

BANC CORP
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC

Form 10-Q

(Mark One)

QUARTERLY
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
FOR THE
QUARTERLY
PERIOD
ENDED
SEPTEMBER
30, 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

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(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 No

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

<u>Class</u>	<u>Outstanding as of September 30, 2001</u>
Common stock, \$.001 par value	14,243,721

Part I. Financial Information

Item I. Financial Statements

**The Banc Corporation and Subsidiaries
Condensed Consolidated Statements of Financial Condition
(Dollars In Thousands)**

	<u>September 30, 2001</u>	<u>December 31, 2000</u>
	(Unaudited)	(Note 1)
Assets		
Cash and due from banks		
\$46,608	\$36,691	
Interest bearing deposits in other banks		
593	2,427	
Federal funds sold		
19,000	3,120	
Investment securities available for sale		
71,731	91,316	
Investment securities held-to-maturity		
4,389		
Mortgage loans held for sale		
2,713	4,324	
Loans, net of unearned income		
977,054	808,145	
Less: Allowance for loan losses		
(10,228)	(8,959)	
<hr/>		
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Net loans		
966,826	799,186	
<hr/>		
<hr/>		
Premises and equipment, net		
46,494	43,957	
Accrued interest receivable		
8,445	8,615	
Stock in FHLB and Federal Reserve Bank		
8,459	6,922	
Other assets		
29,938	28,268	
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Total assets

\$1,200,807 \$1,029,215

Liabilities and Stockholders Equity

Deposits

Noninterest-bearing

\$90,742 \$88,910

Interest-bearing

854,208 738,394

Total deposits

944,950 827,304

Advances from FHLB

136,100 104,300

Other borrowed funds

793 534

Accrued expenses and other liabilities

8,267 7,202

Total liabilities

1,090,110 939,340

Guaranteed preferred beneficial interests
in the Corporation's subordinated
debentures

31,000 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 14,243,721
shares in 2001 and 14,345,021 in 2000

14 14

Surplus

47,756 47,756

Retained Earnings

32,188 27,640

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Accumulated other comprehensive income
(loss)
492 (325)
Treasury stock, at cost - 141,300 and
40,000 shares, respectively
(753) (210)

Total stockholders' equity
79,697 74,875

Total liabilities and stockholders' equity
\$1,200,807 \$1,029,215

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 Months Ended September 30,		Nine Months Ended September 30,	
2001	2000	2001	2000

Interest income

Interest and fees on loans
 \$21,253 \$17,672 \$62,463 \$49,319
 Interest on investment securities

Taxable
 1,086 1,259 3,910 3,161
 Exempt from Federal income tax
 88 184 382 559

Interest on federal funds sold
 275 255 1,178 627

Interest and dividends on other investments
 121 145 498 415

Total interest income
 22,823 19,515 68,431 54,081

Interest expense

Interest on deposits
 9,925 9,512 31,673 24,803

Interest on other borrowed funds
 1,957 1,219 5,849 3,432

Total interest expense
 11,882 10,731 37,522 28,235

Net interest income

10,941 8,784 30,909 25,846

Provision for loan losses

925 1,869 2,555 3,466

Net interest income after provision for loan losses

10,016 6,915 28,354 22,380

Noninterest income

1,844 2,160 6,140 5,687

Gain on sale of securities

993 76 1,150 73

Total noninterest income

2,837 2,236 7,290 5,760

Noninterest expenses

Salaries and employee benefits

4,700 3,944 14,258 11,771

Occupancy, furniture and equipment expense

1,691 1,486 5,163 4,377

Other operating expenses

3,509 2,287 8,341 7,695

Total noninterest expenses

9,900 7,717 27,762 23,843

Distributions on trust preferred securities

657 104 1,452 104

Income before income taxes

2,296 1,330 6,430 4,193

Income tax expense (benefit)

721 (37) 1,881 730

Net income

\$1,575 \$1,367 \$4,549 \$3,463

Basic and diluted net income per share

\$0.11 \$0.10 \$0.32 \$0.24

Average common shares outstanding

14,248 14,385 14,288 14,385

Average common shares outstanding, assuming dilution

14,311 14,391 14,311 14,388

See Notes to Condensed Consolidated Financial Statements.

