

# JAXB 10KSB 12/31/2002

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### Section 1: 10KSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

TRANSMISSION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NO. 000-30248

JACKSONVILLE BANCORP, INC.

-----  
(Name of small business issuer in its charter)

FLORIDA  
(State or jurisdiction of  
incorporation or organization)

59-3472981  
(I.R.S. Employer  
Identification No.)

76 S. LAURA STREET, SUITE 104, JACKSONVILLE, FLORIDA 32202  
(Address of principal executive offices) Zip Code

Issuer's telephone number: (904) 421-3040

Securities registered under Section 12(b) of the Securities Exchange Act of 1934: NONE.

Securities registered under Section 12(g) of the Securities Exchange Act of 1934: COMMON STOCK.

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

Yes  No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year: \$7,279,000

The aggregate market value, calculated on the basis of the closing price of such stock on the NASDAQ SmallCap Market, of the voting stock held by nonaffiliates of the registrant at December 31, 2002, was approximately \$11,981,728.

There were 1,467,066 shares of common stock outstanding at March 21, 2003.

Documents incorporated by reference: The Registrant's 2003 Annual Meeting Proxy Statement is incorporated by reference in this report in Part III. The Company will file its definitive Proxy Statement with the Commission prior to April 30, 2003.

Transitional Small Business Disclosure Format? Yes  No

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PART I

Unless the context requires otherwise, references in this report to "we", "us", or "our" refer to Jacksonville Bancorp, Inc., its wholly owned subsidiary, The Jacksonville Bank, and the Bank's wholly owned subsidiary, Fountain Financial, Inc., on a consolidated basis. References to the "Company" denote Jacksonville Bancorp, Inc., and The Jacksonville Bank is referred to as the "Bank".

ITEM 1. DESCRIPTION OF BUSINESS

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements related to our future results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive, and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and

many of which are beyond our control. When used in this report, the words "estimate", "project", "anticipate", "intend", "believe", "expect", and similar expressions, are intended to identify forward-looking statements. Although we believe that assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and we may not realize the results contemplated by these statements. Management decisions are subjective in many respects and susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our business strategy or capital expenditure plans and may, in turn, affect our results of operations. In light of the significant uncertainties inherent in the forward-looking information included in this report, you should not regard the inclusion of such information as our representation that we will achieve any strategy, objectives, or other plans.

These statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors. The risks, uncertainties, and other factors affecting actual results include, but are not limited to, those discussed below and in other filings with the Securities and Exchange Commission:

- o our relatively limited operating history, which makes it more difficult to predict results and potentially increases financial sensitivity to economic changes;
- o economic and political conditions, specifically in North Florida where we focus our operations;
- o competitive circumstances in banking markets, specifically in Florida and Jacksonville;
- o changes in legislation, bank regulation, and governmental monetary policies, which could affect the banking industry as a whole, and us specifically;
- o our ability to attract and retain talented and experienced senior management and employees;
- o maintaining capital sufficient to support expansion and growth plans in a timely manner;
- o changes in the interest rate environment;
- o our success in attracting deposits and making loans on terms which are mutually beneficial to us and our customers;
- o our management of credit risk and minimization of nonperforming assets;
- o changes in relevant accounting principles;
- o constraints on our growth resulting from conditions imposed by regulators; and
- o maintaining the pace of technological changes in line with the banking and financial industry.

#### GENERAL

We were incorporated under the laws of the State of Florida on October 24, 1997, for the purpose of organizing the Bank. Our only business is the ownership and operation of the Bank, and its fiscal year ends December 31. The Bank is a Florida state-chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank opened for business on May 28, 1999, and provides community banking services to businesses and individuals in Jacksonville, Florida.

We offer a variety of competitive banking services, including Internet banking. In order to compete with the financial institutions in the market, we use our independent status to the fullest extent. This includes an emphasis on specialized services for the small business owner and professional and personal contacts by our officers, directors, and employees. Loan participations are arranged for customers whose loan demands exceed legal lending limits. Our product lines include personal and business online banking and sweep accounts tied to Goldman Sachs proprietary funds, in addition to our traditional banking products. In 2002, we began offering standard mortgage products with various

long-term fixed rate alternatives, pursuant to an agreement with PHH Mortgage Services. Furthermore, through our subsidiary, Fountain Financial, Inc., and our marketing agreement with New England Financial (an affiliate of MetLife), we are able to meet the investment and insurance needs of our customers.

Substantial consolidation of the Florida banking market has occurred since the early 1980's. According to the FDIC, the number of commercial banking entities operating in Florida declined from approximately 550 as of December 31, 1980, to approximately 265 as of December 31, 2000, or over 50% in the 20 year period. We believe Florida has been particularly attractive to regional bank holding companies because it is the fourth largest state in the country in terms of total population (approximately 16 million) and is the third fastest growing state in the country (23.5% from 1990 to 2000). As more out-of-state bank holding companies enter the Florida market, we believe that the number of depository institutions headquartered and operating in Florida will continue to decline. Our marketing program is directed primarily toward the advantages of local ownership and management, as well as fiscal responsibility, personal service, and customer relationships. We also focus on small- and medium-size businesses, professional firms, and active affluent consumers. Particular emphasis is placed on building personal face-to-face relationships. Our management and business development teams have extensive experience with individuals and companies within these targeted market segments in the Jacksonville area. Based on our experience, we believe that we have been and will continue to be effective in gaining market share in a banking environment generally characterized by a high level of customer discontent.

#### REGULATION AND SUPERVISION

We operate in a highly regulated environment, where statutes, regulations, and administrative policies govern our business activities. We are supervised by, examined by, and submit reports to, a number of regulatory agencies, including the Federal Reserve Board, the FDIC, and the Florida Department of Banking and Finance (Florida DBF).

We are regulated by the Federal Reserve Board under the Federal Bank Holding Company Act ("BHC Act"), which requires every bank holding company to obtain the prior approval of the Federal Reserve Board before acquiring more than 5% of the voting shares of any bank or all or substantially all of the assets of a bank, and before merging or consolidating with another bank holding company. The Federal Reserve Board, under its regulations and published policy statements, has maintained that a bank holding company must serve as a source of financial strength to its subsidiary bank(s). In adhering to the Federal Reserve Board policy, the Company may be required to provide financial support for the Bank at a time when, absent such policy, the Company may not otherwise deem it advisable to provide such assistance.

At one time, a bank holding company was generally prohibited from acquiring control of any company which was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. In April 1997, the Federal Reserve Board revised and expanded the list of permissible non-banking activities in which a bank holding company could engage; however, limitations continue to exist under certain laws and regulations. The Gramm-Leach-Bliley Act ("GLB Act") repeals certain regulations pertaining to bank holding companies and eliminates many of the previous prohibitions. Specifically, Title I of the Gramm-Leach-Bliley Act repeals Sections 20 and 32 of the Glass-Steagall Act and is intended to facilitate affiliations among banks, securities firms, insurance firms, and other financial companies. To further this goal, the GLB Act amends Section 4 of the BHC Act to authorize bank holding companies that qualify as "financial holding companies" to engage in securities, insurance and other activities that are financial in nature or incidental to a financial activity. The activities of bank holding companies that are not financial holding companies continue to be limited to activities authorized under the BHC Act, such as activities that the Federal Reserve Board previously has determined to be closely related to banking and permissible for bank holding companies.

With respect to expansion, we may establish branch offices anywhere within the State of Florida with regulatory approval. We are also subject to the Florida banking and usury laws limiting the amount of interest that can be charged when making loans or other extensions of credit. In addition, the Bank, as a subsidiary of the Company, is subject to restrictions under federal law in dealing with the Company and other affiliates. These restrictions apply to extensions of credit to an affiliate, investments in the securities of an affiliate, and the purchase of assets from an affiliate.

While not its only source of income, the primary source of the Company's income is expected to be dividends from the Bank. A Florida state-chartered commercial bank may not pay cash dividends that would cause the bank's capital to fall below the minimum amount required by federal or state law. Accordingly, commercial banks may only pay dividends out of the total of current net profits plus retained net profits of the preceding two years to the extent it deems expedient, except as follows. Twenty percent of the net profits in the preceding two year period may not be paid in dividends, but must be retained to increase capital surplus until such surplus equals the amount of capital stock issued and outstanding. In addition, no bank may pay a dividend at any time that the total of net income for the current year when combined with retained net income from the preceding two years produces a loss. The future ability of the Bank to pay dividends to the Company will also depend in part on the FDIC capital requirements in effect at such time and our ability to comply with such requirements.

Loans and extensions of credit by all banks are subject to legal lending limitations. Under state law, a state bank may generally grant unsecured loans and extensions of credit in an amount up to 15% of its unimpaired capital and surplus to any person. In addition, a state bank may grant additional loans and extensions of credit to the same person of up to 10% of its unimpaired capital and surplus, provided that the transactions are fully secured. This 10% limitation is separate from, and in addition to, the 15% limitation for unsecured loans. Loans and extensions of credit may exceed these general lending limits only if they qualify under one of several exceptions.

We are subject to regulatory capital requirements imposed by the Federal Reserve Board and the FDIC. Both the Federal Reserve Board and the FDIC have established risk based capital guidelines for bank holding companies and banks which make regulatory capital requirements more sensitive to differences in risk profiles of various banking organizations. The capital adequacy guidelines issued by the Federal Reserve Board are applied to bank holding companies on a consolidated basis with the banks owned by the holding company. The FDIC's risk based capital guidelines apply directly to state banks regardless of whether they are a subsidiary of a bank holding company. Both agencies' requirements (which are substantially similar) provide that banking organizations must have minimum capital equivalent to 8% of risk weighted assets to be considered adequately capitalized. The risk weights assigned to assets are based primarily on the perceived levels of risk to capital. For example, securities with an unconditional guarantee by the United States government are assigned the lowest risk weighting. A risk weight of 50% is assigned to loans secured by owner-occupied one-to-four family residential properties. The aggregate amount of assets assigned to each risk category is multiplied by the risk weight assigned to that category to determine

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the weighted values, which are added together to determine total risk weighted assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") created and defined five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized), which are used to determine the nature of any corrective action the appropriate regulator may take in the event an institution reaches a given level of undercapitalization. For example, an institution which becomes undercapitalized must submit a capital restoration plan to the appropriate regulator outlining the steps it will take to become adequately capitalized. Upon approving the plan, the regulator will monitor the institution's compliance. Before a capital restoration plan will be approved, an entity controlling a bank (i.e., the holding company) must guarantee compliance with the plan until the institution has been adequately capitalized for four consecutive calendar quarters. The liability of the holding company is limited to the lesser of 5% of the institution's total assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with all capital standards. Further, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. Undercapitalized institutions also will be restricted from paying management fees, dividends, and other capital distributions, will be subject to certain asset growth restrictions, and will be required to obtain prior approval from the appropriate regulator to open new branches or expand into new lines of business. As an institution drops to lower capital levels, the extent of action to be taken by the appropriate regulator increases, restricting the types of transactions in which the institution may

engage and ultimately providing for the appointment of a receiver for certain institutions deemed to be critically undercapitalized.

The FDICIA also required each federal banking agency to prescribe, and the Federal Reserve Board and the FDIC have adopted, for all insured depository institutions and their holding companies, safety and soundness standards relating to such items as: internal controls, information and audit systems, asset quality, loan documentation, classified assets, credit underwriting, interest rate risk exposure, asset growth, earnings, compensation, fees and benefits, valuation of publicly traded shares and such other operational and managerial standards as the agency deems appropriate. Finally, each federal banking agency was required to prescribe standards for employment contracts and other compensation arrangements with executive officers, employees, directors, and principal stockholders of insured depository institutions that would prohibit compensation and benefits and other arrangements that are excessive or that could lead to a material financial loss. If an insured depository institution or its holding company fails to meet any of the standards described above, it will be required to submit to the appropriate federal banking agency a plan specifying the steps that will be taken to cure the deficiency. If an institution fails to submit an acceptable plan or fails to implement a plan, the appropriate federal banking agency will require the institution or holding company to correct the deficiency and, until corrected, may impose further restrictions on the institution or holding company, including any of the restrictions applicable under the prompt corrective action provisions of the FDICIA. Both the capital standards and the safety and soundness standards which the FDICIA implements were designed to bolster and protect the deposit insurance fund.

