk. At December 31, 2004, the Corporation had no significant liabilities and receivables associated with standby letters of credit agreements entered into subsequent to December 31, 2002 as a result of the Corporation's adoption of FIN 45 at January 1, 2003. Standby letters of credit agreements entered into prior to January 1, 2003, have a carrying value of zero. The Corporation holds collateral to support standby letters of credit when deemed necessary.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of

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

In previous financial statements, the Corporation had consolidated two trusts through which it had issued trust preferred securities ("TPS") and reported the TPS as "guaranteed preferred beneficial interests in the Corporation's subordinated debentures" in the statements of financial condition. In December 2003, the

FASB issued a revision to FIN 46 to clarify certain provisions, which affected the accounting for TPS. As a result of the provisions in revised FIN 46, the trusts have been deconsolidated, with the Corporation accounting for its investment in the trusts as assets, its subordinated debentures as debt, and the interest paid thereon as interest expense. The Corporation had always classified the TPS as debt and the dividends as interest but eliminated its common stock investment and dividends received from the trust. FIN 46 permits and encourages restatement of prior period results, and accordingly, all financial statements presented have been adjusted to give effect to the revised provisions of FIN 46. While these changes had no effect on previously reported net interest margin, net income or earnings per share, they increased total interest income and interest expense, as well as total assets and total liabilities. (See Note 10)

In March 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin 105, "Application of Accounting Principles to Loan Commitments" ("SAB 105"), which addresses certain issues regarding the accounting for and disclosure of loan commitments relating to the origination of mortgage loans that will be held for resale. Such commitments are considered derivatives under the provisions of SFAS No. 133, as amended by SFAS No. 149, Amendment to Statement 133 on Derivatives Instruments and Hedging Activities, and are therefore required to be recorded at fair value. SAB 105 stipulates that in recording those commitments no consideration should be given to any expected future cash flows related to the associated servicing of the future loan. SAB 105 further stipulates that no other internally-developed intangible assets, such as customer relationship intangibles, should be recorded as part of the loan commitment derivative. SAB 105 requires disclosure of accounting policies for loan commitment derivatives, including methods and assumptions used to estimate fair value and any associated economic hedging strategies. The provisions of SAB 105 were effective for loan commitment derivatives that were entered into after March 31, 2004. The provisions of SAB 105 did not have a material impact on results of operations, financial position, or liquidity of the Corporation.

2. INVESTMENT SECURITIES

The amounts at which investment securities are carried and their approximate fair values at December 31, 2004 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Investment securities available for sale:				
U.S. agency securities	$180,717	$ 42	$ 922	$179,837
State, county and municipal securities	7,195	49	54	7,190
Mortgage-backed securities	61,241	22	655	60,608
Corporate debt	34,176	4	312	33,868
Other securities	6,802	3	--	6,805
Total	$290,131	$120	$1,943	$288,308

2. INVESTMENT SECURITIES -- (CONTINUED)

The amounts at which investment securities are carried and their approximate fair values at December 31, 2003 are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
Investment securities available for sale:				
U.S. agency securities	$ 72,261	$418	$161	$ 72,518
State, county and municipal securities	1,947	27	--	1,974
Mortgage-backed securities	42,452	147	251	42,348
Corporate debt	14,716	1	339	14,378
Other securities	10,524	101	242	10,383
Total	$141,900	$694	$993	$141,601

Securities with an amortized cost of $131,090,000 and $79,797,000 at December 31, 2004 and 2003, respectively, were pledged to secure United States government deposits and other public funds and for other purposes as required or permitted by law.

The following table presents the age of gross unrealized losses and fair value by investment category.

	DECEMBER 31, 2004					
	LESS THAN 12 MONTHS		MORE THAN 12 MONTHS		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREA LOS
	(IN THOUSANDS)					
U.S. agency securities......	$117,992	$ 839	$ 3,917	$ 83	$121,909	$
State, county and municipal securities................	2,664	54	--	--	2,664	
Mortgage-backed securities................	51,320	465	7,532	190	58,852	
Corporate debt..............	22,018	312	--	--	22,018	
Total.....................	$193,994	$1,670	$11,449	$273	$205,443	$1,

Management does not believe any of the above individual unrealized loss as of December 31, 2004 represents an other-than-temporary impairment. The unrealized losses relate primarily to sixty-seven securities issued by the Federal Home Loan Bank ("FHLB"), Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), a corporate bond and one trust preferred security. These unrealized losses are primarily attributable to changes in interest rates. The Corporation has both the intent and ability to hold the securities contained in the previous table for a time necessary to recover the amortized cost.

During the fourth quarter of 2004, the Corporation realized an other-than-temporary non-cash, non-operating impairment charge of $507,000 related to certain FNMA and FHLMC preferred stock that is carried in the Corporation's available-for-sale investment portfolio. The net effect of this impairment charge after tax is $320,000, or $.02 per common share. These securities are high-yielding investment grade securities that are widely held by other financial institutions but in light of recent events at these agencies, management has determined that these unrealized market losses are other-than-temporary under generally accepted accounting principles.

2. INVESTMENT SECURITIES -- (CONTINUED)

The amortized cost and estimated fair values of investment securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	SECURITIES AVAILABLE FOR SALE	
	AMORTIZED COST	ESTIMATED FAIR VALUE

	(IN THOUSANDS)	
Due in one year or less	$ --	$ --
Due after one year through five years	65,392	65,218
Due after five years through ten years	81,597	80,969
Due after ten years	81,901	81,513
Mortgage-backed securities	61,241	60,608
	$290,131	$288,308

Gross realized gains on sales of investment securities available for sale in 2004, 2003 and 2002 were $598,000, $791,000 and $629,000, respectively, and gross realized losses for the same periods were $672,000, $277,000 and $2,000, respectively.

In 2003, the Corporation realized a gain of $74,000 on the sale of a security classified as held-to-maturity. The security had a net carrying value of $1,996,000.

The components of other comprehensive income (loss) for the years ended December 31, 2004, 2003 and 2002 are as follows:

	PRE-TAX AMOUNT	INCOME TAX EXPENSE	NET OF INCOME TAX
		(IN THOUSANDS)	
2004			
Unrealized loss on available for sale securities	$(1,597)	$(636)	$ (961)
Less reclassification adjustment for losses realized in net income	(74)	(27)	(47)
Net unrealized loss	$(1,523)	$(609)	$ (914)
2003			
Unrealized loss on available for sale securities	$ (704)	$(297)	$ (407)
Less reclassification adjustment for gains realized in net income	513	190	323
Net unrealized loss	$(1,217)	$(487)	$ (730)
2002			
Unrealized gain on available for sale securities	$ 2,080	$ 813	$1,267
Less reclassification adjustment for gains realized in net loss	627	232	395
Net unrealized gain	$ 1,453	$ 581	$ 872

3. LOANS

At December 31, 2004 and 2003 the composition of the loan portfolio was as follows:

	2004	2003
Commercial and industrial	$131,979	$142,072
Real estate -- construction and land development	249,188	147,917
Real estate -- mortgages		
Single-family	250,718	231,064
Commercial	242,279	250,032
Other	25,745	31,645
Consumer	28,431	46,201
All other loans	8,045	8,923
Total loans	$936,385	$857,854

At December 31, 2004 and 2003, the Corporation's recorded investment in loans considered to be impaired under SFAS No. 114 was $5,130,000 and $25,400,000, respectively. At December 31, 2004 and 2003, there was approximately $1,995,000 and $7,700,000, respectively in the allowance for loan losses specifically allocated to impaired loans. The average recorded investment in impaired loans during 2004, 2003 and 2002 was approximately $17,752,000, $28,318,000 and $16,175,000, respectively. Interest income recognized on loans considered impaired totaled approximately $66,000, $87,000 and $575,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

The Corporation had approximately $125,000 of commitments to loan additional funds to the borrowers whose loans were impaired at December 31, 2004.