The Banc Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flow (Unaudited)
(Dollars In Thousands)

Nine Months Ended
September 30,

	2001	2000
--	------	------

Net cash provided by operating activities	\$8,227	\$5,290
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Cash flows from investing activities:

Net decrease in interest bearing
deposits in other banks

1,834 630

Net (increase) decrease in federal
funds sold

(15,880) 5,823

Net decrease in short-term
investments

3,682

Proceeds from sales of securities
available for sale

49,461 135

Proceeds from maturities of
investment securities available for
sale

44,920 9,061

Purchases of investment
securities available for sale

(67,753) (15,657)

Proceeds from maturities of
investment securities held to
maturity

544

Net increase in loans
(169,414) (120,889)

Purchases of premises and
equipment

(5,103) (8,017)

Other investing activities
(1,537) (1,900)

Net cash used by investing
activities

(163,472) (126,588)

Cash flows from financing activities:

Net increase in deposit accounts		
	117,646	101,183
Net increase in FHLB advance and other borrowings		
	32,059	14,983
Net decrease in note payable		
	(7,104)	
Proceeds from trust preferred securities		
	16,000	15,000
Purchase of treasury stock		
	(543)	

Net cash provided by financing activities		
	165,162	124,062

Net increase in cash and due from banks		
	9,917	2,764
Cash and due from banks at beginning of period		
	36,691	31,825

Cash and due from banks at end of period		
	\$46,608	\$34,589

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 and nine-month periods ended September 30, 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.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, *Business Combinations*, and No. 142, *Goodwill and Other Intangible Assets*. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to the estimated residual values, and reviewed for impairment in accordance with the FASB's Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

The Corporation will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Applications of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately \$393,000 (\$.03 per share). During the first quarter of 2002, the Corporation will perform the first of the required impairment tests of goodwill and intangible assets with indefinite lives and has not yet determined what the effect of these tests will be on the earnings and financial position of the Corporation.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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.

	<u>Alabama Region</u>	<u>Florida Region</u>	<u>Combined</u>
Three months ended September 30, 2001			
Net interest income			
	\$6,983	\$3,958	\$10,941
Provision for loan losses			
	673	252	925
Noninterest income			
	2,571	266	2,837
Noninterest expense			
	7,063	2,837	9,900
Distributions on trust preferred securities			
	657	657	
Income tax expense			
	380	341	721
Net income			
	781	794	1,575
Total assets			
	868,737	332,070	1,200,807
Three months ended September 30, 2000			
Net interest income			
	\$5,574	\$3,210	\$8,784
Provision for loan losses			
	1,181	688	1,869
Noninterest income			
	1,862	374	2,236
Noninterest expense			
	5,936	1,781	7,717
Distributions on trust preferred securities			
	104	104	
Income tax (benefit) expense			
	(370)	333	(37)
Net income			
	585	782	1,367
Total assets			
	703,051	252,490	955,541
Nine months ended September 30, 2001			

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Net interest income
\$20,019 \$10,890 \$30,909
Provision for loan losses
1,773 782 2,555
Noninterest income
6,312 978 7,290
Noninterest expense
20,730 7,032 27,762
Distributions on trust preferred securities
1,452 1,452
Income tax expense
580 1,301 1,881
Net income
1,796 2,753 4,549
Nine months ended September 30, 2000

Net interest income
\$16,837 \$9,009 \$25,846
Provision for loan losses
2,235 1,231 3,466
Noninterest income
4,588 1,172 5,760
Noninterest expense
18,470 5,373 23,843
Distributions on trust preferred securities
104 104
Income tax (benefit) expense
(508) 1,238 730
Net income
1,124 2,339 3,463

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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):

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Numerator:				
For basic and diluted, net income	\$1,575	\$1,367	\$4,549	\$3,463
Denominator:				
For basic, weighted average common shares outstanding	14,248	14,385	14,288	14,385
Effect of dilutive stock options	63	6	23	3
Average diluted common shares outstanding	14,311	14,391	14,311	14,388

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Basic and diluted net income per share
\$.11 \$.10 \$.32 \$.24

NOTE 5 COMPREHENSIVE INCOME

Total comprehensive income was \$1,979,000 and \$5,366,000, respectively, for the three and nine-month periods ended September 30, 2001, compared to \$1,946,000 and \$4,135,000, respectively, for the three and nine-month periods ended September 30, 2000. 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.

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 II), 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 II 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.

On July 16, 2001, TBC Capital Statutory Trust III (TBC Capital III), a Delaware business trust established by the Corporation, received \$16,000,000 in proceeds in exchange for \$16,000,000 principal amount of TBC Capital III s variable rate cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of variable rate subordinated debentures of the Corporation. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% annum ceiling. As of the date of issuance the interest rate on the securities was 7.57%.

The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital II and III on a subordinated basis with respect to the preferred securities. The Corporation accounts for TBC Capital II and III as minority interests. 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 II and III are the subordinated debentures issued by the Corporation. Both the preferred securities of TBC Capital II and III and the subordinated debentures of the Corporation each have 30-year lives. However, both the Corporation and TBC Capital II and III have call options, without a premium, 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 of September 30, 2001 consolidated financial condition of The Banc Corporation (the Corporation) and results of operations for the three and nine-month periods ended September 30, 2001 and 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 \$1.20 billion at September 30, 2001, an increase of \$171.6 million, or 16.7%, from \$1.03 billion as of December 31, 2000. Total deposits were \$945.0 million at September 30, 2001, an increase of \$117.6 million, or 14.2%, from \$827.3 million as of December 31, 2000. Total stockholders' equity was \$79.7 million at September 30, 2001, an increase of \$4.8 million, or 6.4%, from \$74.9 million as of December 31, 2000.