In response to the directives issued under the FDICIA, the regulators have adopted regulations which, among other things, prescribe the capital thresholds for each of five established capital categories. The following table reflects these capital thresholds:

**Table 1**

	TOTAL RISK BASED CAPITAL RATIO -----	TIER 1 RISK BASED CAPITAL RATIO -----	TIER 1 LEVERAGE RATIO -----
Well capitalized (1)	10%	6%	5%
Adequately capitalized (1)	8%	4%	4% (2)
Undercapitalized (3)	Less than 8%	Less than 4%	Less than 4%
Significantly undercapitalized	Less than 6%	Less than 3%	Less than 3%
Critically undercapitalized	--	--	Less than 2%

- (1) An institution must meet all three minimums.
- (2) 3% for composite 1 rated institutions, subject to appropriate federal banking agency guidelines.
- (3) An institution falls into this category if it is below the adequately capitalized level for any of the three capital measures.

Under these capital categories, the Bank is classified as well capitalized. At December 31, 2002, the Bank's total risk-based capital and Tier 1 ratios were 11.11% and 10.14%, respectively.

Under federal law and regulations and subject to certain exceptions, the addition or replacement of any director, or the employment, dismissal, or reassignment of a senior executive officer at any time that the Bank is not in compliance with applicable minimum capital requirements, or otherwise in a troubled condition, or when the FDIC has determined that such prior notice is appropriate, is subject to prior notice to, and potential disapproval by, the FDIC.

Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and by the various bank regulatory agencies. Accordingly, the scope of regulation and permissible activities of the Company and the Bank are subject to change by future federal and state legislation or regulation.

Our primary market area is all of Duval County (including primarily the Southside, Arlington, Mandarin, Beaches and Downtown areas of Jacksonville). Jacksonville is the largest city in the United States as measured by land area. Jacksonville is home to the Jacksonville Jaguars, one of the newest NFL franchises and is the corporate headquarters to a number of regional and national companies. Duval County has a strong commercial and industrial base, which has been steadily expanding in recent years. In its January 2002 issue, EXPANSION MANAGEMENT MAGAZINE rated Jacksonville as the "Number One" city in America for business relocation and expansion, having evaluated factors such as business environment, quality and availability of workers, operating costs, taxes, incentives, and quality of life.

Financial institutions primarily compete with one another for deposits. In turn, a bank's deposit base directly affects such bank's loan activities and general growth. Primary competitive factors include interest rates on deposits and loans, service charges on deposit accounts, the availability of unique financial services products, a high level of personal service, and personal relationships between our officers and customers. We compete with financial institutions that have greater resources, and that may be able to offer more services, unique services, or possibly better terms to their customers. We believe, however, that we will be able to continue to attract sufficient deposits to effectively compete with other area financial institutions.

We are in competition with existing area financial institutions, including commercial banks and savings institutions, insurance companies, consumer finance companies, brokerage houses, mortgage banking companies, credit unions, and other business entities which target traditional banking markets. We face increased competition due to the GLB Act, discussed under REGULATION AND SUPERVISION, which allows insurance firms, securities firms, and other non-traditional financial companies to provide traditional banking services. Due to the growth of the Jacksonville area, it can be anticipated that significant competition will continue from existing financial services providers, as well as new entrants to the market.

#### DEPOSITS

We offer a wide range of deposit accounts, including commercial and retail checking, money market, individual retirement and statement savings accounts, and certificates of deposit with fixed rates and a range of maturity options. Our sources of deposits are primarily residents, businesses, and employees of businesses within our market areas, obtained through personal solicitation by our officers and directors, direct mail solicitation, and advertisements published in the local media. We pay competitive interest rates on interest-bearing deposits. In addition, our service charge schedule is competitive with other area financial institutions, covering such matters as maintenance and per item processing fees on deposit accounts and special handling charges. We are also part of the Star and Cirrus ATM networks, and a member of both VISA and MasterCard.

#### LOAN PORTFOLIO

Our board of directors has adopted certain policies and procedures to guide individual loan officers in carrying out lending functions. The board of directors has formed a Directors' Loan Committee and appointed five directors to provide the following oversight:

- o ensure compliance with loan policy, procedures and guidelines as well as appropriate regulatory requirements;
- o approve loans above an aggregate amount of \$500,000 to any entity and/or related interests;
- o monitor overall loan quality through review of information relative to all new loans;
- o approve lending authority for individual officers;
- o monitor our loan review systems; and
- o review the adequacy of the loan loss reserve.

The board of directors realizes that occasionally loans need to be made which fall outside the typical policy guidelines. Consequently, the Chief Executive Officer has the authority to make certain policy exceptions on loans up to \$500,000. Policy exceptions on loans greater than \$500,000 must be approved by the Directors' Loan Committee, and the full board of directors reviews reports

of all loans and policy exceptions at its regular meetings. Both internal and external independent auditors also evaluate the quality of loans, and determine if loans are originated in accordance with the guidelines established by the board of directors.

We recognize that credit losses will be experienced and the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the quality of the collateral, as well as general economic conditions. We intend to maintain an adequate allowance for loan losses based on, among other things, industry standards, management's experience, historical loan loss experience, evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. We follow a conservative lending policy, but one which permits prudent risks to assist businesses and consumers primarily in our principal market areas. Interest rates vary depending on our cost of funds, the loan maturity, the degree of risk, and other loan terms. As appropriate, interest rates are adjustable with fluctuations in the "prime" rate. The long term loan-to-deposit ratio target is 85% to 90%. We believe this range will allow us to meet the credit needs of customers while maintaining adequate liquidity.

Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. As a general practice, we take as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets.

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Consumer loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. We also offer home improvement and second mortgage loans, home equity loans and lines of credit, personal, and deposit account collateralized loans. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years.

#### INVESTMENTS

The primary objective of the investment portfolio is to develop a mixture of investments with maturities and compositions so as to earn an acceptable rate of return while meeting liquidity requirements. We invest primarily in obligations guaranteed by the U.S. government and government-sponsored agencies. We also enter into federal funds transactions through our principal correspondent banks and are typically a net seller of funds. Investments with maturities in excess of one year are generally readily salable on the open market.

#### EMPLOYEES

As of December 31, 2002, we had 28 employees, 26 of whom were full time.

#### Executive Officers of the Registrant

The following, in addition to Mr. Pomar who serves as a director, are our executive officers:

Name	Age	Positions Held and Principal Occupations During the Past Five Years
-----	---	-----
Scott M. Hall	38	Executive Vice President and Senior Loan Officer of the Bank. Mr. Hall has over 15 years of experience in the financial services industry. Before joining the Bank, he was employed with First Union National Bank in Jacksonville for 8 years as Vice President/Commercial Banking Relationship Manager. His community activities include the Jacksonville Chamber of Commerce and Habitat for Humanity, and he is a member of the Clay County General Government Committee. Mr. Hall is a graduate of the University of North Florida, where he received his Bachelor of Business Administration degree in Finance.

Cheryl L. Whalen 41

Executive Vice President and Chief Financial Officer for both the Company and the Bank. Ms. Whalen is also Chief Administrative Officer and Cashier of the Bank, and has over 20 years of experience in the financial services industry. From March 1990 until March 1999, Ms. Whalen was with the O'Neil Companies and Merchants and Southern Bank in Gainesville, Florida; initially as Senior Vice President and Cashier, and later as Executive Vice President and Chief Financial Officer, and President of O'Neil Management Services, Inc. Ms. Whalen has a Certified Internal Auditor designation and is a graduate of Florida State University, where she received her Bachelor of Science degree in Accounting.

DATA PROCESSING

We currently have an agreement with Metavante Corporation, formerly known as M & I Data Services, to provide our core processing and support certain customer products and delivery systems. We believe that Metavante Corporation will continue to be able to provide state of the art data processing and customer service related processing at a competitive price to support our future growth.

ITEM 2. DESCRIPTION OF PROPERTIES

We lease 5,000 square feet of office space for our headquarters in downtown Jacksonville. The five year lease calls for rent of \$20.25 per square foot (as of November 2002) including common area maintenance fees, and is subject to annual increases of 4%.

On June 11, 1998, we purchased branch office quarters located at 10325 San Jose Boulevard, Jacksonville, Florida, and expanded the location from 2,777 square feet to 3,015 square feet, with three drive-through teller stations. The purchase price was \$587,500, and the cost of renovation was approximately \$500,000.

On January 28, 2000, we purchased land at 12740-200 Atlantic Boulevard, Jacksonville, Florida, for \$600,000. The construction of a freestanding branch on that land cost \$530,000 and was completed in July 2000.

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ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which we are a party or to which any of our properties are subject; nor are there material proceedings known to be contemplated by any governmental authority; nor are there material proceedings known to us, pending or contemplated, in which any of our directors, officers, affiliates or any principal security holders, or any associate of any of the foregoing, is a party or has an interest adverse to us.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock began trading on the OTC Bulletin Board on September 13, 1999, at \$10.50 per share under the symbol JAXB. On October 17, 2002, our stock was approved for listing on the Nasdaq SmallCap Market and began trading under the same symbol on October 23, 2002. The following table shows the high and low sale prices for each quarter of 2001 and 2002. The prices quoted reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Year	Quarter	High	Low
------	---------	------	-----

2001	First	\$10.2500	\$ 8.6250
	Second	\$10.2000	\$ 9.2500
	Third	\$10.0000	\$ 9.0000
	Fourth	\$ 9.6000	\$ 8.1000
2002	First	\$10.30	\$ 8.75
	Second	\$11.05	\$ 9.75
	Third	\$11.50	\$10.50
	Fourth	\$12.11	\$10.50

The total number of holders of record of our common stock as of March 21, 2003, was approximately 215. The common stock closed at \$12.51 on that date.

It is the policy of our board of directors to reinvest earnings for such period of time as is necessary to ensure our successful operations. There are no current plans to initiate payment of cash dividends, and future dividend policy will depend on our earnings, capital and regulatory requirements, financial condition, and other factors considered relevant by our board of directors.

Our ability to pay dividends to stockholders depends significantly on the Bank's ability to pay dividends to the Company in amounts sufficient to service our obligations. Such obligations may include an obligation to make any payments with respect to securities issued in the future which have an equal or greater dividend preference to our common stock. We may also issue additional capital stock, or incur indebtedness with the prior approval of the Federal Reserve Board.

