SOUTHERN BANCSHARES NC INC
Form 10-Q
May 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

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

For the quarter ended March 31, 2001 Commission File No. 0-10852

SOUTHERN BANCSHARES (N.C.), INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 56-1538087 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 121 East Main Street Mount Olive, North Carolina | 28365 |
| (Address of Principal Executive offices) | (Zip Code) |

Registrant's Telephone Number, including Area Code: (919) 658-7000

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 the Registrant's common stock as of the close of the period covered by this report.

115,020 shares

Part i - FINANCIAL INFORMATION

Item 1 - Financial Statements

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

ASSETS

Cash and due from banks
Federal funds sold
Investment securities:
Available-for-sale, at fair value (amortized cost $91,103 and $96,633, respectively)

Held-to-maturity, at amortized cost (fair value $87,404 and $96,416, respectively)
Loans
Less allowance for loan losses

Net loans
Premises and equipment
Intangible assets
Accrued interest receivable
Other assets

Total assets

LIABILITIES
Deposits:
Noninterest-bearing
Interest-bearing

Total deposits
Long-term obligations
Short-term borrowings
Accrued interest payable
Other liabilities

Total liabilities

SHAREHOLDERS' EQUITY
Series B non-cumulative preferred stock, no par value; 408,728 shares authorized; 366,471 and 367,524 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively
Series C non-cumulative preferred stock, no par value; 43,631 shares authorized; 39,825 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively
Common stock, $5 par value; 158,485 shares authorized; 115,020 and 115,209 shares issued and outstanding at March 31, 2001 and December 31, 2000, respectively
Surplus
Retained earnings
Accumulated other comprehensive income

Total shareholders' equity

Total liabilities and shareholders' equity

The accompanying notes are an integral part of these consolidated financial statements.



SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Dollars in thousands except share and per share data)

Interest income:

Loans
Investment securities:
U. S. Government
State, county and municipal
Other

Total investment securities interest income
Federal funds sold

Total interest income

Interest expense:
Deposits
Short-term borrowings
Long-term obligations

Total interest expense

Net interest income
Provision for loan losses

Net interest income after provision for loan losses

Noninterest income:
Investment securities (loss) gain, net
Service charges on deposit accounts
Other service charges and fees
Other

Total noninterest income

Noninterest expense:
Personnel
Intangibles amortization
Occupancy
Data processing
Furniture and equipment
Professional fees
Other

Total noninterest expense

Income before income taxes
Income taxes

Net income

Other comprehensive income (loss) net of tax:
Unrealized gains (losses) arising during period
Less: reclassification adjustment for gains (losses) included in net income

Other comprehensive income (loss)

Comprehensive income (loss)

Per share information:
Net income per common share
Cash dividends declared on common shares
Weighted average common shares outstanding

The accompanying notes are an integral part of these consolidated financial statements.



SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

(Dollars in thousands except per share data)
(Unaudited)

| | Preferred Stock | | | | Common Stock | |
|---|---|---|---|---|---|---|
| | Series B | | Series C | | | |
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Balance, December 31, 1999 | 397,370 | $ 1,936 | 39,825 | $ 555 | 118,912 | $ 595 |
| Net income | | | | | | |
| Purchase and retirement of stock | (200) | (2) | | | (386) | (2) |
| Cash dividends: | | | | | | |
| Common stock ($.38 per share) | | | | | | |
| Preferred B ($.22 per share) | | | | | | |
| Preferred C ($.22 per share) | | | | | | |
| Unrealized loss on securities available-for-sale, net of tax benefit of $682 | | | | | | |
| Balance, March 31, 2000 | 397,170 | $ 1,934 | 39,825 | $ 555 | 118,526 | $ 593 |
| Balance, December 31, 2000 | 367,524 | $ 1,790 | 39,825 | $ 555 | 115,209 | $ 576 |
| Net income | | | | | | |
| Purchase and retirement of stock | (1,053) | (5) | | | (189) | (1) |
| Cash dividends: | | | | | | |
| Common stock ($.38 per share) | | | | | | |
| Preferred B ($.22 per share) | | | | | | |
| Preferred C ($.22 per share) | | | | | | |
| Unrealized gain on securities available-for-sale, net of tax of $460 | | | | | | |
| Balance, March 31, 2000 | 366,471 | $ 1,785 | 39,825 | $ 555 | 115,020 | $ 575 |

