NBC CAPITAL CORP
Form 10-Q
November 13, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002.

Commission File Number 1-15773

NBC CAPITAL CORPORATION
(Exact name of registrant as specified in its charter.)

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

NBC Plaza, P. O. Box 1187, Starkville, Mississippi	39760
(Address of principal executive offices)	(Zip Code)

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

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, $1 Par Value - 8,199,254 shares as of September 30, 2002.

2

PART I - FINANCIAL INFORMATION
NBC CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME FOR
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(Unaudited)

(Amounts in thousands, except per share data)

	2002	2001
INTEREST INCOME:		
Interest and Fees on Loans	$30,596	$40,407
Interest And Dividends On Investment Securities	15,001	13,505
Other Interest Income	146	850
Total Interest Income	45,743	54,762
INTEREST EXPENSE:		
Interest on Deposits	13,203	23,915
Interest on Borrowed Funds	4,288	4,657
Total Interest Expense	17,491	28,572
Net Interest Income	28,252	26,190
Provision for Loan Losses	2,015	1,540
Net Interest Income After Provision for Loan Losses	26,237	24,650
NON-INTEREST INCOME:		
Income from Fiduciary Activities	1,317	1,280
Service Charges on Deposit Accounts	5,143	4,279
Insurance Commission and Fee Income	3,046	2,874
Mortgage Loan Fee Income	990	960
Other Non-Interest Income	2,310	2,110
Total Non-Interest Income	12,806	11,503
Gains (Losses) on Securities	279	321
NON-INTEREST EXPENSE:		
Salaries and Employee Benefits	14,681	13,760
Expense of Premises and Fixed Assets	3,517	3,450
Other Non-Interest Expense	6,495	6,730
Total Non-Interest Expense	24,693	23,940
Income Before Income Taxes	14,629	12,534
Income Taxes	3,823	3,060
NET INCOME	$10,806	$ 9,474
Net Earnings Per Share:		
Basic	$ 1.31	$ 1.10
Diluted	$ 1.31	$ 1.10

Note 1: The 2001 Earnings Per Share amounts have been restated for the 4 for 3 stock split, accounted for as stock dividend, that occurred during the third quarter of 2002.

3

NBC CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME FOR
QUARTER ENDED SEPTEMBER 30, 2002 AND 2001
(Unaudited)

(Amounts in thousands, except per share data)

	2002	2001
INTEREST INCOME:		
Interest and Fees on Loans	$ 9,926	$12,681
Interest And Dividends On Investment Securities	5,127	4,612
Other Interest Income	39	163
Total Interest Income	15,092	17,456
INTEREST EXPENSE:		
Interest on Deposits	4,200	7,153
Interest on Borrowed Funds	1,469	1,649
Total Interest Expense	5,669	8,802
Net Interest Income	9,423	8,654
Provision for Loan Losses	755	180
Net Interest Income After Provision for Loan Losses	8,668	8,474
NON-INTEREST INCOME:		
Income from Fiduciary Activities	439	426
Service Charges on Deposit Accounts	1,812	1,458
Insurance Commission and Fee Income	1,081	1,006
Mortgage Loan Fee Income	349	347
Other Non-Interest Income	734	726
Total Non-Interest Income	4,415	3,963
Gains (Losses) on Securities	188	109
NON-INTEREST EXPENSE:		
Salaries and Employee Benefits	4,889	4,484
Expense of Premises and Fixed Assets	1,201	1,130
Other Non-Interest Expense	2,340	2,166
Total Non-Interest Expense	8,430	7,780
Income Before Income Taxes	4,841	4,766
Income Taxes	1,242	1,313
NET INCOME	$ 3,599	$ 3,453
Net Earnings Per Share		
Basic	$ 0.44	$ 0.42
Diluted	$ 0.44	$ 0.42

Note 1: The 2001 Earnings Per Share amounts have been restated for the 4 for 3 stock split, accounted for as a stock dividend, that occurred during the third quarter of 2002.