In addition, the Bank is restricted in its ability to make capital distributions to the Company under federal and state banking laws and regulations. All dividends must be paid out of current net profits then on hand plus retained net profits of the preceding two years, after deducting bad debts, depreciation and other worthless assets, and after making provision for reasonably anticipated future losses on loans and other assets. A state bank may not declare a dividend that would cause the capital accounts of a bank to fall below the minimum amount required by law, regulation, order, or any written agreement with the Florida DBF or any federal regulatory agency.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED FINANCIAL DATA

(Dollars in thousands, except per share figures)

Table 2

	At or for the Year Ended December 31,			
	2002	2001	2000	1999
Financial Condition Data:				
Cash and cash equivalents .....	\$ 4,281	\$ 5,288	\$ 2,385	\$ 1,479
Securities .....	12,531	7,532	3,145	2,005
Loans, net .....	108,933	68,134	34,183	7,968
All other assets .....	5,086	5,524	5,323	3,116
Total assets .....	\$ 130,831	\$ 86,478	\$ 45,036	\$ 14,568
Deposit accounts .....	\$ 110,128	\$ 75,619	\$ 37,341	\$ 6,174
Other borrowings .....	7,747	3,360	--	--
All other liabilities .....	389	202	156	155
Stockholders' equity .....	12,567	7,297	7,539	8,239
Total liabilities and stockholders' equity .....	\$ 130,831	\$ 86,478	\$ 45,036	\$ 14,568
Operations Data:				
Total interest income .....	\$ 6,699	\$ 4,273	\$ 2,052	\$ 398
Total interest expense .....	2,763	2,060	889	102

Net interest income .....	3,936	2,213	1,163	296
Provision for loan losses .....	443	343	264	80
Net interest income after provision for loan losses	3,493	1,870	899	216
Noninterest income .....	580	458	261	55
Noninterest expense .....	3,134	2,645	2,326	2,079
Earnings (loss) before income taxes (benefit) .....	939	(317)	(1,166)	(1,808)
Income taxes (benefit) .....	355	(119)	(436)	(685)
Net earnings (loss) .....	\$ 584	\$ (198)	\$ (730)	\$ (1,123)
Per Share Data:				
Basic and diluted earnings (loss) per share .....	\$ 0.44	\$ (0.19)	\$ (0.72)	\$ (1.84)
Total shares outstanding at end of year .....	1,467,066	1,017,066	1,017,066	1,017,066
Book value per share at end of year .....	\$ 8.57	\$ 7.17	\$ 7.41	\$ 8.10
Ratios and Other Data:				
Return on average assets .....	0.53%	(0.32)%	(2.53)%	(12.35)%
Return on average equity .....	5.40%	(2.68)%	(9.36)%	(20.26)%
Average equity to average assets .....	9.85%	11.95%	27.06%	60.96%
Interest rate spread during the period .....	3.37%	3.24%	3.70%	1.46%
Net yield on average interest-earning assets .....	3.89%	4.11%	5.15%	4.90%
Noninterest expense to average assets .....	2.86%	4.28%	8.07%	22.87%
Average interest-earning assets to average interest-bearing liabilities .....	1.19	1.22	1.37	3.04
Nonperforming loans and foreclosed real estate as a percentage of total assets at end of year .....	--	--	--	--
Allowance for loan losses as a percentage of total loans at end of year .....	1.00%	0.96%	1.00%	1.00%
Total number of banking offices .....	3	3	3	2

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002 AND 2001

GENERAL

We were incorporated on October 24, 1997, and were organized to conduct the operations of the Bank. The Bank is a Florida state-chartered commercial bank, and the FDIC insures its deposits. Through the Bank, which opened for business on May 28, 1999, we provide a variety of community banking services to businesses and individuals in Duval County, Florida. During 2000, the Bank formed Fountain Financial, Inc., a wholly owned subsidiary insurance agency. The primary business activities of Fountain Financial, Inc., consist of referral of our customers to third parties for sale of insurance products.

FORWARD-LOOKING STATEMENTS

The following discussions contain forward-looking statements that are based on assumptions and may describe our future plans, strategies, and expectations. Please refer to FORWARD-LOOKING STATEMENTS at ITEM 1 for further detail regarding forward-looking statements within this document, and the risks and uncertainties that could cause actual results to differ materially from those anticipated by such statements.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors and borrowers by either converting assets into cash or accessing new or existing sources of incremental funds. A state-chartered commercial bank is required to maintain a liquidity reserve of at least 15% of its total transaction accounts and 8% of its total nontransaction accounts subject to certain restrictions. The reserve may consist of cash on hand, demand deposits due from correspondent banks, other investments, and marketable securities. At December 31, 2002, the Bank exceeded its regulatory liquidity requirements. Please see the additional disclosure on sources of funds under the section hereof entitled DEPOSITS AND OTHER SOURCES OF FUNDS.

Our primary source of cash during 2002 was net deposit inflows of \$34.5 million. Cash was used primarily to originate loans and purchase securities. At December 31, 2002, we had outstanding commitments to originate loans totaling \$3.9 million and commitments to borrowers for available lines of credit totaling \$16.1 million.

#### LOAN PORTFOLIO COMPOSITION

Commercial real estate loans comprise the largest group of loans in our portfolio, amounting to \$63.5 million, or 57.7% of the total loan portfolio as of December 31, 2002, increasing from \$26.2 million, or 38.0%, at December 31, 2001. Residential real estate loans comprise the second largest group of loans in the portfolio, amounting to \$25.8 million or 23.5% of the total loan portfolio at December 31, 2002, as compared to \$13.6 million or 19.8% at December 31, 2001. As of December 31, 2002, commercial loans amounted to \$16.6 million or 15.1% of total loans, which were \$25.1 million or 36.5% at December 31, 2001. The following table sets forth the composition of our loan portfolio (dollars in thousands):

**Table 3**

	At December 31,							
	2002		2001		2000		1999	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial .....	\$ 16,648	15.1%	\$ 25,105	36.5%	\$ 18,078	52.4%	\$ 2,092	26.0%
Commercial real estate ..	63,520	57.7	26,159	38.0	7,254	21.0	2,613	32.4
Residential real estate .	25,825	23.5	13,595	19.8	5,748	16.7	2,567	31.8
Consumer and other .....	4,057	3.7	3,917	5.7	3,417	9.9	787	9.8
	110,050	100.0%	68,776	100.0%	34,497	100.0%	8,059	100.0%
	=====		=====		=====		=====	
Add (deduct):								
Allowance for loan losses	(1,100)		(657)		(344)		(80)	
Net deferred (fees) costs	(17)		15		30		(11)	
Loans, net .....	\$ 108,933		\$ 68,134		\$ 34,183		\$ 7,968	
	=====		=====		=====		=====	

#### CREDIT RISK

Our primary business is making commercial, real estate, business and consumer loans. That activity entails potential loan losses, the magnitude of which depend on a variety of economic factors affecting borrowers which are beyond our control. While we have instituted underwriting guidelines and credit review procedures to protect us from avoidable credit losses, some losses will inevitably occur. At December 31, 2002, we had nonperforming assets (loans on nonaccrual) of \$851,000, of which \$728,000 was delinquent ninety days or more. In addition, we charged off no loans in 2002.

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The following table presents information regarding the total allowance for loan losses as well as the allocation of such amounts to the various categories of loans (dollars in thousands):

**Table 4**

	At December 31,							
	2002		2001		2000		1999	
	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans	Amount	% of Loans to Total Loans
Commercial .....	\$ 330	15.1%	\$ 239	36.5%	\$ 98	52.4%	\$ 21	26.0%
Commercial real estate .....	254	57.7	222	38.0	55	21.0	26	32.4

Residential real estate .....	134	23.5	62	19.8	22	16.7	26	31.8
Consumer and other .....	30	3.7	33	5.7	27	9.9	7	9.8
Unallocated general allowance .....	352	--	101	--	142	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
Total allowance for loan losses .....	\$1,100	100.0%	\$ 657	100.0%	\$ 344	100.0%	\$ 80	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====
Allowance for loan losses as a percentage of total loans outstanding .....	1.00%		0.96%		1.00%		1.00%	
	=====		=====		=====		=====	

#### REGULATION AND LEGISLATION

With a state-chartered commercial bank, we are subject to extensive regulation by the Federal Reserve Board, the Florida DBF, and the FDIC. We file reports with these regulatory agencies concerning our activities and financial condition. We also must obtain regulatory approvals prior to entering into certain transactions, such as mergers with or acquisitions of other financial institutions, or other expansion of locations and facilities. Periodic examinations are performed by the regulatory agencies to monitor our compliance with various regulatory requirements.

#### REGULATORY CAPITAL REQUIREMENTS

We are required to meet certain minimum regulatory capital requirements. This is not a valuation allowance and has not been created by charges against earnings. It represents a restriction on stockholders' equity. Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum amounts and percentages 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). We believe, as of December 31, 2002, that the Bank was well capitalized and meets all capital adequacy requirements to which it is subject. The regulatory minimums to be considered adequately or well capitalized, and the Bank's actual data for the indicated periods are set forth in the table below (dollars in thousands).

**Table 5**

	BANK ACTUAL		ADEQUATELY CAPITALIZED MINIMUM CRITERIA		WELL CAPITALIZED MINIMUM CRITERIA	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
AT DECEMBER 31, 2002:						
Total capital to risk weighted assets ...	\$ 12,563	11.11%	\$ 9,045	8.00%	\$ 11,306	10.00%
Tier 1 capital to risk weighted assets ..	11,463	10.14	4,522	4.00	6,784	6.00
Tier 1 capital to average assets .....	11,463	9.22	4,971	4.00	6,214	5.00
AT DECEMBER 31, 2001:						
Total capital to risk weighted assets ...	\$ 7,102	9.80%	\$ 5,798	8.00%	\$ 7,247	10.00%
Tier 1 capital to risk weighted assets ..	6,445	8.89	2,900	4.00	4,350	6.00
Tier 1 capital to average assets .....	6,445	8.39	3,073	4.00	3,841	5.00

#### MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in lending and deposit taking activities. To that end, we actively monitor and manage interest rate risk exposure. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on- and off-balance sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 7 of the NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on net interest income and capital, while adjusting our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest rate risk. However, a sudden and substantial change in interest rates may adversely impact earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. We do not engage in trading activities.

IMPACT OF INFLATION AND CHANGING PRICES

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates.

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SECURITIES

The securities portfolio is comprised of U.S. Government agency securities, mortgage-backed securities, and a State of Israel bond. The securities portfolio is categorized as either "held to maturity", "available for sale", or "trading". Securities held to maturity represent those securities which we have the positive intent and ability to hold to maturity. Securities available for sale represent those investments which may be sold for various reasons including changes in interest rates and liquidity considerations. These securities are reported at fair market value, and unrealized gains and losses are excluded from operations and reported in other comprehensive income (loss). Trading securities are held primarily for resale and are recorded at their fair values. Unrealized gains or losses on trading securities are included immediately in earnings. During 2002 and 2001 we had no trading securities.

The following table sets forth the amortized costs and fair value of our securities portfolio (dollars in thousands):

	AT DECEMBER 31, 2002		AT DECEMBER 31, 2001	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
SECURITIES AVAILABLE FOR SALE:				
U.S. Government agency securities	\$10,049	\$10,192	\$6,177	\$6,109
Mortgage-backed securities .....	2,246	2,289	1,370	1,373
	-----	-----	-----	-----
	\$12,295	\$12,481	\$7,547	\$7,482
	=====	=====	=====	=====
SECURITY HELD TO MATURITY:				
State of Israel bond .....	\$ 50	\$ 50	\$ 50	\$ 57
	=====	=====	=====	=====

The following table sets forth, by maturity distribution, certain information pertaining to the securities (dollars in thousands):

Table 6

	AVAILABLE FOR SALE		HELD TO MATURITY	
	CARRYING VALUE	AVERAGE YIELD	CARRYING VALUE	AVERAGE YIELD
AT DECEMBER 31, 2002:				
Due after one year through five years ...	\$ 253	5.45%	\$ --	--
Due after five through ten years .....	2,339	6.11	50	7.50
Due after ten years .....	7,600	6.23	--	--
Mortgage-backed securities .....	2,289	4.77	--	--
	-----	-----	-----	-----
Total .....	\$ 12,481	5.92%	\$ 50	7.50%
	=====	=====	=====	=====
AT DECEMBER 31, 2001:				
Due after one year through five years ...	\$ 253	5.45%	\$ --	--
Due after five through ten years .....	1,736	6.04	50	7.50%
Due after ten years .....	4,120	6.17	--	--

Mortgage-backed securities .....	1,373	6.65	--	--
	-----		-----	
Total .....	\$ 7,482	6.23%	\$ 50	7.50%
	=====	=====	=====	=====

ASSET - LIABILITY STRUCTURE

As part of our asset and liability management, we have emphasized establishing and implementing internal asset-liability decision processes, as well as communications and control procedures to aid in enhancing our earnings. We believe that these processes and procedures provide us with better capital planning, asset mix and volume controls, loan pricing guidelines, and deposit interest rate guidelines, which should result in tighter controls and less exposure to interest rate risk.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring an institution's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. The gap ratio is computed as rate sensitive assets less rate sensitive liabilities as a percentage of total assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of rising interest rates, a negative gap would be expected to adversely affect net interest income, while a positive gap should result in an increase in net interest income. During a period of falling interest rates, a negative gap would be expected to result in an increase in net interest income, while a positive gap should adversely affect net interest income.