In September 2004 the Corporation's banking subsidiary sold approximately $32,000,000, before allowance for loan losses, in certain nonperforming loans and other classified, performing loans, resulting in a pre-tax loss of $2,293,000. Prior to the sale, approximately $6,868,000 related to these loans was recognized as a charge-off in September 2004 against the allowance for loan losses. The $6,868,000 in allowance for loan losses associated with these loans had been provided in previous periods.

4. ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses for the years ended December 31, 2004, 2003 and 2002 follows:

	2004	2003	2002
		(IN THOUSANDS)	
Balance at beginning of year	$ 25,174	$ 27,766	$ 12,546
Allowance of acquired bank	--	--	1,059
Allowance of sold branches	--	(102)	--
Provision for loan losses	975	20,975	51,852
Loan charge-offs	(17,341)	(24,450)	(38,098)
Recoveries	3,735	985	407

Balance at end of year	$ 12,543	$ 25,174	$ 27,766

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. PREMISES AND EQUIPMENT

Components of premises and equipment at December 31, 2004 and 2003 are as follows:

	2004	2003
	(IN THOUSANDS)	
Land	$ 7,002	$ 6,964
Premises	52,746	45,415
Furniture and equipment	15,563	15,059
	75,311	67,438
Less accumulated depreciation and amortization	(15,303)	(12,163)
Net book value of premises and equipment in service	60,008	55,275
Construction in process	426	2,704
Total	$ 60,434	$ 57,979

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was $3,374,000, $3,519,000 and $3,305,000, respectively.

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

	PROPERTY	EQUIPMENT	TOTAL
	(IN THOUSANDS)		
Year ending December 31			
2005	$ 218	$193	$ 411
2006	214	60	274
2007	218	47	265
2008	167	39	206
2009	152	--	152
2010 and thereafter	570	--	570
Total minimum lease payments	$1,539	$339	$1,878

Rental expense relating to operating leases amounted to approximately $387,000, $388,000 and $766,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

6. DEPOSITS

The following schedule details interest expense on deposits:

	YEAR ENDED DECEMBER 31		
	2004	2003	2002
	(IN THOUSANDS)		
Interest-bearing demand	$ 3,225	$ 2,651	$ 3,308
Savings	48	100	247
Time deposits $100,000 and over	8,876	10,151	10,701
Other time	7,039	9,466	15,020
Total	$19,188	$22,368	$29,276

6. DEPOSITS -- (CONTINUED)

At December 31, 2004, the scheduled maturities of time deposits are as follows (in thousands):

2005	$393,135
2006	162,978
2007	45,385
2008	14,883
2009	9,635
2010 and thereafter	28,108
	$654,124

7. ADVANCES FROM FEDERAL HOME LOAN BANK

The following is a summary, by year of maturity, of advances from the FHLB as of December 31, 2004 and 2003 (in thousands):

	2004		2003	
YEAR	WEIGHTED AVERAGE RATE	BALANCE	WEIGHTED AVERAGE RATE	BALANCE
2004	--%	$ --	5.21%	$ 25,000
2005	2.47	25,000	1.16	25,000
2006	2.13	25,250	6.70	250

2007	1.44	10,000	--	--
2008	5.74	5,500	5.74	5,500
2009	2.32	27,000	5.26	2,000
2010	6.22	31,340	6.22	31,340
2011	4.97	32,000	4.97	32,000
Total	3.70%	$156,090	4.60%	$121,090

The above schedule is by contractual maturity. Call dates for the above are as follows: 2005, $73,340,000 and 2006, $25,000,000.

The advances are secured by a blanket lien on certain residential and commercial real estate loans all with a carrying value of approximately $232,611,000 at December 31, 2004. The Corporation has available approximately $12,000,000 in unused advances under the blanket lien subject to the availability of qualifying collateral.

The Corporation's banking subsidiary repaid approximately $33,600,000 in FHLB borrowings in December 2003 that carried an average interest rate of 6.33% and incurred a prepayment penalty of $2,532,000.00

The FHLB has issued for the benefit of the Corporation's banking subsidiary a $20,000,000 irrevocable letter of credit in favor of the Chief Financial Officer of the State of Florida to secure certain deposits of the State of Florida. The letter of credit expires January 6, 2006 upon sixty days' prior notice; otherwise, it shall automatically extend for a successive one-year term.

8. FEDERAL FUNDS BORROWED AND SECURITY REPURCHASE AGREEMENTS

Detail of Federal funds borrowed and security repurchase agreements follows (in thousands):

	2004	2003
Balance at December 31:		
Federal funds borrowed	$ --	$3,000
Security repurchase agreements	49,456	7,829
Maximum outstanding at any month end:		
Federal funds borrowed	10,000	3,000
Security repurchase agreements	53,556	7,829
Daily average amount outstanding:		
Federal funds borrowed	418	25
Security repurchase agreements	24,808	1,162
Weighted daily average interest rate:		
Federal funds borrowed	1.69%	1.41%
Security repurchase agreements	2.11	1.17
Weighted daily interest rate for amounts outstanding at December 31:		
Federal funds borrowed	--%	1.30%
Security repurchase agreements	2.49	2.64

9. NOTES PAYABLE

The following is a summary of notes payable as of December 31, 2004 and 2003 (in thousands):

BALANCE AT DECEMBER 31:	2004 PRINCIPAL	2004 RATE	2003 PRINCIPAL	2003 RATE
Note Payable to Compass Bank, borrowed under $10,000,000 line of credit, due October 8, 2005, plus interest payable monthly at 30 day LIBOR plus 2.50%, secured by real estate owned by the Corporation and 100% of The Bank stock	$2,250	4.60%	$ --	--%
ESOP Note Payable to Exchange Bank, due February 1, 2013, plus interest payable monthly at the Wall Street Prime rate, secured by Corporation stock; see discussion in Note 11	1,715	5.25	1,925	4.00
Total notes payable	$3,965		$1,925	

9. NOTES PAYABLE -- (CONTINUED)

Maturities of notes payable for the five years subsequent to December 31, 2004 are as follows (in thousands):

2005	$2,460
2006	210
2007	210
2008	210
2009	210
Thereafter	665
Total	$3,965

10. JUNIOR SUBORDINATED DEBENTURES OWED TO UNCONSOLIDATED SUBSIDIARY TRUSTS

The Corporation has sponsored two trusts, TBC Capital Statutory Trust II ("TBC Capital II") and TBC Capital Statutory Trust III ("TBC Capital III"), of which 100% of the common equity is owned by the Corporation. The trusts were formed for the purpose of issuing Corporation-obligated mandatorily redeemable trust preferred securities to third-party investors and investing the proceeds from the sale of such trust preferred securities solely in junior subordinated debt securities of the Corporation (the debentures). The debentures held by each trust are the sole assets of that trust. Distributions on the trust preferred securities issued by each trust are payable semi-annually at a rate per annum

equal to the interest rate being earned by the trust on the debentures held by that trust. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Corporation has entered into agreements which, taken collectively, fully and unconditionally guarantee the trust preferred securities subject to the terms of each of the guarantees. The debentures held by the TBC Capital II and TBC Capital III capital trusts are first redeemable, in whole or in part, by the Corporation on September 7, 2010 and July 25, 2006, respectively.

In the fourth quarter of 2003, as a result of applying the provisions of FIN 46, governing when an equity interest should be consolidated, the Corporation was required to deconsolidate these subsidiary trusts from its financial statements. The deconsolidation of the net assets and results of operations of the trusts had virtually no impact on the Corporation's financial statements or liquidity position since the Corporation continues to be obligated to repay the debentures held by the trusts and guarantees repayment of the trust preferred securities issued by the trusts. The consolidated debt obligation related to the trusts increased from $31,000,000 to $31,959,000 upon deconsolidation with the difference representing the Corporation's common ownership interest in the trusts.

The trust preferred securities held by the trusts qualify as Tier 1 capital for the Corporation under Federal Reserve Board guidelines.