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

OPERATING ACTIVITIES:

Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Provision for loan losses
Loss on impairment of available-for-sale securities
Investment securities gain, net
Amortization of intangibles and mortgage servicing rights
Depreciation
Net decrease (increase) in accrued interest receivable
Net decrease in accrued interest payable
Net decrease in other assets
Net increase (decrease) in other liabilities

NET CASH PROVIDED BY OPERATING ACTIVITIES

INVESTING ACTIVITIES:
Proceeds from maturities and issuer calls of investment securities available-for-sale
Proceeds from maturities and issuer calls of investment securities held-to-maturity
Proceeds from sales of investment securities available-for-sale
Purchases of investment securities held-to-maturity
Purchases of investment securities available-for-sale
Net cash received for bank and branches acquired
Net increase in loans
Purchases of fixed assets

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES

FINANCING ACTIVITIES:
Net increase in demand and interest-bearing demand deposits
Net increase in time deposits
Net (repayments) proceeds of short-term borrowed funds
Cash dividends paid
Purchase and retirement of stock

NET CASH PROVIDED BY FINANCING ACTIVITIES

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR

CASH AND CASH EQUIVALENTS AT THE END OF PERIOD

SUPPLEMENTAL DISCLOSURES OF CASH PAID DURING THE PERIOD FOR:

Interest
Income taxes

SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING AND INVESTING ACTIVITIES DURING THE PERIOD:
Unrealized gains (losses) on available-for-sale securities, net of deferred tax

The accompanying notes are an integral part of these consolidated financial statements.



SOUTHERN BANCSHARES (N. C.), INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
Note 1. Summary Of Significant Accounting Policies

Basis of Financial Statement Presentation

Southern BancShares (N. C.), Inc. ("BancShares") is the holding company for Southern Bank and Trust Company ("Southern"), which operates 48 banking offices in eastern North Carolina, and Southern Capital Trust I (the "Trust"), a statutory business trust that issued $23.0 million of 8.25% Capital Securities ("the Capital Securities") in June 1998 maturing in 2028. Southern, which began operations January 29, 1901, has a wholly-owned subsidiary, Goshen, Inc. which acts as agent for credit life and credit accident and health insurance written in connection with loans made by Southern. BancShares and Southern are headquartered in Mount Olive, North Carolina.

The consolidated financial statements in this report are unaudited. In the opinion of management, all adjustments (none of which were other than normal accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented have been included.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The statements should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2000, incorporated by reference in the 2000 Annual Report on Form 10-K.



Principles Of Consolidation

The consolidated financial statements include the accounts of BancShares and its wholly-owned subsidiaries, Southern and the Trust. The statements also include the accounts of Goshen, Inc., a wholly-owned subsidiary of Southern. BancShares' financial resources are primarily provided by dividends from Southern. All significant intercompany balances have been eliminated in consolidation.

Cash And Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and federal funds sold. Federal funds are purchased and sold for one day periods.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This statement, as amended by Statement 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Earlier application of all provisions of this statement was encouraged. BancShares adopted this statement on January 1, 2001 with no impact to the Company's consolidated financial statements.

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders' equity as previously reported.