Net income for the three-month period ended September 30, 2001 (third quarter of 2001) was \$1.6 million compared to \$1.4 million for the three-month period ended September 30, 2000 (third quarter of 2000), an increase of \$208,000 or 15.2%. Basic and diluted net income per share was \$.11 and \$.10 for the third quarters of 2001 and 2000, respectively. Net income for the nine-month period ended September 30, 2001 (first nine months of 2001) was \$4.6 million compared to \$3.5 million for the nine-month period ended September 30, 2000 (first nine months of 2000), an increase of \$1.1 million or 31.4%. Basic and diluted net income per share was \$.32 and \$.24 for the first nine months of 2001 and 2000, respectively. Return on average assets, on an annualized basis, was .54% for the first nine months of 2001 compared to .52% for the first nine months of 2000. Return on average stockholders' equity, on an annualized basis, was 7.87% for the first nine months of 2001 compared to 6.52% for first nine months of 2000. Book value per share at September 30, 2001 was \$5.60 compared to \$5.22 as of December 31, 2000.

Results of Operations

The growth in net income during the first nine months of 2001 compared to the first nine months 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 \$2.2 million, or 24.6%, to \$11.0 million for the third quarter of 2001 from \$8.8 million for the third quarter of 2000. Net interest income increased \$5.1 million, or 19.6%, to \$30.9 million for the first nine months of 2001 from \$25.8 million for the first nine months of 2000. The increase in net interest income was offset by an increase in noninterest expense of \$2.2 million, or 28.3%, to \$9.9 million for the third quarter of 2001 compared to \$7.7 million for the third quarter of 2000. During the first nine months of 2001, noninterest expenses increased \$3.9 million, or 16.4%, to \$27.7 million compared to \$23.8 million for the first nine months of 2000.

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Average interest-earning assets for the third quarter of 2001 increased \$219.1 million, or 25.9% to \$1.06 billion from \$845.7 million in the third quarter of 2000. This growth in average interest-earning assets was funded by a \$197.6 million increase in average interest-bearing liabilities to \$962.0 million for the third quarter of 2001 from \$764.4 million for the third quarter of 2000. Average interest-bearing assets produced a tax equivalent yield of 8.52% for the third quarter of 2001 compared to 9.22% for the third quarter of 2000. The average rate paid on interest-bearing liabilities was 4.90% for the third quarter of 2001 compared to 5.58% for the third quarter of 2000. The Corporation's net interest spread and net interest margin were 3.62% and 4.09%, respectively, for the third quarter of 2001, compared to 3.64% and 4.18% for the third quarter of 2000. The Corporation's net interest spread and margin declined only slightly during the third quarter of 2001 compared to the third quarter of 2000. The decline in rates on interest-earning assets was offset by a decline in interest rates paid on interest-bearing liabilities.

Average interest-earning assets for the first nine months of 2001 increased \$235.4 million, or 29.7% to \$1.03 billion from \$791.9 million in the first nine months of 2000. This growth in average interest-earning assets during the first nine months of 2001 was funded by a \$211.2 million increase in average interest-bearing liabilities to \$927.1 million from \$715.9 million during the first nine months of 2000. Average interest-bearing assets produced a tax equivalent yield of 8.93% for the first nine months of 2001 compared to 9.17% for the first nine months of 2000. The average rate paid on interest-bearing liabilities was 5.41% for the first nine months of 2001 compared to 5.27% for the first nine months of 2000. The Corporation's net interest spread and net interest margin were 3.52% and 3.90%, respectively, for the first nine months of 2001, compared to 4.05% and 4.41% for the first nine months of 2000. This decline in net interest spread and margin is the result of a decline in the rates earned on interest-earning assets combined with a rise in the volume of higher cost sources of funds such as certificates of deposit, brokered deposits and Federal Home Loan Bank borrowings. These funds were needed to meet strong loan demand, which accounted for the increase in the average interest-earning assets during the first nine months 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 September 30,			
	2001		2000	
	Average Balance	Income/ Yield/ Expense Rate	Average Balance	Income/ Yield/ Expense Rate
	(Dollars in thousands)			
ASSETS				
Interest-earning assets:				
Loans, net of unearned income(1)	\$942,692	\$21,253 8.94%	\$727,049	\$17,672 9.67%
Investment securities				
Taxable	73,422	1,086 5.87	78,382	1,259 6.39
Tax-exempt(2)	7,136	133 7.39	14,967	279 7.42
<hr/>				
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Total investment securities

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80,558	1,219	6.00	93,349	1,538	6.55
Federal funds sold					
32,453	275	3.36	15,629	255	6.49
Other investments					
9,092	121	5.28	9,674	145	5.96

Total interest-earning assets
1,064,795 22,868 8.52 845,701 19,610 9.22

Noninterest-earning assets:

Cash and due from banks	
31,612	35,526
Premises and equipment	
45,787	42,486
Accrued interest and other assets	
35,547	26,173
Allowance for loan losses	
(9,767)	(8,761)

Total assets
\$1,167,974 \$941,125

Three Months Ended September 30,

2001			2000		
Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate

(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS EQUITY

Interest-bearing liabilities:

Demand deposits	\$264,818	2,000	3.00	\$168,342	1,777	4.20
Savings deposits	29,907	123	1.63	34,841	267	3.05
Time deposits	528,107	7,802	5.86	475,724	7,468	6.25
Other borrowings	139,229	1,957	5.58	85,513	1,219	5.67

Total interest-bearing liabilities
 962,061 11,882 4.90 764,420 10,731 5.58

Noninterest-bearing liabilities:

Demand deposits	92,378	94,719
Accrued interest and other liabilities	7,843	6,108
Guaranteed preferred beneficial interest in Corporation's subordinated debentures	27,000	3,750
Stockholders' equity	78,692	72,128

Total liabilities and stockholders' equity
 \$1,167,974 \$941,125

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Net interest income/net interest spread

10,986 3.62% 8,879 3.64%

Net yield on earning assets

4.09% 4.18%

Taxable equivalent adjustment:

Investment securities(2)

45 95

Net interest income

\$10,941 \$8,784

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

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

The following table sets forth, on a taxable equivalent basis, the effect that 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 September 30, 2001 and 2000.

Three Months Ended September 30 (1)		
2001 vs 2000		
Increase (Decrease)	Changes Due to	
	Rate	Volume

(Dollars in thousands)

Increase (decrease) in:

Income from interest-earning assets:

Interest and fees on loans

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\$3,581 \$(1,406) \$4,987
Interest on securities:

Taxable
(173) (97) (76)

Tax-exempt
(146) (1) (145)

Interest on federal funds
20 (164) 184

Interest on other investments
(24) (16) (8)

Total interest income
3,258 (1,684) 4,942

Expense from interest-bearing
liabilities:

Interest on demand deposits
223 (605) 828

Interest on savings deposits
(144) (110) (34)

Interest on time deposits
334 (476) 810

Interest on other borrowings
738 (20) 758

Total interest expense
1,151 (1,211) 2,362

Net interest income

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\$2,107 \$(473) \$2,580

-
- (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.

**CONSOLIDATED AVERAGE BALANCE INTEREST/INCOME/EXPENSE
AND YIELD/RATES TAXABLE EQUIVALENT BASIS**

Nine Months Ended September 30,

2001		2000	
Average Balance	Income/ Yield/ Expense Rate	Average Balance	Income/ Yield/ Expense Rate

(Dollars in thousands)

ASSETS

Interest-earning assets:

Loans, net of unearned income(1)

\$887,191 \$62,463 9.41% \$688,937 \$49,319 9.56%

Investment securities

Taxable

85,008 3,910 6.15 65,082 3,161 6.49

Tax-exempt(2)

10,394 579 7.45 15,083 847 7.50

Total investment securities

95,402 4,489 6.29 80,165 4,008 6.68

Federal funds sold

33,830 1,178 4.66 13,273 627 6.31

Other investments

10,866 498 6.13 9,501 415 5.83

Total interest-earning assets

1,027,289 68,628 8.93 791,876 54,369 9.17

Noninterest-earning assets:

Cash and due from banks

34,891 37,755

Premises and equipment

44,779 40,414

Accrued interest and other assets

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37,359	35,369
Allowance for loan losses	
(9,498)	(8,472)

Total assets	
\$1,134,820	\$896,942

Nine Months Ended September 30,

2001			2000		
Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate

(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS EQUITY

Interest-bearing liabilities:

Demand deposits

\$223,843 6,267 3.74 \$175,527 4,802 3.65

Savings deposits

31,456 509 2.16 34,773 776 2.98

Time deposits

537,173 24,897 6.20 423,470 19,225 6.06

Other borrowings

134,589 5,849 5.81 82,080 3,432 5.59

Total interest-bearing liabilities

927,061 37,522 5.41 715,850 28,235 5.27

Noninterest-bearing liabilities:

Demand deposits

103,106 102,477

Accrued interest and other liabilities

7,900 6,100

Guaranteed preferred beneficial interest in Corporation's subordinated debentures

19,467 1,600

Stockholders' equity

77,286 70,915

Total liabilities and stockholders' equity

\$1,134,820 \$896,942

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Net interest income/net interest spread

31,106 3.52% 26,134 3.90%

Net yield on earning assets

4.05% 4.41%

Taxable equivalent adjustment:

Investment securities(2)

197 288

Net interest income

\$30,909 \$25,846

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

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

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 nine months ended September 30, 2001 and 2000.