10. JUNIOR SUBORDINATED DEBENTURES OWED TO UNCONSOLIDATED SUBSIDIARY TRUSTS -- (CONTINUED)

Consolidated debt obligations related to these subsidiary trusts are as follows (in thousands):

	DECEMBER 31,	
	2004	2003
10.6% junior subordinated debentures owed to TBC Capital Statutory Trust II due September 7, 2030	$15,464,000	$15,464,000
6-month LIBOR plus 3.75% junior subordinated debentures owed to TBC Capital Statutory Trust III due July 25, 2031	16,495,000	16,495,000
Total junior subordinated debentures owed to unconsolidated subsidiary trusts	$31,959,000	$31,959,000

As of December 31, 2004 and 2003, the interest rate on the $16,495,000 subordinated debenture was 5.74% and 4.90%, respectively.

Currently, the Corporation must obtain regulatory approval prior to paying any dividends on these trust preferred securities. The Federal Reserve approved the timely payment of the Corporation's semi-annual distribution on the Corporation's trust preferred securities in January, March, July and September 2004 and January and March 2005.

11. CASH AND STOCK INCENTIVE PLANS

The Corporation has established a stock incentive plan for directors and certain key employees that provide for the granting of restricted stock and incentive and nonqualified options to purchase up to 2,500,000 shares of the Corporation's common stock. The compensation committee of the Board of Directors determines the terms of the restricted stock and options granted.

All options granted have a maximum term of ten years from the grant date, and the option price per share of options granted cannot be less than the fair market value of the Corporation's common stock on the grant date.

	DECEMBER 31,					
	2004		2003		2002	
	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	W E
Under option, beginning of year	1,196,509	$6.76	1,408,009	$6.76	1,032,009	
Granted	506,000	6.28	33,500	6.99	401,000	
Exercised	(13,600)	6.44	(24,200)	6.50	--	
Forfeited	(34,400)	6.83	(220,800)	6.75	(25,000)	
Under option, end of year	1,654,509	6.63	1,196,509	6.76	1,408,009	
Exercisable at end of year	1,378,809		695,909		553,309	
Weighted-average fair value per option of options granted during the year	$ 3.16		$ 2.75		$ 2.95	

11. CASH AND STOCK INCENTIVE PLANS -- (CONTINUED)

A further summary about options outstanding at December 31, 2004 is as follows:

	OPTIONS OUTSTANDING			
EXERCISE PRICE RANGE	NUMBER OUTSTANDING	WEIGHTED-AVERAGE CONTRACTUAL LIFE IN YEARS	NUMBER EXERCISABLE	WEIGH EXER

$4.87 - 5.98	56,000	6.26	42,400
6.00 - 6.71	1,275,009	7.37	1,144,509
7.00 - 7.76	323,500	7.64	191,900
	1,654,509		1,378,809

As of December 31, 2004 there were approximately 702,991 shares of the Corporation's common stock available for future grants. See Note 24 -- "Subsequent Event" for discussion of a subsequent event relating to the granting of additional stock options.

The Corporation recognizes compensation cost for stock-based employee compensation awards in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. The Corporation recognized no compensation cost for stock-based employee compensation awards for the years ended December 31, 2004, 2003 and 2002. If the Corporation had recognized compensation cost in accordance with SFAS No. 123, net income (loss) and earnings per share would have been reduced as follows (amounts in thousands, except per share data):

	DECEMBER 31,		
	2004	2003	2002
Net income (loss) applicable to common stockholders:			
As reported	$ 741	$17,280	$(18,401)
Pro forma	(567)	16,191	(19,231)
Basic net income (loss) per common share:			
As reported	$ .04	$ .99	$ (1.09)
Pro forma	(.03)	.93	(1.14)
Diluted net income (loss) per common share:			
As reported	.04	.95	(1.09)
Pro forma	(.03)	.89	(1.14)

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

	2004	2003	2002
Risk free interest rate	4.56%	4.15%	3.92%
Volatility factory	.32%	.33%	.28%
Weighted average life of options (in years)	7.00	6.00	6.00
Dividend yield	0.00%	0.00%	0.00%

On April 1, 2002, the Corporation issued 157,500 shares of restricted common stock to certain directors and key employees pursuant to the Second Amended and Restated 1998 Stock Incentive Plan. Under the Restricted Stock Agreements, the stock may not be sold or assigned in any manner for a five-year period that began on April 1, 2002. During this restricted period, the participant is eligible to receive dividends and exercise voting privileges. The restricted stock also has a corresponding vesting period with one-third vesting in the third, fourth and fifth years. The restricted stock was issued at $7.00

per share, or $1,120,000, and

11. CASH AND STOCK INCENTIVE PLANS -- (CONTINUED)

classified as a contra-equity account, "Unearned restricted stock", in stockholders' equity. During 2003, 15,000 shares of this restricted common stock were forfeited. Restricted shares outstanding as of December 31, 2004 were 142,500 and the remaining amount in the unearned restricted stock account is $449,000. This balance is being amortized as expense as the stock is earned during the restricted period. The amounts of restricted shares are included in the diluted earnings per share calculation, using the treasury stock method, until the shares vest. Once vested, the shares become outstanding for basic earnings per share. For the years ended December 31, 2004, 2003 and 2002, the Corporation has recognized $199,000, $181,000 and $168,000, respectively, in restricted stock expense.

The Corporation adopted a leveraged employee stock ownership plan (the "ESOP") effective May 15, 2002 that covers all eligible employees who are at least 21 years old and have completed a year of service. As of December 31, 2004, the ESOP has been leveraged with 273,400 shares of the Corporation's common stock purchased in the open market and classified as a contra-equity account, "Unearned ESOP shares," in stockholders' equity.

On January 29, 2003, the ESOP trustees finalized a $2,100,000 promissory note to reimburse the Corporation for the funds used to leverage the ESOP. The unreleased shares and a guarantee of the Corporation secure the promissory note, which has been classified as notes payable on the Corporation's statement of financial condition. As the debt is repaid, shares are released from collateral based on the proportion of debt service. Principal payments on the debt are $17,500 per month for 120 months. The interest rate is adjusted to the Wall Street Journal prime rate. Interest expense incurred on the debt in 2004 and 2003 totaled $74,000 and $78,000, respectively. Total contributions to the plan during 2004, 2003 and 2002 totaled $300,000, $254,000 and $51,000, respectively. Released shares are allocated to eligible employees at the end of the plan year based on the employee's eligible compensation to total compensation. The Corporation recognizes compensation expense during the period as the shares are earned and committed to be released. As shares are committed to be released and compensation expense is recognized, the shares become outstanding for basic and diluted earnings per share computations. The amount of compensation expense reported by the Corporation is equal to the average fair value of the shares earned and committed to be released during the period. Compensation expense that the Corporation recognized during the period ended December 31, 2004, 2003 and 2002 was $189,000, $152,000 and $51,000. The ESOP shares as of December 31, 2004, 2003 and 2002 were as follows:

	DECEMBER 31,		
	2004	2003	2002
Allocated shares	28,628	6,378	--
Estimated shares committed to be released	26,700	22,250	6,378
Unreleased shares	218,072	244,772	267,022

Total ESOP shares......................	273,400	273,400	273,400
Fair value of unreleased shares..........	$1,795,000	$2,080,000	$2,072,000

12. RETIREMENT PLANS

The Corporation sponsors a profit-sharing plan that permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet certain age and length of service requirements. The Corporation matches contributions at its discretion. The Corporation's contributions to the plan were $298,000, $347,000 and $255,000 in 2004, 2003 and 2002, respectively.

In September 2003 the federal bank regulatory agencies published a formal position regarding the accounting treatment for certain indexed retirement plans sponsored by banks. The Corporation has such

12. RETIREMENT PLANS -- (CONTINUED)

nonqualified plans that were established for the benefit of certain directors and executive officers by the Corporation in the years 1998, 1999 and 2002. Generally, the plans provide a retirement benefit that is divided into a primary and secondary benefit. The primary benefit represents the cumulative amount of excess earnings over the amount of estimated opportunity cost from a related life insurance asset through the participants' retirement date. This amount will be paid to the participant in equal installments ranging from 10-15 years. The secondary benefit results from the continuing excess earnings on the life insurance assets, if any, over the opportunity cost and will be paid to the participant after retirement for periods ranging from 10 years to life.

