BANC CORP
Form 10-Q
May 15, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

Commission File number 0-25033

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

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

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

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

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

Yes [X] No [ ]

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

Class	Outstanding as of March 31, 2001
Common stock, $.001 par value	14,345,021

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	MARCH 31, 2001 (UNAUDITED)
ASSETS	
Cash and due from banks	$ 36,780
Interest bearing deposits in other banks	5,548
Federal funds sold	44,010
Investment securities available for sale	113,223
Investment securities held-to-maturity	--
Mortgage loans held for sale	7,785
Loans, net of unearned income	854,568
Less: Allowance for loan losses	(9,551)
Net loans	845,017
Premises and equipment, net	44,089
Accrued interest receivable	9,037
Stock in FHLB and Federal Reserve Bank	8,250
Other assets	28,744
TOTAL ASSETS	$ 1,142,483
LIABILITIES AND STOCKHOLDERS' EQUITY	
Deposits	
Noninterest-bearing	$ 94,263
Interest-bearing	805,932
TOTAL DEPOSITS	900,195
Advances from FHLB	136,100
Other borrowed funds	869
Note payable	5,000
Accrued expenses and other liabilities	8,357
TOTAL LIABILITIES	1,050,521
Guaranteed preferred beneficial interests in the Corporation's subordinated debentures	15,000
Stockholders' Equity	
Preferred stock, par value $.001 per share; authorized 5,000,000 shares; shares issued -0-	--
Common stock, par value $.001 per share; authorized 25,000,000 shares; shares issued 14,385,021; outstanding 14,345,021 shares	14
Surplus	47,756
Retained Earnings	29,218
Accumulated other comprehensive income (loss)	184
Treasury stock, at cost - 40,000 shares	(210)
TOTAL STOCKHOLDERS' EQUITY	76,962
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,142,483

See Notes to Condensed Consolidated Financial Statements.

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

	THREE MO M
	2001
INTEREST INCOME	
Interest and fees on loans	$ 20,281
Interest on investment securities	
Taxable	1,457
Exempt from Federal income tax	174
Interest on federal funds sold	462
Interest and dividends on other investments	187
Total interest income	22,561
INTEREST EXPENSE	
Interest on deposits	11,060
Interest on other borrowed funds	1,865
Total interest expense	12,925
NET INTEREST INCOME	9,636
Provision for loan losses	795
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,841
Noninterest income	2,193
Gain on sale of securities	37
TOTAL NONINTEREST INCOME	2,230
NONINTEREST EXPENSES	
Salaries and employee benefits	4,593
Occupancy, furniture and equipment expense	1,726
Other operating expenses	2,147
TOTAL NONINTEREST EXPENSES	8,466
DISTRIBUTIONS ON TRUST PREFERRED SECURITIES	398
Income before income taxes	2,207
INCOME TAX EXPENSE	628
NET INCOME	$ 1,579

BASIC AND DILUTED NET INCOME PER SHARE	$	0.11
AVERAGE COMMON SHARES OUTSTANDING		14,345
AVERAGE COMMON SHARES OUTSTANDING, ASSUMING DILUTION		14,347

See Notes to Condensed Consolidated Financial Statements.

THE BANC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(DOLLARS IN THOUSANDS)

	THREE M M
	2001
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (241)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net increase in interest bearing deposits in other banks	(3,121)
Net (increase) decrease in federal funds sold	(40,890)
Net decrease in short-term investments	--
Proceeds from sales of securities available for sale	3,101
Proceeds from maturities of investment securities available for sale	12,969
Purchases of investment securities available for sale	(32,609)
Proceeds from maturities of investment securities held to maturity	--
Net increase in loans	(46,910)
Purchases of premises and equipment	(908)
Other investing activities	(1,328)
Net cash used by investing activities	(109,696)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase (decrease) in deposit accounts	72,891
Net increase in FHLB advance and other borrowings	32,135
Proceeds from note payable	5,000
Net cash provided by financing activities	110,026
Net increase in cash and due from banks	89
Cash and due from banks at beginning of period	36,691
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 36,780