In order to minimize the potential for adverse effects of material and prolonged changes in interest rates on the results of operations, we continue to monitor asset and liability management policies to appropriately match the maturities and repricing terms of interest-earning assets and interest-bearing liabilities. Such policies consist primarily of: (1) emphasizing the origination of variable rate loans; (2) maintaining a stable core deposit base; and (3) maintaining a sound level of liquid assets (cash and securities).

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The following table sets forth certain information relative to our interest-earning assets and interest-bearing liabilities at December 31, 2002, that are estimated to mature or are scheduled to reprice within the period shown (dollars in thousands).

Table 7

	3 MONTHS OR LESS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	TOTAL
	-----	-----	-----	-----	-----	-----	-----
Loans: (1)							
Variable rate .....	\$42,418	\$ 4	\$ 9	\$ 1,677	\$ --	\$ --	\$ 44,108
Fixed rate .....	1,276	1,011	1,836	35,621	18,966	7,232	65,942
	-----	-----	-----	-----	-----	-----	-----
Total loans .....	43,694	1,015	1,845	37,298	18,966	7,232	110,050
Securities (2) .....	170	108	193	1,245	2,785	7,844	12,345
Federal funds sold .....	357	--	--	--	--	--	357
	-----	-----	-----	-----	-----	-----	-----
Total rate sensitive assets .....	44,221	1,123	2,038	38,543	21,751	15,076	122,752
	-----	-----	-----	-----	-----	-----	-----
Deposit accounts: (3)							
NOW deposits .....	--	--	1,534	767	768	--	3,069
Money market deposits .....	--	--	--	3,286	--	--	3,286
Savings deposits .....	2,915	2,915	1,458	4,373	2,915	--	14,576
Time deposits .....	11,113	13,373	19,804	27,707	419	--	72,416
	-----	-----	-----	-----	-----	-----	-----
Total deposit accounts .....	14,028	16,288	22,796	36,133	4,102	--	93,347

Federal fund purchased .....	3,000	--	--	--	--	--	3,000
Other borrowings .....	4,747	--	--	--	--	--	4,747
Total rate sensitive liabilities .	\$21,775	16,288	22,796	36,133	4,102	--	101,094
Gap repricing differences .....	\$22,446	(15,165)	(20,758)	2,410	17,649	15,076	21,658
Cumulative gap .....	22,446	7,281	(13,477)	(11,067)	6,582	21,658	
Cumulative gap/total assets .....	17.2%	5.6%	(10.3)%	(8.5)%	5.0%	16.6%	

- (1) Variable rate loans are included in the period in which the interest rates are next scheduled to adjust rather than in the period in which the loans mature. Fixed rate loans are scheduled, including repayments, according to their contractual maturities.
- (2) Securities are scheduled at amortized cost through the next repricing date or the maturity date, as appropriate, with mortgage-backed instruments scheduled in accordance with expected cash flows.
- (3) Transaction accounts (NOW, money market, and savings) are treated as interest rate sensitive based on historical experience and expectations regarding the sensitivity of those deposits. Time deposits are scheduled based on the maturity dates of the instruments.

The following table reflects contractual principal repayments by period of our folio at December 31, 2002 (in thousands):

**Table 8**

	COMMERCIAL LOANS	COMMERCIAL REAL ESTATE LOANS	RESIDENTIAL REAL ESTATE LOANS	CONSUMER LOANS	TOTAL
2003 .....	\$12,711	\$ 6,466	\$ 2,428	\$2,644	\$ 24,249
2004 .....	1,637	6,760	1,527	523	10,447
2005 .....	1,339	3,648	481	483	5,951
2006 .....	590	13,309	1,179	223	15,301
2007 .....	292	15,783	1,747	141	17,963
2008-2012 .....	79	12,156	15,717	43	27,995
2013 and beyond .....	--	5,398	2,746	--	8,144
Total .....	\$16,648	\$63,520	\$25,825	\$4,057	\$110,050

Of the total loan portfolio at December 31, 2002, 59.9% have variable interest rates and 40.1% have fixed interest rates. Of the \$85.8 million of loans due after 2003, 72.1% have fixed interest rates and 27.9% have adjustable interest rates.

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their average contractual terms due to prepayments. In addition, due-on-sale clauses on loans generally give us the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells real property subject to a mortgage and the loan is not repaid. The average life of mortgage loans tends to increase, however, when current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgages are substantially higher than current mortgage loan rates.

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ORIGINATION, SALE AND REPAYMENT OF LOANS. We generally originate loans in our primary geographical lending area in Northeast Florida. The following table sets forth total loans originated and repaid (dollars in thousands).

**Table 9**

	YEAR ENDED DECEMBER 31,			
	2002	2001	2000	1999

	-----	-----	-----	-----
Originations:				
Commercial loans .....	\$ 15,174	\$ 22,014	\$ 24,400	\$ 5,171
Commercial real estate loans .....	44,460	22,255	5,772	2,617
Residential real estate loans .....	16,915	11,755	5,061	3,320
Consumer loans .....	2,260	2,095	3,890	1,078
	-----	-----	-----	-----
Total loans originated .....	78,899	58,119	39,123	12,186
Less - principal reductions .....	37,535	23,840	12,685	4,127
	-----	-----	-----	-----
Increase in total loans .....	\$ 41,274	\$ 34,279	\$ 26,438	\$ 8,059
	=====	=====	=====	=====

The following table sets forth certain information regarding nonaccrual loans, including the ratio of such loans to total assets as of the dates indicated (dollars in thousands).

**Table 10**

	AT DECEMBER 31,			
	2002	2001	2000	1999
	-----	-----	-----	-----
Nonperforming (nonaccrual) loans:				
Commercial loans .....	\$ 442	\$ --	\$ --	\$ --
Residential real estate loans .....	409	99	--	--
Consumer loans and other .....	--	2	--	--
	-----	-----	-----	-----
Total nonperforming (nonaccrual) loans .....	851	101	--	--
	-----	-----	-----	-----
Total nonperforming loans to total assets .....	0.65%	0.12%	--	--
	=====	=====	=====	=====

The following table sets forth information with respect to activity in the allowance for loan losses for the periods indicated (dollars in thousands).

**Table 11**

	YEAR ENDED DECEMBER 31,			
	2002	2001	2000	1999
	-----	-----	-----	-----
Average loans outstanding, net .....	\$ 89,043	\$ 46,768	\$ 18,176	\$ 1,696
	=====	=====	=====	=====
Allowance at beginning of year .....	\$ 657	\$ 344	\$ 80	\$ --
Charge-offs - consumer loans .....	--	30	--	--
Recoveries .....	--	--	--	--
Net charge-offs .....	--	30	--	--
Provision for loan losses charged to operating expenses .....	443	343	264	80
	=====	=====	=====	=====
Allowance at end of year .....	\$ 1,100	\$ 657	\$ 344	\$ 80
	=====	=====	=====	=====
Ratio of net charge-offs to average loans outstanding .....	--%	0.06%	--%	--%
	=====	=====	=====	=====
Total loans at end of year .....	\$ 110,050	\$ 68,766	\$ 34,497	\$ 8,059
	=====	=====	=====	=====
Allowance as a percent of total loans .....	1.00%	0.96%	1.00%	1.00%
	=====	=====	=====	=====

DEPOSITS AND OTHER SOURCES OF FUNDS

GENERAL. In addition to deposits, the sources of funds available for lending and other business purposes include loan repayments, loan sales, federal funds purchased lines of credit, and securities sold under agreements to repurchase. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows can be influenced significantly by general interest rates and money

market conditions. Borrowings may be used on a short-term basis to compensate for reductions in other sources, such as deposits, or due to favorable differentials in rates and other costs.

DEPOSITS. Deposits are attracted principally from our primary geographic market areas in Duval County, Florida. We have also enhanced our geographical diversity by offering certificates of deposit nationally to other financial institutions. We offer a broad selection of deposit products including demand deposit accounts, NOW accounts, money market accounts, regular savings accounts, term certificates of deposit and retirement savings plans (such as IRAs). Certificate of deposit rates are set to encourage longer maturities as cost and market conditions will allow. Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit, and the associated interest rates. Management sets the deposit interest rates weekly based on a review of deposit flows for the previous week, and a survey of rates

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among competitors and other financial institutions. We have emphasized commercial banking relationships in an effort to increase demand deposits as a percentage of total deposits.

The following table shows the distribution of, and certain other information relating to, our deposit accounts by type (dollars in thousands):

Table 12

	AT DECEMBER 31,			
	2002		2001	
	AMOUNT	% OF DEPOSITS	AMOUNT	% OF DEPOSITS
Demand deposits .....	\$ 16,781	15.2%	\$ 14,190	18.8%
NOW deposits .....	3,069	2.8	3,111	4.1
Money market deposits .....	3,286	3.0	2,884	3.8
Savings deposits .....	14,576	13.2	17,915	23.7
Subtotal .....	37,712	34.2	38,100	50.4
Certificates of deposit:				
1.00%-1.99% .....	1,971	1.8	--	--
2.00%-2.99% .....	22,935	20.9	2,376	3.1
3.00%-3.99% .....	31,174	28.3	13,787	18.2
4.00%-4.99% .....	13,325	12.1	15,194	20.1
5.00%-5.99% .....	1,479	1.3	715	1.0
6.00%-6.99% .....	1,532	1.4	4,677	6.2
7.00%-7.10% .....	--	--	770	1.0
Total certificates of deposit (1) .....	72,416	65.8	37,519	49.6
Total deposits .....	\$110,128	100.0%	\$ 75,619	100.0%
	=====	=====	=====	=====

(1) Includes individual retirement accounts ("IRAs") totaling \$503 and \$174 at December 31, 2002 and 2001, respectively, all of which are in the form of certificates of deposit.

Jumbo certificates (\$100,000 and over) mature as follows (in thousands):

	AT DECEMBER 31,	
	2002	2001
Three months or less .....	\$ 4,885	\$ 2,900
More than three months to six months .....	4,561	2,027
More than six months to one year .....	6,140	7,266
One to five years .....	7,253	2,166
	-----	-----
	\$22,839	\$14,359

=====                      =====

RESULTS OF OPERATIONS

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities, consisting primarily of deposits. Net interest income is determined by the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and the relative amounts of interest-earning assets and interest-bearing liabilities. Our interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. In addition, our net earnings are affected by the level of nonperforming loans and foreclosed real estate, as well as the level of noninterest income and noninterest expense, such as salaries and employee benefits, occupancy and equipment costs, and income taxes.

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The following table sets forth, for the periods indicated, information regarding: (1) the total dollar amount of interest and dividend income from interest-earning assets and the resultant average yield; (2) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (3) net interest/dividend income; (4) interest rate spread; and (5) net interest margin. Average balances are based on average daily balances (dollars in thousands).