In accordance with APB Opinion No. 12, as amended by FASB Statement No. 106, the secondary benefit represents a postretirement benefit that should be estimated and accrued over the participant's service period until the participant reaches full eligibility. In periods prior to September 30, 2003, the Corporation has only accrued the estimated primary benefit liability in its financial statements. The secondary benefit was not accrued because the benefit is not guaranteed and there is a high degree of uncertainty regarding the ultimate health of the participant, future performance of the insurance policies and the Corporation's opportunity rates.

The Corporation has estimated and accrued the present value of the future benefits that are expected to be paid. As of September 30, 2003, and for the three-month period then ended, the Corporation accrued an additional deferred compensation liability of approximately $1.9 million before tax and $1.2 million after tax related to the fiscal years 1998 through 2002. This amount was considered by management and the Corporation's audit committee to be immaterial to the current and prior period financial statements; therefore, no restatement of prior periods was necessary.

In addition to these plans, the Corporation has other nonqualified retirement plans that were assumed in various acquisitions. Certain executive officer plans were amended in 2004 to provide a defined benefit based on current projections in lieu of the variable benefit described above. All of the Corporation's nonqualified retirement plans had an unfunded projected benefit of

approximately $19,600,000 as of December 31, 2004 and an accrued liability of $5,793,000 and $5,333,000 as of December 31, 2004 and 2003, respectively, that is included in accrued expenses and other liabilities in the statement of condition.

In connection with the plans, the Corporation has purchased single premium life insurance policies with cash surrender values of approximately $14,400,000 and $13,900,000 at December 31, 2004 and 2003, respectively. Compensation expense related to these plans totaled $687,000, $3,502,000 and $669,000 for 2004, 2003 and 2002, respectively.

13. INCOME TAXES

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

	2004	2003	2002
Current:			
Federal	$(2,350)	$6,039	$ (3,355)
State	(80)	203	(406)
Total current (benefit) expense	(2,430)	6,242	(3,761)
Deferred:			
Federal	1,381	2,031	(7,806)
State	253	905	(1,392)
Deferred tax expense (benefit)	1,634	2,936	(9,198)
Total income tax (benefit) expense	$ (796)	$9,178	$(12,959)

13. INCOME TAXES -- (CONTINUED)

Significant components of the Corporation's deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows (in thousands):

	2004	2003
Deferred tax assets:		
Rehabilitation tax credit	$ 4,888	$ 1,808
Provision for loan losses	4,641	9,566
Deferred compensation	2,144	2,027
Interest on nonaccruing loans	309	955
Net state operating loss carryforward	750	125
Alternative minimum tax credit carryover	405	405
Unrealized loss on securities	729	120
Other	1,351	914

Total deferred tax assets	15,217	15,920
Deferred tax liabilities:		
Difference in book and tax basis of premises and equipment	2,981	2,867
Depreciation	905	911
Other	627	413
Total deferred tax liabilities	4,513	4,191
Net deferred tax asset	$10,704	$11,729

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

	2004	2003	2002
Expected tax expense (benefit) at statutory rate of income (loss) before taxes	$ 133	$9,337	$(10,662)
Add (deduct):			
Rehabilitation tax credit	(725)	(960)	(384)
State income taxes, net of federal tax benefit	114	720	(1,115)
Effect of interest income exempt from Federal income taxes	(178)	(149)	(182)
Basis reduction	247	336	131
Increase in cash surrender value of life insurance	(559)	(574)	(414)
Amortization	97	100	--
Travel and entertainment	85	54	91
Other items -- net	(10)	314	(424)
Income tax (benefit) expense	$(796)	$9,178	$(12,959)
Federal statutory rate	34%	35%	34%

The Corporation has net operating loss carryforwards of approximately $3,181,000 in Florida, which can be carried forward 20 years, and $8,799,000 in Alabama, which can be carried forward five years.

13. INCOME TAXES -- (CONTINUED)

The Corporation has available at December 31, 2004 unused rehabilitation tax credits that can be carried forward and utilized against future Federal income tax liability. Unused credits and expiration dates are as follows (in thousands):

Year of expiration:	
2018	$ 298

2019	738
2020	1,261
2021	522
2022	384
2023	960
2024	725
	$4,888

This credit was established as a result of the restoration and enhancement of the John A. Hand Building, which is designated as an historical structure and serves as the corporate headquarters for the Corporation. This credit is equal to 20% of certain qualified expenditures incurred by the Corporation prior to December 31, 2004. The Corporation is required to reduce its tax basis in the John A. Hand Building by the amount of the credit.

Applicable income tax (benefit) expense of ($27,000), $217,000 and $232,000 on securities (losses) gains for the years ended December 31, 2004, 2003 and 2002, respectively, is included in income taxes.

14. RELATED PARTY TRANSACTIONS

The Corporation has entered into transactions with its directors, executive officers, significant stockholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2004 and 2003 were $14,500,000 and $13,978,000, respectively. Activity during the year ended December 31, 2004 is summarized as follows (in thousands):

BALANCE DECEMBER 31, 2003	ADVANCES	REPAYMENTS	OTHER CHANGES	BALANCE DECEMBER 31, 2004
$13,978	$7,239	$(6,717)	$--	$14,500

At December 31, 2004, the deposits of such related parties in the subsidiary banks amounted to approximately $7,141,000.

In July 1998, prior to its acquisition by the Corporation, Emerald Coast Bancshares, Inc. sold the land and building of its main office building and two branch offices to an entity under the control of certain members of Emerald Coast Bancshares' Board of Directors for their fair value of approximately $3,794,700. The sales were accounted for under a sale-leaseback arrangement. Rental expense under these operating leases amounted to approximately $175,000 in 2002.

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

During 2004, 2003 and 2002, the Corporation received from an affiliated company $180,000 in rental income and, through its real estate management

subsidiary, $124,000, $128,000 and $105,000, respectively, in

14. RELATED PARTY TRANSACTIONS -- (CONTINUED)

personnel and management related fees. As of December 31, 2004 and 2003, approximately $44,000 and $59,000, respectively, in receivables were due from the affiliated company. These respective receivables have been paid in full subsequent to December 31, 2004 and 2003 in the normal course of business.

On September 27, 2002, The Bank sold an undivided 87.5% ownership interest in a $4 million loan that was held in The Bank's portfolio to an entity controlled by a director of the Corporation for $3.5 million. The sale was nonrecourse and no gain or loss was recognized. The loan was paid in full during the second quarter of 2004.

An insurance agency owned by one of the Corporation's directors received commissions of approximately $180,400, $138,981, and $92,315 from the sale of insurance to the Corporation during 2004, 2003 and 2002, respectively.

The Corporation believes that all of the foregoing transactions were made on terms and conditions reflective of arms' length transactions

15. COMMITMENTS AND CONTINGENCIES

The consolidated financial statements do not reflect the Corporation's various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. The following is a summary of the Corporation's maximum exposure to credit loss for loan commitments and standby letters of credit (in thousands):

	DECEMBER 31	
	2004	2003
Commitments to extend credit	$135,347	$120,401
Standby letters of credit	24,407	19,045

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

During 2004, 2003 and 2002, the Corporation settled various litigation matters. The Corporation is also a defendant or co-defendant in various lawsuits incidental to the banking business. Management, after consultation with legal counsel, believes that liabilities, if any, arising from such litigation and

claims will not result in a material adverse effect on the consolidated financial statements of the Corporation.

16. BUSINESS COMBINATIONS AND BRANCH SALES

On February 6, 2004, the Corporation's banking subsidiary sold its Morris, Alabama branch, which had assets of approximately $1,037,000 and liabilities of $8,217,000. The Corporation realized a $739,000 pre-tax gain on the sale.