Note 2. Investment securities

| (In thousands) | March 31, 2001 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost |
| SECURITIES HELD-TO-MATURITY: | | | | | |
| U.S. Government | $ 56,981 | 687 | -- | $ 57,668 | $ 73,215 |
| Obligations of states and political subdivisions | 28,943 | 693 | (1) | 29,635 | 22,230 |
| Corporate debenture | 100 | 1 | -- | 101 | 100 |
| | 86,024 | 1,381 | (1) | 87,404 | 95,545 |
| SECURITIES AVAILABLE-FOR-SALE: | | | | | |
| U.S. Government | 57,998 | 939 | -- | 58,937 | 73,997 |
| Marketable equity securities | 13,951 | 14,835 | (57) | 28,729 | 13,324 |
| Obligations of states and political subdivisions | 18,178 | 570 | (1) | 18,747 | 8,177 |
| Mortgage-backed securities | 976 | 11 | (3) | 984 | 1,135 |
| | 91,103 | 16,355 | (61) | 107,397 | 96,633 |
| Totals | $ 177,127 | $ 17,736 | $ (62) | $ 194,801 | $ 192,178 |



During the three months ended March 31, 2000, management of BancShares reviewed its portfolio of securities available-for-sale and determined that certain marketable equity securities had declines in their value that were deemed to be other than temporary. Accordingly, BancShares recorded a charge of $855,000 to investment securities gains (losses) in the accompanying consolidated statement of income and comprehensive income for the three months ended March 31, 2000 for this amount and reduced the carrying amount of the related investments accordingly. There can be no certainty that future charges to earnings for other than temporary declines in the fair values of these or other investment securities will not be required. During the first quarter of 2001, Bancshares recognized a non recurring securities gain of $1.0 million. This gain was recognized as a result of a business combination involving a company in which BancShares had an equity investment.

Note 4. ALLOWANCE FOR LOAN LOSSES

| (Dollars in thousands) | (Unaudited) Three Months Ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Balance at beginning of year | $7,284 | $6,188 |
| Provision for loan losses | 150 | 75 |
| Loans charged off | (101) | (101) |
| Loan recoveries | 38 | 22 |
| Balance at end of the period | $7,371 | $6,184 |

Note 5. Earnings Per Common Share

Earnings per common share are computed by dividing income applicable to common shares by the weighted average number of common shares outstanding during the period. Income applicable to common shares represents net income reduced by dividends paid to preferred shareholders. Since BancShares had no potentially dilutive securities during 2001 or 2000, the computation of basic and diluted earnings per share is the same.

| (Dollars in thousands) | (Unaudited) Three Months Ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Net income | $4,203 | $505 |
| Less: Preferred dividends | (90) | (96) |
| Net income applicable to common shares | $4,113 | $409 |
| Weighted average common shares outstanding during the period | 115,113 | 118,773 |

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Note 6. Related Parties

BancShares has entered into various service contracts with another bank holding company and its subsidiary (the "Corporation"). The Corporation has two significant shareholders, who also are significant shareholders of BancShares.

The first significant shareholder is a director of BancShares and, at March 31, 2001, beneficially owned 32,607 shares, or 28.35%, of BancShares' outstanding common stock and 4,966 shares, or 1.36%, of BancShares' outstanding Series B preferred stock. At the same date, the second significant shareholder beneficially owned 27,522 shares, or 23.93%, of BancShares' outstanding common stock.

These two significant shareholders are directors and executive officers of the Corporation and at March 31, 2001, beneficially owned 2,527,204 shares, or 28.67%, and 1,452,494 shares, or 16.48%, of the Corporation's outstanding Class A common stock, and 649,188 shares, or 37.91%, and 199,052 shares, or 11.62%, of the Corporation's outstanding Class B common stock. The above totals include 478,728 Class A common shares, or 5.43%, and 104,644 Class B Common shares, or 6.11%, that are considered to be beneficially owned by both of the shareholders and, therefore, are included in each of their totals.

A subsidiary of the Corporation is First-Citizens Bank & Trust Company ("First Citizens"). In 2000 Southern acquired two Rocky Mount, North Carolina offices and one Nashville, North Carolina office of First Citizens containing $66.1 million of deposits and $75.8 million of loans. Southern paid $6.7 million to First Citizens for this acquisition.