Nine Months Ended September 30 (1)		
2001 vs 2000		
Increase (Decrease)	Changes Due to	
	Rate	Volume

(Dollars in thousands)

Increase (decrease) in:

Income from interest-earning assets:

Interest and fees on loans

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\$13,144 \$(786) \$13,930
Interest on securities:

Taxable

749 (173) 922

Tax-exempt

(268) (6) (262)

Interest on federal funds

551 (201) 752

Interest on other investments

83 22 61

Total interest income

14,259 (1,144) 15,403

Expense from interest-bearing liabilities:

Interest on demand deposits

1,465 120 1,345

Interest on savings deposits

(267) (198) (69)

Interest on time deposits

5,672 449 5,223

Interest on other borrowings

2,417 140 2,277

Total interest expense

9,287 511 8,776

Net interest income
\$4,972 \$(1,655) \$6,627

(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 \$601,000, or 26.9% to \$2.8 million for the third quarter of 2001 from \$2.2 million for the third quarter of 2000. Noninterest income increased \$1.5 million, or 26.6% to \$7.3 million for the first nine months of 2001 from \$5.8 million for the first nine months of 2000. These increases are primarily attributable to growth in service charge income related to the increase in the volume of deposits, gains from the sale of real estate and the sale of investment securities. During the

third quarter of 2001, realized gains from the sale of investment securities totaled \$993,000 compared to realized gains of \$76,000 during the third quarter of 2000. Realized gains from the sale of investment securities totaled \$1.2 million for the first nine months of 2001 compared to \$73,000 for the first nine months of 2000. Gains from the sale of real estate totaled \$388,000 for the first nine months of 2001 compared to \$165,000 for the first nine months of 2000, which was realized in the third quarter of 2000.

Noninterest expense increased \$2.2 million, or 28.3% to \$9.9 million for third quarter of 2001 from \$7.7 million for the third quarter of 2000. Noninterest expense increased \$3.9 million, or 16.4% to \$27.7 million for the first nine months of 2001 from \$23.8 million for the first nine months of 2000. Salaries and benefits, the largest component of noninterest expenses, increased \$756,000, or 19.2% to \$4.7 million for the third quarter of 2001 from \$3.9 million for the third quarter of 2000. Salaries and benefits increased \$2.5 million, or 21.1% to \$14.3 million for the first nine months of 2001 from \$11.8 million for the first nine months 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 increased \$1.4 million, or 62.4% to \$5.2 million, for the third quarter of 2001 from \$3.8 million for the third quarter of 2000. All other noninterest expenses increased \$1.4 million, or 11.9% to \$13.5 million, for the first nine month of 2001 from \$12.1 million for the first nine month of 2000. The increase in other noninterest expenses resulted primarily from computer conversion costs and losses on foreclosed assets.

Income tax expense (benefit) was \$721,000 for the third quarter of 2001, compared to \$(37,000) for the third quarter of 2000. Income tax expense was \$1.9 million for the first nine months of 2001, compared to \$730,000 for the first nine months of 2000. The primary difference in the effective tax 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 \$925,000 for the third quarter of 2001 compared to \$1.9 million for third quarter of 2000. The provision for loan losses was \$2.6 million for the first nine months of 2001 compared to \$3.5 million for the first nine months 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 September 30, 2001, totaled \$10.2 million, or 1.05% 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 on a monthly basis. 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 and 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. See the Allowance for Loan Losses section for a more detailed discussion.

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 \$1.20 billion at September 30, 2001, an increase of \$171.6 million, or 16.7% 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.

Short-term liquid assets (cash and due from banks, interest-bearing deposits in other banks and federal funds sold) increased \$24.0 million, or 56.7% to \$66.2 million at September 30, 2001 from \$42.2 million at December 31, 2000. This increase resulted primarily from the purchase of federal funds sold. At September 30, 2001, short-term liquid assets comprised 5.5% 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 decreased \$24.0 million, or 25.01% to \$71.7 million at September 30, 2001, from \$91.3 million at December 31, 2000. Mortgage-backed securities, which comprised 75.0% of the total investment portfolio at September 30, 2001, increased \$2.1 million, or 5.3% to \$41.4 million from \$39.3 million at December 31, 2000. Investments in U.S. Treasury and agency securities, which comprised 27.5% of the total investment portfolio at September 30, 2001, decreased \$19.5 million, or 49.7% to \$19.7 million from \$39.2 million at December 31, 2000. The total investment portfolio at September 30, 2001 comprised 6.6% of all interest-earning assets compared to 10.4% at December 31, 2000. The investment portfolio produced an average tax equivalent yield of 6.0% and 6.6% for the third quarters of 2001 and 2000, respectively, and a 6.3% and 6.7% yield for the first nine months of 2001 and 2000, respectively.