On August 29, 2003, the Corporation's banking subsidiary sold seven branches of the Bank, known as the Emerald Coast branches of The Bank, serving the markets from Destin to Panama City, Florida for a $46,800,000 deposit premium. These branches had assets of approximately $234,000,000 and liabilities of $209,000,000. The Corporation realized a $46,018,000 pre-tax gain on the sale.

16. BUSINESS COMBINATIONS AND BRANCH SALES -- (CONTINUED)

On March 13, 2003, the Corporation's banking subsidiary sold its Roanoke, Alabama branch, which had assets of approximately $9,800,000 and liabilities of $44,672,000. The Corporation realized a $2,246,000 pre-tax gain on the sale.

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

The total cost of the CF Bancshares acquisition was $15,636,000, which exceeded the fair value of the net assets of CF Bancshares by $7,445,000. The total costs included 16,449 shares of Corporation common stock valued at $109,000. The value of common stock issued was determined based on the average of the last sales price for the 20 consecutive trading days ending three days prior to the special meeting of CF Bancshares shareholders held on November 28, 2001. Of this amount, approximately $2,900,000 consisted of a core deposit intangible which is being amortized over a ten-year period on the straight-line basis. The remaining $4,545,000 consists of goodwill. The Corporation's consolidated financial statements for the year ended December 31, 2002 include the results of operations of CF Bancshares only for the period February 15, 2002 to December 31, 2002.

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

	FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2002

Interest income	$ 89,364
Interest expense	40,858
Net interest income	48,506
Provision for loan losses	52,669
Noninterest income	15,293
Noninterest expense	43,905
Loss before income taxes	(32,775)
Income tax benefit	(13,399)
Net loss	$(19,376)
Basic and diluted net loss per common share	$ (1.15)

17. REGULATORY RESTRICTIONS

A source of funds available to the Corporation is the payment of dividends by its subsidiary. Currently, the Corporation and its subsidiary must obtain regulatory approval prior to paying any dividends on our common stock, preferred stock or our trust preferred securities.

The Corporation and its subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material

17. REGULATORY RESTRICTIONS -- (CONTINUED)

effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and its subsidiary must meet specific capital guidelines that involve quantitative measures of the Corporation's and its subsidiary's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and its subsidiary's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and its subsidiary to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2004 and 2003 that the Corporation and its subsidiary meet all capital adequacy requirements to which they are subject.

As of December 31, 2004 and 2003, the most recent notification from the subsidiary's primary regulators categorized the subsidiary as "well capitalized" under the regulatory framework for prompt corrective action. The table below represents our and our subsidiary's regulatory and minimum regulatory capital requirements at December 31, 2004 and 2003 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
AS OF DECEMBER 31, 2004						
Total Capital (to Risk Weighted Assets)						
Corporation.......................	$126,288	11.51%	$87,788	8.00%	$109,735	10.00%
The Bank..........................	123,074	11.37	86,614	8.00	108,268	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Corporation.......................	110,326	10.05	43,894	4.00	65,841	6.00
The Bank..........................	110,531	10.21	43,307	4.00	64,961	6.00
Tier 1 Capital (to Average Assets)						
Corporation.......................	110,326	7.98	55,292	4.00	69,115	5.00
The Bank..........................	110,531	8.05	54,915	4.00	68,644	5.00
AS OF DECEMBER 31, 2003						
Total Capital (to Risk Weighted Assets)						
Corporation.......................	$130,048	14.07%	$73,969	8.00%	$ 92,462	10.00%
The Bank..........................	125,314	13.70	73,151	8.00	91,438	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Corporation.......................	116,526	12.60	36,985	4.00	55,477	6.00
The Bank..........................	113,715	12.44	36,575	4.00	54,863	6.00
Tier 1 Capital (to Average Assets)						
Corporation.......................	116,526	9.72	47,952	4.00	59,939	5.00
The Bank..........................	113,715	9.57	47,512	4.00	59,390	5.00

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

Net loans. Fair values for variable-rate loans that reprice frequently and have no significant change in credit risk are based on carrying values. Fair values for all other loans are estimated using discounted cash flow analyses

using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

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

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

Federal funds borrowed and security repurchase agreements. The carrying amount of federal funds borrowed and security repurchase agreements approximate their fair values.

Notes payable. The carrying amount of notes payable approximates its fair values.

Subordinated debentures. Rates currently available to the Corporation for preferred offerings with similar terms and maturities are used to estimate fair value.

Interest rate swaps. Fair values for interest rate swaps are based on quoted market prices.

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

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

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

	DECEMBER 31, 2004		DECEMBER 31, 2003	
	CARRYING	FAIR	CARRYING	FAIR

	AMOUNT	VALUE	AMOUNT	VALUE
		(IN THOUSANDS)		
Financial assets:				
Cash and due from banks	$ 23,489	$ 23,489	$31,679	$31,679
Interest-bearing deposits in other banks	11,411	11,411	11,869	11,869
Federal funds sold	11,000	11,000	--	--
Securities available for sale	288,308	288,308	141,601	141,601
Mortgage loans held for sale	8,095	8,095	6,408	6,408
Net loans	922,325	920,746	831,767	830,743
Stock in FHLB and Federal Reserve Bank	11,787	11,787	8,499	8,499
Accrued interest receivable	6,237	6,237	5,042	5,042
Financial liabilities:				
Deposits	1,067,206	1,066,102	889,935	912,687
Advances from FHLB	156,090	161,961	121,090	129,839
Federal funds borrowed and security repurchase agreements	49,456	49,456	10,829	10,829
Notes payable	3,965	3,965	1,925	1,925
Junior subordinated debentures owed to unconsolidated subsidiary trusts	31,959	33,050	31,959	34,149
Interest rate swaps	218	218	93	93

19. OTHER NONINTEREST EXPENSE

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

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
Professional fees	$ 3,344	$ 4,147	$ 2,288
Directors fees	191	387	348
Insurance and assessments	2,410	2,631	1,025
Postage, stationery and supplies	1,013	751	1,462
Advertising	657	1,112	714
Foreclosure losses	967	1,054	837
Other operating expense	5,534	7,740	5,240
Total	$14,116	$17,822	$11,914

20. CONCENTRATIONS OF CREDIT RISK

All of the Corporation's loans, commitments and standby letters of credit have been granted to customers in the Corporation's market area. The concentrations of credit by type of loan or commitment are set forth in Notes 3 and 15, respectively.

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

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

20. CONCENTRATIONS OF CREDIT RISK -- (CONTINUED)

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

21. NET INCOME (LOSS) PER COMMON SHARE

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

	2004	2003	2002
Numerator:			
Net income (loss)	$ 1,187	$17,499	$(18,401)
Less preferred dividends	(446)	(219)	--
For basic and diluted, net income (loss) applicable to common stockholders	$ 741	$17,280	$(18,401)
Denominator:			
For basic, weighted average common shares outstanding	17,583	17,492	16,829
Effect of dilutive stock options	232	193	--
Effect of convertible preferred stock	--	452	--
Average common shares outstanding, assuming dilution	17,815	18,137	16,829
Basic net income(loss) per common share	$ .04	$ .99	$ (1.09)
Diluted net income(loss) per common share	$ .04	$ .95	$ (1.09)

Basic net income (loss) per common share is calculated by dividing net income (loss), less dividend requirements on outstanding convertible preferred stock, by the weighted-average number of common shares outstanding for the period.

Diluted net income (loss) per common share takes into consideration the pro forma dilution assuming outstanding convertible preferred stock and certain unvested restricted stock and unexercised stock option awards were converted or exercised into common shares. Options on 248,000 shares of common stock and the effect of 775,000 convertible preferred stock were not included in computing diluted net income (loss) per share for the years ended December 31, 2002 and 2004, respectively, because their effects were anti-dilutive.