The following table lists the various charges paid to the Corporation during the three months ended March 31, 2001 and the three months ended March 31, 2000:

| (Dollars in thousands) | Three Months Ended March 31, | |
|---|---|---|
| | 2001 | 2000 |
| Data and item processing | $578 | $605 |
| Forms, supplies and equipment | 168 | 62 |
| Trustee for employee benefit plans | 16 | 22 |
| Consulting fees | 29 | 20 |
| Other services | 29 | 29 |
| | $820 | $738 |



SOUTHERN BANCSHARES (N.C.), INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FIRST THREE MONTHS OF 2001 VS. FIRST THREE MONTHS OF 2000

INTRODUCTION

In the first three months of 2001, the net income of BancShares increased $3.7 million from $505,000 in the first three months of 2000 to $4.2 million in the first three months of 2001, an increase of 732.28%. This increase resulted primarily from gains on available-for-sale securities in 2001 and an adjustment for unrealized investment security losses, considered other than temporary, in 2000, that did not recur in 2001. One branch acquisition in February 2000, three branch acquisitions in April 2000, the opening of one new branch in September 2000 and three branch acquisitions in November 2000 resulted in increased net interest income, increased other noninterest income and increased personnel expense and other related operating expenses for the three months ended March 31, 2001.

Annualized per share net income available to common shares for the first three months of 2001 was $35.73, an increase of $32.29, or 938.66%, from $3.44 in 2000. The return on average equity increased to 10.43%, for the period ended March 31, 2001, from 3.72% for the period ended March 31, 2000 and the return on average assets increased to 0.79%, for the period ended March 31, 2001, from 0.30% for the period ended March 31, 2000.

At March 31, 2001, BancShares' assets were $825.7 million, an increase of $22.3 million, or 2.77%, from the $803.4 million reported at December 31, 2000. During this three month period, loans increased $14.7 million, or 2.96%, from $497.0 million to $511.7 million. During the three months ended March 31, 2001 investment securities decreased $13.7 million, or 6.61% from $207.1 million at December 31, 2000 to $193.4 million at March 31, 2001. Total deposits increased $18.1 million, or 2.60% from $698.5 million at December 31, 2000 to $716.6 million at March 31, 2001. The above changes resulted principally from the seasonal impact of the agricultural markets served by Southern .

ACQUISITIONS

In February 2000 Southern acquired $1.3 million of loans and $7.1 million of deposits of the Robersonville, North Carolina office of Cooperative Bank for Savings, Inc. In April 2000 Southern acquired $5.1 million of loans and $29.4 million of deposits of the Battleboro, Nashville and Sharpsburg, North Carolina offices of Centura Bank. In November 2000 Southern acquired $75.8 million of loans and $66.1 million of deposits of the Nashville and Rocky Mount, North Carolina offices of First-Citizens Bank & Trust Company, a related party. These acquisitions were accounted for as purchases, and, therefore, the results of operations prior to purchase of the financial institutions are not included in the consolidated financial statements.

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The proforma impact of the acquisitions, as though they had been made at the beginning of the period presented, is not material to BancShares' consolidated financial statements, however the comparisons of the three months ended March 31, 2001 to the three months ended March 31, 2000 are impacted by the above transactions.

INTEREST INCOME

Interest and fees on loans increased $2.5 million, or 29.07%, from $8.4 million for the three months ended March 31, 2000 to $10.9 million for the three months ended March 31, 2001. This increase was due to both increased loans as a result of the acquisitions previously discussed and internal loan growth, as well as increased yields on average loans. Average loans increased $102.5 million, or 25.72%, from $398.7 million for the three months ended March 31, 2000 to $501.3 million for the three months ended March 31, 2001. The yield on the loan portfolio increased from 8.52% in the three months ended March 31, 2000 to 8.76% in the three months ended March 31, 2001.