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q, and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. For a summary of significant accounting policies that have been consistently followed, see Note 1 to the Consolidated Financial Statements included in Form 10-K for the year ended December 31, 2000. It is management's opinion that all adjustments, consisting of only normal and recurring items necessary for a fair presentation, have been included. Operating results for the three-month period ended March 31, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The statement of financial condition at December 31, 2000, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENT
Financial Accounting Standards Statement (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires all derivatives to be recorded on the statement of financial condition at fair value and establishes standard accounting methodologies for hedging activities. The statement is effective for the Corporation's fiscal year ending December 31, 2001. The adoption of this statement did not have a material impact on the accompanying financial statements.

The transition provisions of FAS No. 133 provide that at the date of initial application (January 1, 2001), debt securities categorized as held-to-maturity may be transferred into the available-for-sale category without calling into question the Corporation's intent to hold other debt securities until maturity. As such, on January 1, 2001, the Corporation transferred debt securities with a carrying value of $4,389,000 and a market value of $4,317,000 to the available-for-sale category.

NOTE 3 - SEGMENT REPORTING
The Corporation has two reportable segments, the Alabama Region and the Florida Region. The Alabama Region consists of operations located throughout the state of Alabama. The Florida Region consists of operations located in the panhandle region of Florida. The Corporation's reportable segments are managed as separate business units because they are located in different geographic areas. Both segments derive revenues from the delivery of financial services. These services include commercial loans, mortgage loans, consumer loans, deposit accounts and other financial services.

The Corporation evaluates performance and allocates resources based on profit or loss from operations. There are no material intersegment sales or transfers. Net interest revenue is used as the basis for performance evaluation rather than its components, total interest revenue and total interest expense. The accounting policies used by each reportable segment are the same as those discussed in Note 1 to the Consolidated Financial Statements included in the Form 10-K for the year ended December 31, 2000. All costs have been allocated to the reportable segments. Therefore, combined amounts agree to the consolidated totals.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

NOTE 3 - SEGMENT REPORTING - CONTINUED

	Alabama Region	Flor Reg
Three months ended March 31, 2001		
Net interest income	$ 6,513	$
Provision for loan losses	465	
Noninterest income	1,666	
Noninterest expense	6,568	
Distributions on trust preferred securities	398	
Income tax expense	110	
Net income	638	
Total assets	862,313	2
Three months ended March 31, 2000		
Net interest income	$ 5,651	$
Provision for loan losses	604	
Noninterest income	1,302	
Noninterest expense	6,238	
Income tax (benefit) expense	(35)	
Net income	146	
Total assets	592,974	2

NOTE 4 - NET INCOME PER SHARE
The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share amounts):

	Thr
	2001
Numerator:	
For basic and diluted, net income	$ 1,5
Denominator:	
For basic, weighted average common shares outstanding	14,3
Effect of dilutive stock options	
Average diluted common shares outstanding	14,3
Basic and diluted net income per share	$.

NOTE 5 - COMPREHENSIVE INCOME
Total comprehensive income was $2,087,000 and $852,000 for the three-months ended March 31, 2001 and 2000, respectively. Total comprehensive income consists of net income and the unrealized gain or loss on the Corporation's available for sale securities portfolio arising during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
NOTE 6 - INCOME TAXES
The primary difference between the effective tax rate and the federal statutory rate in 2001 and 2000 is due to the recognition of rehabilitation tax credits generated from the restoration of the Corporation's headquarters, the John A. Hand Building.