71

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

22. PARENT COMPANY

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

	DECEMBER 31,	
	2004	2003
STATEMENTS OF FINANCIAL CONDITION		
Assets:		
Cash	$ 135	$ 2,209
Investment in subsidiaries	127,098	127,437
Intangibles, net	214	214
Premises and equipment -- net	8,040	5,806
Other assets	5,315	3,724
	$140,802	$139,390
Liabilities:		
Accrued expenses and other liabilities	$ 4,339	$ 5,384
Notes payable	3,965	1,925
Subordinated debentures	31,959	31,959
Stockholders' equity	100,539	100,122
	$140,802	$139,390

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
STATEMENTS OF OPERATIONS			
Income:			
Dividends from subsidiaries	$ 2,576	$ 75	$ 47
Interest	13	19	78
Other income	3,397	3,315	2,699
	5,986	3,409	2,824
Expense:			
Directors' fees	74	45	48
Salaries and benefits	3,219	6,792	3,228
Occupancy expense	615	654	470
Interest expense	2,653	2,600	2,733
Other	937	1,240	780
	7,498	11,331	7,259
Loss before income taxes and equity in undistributed earnings (loss) of subsidiaries	(1,512)	(7,922)	(4,435)
Income tax benefit	1,822	2,618	1,730
Income (loss) before equity in undistributed earnings (loss) of subsidiaries	310	(5,304)	(2,705)
Equity in undistributed earnings (loss) of subsidiaries	877	22,803	(15,696)

Net income (loss)	$ 1,187	$17,499	$(18,401)

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

22. PARENT COMPANY -- (CONTINUED)

	YEAR ENDED DECEMBER 31		
	2004	2003	2002
STATEMENTS OF CASH FLOWS			
OPERATING ACTIVITIES			
Net income (loss)	$ 1,187	$ 17,499	$(18,401)
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Amortization and depreciation expense	213	228	228
Equity in undistributed (earnings) loss of subsidiaries	(877)	(22,803)	15,696
Gain on sale of property	--	--	(46)
(Decrease) increase in other liabilities	(1,815)	4,061	39
(Increase) decrease in other assets	(461)	(1,037)	356
Net cash used by operating activities	(1,753)	(2,052)	(2,128)
INVESTING ACTIVITIES			
Purchases of premises and equipment	(2,117)	(37)	(2,264)
Purchase of securities available for sale	--	--	(337)
Proceeds from sale of securities available for sale	--	--	383
Proceeds from sale of property	--	--	200
Net cash paid in acquisition	--	--	(15,172)
Capital contribution to subsidiaries	--	(5,000)	--
Net cash used in investing activities	(2,117)	(5,037)	(17,190)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	203	506	19,654
Proceeds from issuance of preferred stock	--	6,193	--
Purchase of treasury stock	--	--	(164)
Purchase of ESOP shares	--	--	(2,205)
Proceeds from note payable	2,250	2,100	14,000
Principal payment on note payable	(210)	(175)	(14,000)
Cash dividends paid	(447)	(219)	(357)
Net cash provided by financing activities	1,796	8,405	16,928
Net (decrease) increase in cash	(2,074)	1,316	(2,390)
Cash at beginning of year	2,209	893	3,283
Cash at end of year	$ 135	$ 2,209	$ 893

THE BANC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

23. SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

A summary of the unaudited results of operations for each quarter of 2004 and 2003 follows (in thousands, except per share data):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2004				
Total interest income	$15,494	$16,098	$16,750	$17,818
Total interest expense	6,569	6,587	7,022	7,945
Net interest income	8,925	9,511	9,728	9,873
Provision for loan losses	--	--	--	975
Securities gains (losses)	391	37	(4)	(498)
Gain on sale of branches	739	--	--	--
Income (loss) before income taxes	1,547	1,143	(1,315)	(984)
Net income (loss)	1,228	1,064	(830)	(275)
Basic net income (loss) per share	.07	.05	(.05)	(.03)
Diluted net income (loss) per share	.07	.05	(.05)	(.03)
2003				
Total interest income	$20,953	$20,854	$18,882	$15,524
Total interest expense	9,576	9,005	7,989	6,918
Net interest income	11,377	11,849	10,893	8,606
Provision for loan losses	1,200	725	9,250	9,800
Securities gains (losses)	26	637	95	(170)
Gain on sale of branches	2,246	--	46,018	--
Income (loss) before income taxes	4,391	3,444	33,799	(14,958)
Net income (loss)	3,014	2,504	20,275	(8,294)
Basic net income (loss) per share	.17	.14	1.16	(.49)
Diluted net income (loss) per share	.17	.14	1.10	(.49)

24. SUBSEQUENT EVENT

On January 24, 2005, the Corporation announced that it had entered into a series of agreements setting forth:

- The employment of C. Stanley Bailey as Chief Executive Officer and a director of the Corporation and its banking subsidiary, C. Marvin Scott as President of the Corporation and its banking subsidiary, and Rick D. Gardner as Chief Operating Officer of the Corporation and its banking subsidiary;

- The purchase by Mr. Bailey, Mr. Scott and Mr. Gardner, along with other investors, of 925,636 shares of common stock of the Corporation at $8.17 per share in a private placement consummated simultaneously with the employment of Mr. Bailey, Mr. Scott and Mr. Gardner; and

- Arrangements under which James A. Taylor would continue to serve as Chairman of the Board of the Corporation and James A. Taylor, Jr. would continue to serve as a director of the Corporation, but would cease to serve as Chief Executive Officer and President, respectively, of the Corporation and as officers and directors of its banking subsidiary.

The Corporation's employment agreement with Mr. Taylor entitled him to

certain payments based on his current compensation upon the occurrence of specified circumstances, and gave him the option to demand the discounted present value of such payments in a lump sum. The transactions described above would have triggered the Corporation's obligations to make such payments to Mr. Taylor. On January 24, 2005, the Corporation entered into an agreement with Mr. Taylor pursuant to which, in lieu of the payments to which he would have been entitled under his employment agreement, the Corporation paid to Mr. Taylor $3,940,155 on

24. SUBSEQUENT EVENT -- (CONTINUED)

January 24, 2005, $3,152,124 on January 24, 2006, and $788,031 on January 24, 2007. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, the transfer of a "key man" life insurance policy to Mr. Taylor, and the maintenance of such policy by the Corporation for five years (with the cost of maintaining such policy included in the above amounts), in each case substantially as required by his employment agreement. The Corporation's obligation to provide such payments and benefits to Mr. Taylor is absolute and will survive the death or disability of Mr. Taylor.

The Corporation's employment agreement with Mr. Taylor, Jr. entitled him to certain payments based on his current compensation upon the occurrence of specified circumstances, and gave him the option to demand the discounted present value of such payments in a lump sum. The transactions described above would have triggered the Corporation's obligations to make such payments to Mr. Taylor, Jr. On January 24, 2005, the Corporation entered into an agreement with Mr. Taylor, Jr. pursuant to which, in lieu of the payments to which he would have been entitled under his employment agreement, the Corporation paid to Mr. Taylor, Jr., $1,382,872 on January 24, 2005. The agreement also provides for the provision of certain insurance benefits to Mr. Taylor, Jr. and for the immediate vesting of his unvested incentive awards and deferred compensation in each case substantially as required by his employment agreement. The Corporation's obligation to provide such payments and benefits to Mr. Taylor, Jr. is absolute and will survive the death or disability of Mr. Taylor, Jr.

The new equity investment described above, which involved gross proceeds of over $7.5 million to the Corporation, will be adequate to allow the Corporation to fulfill its cash payment obligations, net of tax effect, to Mr. Taylor and Mr. Taylor, Jr., and to pay certain other costs of the transactions. Accordingly, the transactions will have a nominal effect on the regulatory capital position of the Corporation and its banking subsidiary. In connection with the transaction, the Corporation expects to recognize after-tax expenses of approximately $7.7 million, or $0.41 per share, in the first quarter of 2005.