NBC CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)	Sept. 30, 2002 (Unaudited)	Dec. 31, 2001 (Audited)
ASSETS:		
Cash and Balances Due From Banks:		
Noninterest-Bearing Balances	$ 31,304	$ 28,752
Interest-bearing Balances	965	1,263
Total Cash and Due From Banks	32,269	30,015
Held-To-Maturity Securities (Market value of $48,385 at September 30, 2002 and $50,623 at December 31, 2001)	44,697	47,683
Available-For-Sale Securities	340,038	293,043
Total Securities	384,735	340,726
Federal Funds Sold and Securities Purchased Under Agreement to Resell	16,505	13,510
Loans	594,115	622,940
Less: Reserve for Loan Losses	(6,657)	(6,753)
Net Loans	587,458	616,187
Bank Premises and Equipment (Net)	14,995	15,377
Interest Receivable	7,592	8,352
Intangible Assets	2,768	2,857
Other Assets	26,847	23,778
TOTAL ASSETS	$1,073,169	$1,050,802
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-Interest Bearing	$ 100,705	$ 101,569
Interest Bearing Deposits	705,739	709,134
Total Deposits	806,444	810,703
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase	20,468	16,625
Other Borrowed Funds	118,158	110,594
Interest Payable	1,849	2,284
Other Liabilities	15,227	7,669
TOTAL LIABILITIES	962,146	947,875
Shareholders' Equity:		
Common Stock $1 Par Value, Authorized 10,000,000 shares, Issued 9,615,806 shares at September 30, 2002 and 7,212,662 shares at December 31, 2001	9,616	7,213
Surplus and Undivided Profits	123,097	120,061
Accumulated Other Comprehensive Income	5,350	1,650
Treasury Stock, at Cost	(27,040)	(25,997)

TOTAL STOCKHOLDERS' EQUITY	111,023	102,927
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$1,073,169	$1,050,802

5

NBC CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

(Unaudited)

(Amounts in thousands)	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 10,806	$ 9,474
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation and Amortization	1,593	1,921
Deferred Income Taxes (Credits)	(3,918)	(3,653)
Provision for Loan Losses	2,015	1,540
Loss (Gain) on Sale of Securities	(279)	(321)
(Increase) Decrease in Interest Receivable	760	1,386
(Increase) Decrease in Other Assets	(1,269)	(9,454)
Increase (Decrease) in Interest Payable	(435)	(445)
Increase (Decrease) in Other Liabilities	7,558	5,573
Net Cash Provided by Operating Activities	16,831	6,021
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities of Securities	36,013	46,667
Proceeds from Sale of Securities	33,158	30,380
Purchase of Securities	(107,295)	(107,145)
(Increase) Decrease in Loans	26,714	20,900
(Additions) Disposal of Bank Premises and Equipment	(1,019)	(1,053)
Net Cash Used in Investing Activities	(12,429)	(10,251)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Deposits	(4,259)	(13,592)
Dividend Paid on Common Stock	(5,248)	(5,268)
Increase (Decrease) in Borrowed Funds	11,407	47,058
Purchase of Treasury Stock	(1,053)	(24,954)
Net Cash Provided by Financing Activities	847	3,244
Net Increase (Decrease) in Cash and Cash Equivalents	5,249	(986)
Cash and Cash Equivalents at Beginning of Year	43,525	45,150
Cash and Cash Equivalents at the End of the Period	$ 48,774	$ 44,164

Interest	$ 17,926	$ 29,017
Income Taxes	$ 3,889	$ 2,190

NBC CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements include the accounts of NBC Capital Corporation ("Corporation") and its subsidiaries, National Bank of Commerce and First National Finance Company. All significant intercompany accounts and transactions have been eliminated. In the normal decision making process, management makes certain estimates and assumptions that affect the reported amounts that appear in these statements. Although management believes that the estimates and assumptions are reasonable and are based on the best information available, actual results could differ.

In the opinion of management, all adjustments necessary for the fair presentation of the financial statement presented in this report have been made. Such adjustments were of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles have been condensed or omitted.