Interest income from investment securities, including U. S. Treasury and Government obligations, obligations of state and county subdivisions and other securities increased 7.02%, from $2.6 million in the three months ended March 31, 2000 to $2.8 million in the three months ended March 31, 2001. This change was due to both an increase in yield from 5.43% for the three-month period ended March 31, 2000 to 5.94% for the three-month period ended March 31, 2001 and an increase in the volume of average investment securities from $201.6 million for the three months ended March 31, 2000 to $203.7 million for the three months ended March 31, 2001. Interest income on federal funds sold increased $98,000 or 31.61%, from $310,000 for the three months ended March 31, 2000 to $408,000 for the three months ended March 31, 2001. This increase in income resulted from increased average balances as average federal funds sold increased from $21.9 million for the three months ended March 31, 2000 to an average of $30.6 million for the three months ended March 31, 2001. Average federal funds sold yields decreased from 5.67% for the three months ended March 31, 2000 to 5.34% for the three months ended March 31, 2001.

Total interest income increased $2.7 million or 24.10%, from $11.3 million for the three months ended March 31, 2000 to $14.1 million for the three months ended March 31, 2001. This increase was the result of volume increases resulting from the acquisitions previously discussed, increased earning asset volume from loan growth, and a 43 basis point increase in average earning asset yields. Average earning asset yields increased from 7.45% for the three months ended March 31, 2000 to 7.88% for the three months ended March 31, 2001. Average earning assets increased from $613.1 million in the three months ended March 31, 2000 to $719.4 million in the period ended March 31, 2001. This $103.3 million increase in the average earning assets resulted primarily from the acquisitions previously discussed and internal loan growth.

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INTEREST EXPENSE

Total interest expense increased $2.0 million or 38.38%, from $5.3 million in the three months ended March 31, 2000 to $7.4 million for the three months ended March 31, 2001. The principal reason for this increase was the acquisitions previously discussed. BancShares' total cost of funds increased from 4.10% for the three months ended March 31, 2000 to 4.69% for the three months ended March 31, 2001. Average interest-bearing deposits were $596.3 million in the three months ended March 31, 2001, an increase of $100.2 million from the $496.1 million average in the three months ending March 31, 2000. The increase in average interest-bearing liabilities was primarily the result of the aforementioned acquisitions.

NET INTEREST INCOME

Net interest income increased to $691,000 for the three months ended March 31, 2001 from $6.0 million for the three months ended March 31, 2000 to $6.7 million for the three months ended March 31, 2001.

The interest rate spread for the three months ended March 31, 2001 was 3.19%, a decrease of 16 basis points from the 3.35% interest rate spread for the three months ended March 31, 2000.

ASSET QUALITY AND PROVISION FOR LOAN LOSSES

For the three months ended March 31, 2001 management recorded $150,000 as provision for loan losses. Management recorded a $75,000 addition to the provision for loan losses for the three months ended March 31, 2000.

During the first three months of 2001 management charged-off loans totaling $101,000 and received recoveries of $38,000, resulting in net charge-offs of $63,000. During the same period in 2000, $100,000 in loans were charged-off and recoveries of $21,000 were received, resulting in net charge-offs of $79,000. The following table presents comparative Asset Quality ratios of BancShares:

| | (Unaudited) March 31, 2001 | December 31, 2000 |
|---|---|---|
| Ratio of annualized net loans charged off to average loans | 0.05% | 0.04% |
| Allowance for loan losses to loans | 1.44% | 1.47% |
| Non-performing loans to loans | 0.31% | 0.31% |
| Non-performing loans and assets to total assets | 0.20% | 0.19% |
| Allowance for loan losses to non-performing loans | 466.22% | 467.22% |

The ratio of annualized net charge-offs to average loans outstanding increased to 0.05% for the three months ended March 31, 2001 from 0.04% for the year ended December 31, 2000. The allowance for loan losses represented 1.44% of loans at March 31, 2001. The allowance for loan losses represented 1.47% of loans at December 31, 2000. Loans increased $14.7 million, or 2.96% from $497.0 million at December 31, 2000 to $511.7 million at March 31, 2001.