Loans, net of unearned income, totaled \$977.1 million at September 30, 2001, an increase of 20.9%, or \$168.9 million from \$808.2 million at December 31, 2000, with average loans totaling \$942.7 million for the third quarter of 2001 compared to \$727.1 million for the third quarter of 2000. Average loans totaled \$887.2 million for the first nine months of 2001 compared to \$688.9 million for the first nine

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months of 2000. Of the \$168.9 million increase in loans, 63.5% or \$107.3 million, were produced by branches in the Alabama region, the other 36.5% or \$61.6 million, were produced by branches in the Florida region. Loans, net of unearned income, comprised 90.5% of interest-earning assets at September 30, 2001, compared to 87.8% at December 31, 2000. The loan portfolio produced an average yield of 8.9% and 9.7% for the third quarters of 2001 and 2000, respectively, and a 9.4% and 9.6% yield for the first nine months of 2001 and 2000, respectively. The following table details the distribution of the loan portfolio by category as of September 30, 2001 and December 31, 2000:

Distribution of Loans by Category

	September 30, 2001		December 31, 2000	
	Amount	Percent of Total	Amount	Percent of Total
Commercial, industrial and agricultural	\$277,395	28.4%	\$245,154	30.3%
Real estate construction	181,180	18.5	100,448	12.4
Real estate mortgage	421,324	43.0	373,509	46.2
Consumer	93,510	9.6	84,129	10.4
Other	4,543	.5	5,725	.7
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Total loans	977,952	100.0%	808,965	100.0%
<hr/>				
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Unearned income	(898)	(820)		
Allowance for loan losses	(10,228)	(8,959)		
<hr/>				
<hr/>				
Net loans	\$966,826		\$799,186	

Noninterest-bearing deposits totaled \$90.7 million at September 30, 2001, an increase of 2.1%, or \$1.8 million from \$88.9 million at December 31, 2000. Noninterest-bearing deposits comprised 9.6% of total deposits at September 30, 2001, compared to 10.8% at December 31, 2000.

Interest-bearing deposits totaled \$854.2 million at September 30, 2001, an increase of 15.7%, or \$115.8 million from \$738.4 million at December 31, 2000, with interest-bearing deposits averaging \$822.8 million for the third quarter of 2001 compared to \$678.9 million for the third quarter of 2000. Average interest-bearing deposits totaled \$792.5 million for the first nine months of 2001 compared to \$633.8 million for the first nine months of 2000. The \$115.8 million increase in interest-bearing deposits during the first nine months of 2001 is comprised primarily of interest-bearing demand accounts. The average rate paid on all interest-bearing deposits during the third quarter of 2001 was 4.5% compared to 5.6% for the third quarter of 2000. The average rate paid on all interest-bearing deposits during the first nine months of 2001 was 5.3% compared to 5.2% for the first nine months of 2000.

Advances from the Federal Home Loan Bank (FHLB) increased \$31.8 million to \$136.1 million at September 30, 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 September 30, 2001, the Corporation had available a \$15.0 million line of credit with a regional bank. Interest is one and three quarters (1.75%) percentage points in excess of the applicable LIBOR Index Rate. The line matures May 1, 2002. There were no outstanding balances due on this line at September 30, 2001.

On September 7, 2000, TBC Capital Statutory Trust II (TBC Capital II), 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 II'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.

On July 16, 2001, TBC Capital Statutory Trust III (TBC Capital III), a Delaware business trust established by the Corporation, received \$16,000,000 in proceeds in exchange for \$16,000,000 principal amount of TBC Capital III's variable rate cumulative trust preferred securities in a pooled trust preferred private placement. The proceeds were used to purchase an equal principal amount of variable rate subordinated debentures of the Corporation. The stated interest rate is the six-month LIBOR plus 375 basis points. The interest rate on the securities reprices every six months and has a 12% annum ceiling. As of the date of issuance, the interest rate on the securities was 7.57%.

The Corporation has fully and unconditionally guaranteed all obligations of TBC Capital II and III on a subordinated basis with respect to the preferred securities. The Corporation accounts for TBC Capital II and III as minority interests. 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 assets of TBC Capital II and III are the subordinated debentures issued by the Corporation. Both the preferred securities of TBC Capital II and III and the subordinated debentures of the Corporation each have 30-year lives. However, both the Corporation and TBC Capital II and III have call options, without premium, after ten years, subject to regulatory approval, or earlier depending upon certain changes in tax or investment company laws, or regulatory capital requirements.

At September 30, 2001, total stockholders' equity was \$77.8 million, an increase of \$2.9 million from \$74.9 million at December 31, 2000. The increase in stockholders' equity resulted primarily from total comprehensive income for the first nine months of 2001. In September of 2000, the Corporation's board of directors approved a stock buyback plan in an amount not to exceed \$10,000,000. As of September 30, 2001, 141,300 shares of common stock have been repurchased and are held as treasury stock at a cost of \$753,000. In the first nine months of 2001, the Corporation repurchased 101,300 shares at a total cost of \$543,000.

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 credit 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 and 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.