NOTE 7 - GUARANTEED PREFERRED BENEFICIAL INTERESTS IN THE CORPORATION'S SUBORDINATED DEBENTURES
On September 7, 2000, TBC Capital Statutory Trust II ("TBC Capital"), a Connecticut statutory trust established by the Corporation, received $15,000,000 in proceeds in exchange for $15,000,000 principal amount of TBC Capital's 10.6% cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of 10.6% subordinated debentures of the Corporation. The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital on a subordinated basis with respect to the preferred securities. The Corporation accounts for TBC Capital as a minority interest. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Condensed Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in the Corporation's subordinated debentures." The sole asset of TBC Capital is the subordinated debentures issued by the Corporation. Both the preferred securities of TBC Capital and the subordinated debentures of the Corporation each have 30-year lives. However, both the Corporation and TBC Capital have a call option after ten years, subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements.

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

Basis of Presentation
The following is a discussion and analysis as of March 31, 2001 of the consolidated financial condition of the Corporation and of the results of operations for the three-month periods ended March 31, 2001 (first quarter of 2001) and 2000 (first quarter of 2000). All significant intercompany accounts and transactions have been eliminated. The accounting and reporting policies of the Corporation conform with generally accepted accounting principles.

This information should be read in conjunction with the Corporation's unaudited consolidated financial statements and related notes appearing elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations", appearing in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

Financial Overview
Total assets of the Corporation were $1.14 billion at March 31, 2001, an

increase of $113.3 million, or 11.0%, from $1.03 billion as of December 31, 2000. Total deposits were $900.2 million at March 31, 2001, an increase of $72.9 million, or 8.8%, from $827.3 million as of December 31, 2000. Total stockholders' equity was $77.0 million at March 31, 2001, an increase of $2.1 million, or 2.8%, from $74.9 million as of December 31, 2000.

Net income for the first quarter of 2001 was $1.6 million compared to $902,000 for the first quarter of 2000, an increase of $677,000 or 75.1%. Basic and diluted net income per share was $.11 and $.06 for the first quarter of 2001 and 2000, respectively. Return on average assets, on an annualized basis, was .59% for the first quarter 2001 compared to .43% for the first quarter of 2000. Return on average stockholders' equity, on an annualized basis, was 8.43% for the first quarter 2001 compared to 5.40% for the first quarter of 2000. Book value per share at March 31, 2001 was $5.37 compared to $5.22 as of December 31, 2000.

Results of Operations

The growth in net income during the first quarter of 2001 compared to the first quarter of 2000 is primarily the result of an increase in net interest income. Net interest income is the difference between the income earned on interest earning assets and interest paid on interest bearing liabilities used to support such assets. Net interest income increased $1.3 million, or 15.2%, to $9.6 million for the first quarter of 2001 from $8.4 million for the first quarter of 2000. The increase in net interest income was offset by an increase in noninterest expense of $615,000, or 7.8%, to $8.5 million for the first quarter of 2001 compared to $7.9 million for the first quarter of 2000.

Average interest-earning assets for the first quarter of 2001 increased $240.9 million, or 32.3%, to $987.5 million from $746.7 million in the first quarter of 2000. This growth in average interest-earning assets was funded by a $234.2 million increase in average interest-earning liabilities to $907.8 million for the first quarter of 2001 from $673.6 million for the first quarter of 2000. Average interest bearing assets produced a tax equivalent yield of 9.30% for the first quarter of 2001 compared to 9.02% for the first quarter of 2000. The average rate paid on interest bearing liabilities was 5.77% for the first quarter of 2001 compared to 4.95% for the first quarter of 2000. The Corporation's net interest spread and net interest margin were 3.53% and 3.99%, respectively, for the first quarter of 2001, compared to 4.07% and 4.56% for the first quarter of 2000. The decline in net interest spread and margin is primarily the result of a rise in the volume of higher yielding sources

9

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

Results of Operations - continued

such as certificates of deposit, brokered deposits and Federal Home Loan Bank borrowings. These funds were needed to meet the strong loan demand, which accounted for the increase in the average interest earning assets during the first quarter of 2001.