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The ratio of nonperforming loans to loans was 0.31% at both December 31, 2000 and March 31, 2001. Nonperforming loans and assets to total assets increased to 0.20% at March 31, 2001 from 0.19% at December 31, 2000. The allowance for loan losses to nonperforming loans represented 466.22% of nonperforming loans at March 31, 2001, a decrease from the 467.22% at December 31, 2000. The nonperforming loans at March 31, 2001 included $270,000 of nonaccrual loans, $980,000 of accruing loans 90 days or more past due and no restructured loans. BancShares had $52,000 of assets classified as other real estate at March 31, 2001. BancShares had no assets classified as other real estate at December 31, 2000.

Management considers the March 31, 2001 allowance for loan losses to be adequate to cover the losses and risks inherent in the loan portfolio at March 31, 2001 and will continue to monitor its portfolio and to adjust the relative level of the allowance as needed. BancShares' impaired loans were less than the nonaccrual and restructured loan amounts presented above and no additional allowances for loan losses were required for these impaired loans.

Management actively maintains a current loan watch list and knows of no other loans which are material and (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources, or (ii) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

Management believes it has established the allowance in accordance with generally accepted accounting principles and in consideration of the current economic environment. While management uses the best information available to make evaluations, future adjustments may be necessary if economic and other conditions differ substantially from the assumptions used.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Southern's allowance for loan losses and losses on other real estate owned. Such agencies may require Southern to recognize adjustments to the allowances based on the examiners' judgments about information available to them at the time of their examinations.

NONINTEREST INCOME

During the three months ended March 31, 2001, BancShares realized a $5.5 million increase in noninterest income compared to the three months ended March 31, 2001. This increase was primarily the result of net gains on available-for-sale investment securities of $4.3 million in the three months ended March 31, 2001 and $843,000 of net losses on available-for-sale investment securities in the three months ended March 31, 2000. During the first quarter of 2001, Bancshares recognized a non recurring securities gain of $1.0 million. This gain was recognized as a result of a business combination involving a company in which BancShares had an equity investment.

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During the three months ended March 31, 2000, management of BancShares reviewed its portfolio of securities available-for-sale and determined that certain marketable equity securities had declines in their value that were deemed to be other than temporary. Accordingly, BancShares recorded a charge of $855,000 to investment securities gains (losses) in the accompanying consolidated statement of income and comprehensive income for the three months ended March 31, 2000 for this amount and reduced the carrying amount of the related investments accordingly. There can be no certainty that future charges to earnings for other than temporary declines in the fair values of these or other investment securities will not be required.

NONINTEREST EXPENSE

Noninterest expense including personnel, occupancy, furniture and equipment, data processing, FDIC insurance and state assessments, printing and supplies and other expenses, increased $1.5 million or 26.70%, from $5.8 million in the three months ended March 31, 2000 to $7.3 million in the three months ended March 31, 2001.

This increase was primarily due to an increase in personnel expense of $607,000, or 21.50%, from $2.8 million at March 31, 2000 to $3.4 million at March 31, 2001 and increased intangibles amortization, occupancy, furniture and equipment expense and other expenses resulting primarily from the acquisitions previously discussed.

INCOME TAXES

In the three months ended March 31, 2001, BancShares had income tax expense of $1.1 million, an increase of $920,000 from $130,000 in the prior year period. This increase is due primarily to increased earnings resulting from the available-for-sale investment securities transactions discussed above. The resulting effective tax rate for the three months ended March 31, 2001 was 19.99%. The effective tax rate for the three months ended March 31, 2000 was 20.47%. The effective tax rates in 2000 and 2001 differ from the federal statutory rates of 35.00% for 2000 and 2001 primarily due to tax exempt income.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY

Sufficient levels of capital are necessary to sustain growth and absorb losses.