Note 1. Accounting Pronouncements

In June 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets." According to this Statement, goodwill and those intangible assets that have indefinite lives are not amortized, but tested for impairment. Statement No. 142 is effective for years beginning after December 15, 2001. Management is of the opinion the impact of the adoption of the Statement on the Corporation's consolidated financial statements is not significant. If Statement 142 had been in effect for all periods presented, its impact on net income and net income per share would have been as follows for the quarter and nine month period ended September 30, 2001:

	Quarter Ended	Period Ended
	Sept. 30, 2001	
(In thousands, except per share data)		
Reported net income	$3,453	$9,474
Add:		
Goodwill Amortization	66	198
Adjusted Net Income	$3,519	$9,671
Basic and Diluted net income per share:		
Reported net income	$ 0.42	$ 1.10
Goodwill amortization	.01	$ .03

Adjusted net income	$ 0.43	$ 1.13

Note 2. Stock Options

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

Had compensation for the stock options been determined based on FASB Statement No. 123, "Accounting for Stock Based Compensation," net income and per share amounts would have been as follows:

	Quarter Ended September 30,	
	2002	2001
Net income:		
As reported	$3,599	$3,453
Pro forma	3,534	3,413
Basic net earnings per share:		
As reported	$ .44	$ .42
Pro forma	.43	.41
Diluted net earnings per share:		
As reported	$ .44	$ .42
Pro forma	.43	.41

	Nine Months Ended September 30	
	2002	2001
Net income:		
As reported	$10,806	$9,474
Pro forma	10,656	9,427
Basic net earnings per share:		
As reported	$ 1.31	$ 1.10
Pro forma	1.30	1.09
Diluted net earnings per share:		
As reported	$ 1.31	$ 1.10
Pro forma	1.29	1.09

Note 3. Stock Split

At its July meeting, the Corporation's Board of Directors approved a four-for-three (4 for 3) stock split. This stock split was accounted for as a stock dividend. The new shares were distributed on September 9, 2002, to shareholders of record at the close of business on August 16, 2002. The Corporation paid cash in lieu of fractional shares resulting from this spilt. As a result of the split, all per share amounts and the weighted average number of shares outstanding reported in this Form 10-Q, have been restated to reflect this stock split.

PART I. ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2002

DISCLOSURE REGARDING FORWARD LOOKING INFORMATION

The following provides a narrative discussion and analysis of significant changes in the Corporation's results of operations and financial condition for the quarter and the nine-month period ended September 30, 2002. Certain information included in this discussion contains forward-looking statements and information that are based on management's conclusions, drawn from certain assumptions and information currently available. The Private Securities Litigation Act of 1995 encourages the disclosure of forward-looking information by management by providing a safe harbor for such information. This discussion includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties which could cause the actual results to differ materially from the Corporation's expectations. The forward-looking statements made in this document are based on management's beliefs, as well as assumptions made by and information currently available to management. When used in the Corporation's documents, the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" and similar expressions are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, factors that could cause the Corporation's actual results to differ materially from those contemplated in any forward-looking statements include, among others, increased competition, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, employee workforce factors, cost and other effects of legal and administrative proceedings, the overall legal climate in which the Corporations operates and changes in federal, state or local laws and regulations. The Corporation undertakes no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

The two major trends that can have a material impact on the Corporation's financial condition and results of operations are the trend in interest rates and the overall trend in the economy. Following the 50 basis point reduction in November, management expects, based on the available information, that interest rates will remain unchanged during the last quarter of 2002 and trend upward during 2003 and the overall economy in its market will improve somewhat during 2003. The above mentioned rate reduction will put additional pressure on the Corporation's net interest margin for the remaining portion of 2002. The Corporation's 2002 projections, budgets and goals are based on these expectations. If these trends move differently than expected in either direction or speed, it could have a material impact on the Corporation's financial condition and results of operations. The areas of the Corporation's operations most directly impacted would be the net interest margin, loan and deposit growth and the provision for loan losses.

ACCOUNTING ISSUES

Note A of the Notes to Consolidated Financial Statements included in the Corporation's Form 10-K for the year ended December 31, 2001 (herein incorporated by reference), contains a summary of the Corporation's accounting policies. Management is of the opinion that Note A, read in conjunction with all other information in the annual report, including management's letter to shareholders and management's discussion and analysis, is sufficient to provide the reader with the information needed to understand the Corporation's financial condition and results of operations. This information is also sufficient to enable the reader to identify the areas, such as the provision for loan losses, in which management is required to make the most difficult, subjective and /or complex judgments.