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

CONSOLIDATED AVERAGE BALANCE INTEREST/INCOME/EXPENSE

AND YIELD/RATES TAXABLE EQUIVALENT BASIS

	THREE MONTHS ENDED MARCH 31,			
	2001			
	AVERAGE BALANCE	INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE
			(Dollars in thousands)	
		ASSETS		
Earning assets:				
Loans, net of unearned income(1)................	$ 837,727	$ 20,281	9.82%	$ 650,563
Investment securities				
Taxable...................	91,635	1,457	6.45	59,440
Tax-exempt(2)............	14,040	264	7.63	15,418
Total investment securities............	105,675	1,721	6.60	74,858
Federal funds sold........	32,745	462	5.72	14,214
Other investments.........	11,376	187	6.67	7,014
Total interest-earning assets................	987,523	22,651	9.30	746,649
Noninterest-earning assets:				
Cash and due from banks.....	31,680			26,225
Premises and equipment......	43,862			38,647
Accrued interest and other assets....................	39,632			34,702
Allowance for loan losses...	(9,221)			(8,400)
Total assets..........	$1,093,476			$ 837,823
		LIABILITIES AND STOCKHOLDERS' EQUITY		
Interest-bearing liabilities:				
Demand deposits............	$ 196,889	1,979	4.08	$ 175,643
Savings deposits...........	33,355	230	2.80	34,036
Time deposits..............	543,979	8,851	6.60	388,339
Other borrowings...........	133,569	1,865	5.66	75,559
Total interest-bearing liabilities...........	907,792	12,925	5.77	673,577
Noninterest-bearing liabilities:				
Demand deposits............	86,793			89,521
Accrued interest and other liabilities................	7,973			5,451
Guaranteed preferred beneficial interest in Corporation's subordinated debentures	15,000			--
Stockholders' equity........	75,918			69,274
Total liabilities and stockholders' equity	$1,093,476			$ 837,823
Net interest income/net interest spread.....................		9,726	3.53%	

Net yield on earning assets...		3.99%	
Taxable equivalent adjustment:			
Investment securities(2)....	90		
Net interest income...	$ 9,636		$

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

10

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

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

Results of Operations - Continued

The following table sets forth, on a taxable equivalent basis, the effect which the varying levels of earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the three months ended March 31, 2001 and 2000.

	THREE MONTHS ENDED MARCH 31 (1) 2001 VS 2000		
	INCREASE (DECREASE)	CHANGES DUE TO RATE	VOLUME
	(Dollars in thousands)		
Increase (decrease) in:			
Income from earning assets:			
Interest and fees on loans................	$ 5,080	$ 683	$ 4,397
Interest on securities:			
Taxable..............................	503	(10)	513
Tax-exempt..........................	(25)	22	(47)
Interest on federal funds.................	260	--	260
Interest on other investments.............	86	17	69
Total interest income................	5,904	712	5,192
Expense from interest-bearing liabilities:			
Interest on demand deposits..................	365	168	197
Interest on savings deposits.................	(17)	(11)	(6)
Interest on time deposits....................	3,456	1,074	2,382
Interest on other borrowings.................	837	36	801
Total interest expense...............	4,641	1,267	3,374
Net interest income..................	$ 1,263	$ (555)	$ 1,818

----

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

Noninterest income increased $583,000, or 35.5%, to $2.2 million for the first quarter of 2001 from $1.6 million for the first quarter of 2000, primarily due to growth in service charge income from an increase in the volume of deposits and a $247,000 gain from the sale of real estate.

Noninterest expense increased $615,000, or 7.8%, to $8.5 million for first quarter of 2001 from $7.9 million for the first quarter of 2000. Salaries and benefits increased $797,000, or 21.0%, to $4.6 million for the first quarter of 2001 from $3.8 million for the first quarter of 2000. The increase in salaries and benefits primarily resulted from the addition of personnel in the lending, administrative and operations area.

All other noninterest expenses decreased $182,000, or 4.5%, to $3.9 million, for the first quarter of 2001 from $4.1 million for the first quarter of 2000. This decrease in other noninterest expenses is primarily due to a decline in professional fees and foreclosure losses.