Under Mr. Bailey's, Mr. Scott's and Mr. Gardner's respective employment agreements, the Corporation is obligated to grant, and has granted as of January 24, 2005, options to acquire 711,970 shares of common stock to Mr. Bailey, 355,985 shares to Mr. Scott, and 355,985 shares to Mr. Gardner, for a total of 1,423,940 each at an exercise price of $8.17 per share. Such options have a ten-year term and vest and become exercisable as follows:

- 50% on April 24, 2005;

- 20% on the later of (x) the date on which the average closing price per share of the Corporation's common stock over a 15-consecutive-trading-day period (the "Market Value price" is at least $10 but less than $12, and

(y) June 29, 2005 (the "Alternate Vesting Date");

- 15% on the later of (x) the date on which the Market Value price is at least $12 but less than $14, and (y) the Alternate Vesting Date; and

- 15% on the later of (x) the date on which the Market Value price is at least $14, and (y) the Alternate Vesting Date.

- To the extent not otherwise vested, on January 24, 2010.

In addition, on January 24, 2005, the Corporation entered into certain Employment Agreement Standstill Agreements ("standstill agreements") with its chief financial officer and general counsel ("executives"). The management changes described above gave the executives the right to exercise certain provisions under their employment agreements. Under the standstill agreements, the executives have agreed to remain in their present positions and their employment agreements remain in full force. The Corporation and the executives have agreed as part of the standstill agreements to discuss any proposed changes in the executives' continued

24. SUBSEQUENT EVENT -- (CONTINUED)

employment relationship with the Corporation. At any time following the first anniversary of the standstill agreements, if an executive and the Corporation have not reached a new agreement, such executive may terminate his employment for any reason and receive all rights, payments, privileges and benefits currently provided for under his employment agreement. If both executives were to terminate their employment after the first anniversary date, the Corporation would incur a pre-tax expense in the quarter in which such termination occurred ranging from $2.0 to $2.5 million.

25. SEGMENT REPORTING

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

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

	ALABAMA REGION	FLORIDA REGION	COMBINED
		(IN THOUSANDS)	

2004			
Net interest income	$ 27,362	$ 10,675	$ 38,037
Provision for loan losses	3,223	(2,248)	975
Noninterest income	9,922	1,344	11,266
Noninterest expense(1)	40,876	7,061	47,937
Income tax (benefit) expense	(3,739)	2,943	(796)
Net (loss) income	(3,076)	4,263	1,187
Total assets	1,160,747	262,381	1,423,128
2003			
Net interest income	$ 24,995	$ 17,731	$ 42,726
Provision for loan losses	12,190	8,785	20,975
Noninterest income	60,195	2,661	62,856
Noninterest expense(1)	42,989	14,941	57,930
Income tax expense (benefit)	10,133	(955)	9,178
Net income (loss)	19,878	(2,379)	17,499
Total assets	930,887	240,739	1,171,626

25. SEGMENT REPORTING -- (CONTINUED)

	ALABAMA REGION	FLORIDA REGION	COMBINED
		(IN THOUSANDS)	
2002			
Net interest income	$ 27,383	$ 20,655	$ 48,038
Provision for loan losses	14,133	37,719	51,852
Noninterest income	11,911	3,212	15,123
Noninterest expense(1)	29,336	13,333	42,669
Income tax benefit	(1,623)	(11,336)	(12,959)
Net loss	(2,552)	(15,849)	(18,401)
Total assets	938,633	468,167	1,406,800

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

26. PREFERRED STOCK

In May 2003, the Corporation received $6,193,000 in proceeds, net of issuance costs, from the sale of 62,000 shares of Series A Convertible Preferred Stock. Dividends accrue on the liquidation value of $100 per share at the rate of six-month LIBOR plus 5.75 not to exceed 12.5%. Dividends are noncumulative and reset semi-annually on June 1 and December 1. Each share of Series A Convertible Preferred Stock is convertible at any time beginning June 1, 2008. Such shares shall be convertible into the number of shares of common stock which result from dividing the conversion price at the time of conversion into the liquidation value. The initial conversion price is $8.00 per share. From the date of issuance the Corporation can redeem the preferred stock at the following

prices stated as a percentage of the liquidation value: 2003 -- 105%; 2004 -- 104%; 2005 -- 103%; 2006 -- 102%; 2007 -- 101%; 2008 and thereafter -- 100%.

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

Our audit committee engaged Carr, Riggs & Ingram, LLC, to serve as independent auditors with respect to our fiscal year ended December 31, 2004. Carr, Riggs & Ingram, LLC, replaced Ernst & Young LLP, which had previously served as our independent auditors. See Item 4.01 in our Current Report on Form 8-K/A, dated June 14, 2004, which is incorporated herein by reference. This change in independent auditors did not involve any disagreement of a type described in Item 304(a)(1)(iv) or any reportable event of a type described in Item 304(a)(1)(v) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES.

CEO AND CFO CERTIFICATION

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

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

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

CHANGES IN INTERNAL CONTROLS

There were no changes in our internal control over financial reporting identified in connection with the Evaluation during the fourth quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, subject to the completion of our assessment of such internal control described below.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Section 404 of the Sarbanes-Oxley Act of 2002 requires public companies, in their annual reports on Form 10-K, to provide reports on their management's assessment of such companies' internal control over financial reporting and for such companies' independent registered public accountants to attest to such reports by management. This is our first annual report to which such new requirements apply. In November 2004, the Securities and Exchange Commission issued an exemptive order providing for a 45-day extension for the filing of such reports and attestations by eligible issuers. We have elected to utilize the additional time provided by the SEC, and accordingly, have not included such report and attestation in this annual report. We will file our management's report and attestation in an amendment to this annual report within the 45-day extension period. During the past year, we have spent considerable time and resources in evaluating and testing our internal control over financial reporting, and at this time we are not aware of any material weaknesses in our

78

internal control over financial reporting and related disclosures. However, no assurance can be given that a material weakness will not be discovered between the date we filed this annual report and the date we file the above-described amendment.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEMS 10, 11, 12, 13 AND 14. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; EXECUTIVE COMPENSATION; SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT; CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS; AND PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information set forth under the captions "Incumbent Directors and Executive Officers," "Election of Directors," "Certain Information Concerning the Board of Directors and Its Committees," "Director Attendance," "Director Compensation," "Executive Compensation and Other Information," "Security Ownership of Certain Beneficial Owners and Management," "Certain Transactions and Relationships" and "Proposal Number Two -- Ratification of Independent Auditors -- Audit Fees," "-- Audit Related Fees," "-- Tax Fees," and "-- All Other Fees" included in The Banc Corporation's definitive proxy statement to be filed no later than April 30, 2005, in connection with The Banc Corporation's 2005 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements and Financial Schedules.

(1) The consolidated financial statements of The Banc Corporation and its subsidiaries filed as a part of this Annual Report on Form 10-K are listed in Item 8 of this Annual Report on Form 10-K, which is hereby incorporated by reference herein.

(2) All schedules to the consolidated financial statements of The Banc Corporation and its subsidiaries have been omitted because they are not required under the related instructions or are inapplicable, or because the required information has been provided in the consolidated

financial statements or the notes thereto.

(b) Exhibits.

The exhibits required by Regulation S-K are set forth in the following list and are filed either by incorporation by reference from previous filings with the Securities and Exchange Commission or by attachment to this Annual Report on Form 10-K as indicated below.

(3)-1	--	Restated Certificate of Incorporation of The Banc Corporation, filed as Exhibit(3)-1 to the Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), is hereby incorporated herein by reference.
(3)-2	--	Bylaws of The Banc Corporation, filed as Exhibit(3)-2 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-58493), is hereby incorporated herein by reference.