In the normal course of business, the Corporation's wholly-owned subsidiary, National Bank of Commerce, makes loans to related parties, including directors and executive officers of the Corporation and their relatives and affiliates. These loans are made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties. Also, they are consistent with sound banking practices and within the applicable regulatory and lending limitations imposed by the national banking laws and regulations.

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

The Corporation does not have investments in any unconsolidated entities over which it exercises management or control. The Corporation does not have relationships with limited or special purpose entities that it relies on to provide financing, liquidity or market and credit risk support.

RESULTS OF OPERATIONS

First three quarters of 2002 compared to the first three quarters of 2001

Earnings for the first three quarters of 2002 increased by 14.1% to $10.81 million or $1.31 per share. This compares to $9.47 million or $1.10 per share for the first three quarters of 2001. On an annualized basis, these 2002 totals equate to a 1.4% return on average assets and a 13.6% return on average equity. For this same period in 2001, return on average assets was 1.2% and return on average equity was 12.0%.

Net interest income for the first three quarters of 2002 was $28.25 million compared to $26.19 million for the same period of 2001. This represents an increase of 7.9%. This increase resulted from a twenty-seven basis point increase in the net interest margin and a .2% increase in average earning assets. The primary reason for the increase in margin was that the Corporation was able to decrease its cost of funds by 178 basis points from the first three quarters of 2001 to the first three quarters of 2002. During the same time period it lost 126 basis points from the repricing of its earning assets. The small increase in earning assets was the result of low loan demand due to the slow economy during the last quarter of 2001 and the first nine months of 2002. The stable rate environment during the first nine months of 2002 helped from the standpoint that it allowed the repricing of deposits to catch up with the repricing of loans that occurred throughout 2001 and to a lesser extent during the first nine months of 2002. The 50 basis point reduction in rates in November will put additional pressure on the Corporation's margin during the last quarter of 2002. For additional information, see the table entitled "Analysis of Net Interest Earnings" at the end of this section.

The Corporation's Provision for Loan Losses is utilized to replenish the Reserve for Loan Losses on its balance sheet. The reserve is maintained at a level deemed adequate by the Board of Directors after its evaluation of the risk exposure contained in the Corporation's loan portfolio. The methodology used to make this determination is performed on a quarterly basis. An overall analysis of the portfolio is performed by the senior credit officers and the loan review staff. As a part of this evaluation, certain loans are individually reviewed to determine if there is an impairment of the bank's ability to collect the loan and the related interest. This determination is generally made based on collateral value. If it is determined that an impairment exists, a specific portion of the reserve is allocated to these individual loans. All other loans are grouped into homogeneous pools and risk exposure is determined by considering the following list of factors (this list is not all inclusive and the factors reviewed may change as circumstances change): Historical loss experiences; trends in delinquencies and non-accruals and national, regional and local economic conditions. These economic conditions would include, but not be limited to, general real estate conditions, the current interest rate environment and trends, unemployment levels and other information, as deemed appropriate. Classified assets to capital were 16.2% at September 30, 2002, compared to 20.6% at September 30, 2001. The percentage of loans past due 30 days or more was 2.26%. The Reserve for Loan Losses as a percentage of total loans has increased from 1.08% at the end of 2001 to 1.12% at the end of the third quarter of 2002. Overall, loan quality remains good. At the end of the third quarter of 2002, the ratio of non-performing loans to total loans remained low at .68%. This compares to .63% at December 31, 2001 and .70% at September 30, 2001. Management is committed to not relaxing its underwriting standards. Based on these evaluations, the reserve amounts maintained at the end of the third quarter of 2002 and at the end of 2001 were deemed adequate to cover exposure within the Corporation's loan portfolio.

During the first nine months of 2002, net charge-offs totaled $2.1 million compared to $3.6 million for the same period of 2001. The reason for the decreased charge-offs during 2002, was that in June 2001, the Corporation charged-off a $2 million dollar loan that had defaulted. This loan had previously not been classified as a problem loan and there were special circumstances surrounding its default. The Corporation has filed a claim with its bonding company to recover the entire $2 million; however, it is too early to predict whether there will be a recovery.