11

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

Results of Operations - Continued
Income tax expense was $628,000 for the first quarter of 2001, compared to $371,000 for the first quarter of 2000. The primary difference in the effective rate and the federal statutory rate (34%) is due to the recognition of a rehabilitation tax credit generated from the restoration of the Corporation's headquarters, the John A. Hand Building.

Provision for Loan Losses
The provision for loan losses was $795,000 for the first quarter of 2001 compared to $888,000 for first quarter of 2000. The provision for loan losses represents the amount determined by management necessary to maintain the allowance for loan losses at a level capable of absorbing inherent losses in the loan portfolio, plus estimated losses associated with off-balance sheet credit instruments such as letters of credit and unfunded lines of credit. The allowance for loan losses at March 31, 2001, totaled $9.6 million, or 1.12% of total loans, compared to $9.0 million, or 1.11% of total loans at December 31, 2000. The Corporation prepares an analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, the Corporation estimates the allowance using factors such as historical loss experience based on volume and types of loans, volume and trends in delinquencies and nonaccruals, national and local economic conditions and other pertinent information.

The Corporation manages and controls risk in the loan portfolio through adherence to credit standards established by the Board of Directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting/approval procedure, sets limits on credit concentration and enforces regulatory requirements.

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

A risk rating system is employed whereby each loan is assigned a rating which corresponds to the perceived credit risk. Risk ratings are subject to independent review by the Corporation's Loan Review Department, which also performs ongoing, independent review of the risk management process that includes underwriting, documentation and collateral control. Regular reports are made to senior management and the Board of Directors regarding credit quality as measured by assigned risk ratings and other measures, including, but not limited to, the level of past due percentages and nonperforming assets.

The loan review function is centralized and independent of the lending function. Review results are reported to the Audit Committee of the Board of Directors.

Financial Condition

Total assets of the Corporation were $1.14 billion at March 31, 2001, an increase of $113.3 million, or 11.0%, from $1.03 billion as of December 31, 2000. The increase in total assets was funded by an increase in deposits and borrowings from the Federal Home Loan Bank ("FHLB"). The Corporation believes that FHLB borrowings are a reliable and relatively inexpensive source of funding when compared to market deposit rates in the Birmingham, Alabama market and other markets in which the Corporation conducts its business.

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

Financial Condition - Continued

Short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) increased $44.1 million, or 104.4%, to $86.3 million at March 31, 2001 from $42.2 million at December 31, 2000. This increase resulted primarily from the purchase of federal funds sold. At March 31, 2001, short-term liquid assets comprised 7.6% of total assets compared to 4.1% at December 31, 2000. The Corporation continually monitors its liquidity position and will increase or decrease its short-term liquid assets as necessary.

Total investment securities increased $17.5 million, or 18.3%, to $113.2 million at March 31, 2001, from $95.7 million at December 31, 2000. Mortgage-backed securities, which comprised 45.4% of the total investment portfolio at March 31, 2001, increased $12.1 million, or 30.1%, to $51.4 million from $39.3 million at December 31, 2000. Investments in U.S. Treasury and agency securities, which comprised 42.1% of the total investment portfolio at March 31, 2001, increased $8.5 million, or 21.6%, to $47.7 million from $39.2 million at December 31, 2000. The total investment portfolio at March 31, 2001 comprised 11.0% of all interest-earning assets compared to 10.4% at December 31, 2000 and produced an average tax equivalent yield of 6.6% for the first quarter of 2001 compared to 6.7% for the first quarter of 2000.