**Table 13**

	YEARS ENDED DECEMBER 31,								
	2002			2001			2000		
	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE	AVERAGE BALANCE	INTEREST AND DIVIDENDS	AVERAGE YIELD/RATE
Interest-earning assets:									
Loans(1) .....	\$ 89,043	\$ 6,016	6.76%	\$ 46,768	\$ 3,852	8.24%	\$ 18,176	\$ 1,760	9.68%
Securities .....	10,153	649	6.39	5,290	340	6.43	2,395	165	6.89
Other interest-earning assets (2) .....	1,918	34	1.77	1,804	81	4.49	2,015	127	6.30
Total interest-earning assets .....	101,114	6,699	6.63	53,862	4,273	7.93	22,586	2,052	9.09
Noninterest-earning assets ...	8,611			8,006			6,251		
Total assets .....	\$109,725			\$ 61,868			\$ 28,837		
Interest-bearing liabilities:									
Savings deposits .....	\$ 19,363	500	2.58	\$ 15,800	640	4.05	9,334	505	5.41%
NOW deposits .....	2,545	12	0.47	2,732	27	0.49	1,488	30	2.02
Money market deposits ....	3,357	66	1.97	1,823	56	3.07	1,502	74	4.93
Time deposits .....	58,729	2,172	3.70	22,954	1,316	5.73	4,105	275	6.70
Other borrowings .....	678	13	1.92	660	21	3.18	75	5	6.67
Total interest-bearing liabilities .....	84,672	2,763	3.26	43,969	2,060	4.69	16,504	889	5.39
Noninterest-bearing liabilities .....	14,248			10,508			4,530		
Stockholders' equity .....	10,805			7,391			7,803		
Total liabilities and stockholders' equity	\$109,725			\$ 61,868			\$ 28,837		
Net interest/dividend income .		\$ 3,936			\$ 2,213			\$ 1,163	
Interest rate spread (3) .....			3.37%			3.24%			3.70%
Net interest margin (4) .....			3.89%			4.11%			5.15%

	====	====	====
Ratio of average interest-earning assets to average interest-bearing liabilities .....	1.19	1.22	1.37
	=====	=====	=====

- (1) Average loan balances include nonaccrual loans.
- (2) Includes federal funds sold.
- (3) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net interest margin is net interest income divided by average interest-earning assets.

RATE/VOLUME ANALYSIS

The following tables set forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior volume); (2) changes in volume (change in volume multiplied by prior rate); and (3) changes in rate-volume (change in rate multiplied by change in volume). Dollars are in thousands.

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YEAR ENDED DECEMBER 31, 2002 VS. 2001:

**Table 14**

	INCREASE (DECREASE) DUE TO			
	RATE	VOLUME	RATE/ VOLUME	TOTAL
<b>Interest-earning assets:</b>				
Loans .....	\$ (692)	\$ 3,483	\$ (627)	\$ 2,164
Securities .....	(2)	313	(2)	309
Other interest-earning assets .....	(49)	5	(3)	(47)
Total .....	(743)	3,801	(632)	2,426
<b>Interest-bearing liabilities:</b>				
Savings, money market and NOW deposits .....	(256)	174	(63)	(145)
Time deposits .....	(466)	2,050	(728)	856
Borrowings .....	(8)	--	--	(8)
Total .....	(730)	2,224	(791)	703
Net change in net interest income .....	\$ (13)	\$ (597)	\$ 159	\$ 1,723
	=====	=====	=====	=====

YEAR ENDED DECEMBER 31, 2001 VS. 2000:

**Table 15**

	INCREASE (DECREASE) DUE TO			
	RATE	VOLUME	RATE/ VOLUME	TOTAL
<b>Interest-earning assets:</b>				
Loans .....	\$ (262)	\$ 2,767	\$ (413)	\$ 2,092
Securities .....	(11)	199	(13)	175
Other interest-earning assets .....	(36)	13	(23)	(46)
Total .....	(309)	2,979	(449)	2,221
<b>Interest-bearing liabilities:</b>				
Savings, money market and NOW deposits .....	(173)	397	(109)	115

Time deposits .....	(39)	1,261	(182)	1,040
Borrowings .....	(3)	39	(20)	16
	-----	-----	-----	-----
Total .....	(215)	1,697	(311)	1,171
	-----	-----	-----	-----
Net change in net interest income .....	\$ (94)	\$ 1,282	\$ (138)	\$ 1,050
	=====	=====	=====	=====

YEAR ENDED DECEMBER 31, 2002, COMPARED TO YEAR ENDED DECEMBER 31, 2001

GENERAL. Net earnings for the year ended December 31, 2002, totaled \$584,000 or \$0.44 per basic and diluted share, compared to a net loss of \$198,000 or \$0.19 per basic and diluted share in 2001.

INTEREST INCOME AND EXPENSE. Interest income totaled \$6,699,000 for the year ended December 31, 2002, compared to \$4,273,000 in 2001. Interest earned on loans was \$6,016,000 in 2002 compared to \$3,852,000 in 2001. This increase resulted primarily from an increase in the average loan portfolio balance from \$46.8 million for the year ended December 31, 2001, to \$89.0 million for the year ended December 31, 2002, and was partially offset by a decrease in the weighted average yield from 8.24% for 2001 to 6.76% for 2002.

Interest on securities was \$649,000 for the year ended December 31, 2002, as compared to \$340,000 for the year ended December 31, 2001. This increase resulted primarily from an increase in the average investment securities portfolio from \$5.3 million for 2001 to \$10.2 million for 2002. Interest on federal funds sold totaled \$34,000 in 2002 compared to \$81,000 in 2001.

Interest expense on deposit accounts amounted to \$2,750,000 for the year ended December 31, 2002, compared to \$2,039,000 in 2001. The increase resulted from an increase in the average balance of interest-bearing deposits from \$43.3 million in 2001 to \$84.0 million in 2002, offset by a decrease in the weighted average cost of interest-bearing deposits from 4.71% in 2001 to 3.27% in 2002. Interest on other borrowings amounted to \$13,000 for the year ended December 31, 2002, with a weighted average cost of 1.92%.

PROVISION FOR LOAN LOSSES. The provision for loan losses is charged to earnings to bring the total allowance to a level deemed appropriate by management and is based upon our volume and types of lending, industry standards, the amount of nonperforming loans, general economic conditions (particularly as they relate to our market areas), and other factors related to the collectibility of our loan portfolio. The provision for the year ended December 31, 2002, was \$443,000 compared to \$343,000 in 2001. The increase for 2002 was due to growth in the loan portfolio. Management believes that the allowance for loan losses of \$1,100,000 at December 31, 2002, is adequate.

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NONINTEREST INCOME. Noninterest income increased to \$580,000 for the year ended December 31, 2002, compared to \$458,000 for the year ended December 31, 2001. This increase resulted primarily from an increase in fees and service charges on deposit accounts due to the significant increase in the number of accounts. The amount of noninterest income from nondeposit-related sources decreased by \$21,000, primarily due to outsourcing our bankcard merchant program. The merchant program changes resulted in a decrease of \$77,000, which was partially offset by \$44,000 in income generated by mortgage origination activities implemented in 2002.

OTHER EXPENSE. Other expense totaled \$3,134,000 for the year ended December 31, 2002, compared to \$2,645,000 in 2001. The increase resulted primarily from an increase in salaries and employee benefits expense of \$260,000, an increase in advertising and business development of \$52,000, and an increase in occupancy expense of \$38,000.

INCOME TAXES (BENEFIT). Income tax expense for the year ended December 31, 2002, was \$355,000 (an effective rate of 38%) compared to a benefit of \$119,000 in 2001 (an effective rate of 38%).

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

GENERAL. Net loss for the year ended December 31, 2001, was \$198,000 or \$.19 per basic and diluted share, compared to a net loss of \$730,000 or \$.72 per basic and diluted share in 2000. During the years ended December 31, 2001 and 2000, the Bank had not achieved the average asset size necessary to operate profitably. The Bank commenced operations on May 28, 1999, and had achieved five

consecutive months of profitability as of December 31, 2001.

**INTEREST INCOME AND EXPENSE.** Interest income totaled \$4,273,000 for the year ended December 31, 2001, compared to \$2,052,000 in 2000. Interest earned on loans was \$3,852,000 in 2001 compared to \$1,760,000 in 2000. This increase resulted primarily from an increase in the average loan portfolio balance from \$18.2 million for the year ended December 31, 2000, to \$46.8 million for the year ended December 31, 2001, and was partially offset by a decrease in the weighted average yield from 9.68% for 2000 to 8.24% for 2001.

Interest on securities was \$340,000 for the year ended December 31, 2001, as compared to \$165,000 for the year ended December 31, 2000. This increase resulted primarily from an increase in the average investment securities portfolio from \$2.4 million for 2000 to \$5.3 million for 2001. Interest on federal funds sold totaled \$81,000 in 2001 compared to \$127,000 in 2000. The average balance of these assets decreased from \$2.0 million at December 31, 2000, to \$1.8 million at December 31, 2001, and the weighted average yield decreased from 6.30% in 2000 to 4.49% in 2001.

Interest expense on deposit accounts amounted to \$2,039,000 for the year ended December 31, 2001, compared to \$884,000 in 2000. The increase resulted from an increase in the average balance of interest-bearing deposits from \$16.4 million in 2000 to \$43.3 million in 2001, and was partially offset by a decrease in the weighted average cost of interest-bearing deposits from 5.40% in 2000 to 4.70% in 2001. Interest on other borrowings amounted to \$21,000 for the year ended December 31, 2001, with a weighted average cost of 3.18%.

**PROVISION FOR LOAN LOSSES.** The provision for loan losses is charged to earnings to bring the total allowance to a level deemed appropriate by management and is based upon our volume and types of lending, industry standards, the amount of nonperforming loans, general economic conditions (particularly as they relate to our market areas), and other factors related to the collectibility of our loan portfolio. The provision for the year ended December 31, 2001, was \$343,000 compared to \$264,000 in 2000. The increase for 2001 was due to growth in the loan portfolio. Management believes that the allowance for loan losses of \$657,000 at December 31, 2001, is adequate.

**NONINTEREST INCOME.** Noninterest income increased to \$458,000 for the year ended December 31, 2001, compared to \$261,000 for the year ended December 31, 2000. This increase resulted primarily from an increase in fees and service charges on deposit accounts due to the significant increase in the number of deposit accounts.

**OTHER EXPENSE.** Other expense totaled \$2,645,000 for the year ended December 31, 2001, compared to \$2,326,000 in 2000. The increase of \$319,000 resulted primarily from an increase in salaries and employee benefit expense of \$169,000 and an increase in data processing costs of \$172,000.

**INCOME TAXES.** The income tax benefit for the year ended December 31, 2001, was \$119,000 (an effective rate of 38%) compared to \$436,000 in 2000 (an effective rate of 37%).

SELECTED QUARTERLY RESULTS (UNAUDITED)

The following tables present summarized quarterly data (dollars in thousands, except per share amounts).

**Table 16**

	YEAR ENDED DECEMBER 31, 2002				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Interest income .....	\$ 1,392	\$ 1,611	\$ 1,816	\$ 1,880	\$ 6,699
Interest expense .....	612	664	757	730	2,763
Net interest income .....	780	947	1,059	1,150	3,936
Provision for loan losses .....	107	138	97	101	443

Net interest income after provision for loan losses .....	673	809	962	1,049	3,493
Noninterest income .....	161	109	153	157	580
Noninterest expense .....	754	767	824	789	3,134
Earnings before income taxes .....	80	151	291	417	939
Income taxes .....	30	57	112	156	355
Net earnings .....	\$ 50	\$ 94	\$ 179	\$ 261	\$ 584
Basic and diluted earnings per common share .....	\$ 0.05	\$ 0.07	\$ 0.12	\$ 0.20	\$ 0.44

Table 17

	YEAR ENDED DECEMBER 31, 2001				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
Interest income .....	\$ 928	\$ 976	\$ 1,108	\$ 1,261	\$ 4,273
Interest expense .....	471	462	549	578	2,060
Net interest income .....	457	514	559	683	2,213
Provision for loan losses .....	40	63	87	153	343
Net interest income after provision for loan losses .....	417	451	472	530	1,870
Noninterest income .....	86	113	115	144	458
Noninterest expense .....	684	649	638	674	2,645
Loss before income tax benefit .....	(181)	(85)	(51)	--	(317)
Income tax benefit .....	(68)	(32)	(19)	--	(119)
Net loss .....	\$ (113)	\$ (53)	\$ (32)	\$ --	\$ (198)
Basic and diluted loss per common share .....	\$ (0.11)	\$ (0.05)	\$ (0.03)	\$ --	\$ (0.19)

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ITEM 7. FINANCIAL STATEMENTS

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY

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All schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the Consolidated Financial Statements and related Notes.