The Provision for Loan Losses has increased from $1,540,000 during the first nine months of 2001 to $2,015,000 in the same period of 2002. If it had not been for the special one time provision of $1 million during June 2001, resulting from the above mentioned charge-off, the provision for 2001 would have been $540,000. The level of the provision for the first nine months of 2002 was increased, due to the overall condition of the economy and the

continued softness of the Corporation's markets, to a level management anticipates will protect the Corporation from any unforeseen deterioration in the quality of the loan portfolio.

Non-interest income grew 11.3% resulting from a 2.9% increase in income from the Company's Trust and Financial Management activities, a 20.2% increase in income from deposit accounts, and a 3.1% increase in fees from mortgage-related activities. The solid increase in income from deposit accounts largely resulted from a new program related to fees on overdrafts. This program is part of our upgrade in the technology platform that includes more sophisticated account modeling. Mortgage fee income benefited from the continued demand for loans in this low interest rate environment. Although the demand for mortgage refinancings had moderated during the second quarter, the continued decline in mortgage rates has caused the demand to increase once again. Also, during this period, the demand for new loans remained strong. As a result, the pipeline for both new and refinanced mortgage loans remains strong into the fourth quarter. Other non-interest income increased by $200,000 or 9.5%. Approximately 52% of this increase came from an increase in earnings from a $10 million purchase of Bank Owned Life Insurance during the second quarter of 2001. Approximately 31% of the increase came from an increase in ATM Income and the remaining portion came from Check Card Income. Insurance commissions, fees and premiums increased by $172,000 or 6.0%. This change in insurance commissions, fees and premiums relates directly to the volume of insurance product sold during these periods.

The Corporation recognized $279,000 in security gains during the first nine months of 2002, compared to gains of $321,000 during the same period of 2001. A large portion of the 2002 gains came as a result of being able to sell some of the lower yielding securities in the portfolio at a gain and reinvesting at a higher yield. The Corporation was able to do this because of the unusually low rates of 2002. The gains in 2001 resulted from securities that had been purchased at a discount being called because of the low rate environment.

Non-interest expenses for the first nine months of 2002 increased by 3.1% over the same period of 2001. This small increase resulted from a continued focus on managing these expenses. Salaries and employee benefits were up 6.7%, primarily due to higher benefit cost and bonus accruals. Approximately 70% of the increase resulted from bonus accruals in 2002. The Corporation neither accrued nor did it pay any bonuses in 2001. The benefit cost increased due to the effects of a lower rate environment on the present value calculations and low returns in the pension plan's investment portfolio due to a weak equity market. This increase was somewhat offset by a reduction in other operating expenses. Other operating expenses decreased by approximately $235,000 or 3.5%. This decline was primarily from a $198,000 decline in the amortization on goodwill, which is no longer allowed under Generally Accepted Accounting Principals.

Changes in the Corporation's income tax expense have generally paralleled changes in income. The Corporation's effective tax rate increased from 24.4% for the first nine months of 2001 to 26.1% for the first nine months of 2002. This increase in the effective tax rate resulted primarily from a decline in the portfolio of tax exempt securities and the relationship of tax-exempt income to total pre-tax income. The Corporation's ability to reduce income tax expense by acquiring additional tax-free investments is limited by the Alternative Minimum Tax Provision, the market supply of acceptable municipal securities, the level of tax exempt yields and the Corporation's normal liquidity and balance sheet structure requirements.

Third quarter of 2002 compared to the third quarter of 2001

Earnings for the third quarter of 2002 increased by 4.2% to $3.60 million or $.44 per share. This compares to $3.45 million or $.42 per share for the third quarter of 2001. On an annualized basis, these 2002 totals equate to a 1.4% return on average assets and a 13.1% return on average equity. For this same period in 2001, return on average assets was 1.3% and return on average equity was 13.6%. The return on average equity declined because the average stockholders' equity increased by a larger amount during this period than net income.