Loans, net of unearned income, totaled $854.6 million at March 31, 2001, an increase of 5.7%, or $46.4 million from $808.2 million at December 31, 2000, with average loans totaling $837.8 million for the first quarter of 2001 compared to $650.6 million for the first quarter of 2000. Of the $46.4 million increase in loans, 70.0%, or $31.1 million were produced by branches in the Alabama region, the other 30.0%, or $15.3 million were produced by branches in the Florida region. Loans, net of unearned income, comprised 82.7% of interest-earning assets at March 31, 2001, compared to 87.8% at December 31, 2000 and produced an average yield of 9.8% for the first quarter of 2001, compared to 9.4% for the first quarter of 2001. The following table details the distribution of the loan portfolio by category as of March 31, 2001 and December 31, 2000:

DISTRIBUTION OF LOANS BY CATEGORY

	MARCH 31, 2001		DECEMBER 31, 20	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCEN TOTA
Commercial, industrial and agricultural...........	$255,807	29.9%	$245,154	30.
Real estate-- construction.......................	118,106	13.8	100,448	12.
Real estate-- mortgage...........................	389,500	45.5	373,509	46.
Consumer...	85,701	10.0	84,129	10.
Other..	6,280	.8	5,725	.
Total loans............................	855,394	100.0%	808,965	100.
Unearned income..................................	(826)		(820)	
Allowance for loan losses........................	(9,551)		(8,959)	
Net loans.............................	$845,017		$799,186	

13

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

Financial Condition- continued

Noninterest bearing deposits totaled $94.3 million at March 31, 2001, an increase of 6.0%, or $5.4 million from $88.9 million at December 31, 2000. Noninterest bearing deposits comprised 10.5% of total deposits at March 31, 2001, compared to 10.8% at December 31, 2000.

Interest bearing deposits totaled $805.9 million at March 31, 2001, an increase of 9.2%, or $67.5 million from $738.4 million at December 31, 2000, with interest bearing deposits averaging $774.2 million for the first quarter of 2001 compared to $598.0 million for the first quarter of 2000. The $67.5 million increase in interest bearing deposits during the first quarter of 2001 is comprised primarily of higher yielding certificates of deposit issued to fund loan demand. The average rate paid on all interest bearing deposits during the first quarter of 2001 was 5.8% compared to 4.9% for the first quarter of 2000.

Advances from the Federal Home Loan Bank ("FHLB") increased $31.8 million to $136.1 million at March 31, 2001 from $104.3 million at December 31, 2000. Borrowings from the FHLB were used primarily to fund growth in the loan portfolio. The advances are secured by FHLB stock, agency securities and a blanket lien on certain residential real estate loans.

As of March 31, 2001, the Corporation had outstanding $5.0 million under a $15.0 million line of credit with a regional bank. Interest is one and one quarter

(1.25%) percentage points in excess of the applicable LIBOR Index Rate. The line matures May 1, 2001. The funds were used as a capital contribution to Corporation's banking subsidiary during the first quarter of 2001.

On September 7, 2000, TBC Capital Statutory Trust II ("TBC Capital"), a Connecticut statutory trust established by the Corporation, received $15,000,000 in proceeds in exchange for $15,000,000 principal amount of TBC Capital's 10.6% cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of 10.6% subordinated debentures of the Corporation. The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital on a subordinated basis with respect to the preferred securities. The Corporation accounts for TBC Capital as a minority interest. Subject to certain limitations, the preferred securities qualify as Tier 1 capital and are presented in the Condensed Consolidated Statement of Financial Condition as "Guaranteed preferred beneficial interests in the Corporation's subordinated debentures." The sole asset of TBC Capital is the subordinated debentures issued by the Corporation. Both the preferred securities of TBC Capital and the subordinated debentures of the Corporation each have 30-year lives. However, both the Corporation and TBC Capital have a call option after ten years, subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements.

At March 31, 2001, total stockholders' equity was $77.0 million, an increase of $2.1 million from $74.9 million at December 31, 2000. The increase in stockholders' equity resulted primarily from total comprehensive income for the first quarter of 2001.

Allowance for Loan Losses

The Corporation maintains an allowance for loan losses at a level it believes is adequate to absorb estimated losses inherent in the loan portfolio, plus estimated losses associated with off-balance sheet credit instruments such as letters of credits and unfunded lines of credit. The Corporation prepares an analysis to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan losses. Generally, the Corporation estimates the allowance using factors such as historical loss experience based on volume and types of loans, volume and trends in delinquencies and non-accruals, national and local economic conditions and other pertinent information.