In June 1998, the Trust issued $23.0 million of 8.25% Capital Securities maturing in 2028. The Trust invested the $23.0 million proceeds in Junior Subordinated Debentures issued by BancShares (the "Junior Debentures") which, upon consolidation of BancShares, are eliminated. The Junior Debentures, with a maturity of 2028, are the primary assets of the Trust. With respect to the Capital



Securities, BancShares irrevocably and unconditionally guarantees the Trust's obligations.

BancShares contributed Capital Securities proceeds of $12.0 million to Southern which are included in Tier I capital for Southern's regulatory capital adequacy requirements. BancShares has similar regulatory capital adequacy requirements as Southern and is in compliance with those capital adequacy requirements at March 31, 2001.

The Federal Reserve Board, which regulates BancShares, and the Federal Deposit Insurance Corporation, which regulates Southern, have established minimum capital guidelines for the institutions they supervise.

Regulatory guidelines define minimum requirements for Southern's leverage capital ratio. Leverage capital equals total equity less goodwill and certain other intangibles and is measured relative to total adjusted assets as defined by regulatory guidelines. According to these guidelines, Southern's leverage capital ratio at March 31, 2001 was 7.76%. At December 31, 2000, Southern's leverage capital ratio was 6.97%. Both of these ratios are greater than the level designated as "well capitalized" by the FDIC.

Southern is also required to meet minimum requirements for Risk Based Capital ("RBC"). Southern's assets, including loan commitments and other off-balance sheet items, are weighted according to federal guidelines for the risk considered inherent in each asset. At March 31, 2001, Southern's Total RBC ratio was 13.44%. At December 31, 2000 the RBC ratio was 12.59%. Both of these ratios are greater than the level designated as "well capitalized" by the FDIC.

The regulatory capital ratios reflect increases in assets and liabilities from the acquisitions Southern has made. Each of the acquisitions required the payment of a premium for the deposits received. Each of these premiums resulted in increased intangible assets, which is deducted from total equity in the ratio calculations.

The accumulated other comprehensive income was $10.8 million at March 31, 2001, and $9.9 million at December 31, 2000. Accumulated other comprehensive income consists entirely of unrealized net gains on securities available-for-sale, net of taxes. Although a part of total shareholders' equity, accumulated other comprehensive income is not included in the calculation of either the RBC or leverage capital ratios pursuant to regulatory definitions of these capital requirements. The following table presents capital adequacy calculations and ratios of Southern:

| (Dollars in thousands) | (Unaudited) March 31, 2001 |
|---|---|
| Tier 1 capital | $ 60,119 |
| Total capital | 70,484 |
| Risk-adjusted assets | 524,489 |
| Average tangible assets | 774,535 |
| Tier 1 capital ratio (1) | 11.46% |
| Total capital ratio (1) | 13.44% |
| Leverage capital ratio (1) | 7.76% |

(1) These ratios exceed the minimum ratios required for a bank to be classified as "well capitalized" as defined by the FDIC.

At March 31, 2001 and December 31, 2000, BancShares was also in compliance with its regulatory capital requirements and all of its regulatory capital ratios exceeded the minimum ratios required by the regulators to be classified as "well capitalized".



LIQUIDITY

Liquidity refers to the ability of Southern to generate sufficient funds to meet its financial obligations and commitments at a reasonable cost. Maintaining liquidity ensures that funds will be available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of other deposits and liabilities. Past experiences help management anticipate cyclical demands and amounts of cash required. These obligations can be met by existing cash reserves or funds from maturing loans and investments, but in the normal course of business are met by deposit growth.

In assessing liquidity, many relevant factors are considered, including stability of deposits, quality of assets, economy of the markets served, business concentrations, competition and BancShares' overall financial condition. BancShares' liquid assets include cash and due from banks, federal funds sold and investment securities available-for-sale. The liquidity ratio, which is defined as cash plus short term available-for-sale securities divided by deposits plus short term liabilities, was 28.19% at March 31, 2001 and 33.48% at December 31, 2000.