Net interest income for the third quarter of 2002 was $9.42 million compared to $8.65 million for 2001. This represents an increase of 8.9%. This increase resulted from a twenty-five basis point increase in the net interest margin and a $16.4 million increase in average earning assets. The primary reason for the increase in margin was that the Corporation was able to decrease its cost of funds by 151 basis points from the third quarter of 2001 to the third quarter of 2002. During the same time period it lost 107 basis points from the repricing of its earning assets. The increase in earning assets came in the securities portfolio, as the demand for loans remained weak. See the section of Management Discussion and Analysis captioned "Financial Condition" for additional discussion concerning the change in loan balances. The stable rate environment of the third quarter of 2002 helped from the standpoint that it allowed the repricing of deposits to continue to catch up with the repricing of loans that occurred throughout 2001 and to a lesser extent during the first nine months of 2002. The 50 basis point reduction in rates in November will put additional pressure on the Corporation's margin during the last quarter of 2002. For additional information, see the table entitled "Analysis of Net Interest Earnings" at the end of this section.

The Provision for Loan Losses has increased from $180,000 during the third quarter of 2001 to $755,000 in the same quarter of 2002. The loan loss provision for this quarter is approximately $125,000 higher than the average for the first two quarters of 2002 because of a more conservative stance regarding the provision in our consumer finance operations in light of the continued soft economy. The level of the overall provision for the third quarter of 2002 was increased, due to the overall condition of the economy and the continued softness of the Corporation's markets, to a level management anticipates will protect the Corporation from any unforeseen deterioration in the quality of the loan portfolio.

Non-interest income grew 11.4% resulting primarily from a 3.1% increase in income from the Company's Trust and Financial Management activities and a 24.3% increase in income from deposit accounts. The solid increase in income from deposit accounts largely resulted from a new program related to fees on overdrafts. This program is part of an upgraded technology platform that includes more sophisticated account modeling. Insurance commissions, fees and premiums increased by $75,000 or 7.5%. This change in insurance commissions, fees and premiums relates directly to the volume of insurance product sold during these periods. During the third quarter, the demand for mortgage loan refinancing increased to 2001 levels as homeowners took advantage of the continued decline in mortgage rates to refinance their mortgages. This resurgence in refinancing activity, along with an increase in new mortgage loan activity allowed the Corporation to

13

maintain a comparable level of Mortgage Loan Fee Income in the third quarter of 2002 as compared to the third quarter of 2001. The mortgage loan pipeline remains strong into the fourth quarter.

The Corporation recognized $188 in securities gains (losses) during the third quarter of 2002, compared to a gain of $109,000 during the third quarter of 2001. A large portion of the third quarter 2002 gains came as a result of being able to sell some of the lower yielding securities in the portfolio at a gain and reinvesting at a higher yield. The Corporation was able to do this because of the unusually low rates during this period. The gains in 2001 resulted from securities that had been purchased at a discount being called because of the low rate environment.

Non-interest expenses for the second quarter of 2002 increased by 8.4% over the same period of 2001. Salaries and employee benefits were up 9.0%, primarily due to higher benefit cost and bonus accruals. Bonus accruals accounted for approximately 62% of this increase. The Corporation neither accrued, nor did it pay any bonuses for 2001. The remaining portion of the increase resulted from normal raises and increased benefit cost. The benefit cost increase was in the pension expense area and was due to the effects of a lower rate environment on the present value calculations and low returns in the investment portfolio of the plan due to a weak equity market. The expense of premises and equipment increase by $71,000 or 6.3% due to increased expenditures for maintenance and repairs during the quarter. Other operating expenses also increased by $174,000 or 8.0%. This increase came primarily from a $60,000 increase in advertising expense and a $90,000 increase in loss on the sale of repossessions and other real estate. Also included in this change was a decline of $33,000 in the amortization of goodwill, which can no longer be amortized under Generally Accepted Accounting Principals. The changes in the remaining accounts classified in this category were not of a material amount.