The Corporation manages and controls risk in the loan portfolio through adherence to credit standards established by the Board of Directors and implemented by senior management. These standards are set forth in a formal loan policy, which establishes loan underwriting/approval procedure, sets limits on credit concentration and enforces regulatory requirements.

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

A risk rating system is employed whereby each loan is assigned a rating which corresponds to the perceived credit risk. Risk ratings are subject to independent review by a Loan Review Department, which also performs ongoing, independent review of the risk management process that includes underwriting, documentation and collateral control. Regular reports are made to senior management and the Board of Directors regarding credit quality as measured by assigned risk ratings and other measures, including, but not limited to, the level of past due percentages and nonperforming assets.

The loan review function is centralized and independent of the lending function. Review results are reported to the Audit Committee of the Board of Directors.

The allowance as a percentage of loans at March 31, 2001 was 1.12% compared to 1.11% as of December 31, 2000. The allowance as a percentage of loans for the five-year period ending December 31, 2000 has averaged 1.25%. Allowance for loan losses as a percentage of nonperforming loans increased to 96.6% at March 31, 2001 from 90.9% at December 31, 2000, while nonperforming loans remained level at $9.9 million. As a percent of net loans, nonperforming loans decreased from 1.22% at December 31, 2000 to 1.16% at March 31, 2001. The balance of nonperforming loans includes a single credit, secured by real estate, totaling $3.8 million and $4.9 million as of March 31, 2001 and December 31, 2000, respectively. Excluding this credit, the allowance for loan losses as a percent of nonperforming loans was 156.8% and 181.6% as of March 31, 2001 and December 31, 2000, respectively.

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

Allowance for Loan Losses-continued

Net charge-offs were $203,000 for the first quarter of 2001. Net charge-offs to average loans on an annualized basis totaled .10% for the first quarter of 2001. The ratio of net charge-offs to average loans has averaged .67% for the five year period ended December 31, 2000, with a ratio of .57% in 2000 and .90% in 1999. Historically, net charge-offs have been more significant for commercial and consumer loans. Net charge-off loans during 2000 are more reflective of historical averages because net charge-off loans during 1999 included the charge-off of loans acquired in a purchase business combination and a significant loss from a single commercial loan customer. The Corporation believes that in future periods loan losses should reflect amounts that are similar to its historical averages, exclusive of 1999.

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

SUMMARY OF LOAN LOSS EXPERIENCE

	THREE-MONTH PERIOD ENDED MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000
	(Dollars in Thousands)	
Allowance for loan losses at beginning of year	$ 8,959	$ 8,065
Charge-offs:		
Commercial, industrial and agricultural	6	3,133
Real estate	148	756
Consumer	185	726

Total charge-offs	339	4,615
Recoveries:		
Commercial, industrial and agricultural	13	193
Real estate	8	87
Consumer	115	268
Total recoveries	136	548
Net charge-offs	203	4,067
Provision for loan losses	795	4,961
Allowance for loan losses at end of year	$ 9,551	$ 8,959
Loans at end of period, net of unearned income	$854,568	$808,145
Average loans, net of unearned income	837,727	710,414
Ratio of ending allowance to ending loans	1.12%	1.11%
Ratio of net charge-offs to average loans (1)	.10%	.57%
Net charge-offs as a percentage of:		
Provision for loan losses	25.53%	81.98%
Allowance for loan losses (1)	8.62%	45.40%
Allowance for loan losses as a percentage of nonperforming loans	96.60%	90.85%

(1)Annualized.

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

Allowance for Loan Losses-continued

The following table represents the Corporation's nonperforming loans for the dates indicated.