The allowance for classified loans is established based on risk ratings assigned by loan officers. Loans are rated using a seven point scale with loan officers having the responsibility for the timely reporting of changes in the risk ratings. These processes, and the assigned risk ratings, are subject to review by the Corporation's internal loan review function. Based on the assigned risk ratings, the loan portfolio is segregated into the following regulatory classifications: Special Mention, Substandard, Doubtful or Loss. Regulatory reserve percentages are applied to these categories to estimate the amount of loan loss. Reserve percentages assigned to non-rated loans are based on historical charge-off experience adjusted for geographic location and other risk factors.

As stated above, risk ratings are subject to independent review by the Loan Review Department, which also performs ongoing, independent review of the risk management process that includes underwriting, documentation and collateral control. The Loan Review Department is centralized and independent of the lending function. Review results are reported to the Audit Committee of the Board of Directors.

Management reviews the adequacy of the allowance on a monthly basis. 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 allowance as a percentage of loans as of September 30, 2001 was 1.05% compared to 1.11% as of December 31, 2000. Net charge-offs were \$1.3 million for the first nine months of 2001 compared to \$4.6 million for the year ended December 31, 2000. Net charge-offs to average loans on an annualized basis totaled .19% for the first nine months of 2001 compared to .57% for the year ended December 31, 2000. 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 \$4.6 million in net charge-off loans for the year ended December 31, 2000 included the charge-off of three commercial credit lines totaling \$2.3 million, or 50% of net charge-offs. During the nine-month period ended September 30, 2001, the Corporation has not experienced any individual charge-off loans of comparative size. Therefore, our ratio of net charge-off loans to average loans has declined significantly during the current nine-month period. However, the Corporation could experience an increase in net charge-off loans in future periods, which could bring this ratio closer to its historical averages. As discussed above, management has assessed the adequacy of the allowance for loan losses and provided for estimated loan losses inherent in the portfolio through the provision for loan losses.

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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

	Nine-Month period Ended September 30, 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	617	3,133
Real estate	190	756
Consumer	846	726
<hr/>		
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Total charge-offs	1,653	4,615
Recoveries:		
Commercial, industrial and agricultural	44	193
Real estate	88	87
Consumer	235	268
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Total recoveries	367	548
Net charge-offs	1,286	4,067
Provision for loan losses	2,555	4,961
<hr/>		
<hr/>		

Allowance for loan losses at
end of year
\$10,228 \$8,959

Loans at end of period, net of
unearned income
\$977,055 \$808,145
Average loans, net of unearned
income
887,191 710,414
Ratio of ending allowance to
ending loans
1.05% 1.11%
Ratio of net charge-offs to
average loans (1)
.19% .57%
Net charge-offs as a percentage
of:

Provision for loan losses
50.33% 81.98%
Allowance for loan losses(1)
16.81% 45.40%
Allowance for loan losses as a
percentage of nonperforming
loans
84.68% 90.85%

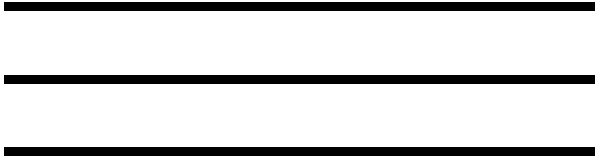
(1) Annualized.

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

Nonaccrual, Past Due and Restructured Loans

	September 30, 2001	June 30, 2001	December 31, 2000
	<u> </u>	<u> </u>	<u> </u>
Nonaccrual	\$ 8,977	\$5,717	\$ 9,340
Past due (contractually past due 90 days or more)			
3,101 1,543 334			
Restructured			
187			

\$12,078 \$7,260 \$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.

Allowance for loan losses as a percentage of nonperforming loans decreased to 84.7% at September 30, 2001 from 131.0% at June 30, 2001 and 90.9% at December 31, 2000. Nonperforming loans increased to \$12.1 million at September 30, 2001 from \$7.3 million at June 30, 2001 and \$9.9 million at December 31, 2000. As a percent of net loans, nonperforming loans increased to 1.24% at September 30, 2001 from .80% at June 30, 2001 and 1.22% at December 31, 2000. The increase in nonperforming loans is primarily attributable to eight credit lines totaling \$4.5 million at September 30, 2001. Six of these lines totaling \$3.2 million are in our Alabama segment and two of these lines totaling \$1.3 million are in our Florida segment. All of these lines are primarily secured by land or commercial real estate. Management has allocated in the allowance for loan losses approximately \$600,000 to absorb any losses that may result from these loans.

In addition, management has identified \$1.2 million in potential problem loans as of September 30, 2001. These loans have been identified as such because of repayment problems and past due status. Management has allocated in the allowance for loan losses approximately \$360,000 to absorb any losses that may result from these loans.