Changes in the Corporation's income tax expense have generally paralleled changes in income. The Corporation's effective tax rate decreased from 27.5% for the third quarter of 2001 to 25.7% for the third quarter of 2002. Both of these percentages are within the normal range for tax rates and differ with the mix of income from municipal securities in the portfolio and the percentage relationship of tax-free income to total pre-tax income. The Corporation's ability to reduce income tax expense by acquiring additional tax-free investments is limited by the Alternative Minimum Tax Provision, the market supply of acceptable municipal securities, the level of tax exempt yields and the Corporation's normal liquidity and balance sheet structure requirements.

FINANCIAL CONDITION

The Corporation's balance sheet shows an increase in total assets from $1,051 million to $1,073 million during the first nine months of 2002. During this period, loans declined by $28.8 million. There were several reasons for the continued decline in loans; including the continued refinancing of variable rate mortgage loans to fixed rate loans (which the Corporation does not hold in its portfolio), tighter underwriting standards in our personal loan portfolio, two large commercial credits that were paid out during the first quarter and a general trend of businesses using excess cash to reduce their debt. Because of lower loan demand, the Corporation decided not to aggressively price deposits, resulting in a $4.3 million decline in deposits. During this nine-month period, the Corporation increased its securities sold under agreements to

repurchase by $3.8 million and increased its total borrowings by $7.6 million. The Corporation used this cash flow to increase the investment securities portfolio by $44.0 million, cash and due from banks by $2.3 million and its federal funds sold by $3.0 million. The increase in other liabilities was primarily due to an increase in accrued taxes payable in both the current and deferred accounts and an increase in the Treasury Tax and Loan Account.

Stockholders' equity increased from $102.9 million to $111.0 million during the first nine months of 2002. During this period, Common Stock increased from $7.2 million to $9.6 million. This resulted from the four for three (4 for 3) stock split discussed in Note 3. Since this split was accounted for as a stock dividend, the $2.4 million in par value of the split shares was moved from Retained Earnings to Common Stock. Also, there was an increase in the market value of the available-for-sale portion of the investment securities portfolio. This caused the Accumulated Other Comprehensive Income component of Stockholders' Equity to increase from an unrealized gain of $1,650,000 at December 31, 2001 to an unrealized gain of $5,350,000 at September 30, 2002. Surplus and Undivided Profits increased from $120.1 million at December 31, 2001 to $123.1 at September 30, 2002. During this period, the Corporation earned approximately $10.8 million in net profits. This was offset by cash dividends during the first three quarters of $5.3 million and $2.4 million for the stock split discussed above. Also, the Corporation repurchased 43,616 shares of its common stock in the open market under the announced stock repurchase plan for approximately $1,043,000.

The Corporation's bank subsidiary is required to maintain a minimum amount of capital to total risk weighted assets as defined by the banking regulators. At September 30, 2002, the bank's Tier I, Tier II and Total Capital Ratios exceeded the well-capitalized standards developed under the referenced regulatory guidelines.

Dividends paid by the Corporation are provided from dividends received from the subsidiary bank. Under the regulations controlling national banks, the payment of dividends by the bank without prior approval from the Comptroller of the Currency is limited in amount to the current year's net profit and the retained net earnings of the two preceding years. To fund the 976,676 share repurchase transaction in March of 2001, the Corporation's subsidiary bank borrowed funds from the Federal Home Loan Bank and with special permission from the Office of the Comptroller of the Currency, declared a special dividend to the Corporation to purchase this stock. As a result, the subsidiary bank is limited to its current year's net profits to pay dividends to the Corporation during 2002, without obtaining further approval from the Comptroller of the Currency. At September 30, 2002, without approval, the subsidiary bank was limited to approximately $5.5 million.

Also, under regulations controlling national banks, the bank is limited in the amount it can lend to the Corporation and such loans are required to be on a fully secured basis. At September 30, 2002, there were no borrowings between the Corporation and its subsidiary bank.