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Independent Auditors' Report

Board of Directors  
 Jacksonville Bancorp, Inc.  
 Jacksonville, Florida:

We have audited the accompanying consolidated balance sheets of Jacksonville Bancorp, Inc. and Subsidiary, (the "Company") at December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

HACKER, JOHNSON & SMITH PA  
 Tampa, Florida  
 February 6, 2003

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
 CONSOLIDATED BALANCE SHEETS  
 (Dollars in thousands, except per share amounts)

Table 18

	AT DECEMBER 31,	
	2002	2001
	-----	-----
ASSETS		
Cash and due from banks .....	\$ 3,924	\$ 5,174
Federal funds sold .....	357	114
	-----	-----
Total cash and cash equivalents .....	4,281	5,288
Securities available for sale .....	12,481	7,482
Securities held to maturity .....	50	50
Loans, net of allowance for loan losses of \$1,100 in 2002 and \$657 in 2001	108,933	68,134
Accrued interest receivable .....	660	459
Premises and equipment, net .....	3,122	3,304
Federal Home Loan Bank stock, at cost .....	132	63
Deferred income taxes .....	988	1,437
Other assets .....	184	261
	-----	-----
Total assets .....	\$ 130,831	\$ 86,478
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Noninterest-bearing demand deposits .....	\$ 16,781	\$ 14,190
Money market, NOW and savings deposits .....	20,931	23,910
Time deposits .....	72,416	37,519

Total deposits .....	110,128	75,619
Federal funds purchased .....	3,000	1,250
Other borrowings .....	4,747	2,110
Other liabilities .....	389	202
Total liabilities .....	\$ 118,264	\$ 79,181
	=====	=====

Commitments and contingencies (Notes 4, 7, and 11)

Stockholders' equity:

Preferred stock, \$.01 per value; 2,000,000 shares authorized, none issued or outstanding .....	\$ --	\$ --
Common stock, \$.01 par value; 8,000,000 shares authorized, 1,467,066 and 1,017,066 shares issued and outstanding .....	15	10
Additional paid-in capital .....	14,229	9,705
Accumulated deficit .....	(1,793)	(2,377)
Accumulated other comprehensive income (loss) .....	116	(41)
Total stockholders' equity .....	\$ 12,567	\$ 7,297
Total liabilities and stockholders' equity .....	\$ 130,831	\$ 86,478
	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in thousands, except per share amounts)

Table 19

	YEAR ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Interest income:		
Loans .....	\$ 6,016	\$ 3,852
Securities .....	649	340
Other interest-earning assets .....	34	81
Total interest income .....	6,699	4,273
Interest expense:		
Deposits .....	2,750	2,039
Other borrowings .....	13	21
Total interest expense .....	2,763	2,060
Net interest income .....	3,936	2,213
Provision for loan losses .....	443	343
Net interest income after provision for loan losses .....	3,493	1,870
Noninterest income:		
Fees and service charges on deposit accounts .....	445	302
Other .....	135	156
Total noninterest income .....	580	458
Noninterest expense:		
Salaries and employee benefits .....	1,571	1,311
Occupancy expense .....	558	520
Data processing .....	394	369
Professional fees .....	152	107
Telephone expenses .....	70	54

Advertising .....	77	25
Courier, freight and postage .....	71	54
Other .....	241	205
	-----	-----
Total noninterest expense .....	3,134	2,645
	-----	-----
Earnings (loss) before income taxes (benefit) .....	939	(317)
Income taxes (benefit) .....	355	(119)
	-----	-----
Net earnings (loss) .....	\$ 584	\$ (198)
	=====	=====
Earnings (loss) per share, basic and diluted .....	\$ 0.44	\$ (0.19)
	=====	=====
Weighted average number of common shares outstanding for basic .....	1,335,831	1,017,066
	=====	=====
Weighted average number of common shares outstanding for diluted .....	1,341,844	1,017,066
	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2002 AND 2001  
(Dollars in thousands)

Table 20

	COMMON STOCK -----	ADDITIONAL PAID-IN CAPITAL -----	ACCUMULATED DEFICIT -----	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) -----	TOTAL STOCKHOLDERS' EQUITY -----
Balance at December 31, 2000 .....	\$ 10	\$ 9,705	\$ (2,179)	\$ 3	\$ 7,539
Comprehensive income:					
Net loss .....	--	--	(198)	--	(198)
Change in unrealized gain (loss) on securities available for sale, net of tax benefit of \$26 .....	--	--	--	(44)	(44)
	-----	-----	-----	-----	-----
Comprehensive income (loss) .....					(242)
Balance at December 31, 2001 .....	\$ 10	\$ 9,705	\$ (2,377)	\$ (41)	\$ 7,297
Comprehensive income:					
Net earnings .....	--	--	584	--	584
Change in unrealized gain (loss) on securities available for sale, net of taxes of \$94 .....	--	--	--	157	157
	-----	-----	-----	-----	-----
Comprehensive income .....					741
Proceeds from the sale of common stock, net of offering costs of \$196 .....	5	4,524	--	--	4,529
	-----	-----	-----	-----	-----
Balance at December 31, 2002 .....	\$ 15	\$ 14,229	\$ (1,793)	\$ 116	\$ 12,567
	=====	=====	=====	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

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JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

Table 21

	YEAR ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net earnings (loss) .....	\$ 584	\$ (198)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization .....	277	275
Provision for loan losses .....	443	343
Deferred income taxes (benefit) .....	355	(119)
Net amortization of deferred loan costs (fees) .....	9	14
Net amortization of securities .....	(55)	(23)
Increase in accrued interest receivable and other assets .....	(124)	(280)
Increase in other liabilities .....	187	46
Loss on disposal of premises and equipment .....	--	4
	-----	-----
Net cash provided by operating activities .....	1,676	62
	-----	-----
Cash flows from investing activities:		
Purchase of securities held to maturity .....	--	(500)
Proceeds from call of securities held to maturity .....	--	500
Purchases of securities available for sale .....	(10,252)	(8,178)
Proceeds from calls and paydowns of securities available for sale ...	5,559	3,744
Net increase in loans .....	(41,251)	(34,308)
Purchases of premises and equipment, net .....	(95)	(29)
Purchase of Federal Home Loan Bank stock .....	(69)	(26)
	-----	-----
Net cash used in investing activities .....	(46,108)	(38,797)
	-----	-----
Cash flows from financing activities:		
Net increase in deposits .....	34,509	38,278
Net increase in federal funds purchased .....	1,750	1,250
Net increase in other borrowings .....	2,637	2,110
Proceeds from sale of common stock, net of offering costs .....	4,529	--
	-----	-----
Net cash provided by financing activities .....	43,425	41,638
	-----	-----
Net (decrease) increase in cash and cash equivalents .....	(1,007)	2,903
Cash and cash equivalents at beginning of year .....	5,288	2,385
	-----	-----
Cash and cash equivalents at end of year .....	\$ 4,281	\$ 5,288
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest .....	\$ 2,715	\$ 2,025
	=====	=====
Income taxes .....	\$ --	\$ --
	=====	=====
Noncash transaction: Accumulated other comprehensive income		
(loss), net change in unrealized gain (loss) on securities		
available for sale, net of tax .....	\$ 157	\$ (44)
	=====	=====

See Accompanying Notes to Consolidated Financial Statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION. Jacksonville Bancorp, Inc. (the "Holding Company"), was incorporated on October 24, 1997, in the State of Florida. The Holding Company is a one-bank holding company and owns 100% of the outstanding shares of The Jacksonville Bank (the "Bank"). The Holding Company's only business is the ownership and operation of the Bank. The Bank's deposits are insured by the Federal Deposit Insurance Corporation. The Bank provides a variety of community banking services to businesses and individuals through its three offices in Jacksonville, Duval County, Florida. The primary business activities of the Bank's wholly owned subsidiary, Fountain Financial, Inc. (the "Insurance

Agency"), consists of referral of customers of the Bank to third parties for sale of insurance products.

**BASIS OF PRESENTATION.** The accompanying consolidated financial statements of the Company include the accounts of the Holding Company, the Bank, and the Insurance Agency (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

**USE OF ESTIMATES.** In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and deferred tax assets.

**CASH AND CASH EQUIVALENTS.** For purposes of the consolidated statements of cash flows, cash, and cash equivalents include cash and balances due from banks and federal funds sold, both of which mature within ninety days. The Bank is required by law or regulation to maintain cash reserves in the form of vault cash or in noninterest-earning accounts with the Federal Reserve Bank or other qualified banks. These reserve requirements at December 31, 2002 and 2001 were approximately \$304,000 and \$232,000, respectively.

**SECURITIES.** The Company may classify its securities as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in earnings. Held to maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available for sale securities consist of securities not classified as trading securities nor as held to maturity securities. Unrealized holding gains and losses, net of tax, on available for sale securities are excluded from operations and reported in other comprehensive income (loss). Gains and losses on the sale of available for sale securities are recorded on the trade date and are determined using the specific identification method. Premiums and discounts on securities are recognized in interest income using the interest method over the period to maturity.

**LOANS.** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan origination fees are deferred and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**ALLOWANCE FOR LOAN LOSSES.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to operations. A loan loss is charged against the allowance when management believes the uncollectibility of loan balances is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

ALLOWANCE FOR LOAN LOSSES, CONTINUED. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for significant commercial and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer or residential loans for impairment disclosures.

INCOME TAXES. Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between revenues and expenses reported for financial statements and those reported for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are provided against assets which are not likely to be realized.

The Holding Company and its subsidiaries file a consolidated income tax return. Income taxes are allocated proportionately to the Holding Company and subsidiaries as though separate income tax returns were filed.

PREMISES AND EQUIPMENT. Land is carried at cost. Building and leasehold improvements, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful life of each type of asset. The Company will capitalize interest during the construction period of major capital developments such as the construction of office facilities.

STOCK-BASED COMPENSATION. Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (collectively "SFAS No. 123"), encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. 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 Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("Opinion No. 25"), whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Company's stock option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them. The Company has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, has provided pro forma disclosures of net earnings (loss) and earnings (loss) per share and other disclosures, as if the fair value based method of accounting had been applied.

TRANSFER OF FINANCIAL ASSETS. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them

before their maturity.

OFF-BALANCE SHEET INSTRUMENTS. In the ordinary course of business the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

FAIR VALUES OF FINANCIAL INSTRUMENTS. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument or may not necessarily represent the underlying fair value of the Company. The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

CASH AND CASH EQUIVALENTS. The carrying amounts of cash and cash equivalents approximate their fair values.

SECURITIES. Fair values for securities held to maturity and available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

FEDERAL HOME LOAN BANK STOCK. Federal Home Loan Bank stock is stated at redemption value which approximates fair value.

(continued)

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JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

LOANS. For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate mortgage (e.g. one-to-four family residential), commercial real estate, and commercial loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

ACCRUED INTEREST RECEIVABLE. The carrying amount of accrued interest receivable approximates fair value.

DEPOSIT LIABILITIES. The fair values disclosed for demand, NOW, money market and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed rate certificates of deposit 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.

Federal Funds Purchased. The carrying amount of federal funds purchased approximates fair value.

OTHER BORROWINGS. The carrying amount of other borrowings, which consist of securities sold under agreements to repurchase, approximates fair value.

OFF-BALANCE SHEET INSTRUMENTS. Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

ADVERTISING. The Company expenses all media advertising as incurred.