NONACCRUAL, PAST DUE AND RESTRUCTURED LOANS

	MARCH 31, 2001	DECEMBER 31, 2000
Nonaccrual	$ 8,947	$ 9,340
Past due (contractually past due 90 days or more)	940	334
Restructured	--	187
	$ 9,887	$ 9,861

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

Regulatory Capital
The table below represents the regulatory and minimum regulatory capital requirements of the Corporation and its subsidiary at March 31, 2001 (dollars in thousands):

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO B CAPI
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT
Total Risk-Based Capital					
Corporation	$95,216	10.77%	$70,745	8.00%	$88,43
The Bank	91,049	10.40	70,069	8.00	87,58
Tier 1 Risk-Based Capital					
Corporation	85,665	9.69	35,372	4.00	53,05
The Bank	81,498	9.30	35,034	4.00	52,55
Leverage Capital					
Corporation	85,665	7.88	43,465	4.00	54,34
The Bank	81,498	7.50	43,474	4.00	54,34

17

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

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

Forward-Looking Statements
Statements contained in this Quarterly Report on Form 10-Q, which are not historical facts, are forward-looking statements. In addition, the Corporation, through its senior management, from time to time makes forward-looking public

statements concerning its expected future operations and performance and other developments. Such forward-looking statements are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Additionally, such forward-looking statements are based on the Corporation's belief as well as certain assumptions made by, and information currently available to, the Corporation with respect to its ability to achieve the operating results it expects relating to the recently-completed acquisitions; one-time costs associated with the recently-completed acquisitions; the ability of the Corporation to achieve anticipated cost savings and revenue enhancements with respect to the acquired operations; the assimilation of the acquired operations by the Corporation, including installing the Corporation's centralized policy oversight, credit review and management systems at the acquired institutions; the absence of material contingencies related to the acquired operations; the adequacy of the allowance for loan losses; the ability of the Corporation to resolve any pending litigation on acceptable terms; the effect of legal proceedings on the Corporation's financial condition, results of operations and liquidity; and market risk disclosures, as well as other information. The risks and uncertainties that may affect operations, performance, growth projections and the results of the Corporation's business include, but are not limited to, fluctuations in the economy, the relative strength and weakness in the commercial and consumer sector and in the real estate market, the actions taken by the Federal Reserve Board for the purpose of managing the economy, interest rate movements, the impact of competitive products, services and pricing, timely development by the Corporation of technology enhancements for its products and operating systems, legislation and similar matters. Although management of the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Prospective investors are cautioned that any such forward-looking statements are not guaranties of future performance, and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information set forth under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Market Risk-Interest Sensitivity" included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, is hereby incorporated herein by reference.

18

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

While we may from time to time be a party to various legal proceedings arising in the ordinary course of our business, we believe that, other than as set forth below, or as discussed in, and incorporated herein by reference, "Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, there are no proceedings threatened or pending against the Corporation at this time that may individually, or in the aggregate, materially, adversely affect the Corporation's business, financial condition or results of operations.

The Bank is currently a defendant in various legal proceedings pending in state court arising out of certain losses that occurred in our Decatur branch in late 1999. See "Item 3. Legal Proceedings" of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. On May 2, 2001, the trial court denied our motion for summary judgment in John C. Moses v. The Bank et al, Case No. CV 00-150, which is pending in the Circuit Court of

Morgan County, Alabama. The plaintiff contends that the defendants converted property and accounts that he values at $483,000. The plaintiff also requests additional damages, including punitive damages. Trial is set for June 11, 2001, on all counts including plaintiff's claims for punitive damages. While we believe that we will prevail in this lawsuit, there can be no assurance, especially given the unpredictability of punitive damages awards, that, if we do not prevail, the litigation will not have a material adverse effect on our financial condition or results of operations.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:
None

(b) Report on Form 8-K:
None

SIGNATURES

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

The Banc Corporation
(Registrant)

Date: May 15, 2001 By: /s/ James A. Taylor, Jr.

James A. Taylor, Jr.
President and Chief Operating Officer

Date: May 15, 2001 By: /s/ David R. Carter

David R. Carter
Executive Vice President and Chief Financial Officer
(Principal Accounting Officer)