ANALYSIS OF NET INTEREST EARNINGS

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

	($ In Thousands) Average Balance		
	Quarter ended 9/30/02	Nine Months ended 9/30/02	Year ended 12/31/01
EARNING ASSETS:			
Net loans	$590,131	$595,547	$629,248
Federal funds sold and other interest-bearing assets	8,310	10,922	22,816
Securities			
Taxable	263,105	245,096	185,076
Nontaxable	121,487	124,652	132,200
Totals	983,033	976,217	969,340
INTEREST-BEARING LIABILITIES:			
Interest-bearing deposits	695,202	701,847	714,491
Borrowed funds, federal funds purchased and other	141,659	133,325	115,764
Totals	836,861	835,172	830,255
Net amounts	$146,172	$141,045	$139,085

16

	($ In Thousands) Interest Income		
	Quarter ended 9/30/02	Nine Months ended 9/30/02	Year ended 12/31/01
EARNING ASSETS:			
Net loans	$ 9,927	$ 30,596	$ 51,852
Federal funds sold and other interest-bearing assets	38	146	950
Securities:			
Taxable	3,611	10,361	11,165
Nontaxable	1,516	4,640	6,803
Totals	$ 15,092	$ 45,743	$ 70,770

INTEREST-BEARING LIABILITIES:			
Interest-bearing deposits	$ 4,200	$ 13,203	$ 29,866
Borrowed funds, federal funds purchased and other	1,469	4,288	6,135
Totals	5,669	17,491	36,001
Net interest income	$ 9,423	$ 28,251	$ 34,769

17

	Yields Earned And Rates Paid (%)		
	Quarter ended 9/30/02	Nine Months ended 9/30/02	Year ended 12/31/01
EARNING ASSETS:			
Net loans	6.67%	6.87%	8.24%
Federal funds sold and other interest-bearing assets	1.85%	1.79%	4.16%
Securities:			
Taxable	5.45%	5.65%	6.03%
Nontaxable	4.95%	4.98%	5.14%
Totals	6.09%	6.26%	7.30%
INTEREST-BEARING LIABILITIES:			
Interest-bearing deposits	2.40%	2.52%	4.18%
Borrowed funds, federal funds purchased and other	4.12%	4.30%	5.30%
Totals	2.69%	2.80%	4.34%
Net yield on earning assets	3.80%	3.87%	3.59%

Note: Yields on tax equivalent basis would be:

Nontaxable securities	7.61%	7.66%	7.92%
Total earning assets	6.42%	6.61%	7.68%
Net Yield on earning assets	4.13%	4.21%	3.96%

18

PART I. ITEM 3

Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

PART I. ITEM 4

Controls and Procedures

September 30, 2002

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

In accordance with Item 307a of Regulation S-K, these disclosure controls and procedures were evaluated on October 15, 2002 (a date within 90 days of the filing of this report). It is the conclusion of the Chief Executive Officer and the Chief Financial Officer that, as of the date of the evaluation, the disclosure controls and procedures of NBC Capital Corporation are functioning effectively to make known all material information that requires disclosure in this filing.

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

19

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Debt

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 Statement re computation of per-share earnings

99 Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Chief Executive Officer

99 Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Chief Financial Officer

(b) Form 8-K

A Form 8-K, was filed to announce a four for three (4 for 3) stock split. The stock split was effected in the form of a stock dividend and the new shares were distributed on September 9, 2002 to shareholders of record at the close of business on August 16,2002. No financial statements were required to be filed with the report. The stock split was announced on July 30, 2002 and reported on Form 8-K filed on August 1, 2002.

The financial information furnished herein has not been audited by independent accountants; however, in the opinion of management, all adjustments necessary for a fair presentation on the results of operations for the quarter and nine month period ended September 30, 2002, have been included.

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

NBC CAPITAL CORPORATION
Registrant

November 12, 2002 /s/ Richard T. Haston
Date Richard T. Haston
Executive Vice President, Chief

Financial Officer and Treasurer

CERTIFICATIONS

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

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date") and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

21

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in

internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Lewis F. Mallory, Jr.

Chairman of the Board and
Chief Executive Officer

I, Richard T. Haston, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

22

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date") and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Richard T. Haston

Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX:

Page 24	11	Statement re computation of per-share earnings
Page 25	99	Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Chief Executive Officer
Page 26	99	Certificate pursuant to 18 U.S.C., Section 1350 as adopted pursuant to section 906 of Sarbanes-Oxley Act of 2002-Chief Financial Officer