EARNINGS (LOSS) PER SHARE. Basic earnings (loss) per share has been computed on the basis of the weighted average number of shares of common stock outstanding

during the year. Diluted earnings per share were computed based on the weighted average number of shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method. Such options were antidilutive for the year ended December 31, 2001. Earnings (loss) per common share have been computed based on the following:

**Table 22**

	Year Ended December 31,	
	2002	2001
Weighted average number of common shares outstanding used to calculate basis earnings per common share: .....	1,335,831	1,017,066
Effect of dilutive stock options .....	6,013	--
Weighted average number of common shares outstanding used to calculate diluted earnings per common share: .....	1,341,844	1,017,066

COMPREHENSIVE INCOME (LOSS). Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings (loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items along with net earnings (loss), are components of comprehensive income (loss).

RECLASSIFICATIONS. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

RECENT PRONOUNCEMENTS. In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others" ("FIN 45"), which expands previously issued accounting guidance and disclosure requirements for certain guarantees. FIN 45 requires the Company to recognize an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 is not expected to materially affect the consolidated financial statements.

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
Notes to Consolidated Financial Statements, Continued

(2) Securities

Securities have been classified according to management's intent. The carrying amount of securities and their approximate fair values are as follows (in thousands):

**Table 23**

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2002				
Available for Sale:				
U.S. Government agencies .....	\$ 10,049	\$ 157	\$ (14)	\$ 10,192
Mortgage-backed securities .....	2,246	43	--	2,289
	\$ 12,295	\$ 200	\$ (14)	\$ 12,481
Held to Maturity:				
State of Israel bond .....	\$ 50	\$ --	\$ --	\$ 50
December 31, 2001				
Available for Sale:				

U.S. Government agencies .....	\$ 6,177	\$ 7	\$ (75)	\$ 6,109
Mortgage-backed securities .....	1,370	15	(12)	1,373
	-----	-----	-----	-----
	\$ 7,547	\$ 22	\$ (87)	\$ 7,482
	=====	=====	=====	=====
Held to Maturity:				
State of Israel bond .....	\$ 50	\$ 7	\$ --	\$ 57
	=====	=====	=====	=====

The scheduled maturities of securities at December 31, 2002, are as follows (in thousands):

**Table 24**

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one through five years .....	\$ 250	\$ 253	\$ --	\$ --
Due after five through ten years .....	2,247	2,339	50	50
Due after ten years .....	7,552	7,600	--	--
Mortgage-backed securities .....	2,246	2,289	--	--
	-----	-----	-----	-----
Total .....	\$ 12,295	\$ 12,481	\$ 50	\$ 50
	=====	=====	=====	=====

At December 31, 2002 and 2001, the Company had pledged securities with a carrying value of approximately \$4.4 million and \$2.0 million respectively for borrowings under a repurchase agreement. There were no sales of securities in 2002 or 2001.

(3) Loans

The components of loans are as follows (in thousands):

**Table 25**

	December 31,	
	2002	2001
Commercial real estate .....	\$ 63,520	\$ 26,159
Commercial .....	16,648	25,105
Residential real estate .....	25,825	13,595
Consumer and other .....	4,057	3,917
	-----	-----
Total loans .....	110,050	68,776
Add (deduct):		
Allowance for loan losses .....	(1,100)	(657)
Net deferred (fees) costs .....	(17)	15
	-----	-----
Loans, net .....	\$ 108,933	\$ 68,134
	=====	=====

An analysis of the change in the allowance for loan losses follows (in thousands):

**Table 26**

	Year Ended December 31	
	2002	2001
Beginning balance .....	\$ 657	\$ 344
Provision for loan losses .....	443	343
Loans charged off .....	--	(30)
	=====	=====
Ending balance .....	\$ 1,100	\$ 657
	=====	=====

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

The average net investment on impaired loans and interest income recognized and received on collateral dependent impaired loans are as follows (in thousands):

Table 27

	At December 31,	
	2002	2001
Loans identified as impaired:		
Gross loans with no related allowance for losses .....	\$ --	\$ --
Gross loans with related allowance for losses recorded .....	388	--
Less: Allowance on these loans .....	(58)	--
	=====	=====
Net Investment in impaired loan .....	\$ 330	\$ --
	=====	=====

Table 28

	At December 31,	
	2002	2001
Average investment in impaired loans .....	\$ 46	\$ --
	=====	=====
Interest income recognized on impaired loans .....	\$ --	\$ --
	=====	=====
Interest income received on impaired loans .....	\$ --	\$ --
	=====	=====

Nonaccrual and past due loans were as follows (in thousands):

Table 29

	Year Ended December 31	
	2002	2001
Nonaccrual loans .....	\$ 851	\$ 101
Past due ninety days or more, but still accruing .....	\$ --	\$ --
	=====	=====
Total .....	\$ 851	\$ 101
	=====	=====

(4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

Table 30

	December 31,	
	2002	2001
Land .....	\$ 1,075	\$ 1,075
Buildings .....	1,358	1,357

Leasehold improvements .....	145	141
Furniture, fixtures and equipment .....	1,384	1,294
	-----	-----
Total, at cost .....	3,962	3,867
Less accumulated depreciation and amortization .....	(840)	(563)
	-----	-----
Premises and equipment, net .....	\$ 3,122	\$ 3,304
	=====	=====

The Company leases certain office facilities under an operating lease. The noncancellable lease contains annual escalation clauses and three five-year renewal options. Rental expense under operating leases was approximately \$121,000 and \$130,000 during the years ended December 31, 2002 and 2001, respectively. Future minimum rental commitments under this lease at December 31, 2002, are as follows (in thousands):

	Amount
	-----
2003 .....	165
2004 .....	141
	=====
	\$ 411
	=====

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(5) DEPOSITS

The total time deposits with a minimum denomination of \$100,000 at December 31, 2002 and 2001, were \$22.8 million and \$14.4 million respectively.

A schedule of maturities of time deposits follows (in thousands):

YEAR ENDING DECEMBER 31,	AMOUNT
-----	-----
2003 .....	44,290
2004 .....	16,102
2005 .....	6,394
2006 .....	823
2007 and thereafter .....	4,807
	-----
	\$72,416
	=====

(6) OTHER BORROWINGS

The Company entered into daily repurchase agreements with a financial institution. These agreements require the Company to pledge securities as collateral for borrowings under the agreement. Information concerning these agreements is summarized as follows (in thousands):

Table 31

	AT OR FOR YEAR ENDED	
	DECEMBER 31,	
	-----	-----
	2002	2001
	-----	-----
Balance at end of year .....	\$ 4,747	\$ 2,110
	=====	=====
Average balance during year .....	\$ 360	\$ 319
	=====	=====
Average interest rate during year .....	1.75%	2.72%
	=====	=====
Maximum month-end balance during year .....	\$ 4,747	\$ 2,110
	=====	=====
Securities pledged as collateral for this agreement .....	\$ 4,368	\$ 2,017
	=====	=====

(7) FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are as follows (in thousands):

Table 32

	AT DECEMBER 31, 2002		AT DECEMBER 31, 2001	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash and cash equivalents .....	\$ 4,281	\$ 4,281	\$ 5,288	\$ 5,288
Securities available for sale .....	12,481	12,481	7,482	7,482
Securities held to maturity .....	50	50	50	57
Loans .....	108,933	110,114	68,134	68,946
Accrued interest receivable .....	660	660	459	459
Financial liabilities:				
Deposits .....	\$ 110,128	\$ 112,735	\$ 75,619	\$ 76,571
Federal funds purchased .....	3,000	3,000	1,250	1,250
Other borrowings .....	4,747	4,747	2,110	2,110

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, unused lines of credit, and standby letters of credit and may involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(7) FINANCIAL INSTRUMENTS, CONTINUED

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with market interest rates when funded. A summary of the notional amounts of the Company's financial instruments, with off-balance sheet risk at December 31, 2002, follows (in thousands).

Table 33

	CONTRACT AMOUNT	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	-----	-----	-----
Commitments to extend credit .....	\$ 3,938	--	--

Unused lines of credit .....	=====	=====	=====
	\$ 16,110	--	--
	=====	=====	=====
Standby letters of credit .....	\$ 955	--	--
	=====	=====	=====

(8) CREDIT RISK

The Company grants the majority of its loans to borrowers throughout Duval County, Florida. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in Duval County, Florida.

(9) INCOME TAXES

Income taxes (benefit) consisted of the following (in thousands):

**Table 34**

	YEAR ENDED DECEMBER 31,	
	2002	2001
Deferred:		
Federal .....	\$ 303	\$ (102)
State .....	52	(17)
Total deferred income taxes (benefit) .....	\$ 355	\$ (119)

Income taxes (benefit) is different than that computed by applying the federal statutory rate of 34%, as indicated in the following analysis (dollars in thousands):

**Table 35**

	YEAR ENDED DECEMBER 31,			
	2002		2001	
	AMOUNT	% OF PRETAX EARNINGS	AMOUNT	% OF PRETAX LOSS
Income taxes (benefit) at statutory federal income tax rate .....	\$ 319	34.0%	\$ (108)	(34.0)%
Increases in income taxes (benefit) resulting from:				
State tax benefit, net of federal tax benefit .....	34	3.6	(11)	(3.5)
Other .....	2	.2	--	--
	\$ 355	(37.8)%	\$ (119)	(37.5)%

(continued)

(9) INCOME TAXES, CONTINUED

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands).

**Table 36**

AT DECEMBER 31,	
2002	2001

	-----	-----
Deferred tax assets:		
Unrealized loss on securities available for sale .....	\$ --	\$ 24
Allowance for loan losses .....	253	86
Organizational and preopening costs .....	99	172
Net operating loss carryforwards .....	942	1,420
	-----	-----
Gross deferred tax asset .....	1,294	1,702
	-----	-----
Deferred tax liabilities:		
Unrealized gain on securities available for sale .....	70	--
Depreciation .....	181	149
Deferred loan costs .....	52	111
Other .....	3	5
	-----	-----
Gross deferred tax liabilities .....	306	265
	-----	-----
Net deferred tax asset .....	\$ 988	\$ 1,437
	=====	=====

At December 31, 2002, the Company had net operating loss carryforwards for federal and state income tax purposes as follows (in thousands):

YEAR EXPIRING	AMOUNT
-----	-----
2019.....	362
2020.....	1,649
2021.....	492
	-----
	\$2,503
	=====

(10) RELATED PARTY TRANSACTIONS

The Company has entered into transactions with its executive officers, directors, and their affiliates, in the ordinary course of business. Loans to such related parties amounted to approximately \$4.4 million and \$3.8 million and deposits from such related parties were approximately \$2.8 million and \$1.9 million at December 31, 2002 and 2001 respectively.

(11) CONTINGENCIES

Various legal claims and other contingent liabilities may arise from time to time in the normal course of business which, in the opinion of management of the Bank, will not have a material effect on the Company's consolidated financial statements.

(12) STOCK OPTION PLAN

The Company established a Stock Option plan (the "Plan") for its directors, officers, and employees. The total number of options which can be granted under this Plan is 220,099. Both qualified and nonqualified options can be granted, and all options have ten year terms and vest over periods up to five years. As of December 31, 2002, 80,242 shares remain available to be granted under the Plan. A summary of stock option transactions follows (dollars in thousands, except per share amounts):

**Table 37**

	NUMBER OF SHARES	AVERAGE PER SHARE PRICES	RANGE OF PRICES	AGGREGATE OPTION PRICE
	-----	-----	-----	-----
Outstanding at December 31, 2000 .....	140,500	\$ 10.00	\$ 10.00	\$ 1,405
Options forfeited .....	(65,000)	10.00	10.00	(650)
Options granted .....	60,357	10.00	10.00	604
	-----	-----	-----	-----
Outstanding at December 31, 2001 .....	135,857	10.00	10.00	1,359
Options granted .....	4,000	10.00	10.00	40
	-----	-----	-----	-----
Outstanding at December 31, 2002 .....	139,857	\$ 10.00	\$ 10.00	\$ 1,399
	=====	=====	=====	=====

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

## (12) STOCK OPTION PLAN, CONTINUED

These options are exercisable as follows:

YEAR ENDING DECEMBER 31,	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE
-----	-----	-----
Currently exercisable .....	116,857	\$ 10.00
2003 .....	9,900	10.00
2004 .....	9,900	10.00
2005 .....	1,600	10.00
2006 .....	800	10.00
2007 .....	800	10.00
	-----	
	139,857	\$ 10.00
	=====	=====

The weighted average remaining contractual life of the options at December 31, 2002 and 2001, was 6.9 years and 7.9 years, respectively.