(4)-1	--	Amended and Restated Declaration of Trust, dated as of September 7, 2000, by and among State Street Bank and Trust Company of Connecticut, National Association, as Institutional Trustee, The Banc Corporation, as Sponsor, David R. Carter and James A. Taylor, Jr., as Administrators, filed as Exhibit(4)-1 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
(4)-2	--	Guarantee Agreement, dated as of September 7, 2000, by and between The Banc Corporation and State Street Bank and Trust Company of Connecticut, National Association, filed as Exhibit(4)-2 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
(4)-3	--	Indenture, dated as of September 7, 2000, by and among The Banc Corporation as issuer and State Street Bank and Trust Company of Connecticut, National Association, as Trustee, filed as Exhibit(4)-3 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
(4)-4	--	Placement Agreement, dated as of August 31, 2000, by and among The Banc Corporation, TBC Capital Statutory Trust II, Keefe Bruyette & Woods, Inc., and First Tennessee Capital Markets, filed as Exhibit(4)-4 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.
(4)-5	--	Amended and Restated Declaration of Trust, dated as of July 16, 2001, by and among The Banc Corporation, The Bank of New York, David R. Carter, and James A. Taylor, Jr. filed as Exhibit(4)-5 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
(4)-6	--	Guarantee Agreement, dated as of July 16, 2001, by The Banc Corporation and The Bank of New York filed as Exhibit(4)-6 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.

(4)-7	--	Indenture, dated as of July 16, 2001, by The Banc Corporation and The Bank of New York filed as Exhibit(4)-7 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
(4)-8	--	Placement Agreement, dated as of June 28, 2001, among TBC Capital Statutory Trust III, and The Banc Corporation and Sandler O'Neill & Partners, L.P. filed as Exhibit(4)-8 to The Banc Corporation's Registration Statement on Form S-4 (Registration No. 333-69734) is hereby incorporated herein by reference.
(4)-9	--	Stock Purchase Agreement, dated January 24, 2005, between The Banc Corporation and the investors named therein, filed as Exhibit 4-1 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2004, is hereby incorporated herein by reference.
(4)-10	--	Registration Rights Agreement, dated January 24, 2005, between The Banc corporation and the investors named therein, filed as Exhibit 4-2 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2004, is hereby incorporated herein by reference.
(10)-1	--	Third Amended and Restated 1998 Stock Incentive Plan of The Banc Corporation.
(10)-2	--	Commerce Bank of Alabama Incentive Stock Compensation Plan, filed as Exhibit(4)-3 to The Banc Corporation's Registration Statement on Form S-8, dated February 22, 1999 (Registration No. 333-72747), is hereby incorporated herein by reference.
(10)-3	--	The Banc Corporation 401(k) Plan, filed as Exhibit(4)-2 to The Banc Corporation's Registration Statement on Form S-8, dated January 21, 1999 (Registration No. 333-7953), is hereby incorporated herein by reference.
(10)-4	--	Employment Agreement by and between The Banc Corporation and James A. Taylor, filed as Exhibit (10)-1 to The Banc Corporation's Quarterly Report on Form 10-Q for quarter ended March 31, 2002 is hereby incorporated herein by reference.

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

reference.

(10)-9 -- Form of Deferred Compensation Agreement by and between The Bank and the individuals listed on Schedule A attached thereto filed as Exhibit (10)-11 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, is hereby incorporated herein by reference.

(10)-10 -- Employment Agreement dated as of September 19, 2000, by and between The Banc Corporation and David R. Carter, filed as Exhibit (10)-14 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, is hereby incorporated herein by reference.

(10)-11 -- Employment Agreement, dated as of January 16, 2001, by and between The Banc Corporation and F. Hampton McFadden, Jr., filed February 28, 2002 as Exhibit (10)-13 to The Banc Corporation's Registration Statement on Form S-l (Registration No. 333-82428) is hereby incorporated herein by reference.

(10)-12 -- The Banc Corporation and Subsidiaries Employee Stock Ownership Plan, filed as Exhibit (10)-13 to The Banc Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, is hereby incorporated herein by reference.

(10)-13 -- Agreement, dated January 24, 2005, between The Banc Corporation and James A. Taylor, Sr., filed as Exhibit 10-3 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2005, is hereby incorporated herein by reference.

(10)-14 -- Agreement, dated January 24, 2005, between The Banc Corporation and James A. Taylor, Jr., filed as Exhibit 10-4 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2005, is hereby incorporated herein by reference.

(10)-15 -- Employment Agreement, dated January 24, 2005, by and between The Banc Corporation, The Bank and C. Stanley Bailey, filed as Exhibit 10-5 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2005, is hereby incorporated herein by reference.

(10)-16 -- Employment Agreement, dated January 24, 2005, by and between The Banc Corporation, The Bank and C. Marvin Scott, filed as Exhibit 10-6 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2005, is hereby incorporated herein by reference.

(10)-17 -- Employment Agreement, dated January 24, 2005, by and between The Banc Corporation, The Bank and Rick D. Gardner, filed as Exhibit 10-7 to The Banc Corporation's Current Report on Form 8-K dated January 24, 2005, is hereby incorporated herein by reference.

(10)-18 -- Employment Agreement Standstill Agreement dated as of January 24, 2005, by and between The Banc Corporation, The Bank and David R. Carter.

(10)-19 -- Employment Agreement Standstill Agreement dated as of January 24, 2005, by and between The Banc Corporation, The Bank and F. Hampton McFadden, Jr.

(16) -- Letter from Ernst & Young LLP dated September 21, 2004, filed as Exhibit (16)-1 to The Banc Corporation's Current Report on Form 8-K/A dated June 14, 2004, is hereby

incorporated herein by reference.

(21) -- Subsidiaries of The Banc Corporation.

(23)-1 -- Consent of Carr, Riggs & Ingram, LLC

(23)-2 -- Consent of Ernst & Young LLP.

(31) -- Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a).

(32) -- Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

(c) Financial Statement Schedules.

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

82

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE BANC CORPORATION

By /s/ C. Stanley Bailey

C. Stanley Bailey
Chief Executive Officer

March 16, 2005

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints C. Stanley Bailey and David R. Carter, and each of them, the true and lawful agents and his attorneys-in-fact with full power and authority in either of said agents and attorneys-in-fact, acting singly, to sign for the undersigned as Director or an officer of the Corporation, or as both, the Corporation's 2004 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission, Washington, D.C. under the Securities Exchange Act of 1934, and to sign any amendment or amendments to such Annual Report, including an Annual Report pursuant to 11-K to be filed as an amendment to the Form 10-K; hereby ratifying and confirming all acts taken by such agents and attorneys-in-fact as herein authorized.

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

SIGNATURE	TITLE	DATE
/s/ C. Stanley Bailey C. Stanley Bailey	Chief Executive Officer (Principal Executive Officer)	March 16,
/s/ David R. Carter	Executive Vice President, Chief Financial Officer and	March 16,

SIGNATURE	TITLE	DATE
David R. Carter	Director (Principal Financial and Accounting Officer)	
/s/ James A. Taylor James A. Taylor	Chairman of the Board	March 16,
/s/ James Mailon Kent, Jr. James Mailon Kent, Jr.	Vice Chairman	March 16,
/s/ Larry D. Striplin, Jr. Larry D. Striplin, Jr.	Vice Chairman	March 16,
/s/ K. Earl Durden K. Earl Durden	Vice Chairman	March 16,
/s/ James R. Andrews, M.D. James R. Andrews, M.D.	Director	March 16,
/s/ Roger Barker Roger Barker	Director	March 16,
/s/ W. T. Campbell, Jr. W. T. Campbell, Jr.	Director	March 16,

SIGNATURE	TITLE	DATE
/s/ Thomas E. Jernigan, Jr. Thomas E. Jernigan, Jr.	Director	March 16,
/s/ Randall E. Jones Randall E. Jones	Director	March 16,
/s/ Ronald W. Orso, M.D. Ronald W. Orso, M.D.	Director	March 16,
/s/ Harold W. Ripps Harold W. Ripps	Director	March 16,
/s/ Jerry M. Smith Jerry M. Smith	Director	March 16,

/s/ Michael E. Stephens --- Michael E. Stephens	Director	March 16,
/s/ Marie Swift --- Marie Swift	Director	March 16,
/s/ James A. Taylor, Jr. --- James A. Taylor, Jr.	Director	March 16,