Impaired Loans

Impaired loans are specifically reviewed loans for which it is probable that the Corporation will be unable to collect all amounts due according to the terms of the loan agreement. Impairment is measured by comparing the recorded investment in the loan with the present value of expected future cash flows discounted at the loan's effective interest rate, at the loans observable market price, or the fair value of the collateral if the loan is collateral dependent. A valuation allowance is provided to the extent that the measure of the impaired loans is less than the recorded investment. A loan is not considered impaired during a period of delay in payment if the ultimate collectibility of all amounts due is expected. Larger groups of homogenous loans such as consumer installment and residential real estate mortgage loans are collectively evaluated for impairment. Payments received on impaired loans for which the ultimate collectibility of principal is uncertain are generally applied first as principal reductions. The majority of impaired loans are included in the nonperforming loan totals discussed above.

At September 30, 2001, the Corporation's recorded investment in impaired loans totaled \$8.3 million, a decrease of \$9.7 million from \$18.0 million at December 31, 2000. The decline in the amount of impaired loans is attributable to several commercial and commercial real estate loans that are now current, have been paid-off or the collateral has been foreclosed. At September 30, 2001, there was approximately \$2.0 million in allowance for loan losses specifically allocated to impaired loans, which compares to \$3.0 million at December 31, 2000. The Corporation has no commitments to loan additional funds to the borrowers whose loans are impaired.

Regulatory Capital.

The table below represents the regulatory and minimum regulatory capital requirements of the Corporation and its subsidiary at September 30, 2001 (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital						
Corporation						
	\$107,531	10.97%	\$78,427	8.00%	\$98,034	10.00%
The Bank						
	99,516	10.24	77,719	8.00	97,149	10.00
Tier 1 Risk-Based Capital						
Corporation						
	97,304	9.93	39,214	4.00	58,821	6.00
The Bank						
	89,289	9.19	38,859	4.00	58,289	6.00
Leverage Capital						
Corporation						
	97,304	8.46	46,013	4.00	57,516	5.00
The Bank						
	89,289	7.76	46,022	4.00	57,527	5.00

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.

Part II. Other Information

Item 1. Legal Proceedings

While we may from time to time be a party to various legal proceedings arising from the ordinary course of our business, we believe that, other than as set forth below, there are no proceedings threatened or pending against the Corporation at this time that will individually, or in the aggregate, materially or adversely effect 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. When we discovered the loss, we moved immediately to collect monies and other assets from individuals and entities that we identified as being connected, directly or indirectly, to our loss. This resulted in a recovery of some of our losses, primarily through the transfer to The Bank of various assets, including the assets of one business directly involved in our loss. Subsequently, some of those individuals abandoned their agreement to work with The Bank and brought suit alleging various causes of action and requesting the return of assets that they had previously turned over to The Bank. Additionally, other individuals, who allege that they suffered a related loss, have brought suits making various claims on certain of the assets that were delivered to The Bank. These cases include: Bill Steenson and Jason Steenson v. The Bank, et al, Case No. CV 99-907; Hames v. The Bank, et al, Case No. CV99-899; John C. Moses v. The Bank, et al, Case No. CV 00-158; Preston Peete v. The Bank, et al, Case No. CV 00-804. The Steenson case has now been settled, and the case has been dismissed. The Bank and the other parties have recently signed a settlement agreement in the Moses case. Neither of these settlements is expected to have a material adverse effect on our financial condition or our results of operations. The Peete case went to trial on November 5, 2001 on all counts, including the claim for punitive damages.

On August 29, 2001, Community Spirit Bank amended its previously filed complaint to include The Bank as a defendant in the case styled Community Spirit Bank v. Howard Jackson d/b/a Majestic Auto Sales, et al., CV 99-195 filed in the Circuit Court of Franklin County. Community Spirit Bank alleges various causes of action against The Bank and one of its former officers arising out of the same facts that caused The Bank's loss as discussed above. Community Spirit Bank is claiming compensatory damages of \$1.3 million and additional compensatory and punitive damages. The Bank has put its insurance carriers on notice and intends to vigorously defend these claims. We believe that we have strong claims and defenses in each lawsuit in which we are involved. While we believe that we will prevail in each lawsuit, there can be no assurance that the outcome of the pending, or any future, litigation, either individually or in the aggregate, will not have a material adverse effect on our financial condition or our 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:

- (10) Employment Agreement among The Banc Corporation, The Bank and Don J. Giardina, dated July 14, 2000.

(b) Reports on Form 8-K:

During the three months ended September 30, 2001, the Corporation filed

- (1) a Current Report on Form 8-K, dated August 9, 2001, furnishing under Item 9 information regarding the execution of a letter of intent to acquire CF Bancshares, Inc.
- (2) a Current Report on Form 8-K, dated August 24, 2001, furnishing under Item 9 the text of materials and slides used in investor and analyst presentations by management.
- (3) a Current Report on Form 8-K, dated September 20, 2001, furnishing under Item 9 an update on pending litigation of the Corporation.

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: November 14, 2001 By: /s/ James
A. Taylor, Jr.

James A. Taylor, Jr. President and
Chief Operating Officer Date:
November 14, 2001 By: /s/ David R.
Carter

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