The Company accounts for their stock option plan under the recognition and measurement principles of APB No. 25. No stock-based employee compensation cost is reflected in net earnings (loss), as all options granted under the plan have exercise prices which were equal to or exceeded the market value of the underlying common stock on the grant date. The following table illustrates the effect on net earnings (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB No. 123 to stock-based employee compensation.

**Table 38**

	YEAR ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Net earnings (loss), as reported .....	\$ 584	\$ (198)
Deduct: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax effect .....	42	89
	-----	-----
Proforma net earnings (loss) .....	542	(287)
	=====	=====
Basic earnings (loss) per share:		
As reported .....	.44	(.19)
	=====	=====
Proforma .....	.41	(.28)
	=====	=====
Diluted earnings (loss) per share:		
As reported .....	.44	(.19)
	=====	=====
Proforma .....	.40	(.28)
	=====	=====

In order to calculate the fair value of the options, it was assumed that the risk-free interest rate was 5.26% and 4.5% during the years ended December 31, 2002 and 2001, respectively, there would be no dividends paid by the Company over the exercise period, the expected life of the options would be the entire exercise period, and stock volatility would be zero due to the minimal trading of the stock prior to 2002. Stock volatility for 2002 was .13%. For purposes of the proforma disclosures the estimated fair value is treated as expense during the vesting period. The following information summarizes the fair value of options granted under the plan (in thousands).

Table 39

	YEAR ENDED DECEMBER 31,	
	2002	2001
Weighted average per share grant-date fair value of options issued during the year .....	\$ 4.17	\$ 3.50
	=====	=====

(13) PROFIT SHARING PLAN

The Company sponsors a 401(k) profit sharing plan which is available to all employees electing to participate after meeting certain length-of-service requirements. Expense relating to the Company's contributions to the profit sharing plan was \$78,000 and \$61,000 for the years ended December 31, 2002 and 2001.

(14) REGULATORY MATTERS

Banking regulations place certain restrictions on dividends and loans or advances made by the Bank to the Holding Company.

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(14) REGULATORY MATTERS, CONTINUED

The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Bank must consider additional factors such as the amount of current period net earnings, liquidity, asset quality and capital adequacy. These factors could further limit the amount of dividends which the Bank could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

The Bank is subject to various regulatory capital requirements administered by the regulatory banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The 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 Bank to maintain minimum amounts and percentages (set forth in the following table) 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, 2002, the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2002, the most recent notification from the regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage percentages as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and percentages are also presented in the table (dollars in thousands).

Table 40

MINIMUM

	ACTUAL		MINIMUM FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
AS OF DECEMBER 31, 2002:						
Total capital to risk weighted assets .....	\$12,563	11.11%	\$ 9,045	8.00%	\$11,306	10.00%
Tier 1 capital to risk weighted assets .....	11,463	10.14	4,522	4.00	6,784	6.00
Tier 1 capital to total average assets .....	11,463	9.22	4,971	4.00	6,214	5.00
AS OF DECEMBER 31, 2001:						
Total capital to risk weighted assets .....	\$ 7,102	9.80%	\$ 5,798	8.00%	\$ 7,247	10.00%
Tier 1 capital to risk weighted assets .....	6,445	8.89	2,900	4.00	4,350	6.00
Tier 1 capital to total average assets .....	6,445	8.39	3,073	4.00	3,841	5.00

(continued)

JACKSONVILLE BANCORP, INC., AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(15) PARENT COMPANY ONLY FINANCIAL INFORMATION

The Holding Company's unconsolidated financial information is as follows (in thousands):

Condensed Balance Sheets

Table 41

	AT DECEMBER 31,	
	2002	2001
ASSETS		
Cash .....	\$ 433	\$ 84
Investment in subsidiary .....	11,579	6,706
Premises and equipment, net .....	4	7
Other assets .....	563	563
Total assets .....	\$12,579	\$ 7,360
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities .....	12	63
Stockholders' equity .....	12,567	7,297
Total liabilities and stockholders' equity .....	\$12,579	\$ 7,360

CONDENSED STATEMENTS OF OPERATIONS

Table 42

	Year Ended December 31,	
	2002	2001
Revenues .....	\$ 2	\$ --
Expenses .....	(134)	(145)
Loss before earnings (loss) of subsidiary .....	(132)	(145)
Earnings (loss) of subsidiary .....	716	(53)

Net earnings (loss) .....	\$ 584	\$ (198)
	=====	=====

Condensed Statements of Cash Flows

Table 43

	Year Ended December 31,	
	2002	2001
Cash flows from operating activities:		
Net earnings (loss) .....	\$ 584	\$ (198)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Amortization .....	3	3
Equity in undistributed earnings (loss) of subsidiaries .....	(716)	53
Net increase in other assets .....	--	(152)
Increase (decrease) in other liabilities .....	(51)	39
Net cash used in operating activities .....	(180)	(255)
Cash flows from investing activities:		
Net investment in subsidiary .....	(4,000)	(900)
Proceeds from sale of common stock, net of offering costs .....	4,529	--
Net cash provided by (used in) investing activities .....	529	(900)
Net increase (decrease) in cash and cash equivalents .....	349	(1,155)
Cash and cash equivalents at beginning of year .....	84	1,239
Cash and cash equivalents at end of year .....	\$ 433	\$ 84
Noncash transaction:		
Accumulated other comprehensive income (loss), change in unrealized (loss) gain on securities available for sale, net of tax .....	\$ 157	\$ (44)

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE  
WITH SECTION 16(A) OF THE EXCHANGE ACT

The information regarding directors contained under the caption "Proposal 1: Election of Directors" in our Proxy Statement for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission prior to April 30, 2003, is incorporated herein by reference.

The information regarding executive officers who are not directors is set forth in Item 1 of this report under the caption "Executive Officers of the Registrant."

The information regarding reports required under Section 16(a) of the Securities Exchange Act of 1934 contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our proxy statement for the 2003 Annual Meeting of Shareholders, which will be filed with Securities and Exchange Commission prior to April 30, 2003, is incorporated herein by reference.

ITEM 10. EXECUTIVE COMPENSATION

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The information contained under the caption "Executive Compensation" in our Proxy Statement for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission prior to April 30, 2003, is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
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The information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission prior to April 30, 2003, is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS  
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The information contained under the captions "Certain Relationships and Related Transactions" and "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement for the 2003 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission prior to April 30, 2003, is incorporated herein by reference.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K  
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(A) EXHIBITS. The following exhibits were filed with or are incorporated by reference into this report.

Exhibit No.	Description of Exhibit
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3.1	Articles of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form SB-2, as effective with the Securities and Exchange Commission on September 30, 1998, Registration No. 333-64815).
3.2	Bylaws of Registrant (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-QSB for the period ending June 30, 2002).
4.1	Specimen Common Stock Certificate of Registrant (incorporated by reference to Exhibit 4.0 of the Company's Registration Statement on Form SB-2, as effective with the Securities and Exchange Commission on September 30, 1998, Registration No. 333-64815).
10.1	Stock Option Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed as of November 9, 1999).
10.2	Amendment to Stock Option Plan (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-QSB for the period ending June 30, 2002).
10.3	Servicing Agreement with M & I Data Services (now known as Metavante Corporation) (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form SB-2, as effective with the Securities and Exchange Commission on September 30, 1998, Registration No. 333-64815).
10.4	Employment Agreement with Gilbert J. Pomar, III (incorporated by reference to Exhibit 10.1 to the Company's Form 10-QSB for the quarter ended June 30, 1999).
21	Subsidiaries of the Registrant
23	Consent of Independent Accountants
99.1	CEO Certification required under Section 906 of Sarbanes-Oxely Act of 2002
99.2	CFO Certification required under Section 906 of Sarbanes-Oxely

(B) REPORTS ON FORM 8-K. We filed a Form 8-K during the fourth quarter of 2002, to report that the Company's stock had been admitted to trading on the NASDAQ SmallCap Market effective October 2002.

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You can obtain a copy of the Exhibits to this Annual Report on Form 10-KSB by contacting our Corporate Secretary, Cheryl L. Whalen, at 76 South Laura Street, Suite 104, Jacksonville, Florida 32202; (904) 421-3040; cwhalen@jaxbank.com.

ITEM 14. CONTROLS AND PROCEDURES

(A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial Officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

(B) CHANGES IN INTERNAL CONTROLS. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial Officers.

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SIGNATURES

Pursuant to the requirements of Sections 13 and 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.

JACKSONVILLE BANCORP, INC.

Dated: March 28, 2003

By: /s/ Gilbert J. Pomar, III

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Gilbert J. Pomar, III  
Chief Executive Officer

Dated: March 28, 2003

By: /s/ Cheryl L. Whalen

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Cheryl L. Whalen  
Executive Vice President and  
Chief Financial Officer  
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Act of 1934, this Form 10-KSB has been signed by the following persons in the capacities and as of the dates indicated:

Signature	Title	Date
-----	-----	----
/s/ D. Michael Carter ----- D. Michael Carter, C.P.A.	Director	March 28, 2003
/s/ Melvin Gottlieb ----- Melvin Gottlieb	Director	March 28, 2003
/s/ James M. Healey ----- James M. Healey	Director	March 28, 2003
/s/ John C. Kowkabany -----	Director	March 28, 2003



and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

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

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

Date: March 28, 2003

By: /s/ Gilbert J. Pomar, III

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Gilbert J. Pomar, III,  
President and Chief  
Executive Officer

I, Cheryl L. Whalen, certify, that:

1. I have reviewed this annual report on Form 10-KSB of Jacksonville Bancorp, Inc.;

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

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

4. The registrant's other certifying officer 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 annual report is being prepared;

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

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

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

Date: March 28, 2003

By: /s/ Cheryl L. Whalen

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Cheryl L. Whalen, Executive Vice  
President and Chief Financial Officer

## Section 2: EX-21

### EXHIBIT 21

#### Subsidiaries of the Registrant

The Jacksonville Bank, a Florida state-chartered commercial bank.

Fountain Financial, Inc., a subsidiary insurance agency of The Jacksonville Bank.

## Section 3: EX-23

### EXHIBIT 23

#### Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 No. 333-90609 dated November 9, 1999, of Jacksonville Bancorp, Inc., and in the related prospectuses, of our report dated February 6, 2003, with respect to the consolidated financial statements which are included in this Annual Report on Form 10-KSB for the year ended December 31, 2002.

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
March 28, 2003

## Section 4: EX-99.1A

### EXHIBIT 99.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Jacksonville Bancorp, Inc. (the "Company") on Form 10-KSB for the period ended December 31, 2002, as filed with the Securities and Exchange Commission (the "Report"), I, Gilbert J. Pomar, III, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as added by ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: March 28, 2003  
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By: /s/ Gilbert J. Pomar, III  
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Gilbert J. Pomar, III, President  
and Chief Executive Officer

## Section 5: EX-99.1B

EXHIBIT 99.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADDED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Jacksonville Bancorp, Inc. (the "Company") on Form 10-KSB for the period ended December 31, 2002, as filed with the Securities and Exchange Commission (the "Report"), I, Cheryl L. Whalen, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as added by ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the report.

Date: March 28, 2003  
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By: /s/ Cheryl L. Whalen  
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Cheryl L. Whalen, Executive Vice  
President and Chief Financial Officer