The Statement of Cash Flows discloses the principal sources and uses of cash from operating, investing and financing activities for the three months ended March 31, 2001 and for the three months ended March 31, 2000. BancShares has no brokered deposits. Jumbo time deposits are considered to include all time deposits of $100,000 or more. BancShares has never aggressively bid on these deposits. Almost all jumbo time deposit customers have other relationships with Southern, including savings, demand and other time deposits, and in some cases, loans. At March 31, 2001 jumbo time deposits represented 12.21% of total deposits compared to 11.69% of total deposits at December 31, 2000.

Management believes that BancShares has the ability to generate sufficient amounts of cash to cover normal requirements and any additional needs which may arise, within realistic limitations, and management is not aware of any known demands, commitments or uncertainties that will affect liquidity in a material way.

ACCOUNTING AND OTHER MATTERS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. This statement, as amended by Statement 137, is effective for all fiscal quarters of fiscal years



beginning after June 15, 2000. Earlier application of all provisions of this statement is encouraged. BancShares adopted this statement on January 1, 2001 with no impact to the Company's consolidated financial statements.

The FASB has also issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125." It revises the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This statement is effective for recognition and reclassification of collateral and disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. This Statement is not expected to materially impact the Company.

The FASB also issues exposure drafts for proposed statements of financial accounting standards. Such exposure drafts are subject to comment from the public, to revisions by the FASB and to final issuance by the FASB as statements of financial accounting standards. Management considers the effect of the proposed statements on the consolidated financial statements of BancShares and monitors the status of changes to issued exposure drafts and to proposed effective dates.

Management is not aware of any other known trends, events, uncertainties, or current recommendations by regulatory authorities that will have or that are reasonably likely to have a material effect on BancShares' liquidity, capital resources or other operations.

Other matters

Management is not aware of any other trends, events, uncertainties, or current recommendations by regulatory authorities that will have or that are reasonably likely to have a material effect on BancShares' liquidity, capital resources or other operations.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk:

Market risk reflects the risk of economic loss resulting from adverse changes in market price and interest rates. This risk of loss can be reflected in either diminished current market values or reduced potential net interest income in future periods. BancShares' market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. The structure of BancShares' loan and deposit portfolios is such that a significant increase in the prime rate may adversely impact net interest income. Historical prepayment experience is considered as well as management's expectations based on the interest rate environment and the core deposits without contractual maturity level as of March 31, 2001. Management seeks to manage this risk through the use of shorter term



maturities. The composition and size of the investment portfolio is managed so as to reduce the interest rate risk in the deposit and loan portfolios while at the same time maximizing the yield generated from the loan portfolio.

The table below presents in tabular form the contractual balances and the estimated fair value of financial instruments at their expected maturity dates as of March 31, 2001. The expected maturity categories take into consideration historical prepayment experience as well as management's expectations based on the interest rate environment as of March 31, 2001. For core deposits without contractual maturity (i.e., interest bearing checking, savings and money market accounts), the table presents principal cash flows as maturing in 2002 since they are subject to immediate repricing. Weighted average variable rates in future periods are based on the implied forward rates in the yield curve as of March 31, 2001.

| (Dollars in thousands, unaudited) | | | | Maturing in the years ende | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| Assets | | | | | |
| Loans | | | | | |
| Fixed rate | 68,565 | 45,782 | 53,811 | 39,381 | 30,809 |
| Average rate (%) | 8.59% | 8.79% | 8.49% | 8.62% | 8.54% |
| Variable rate | 110,244 | 13,934 | 11,559 | 11,079 | 9,531 |
| Average rate (%) | 8.92% | 8.27% | 8.25% | 8.30% | 8.26% |
| Investment securities | | | | | |
| Fixed rate | 95,435 | 53,359 | 1,517 | 2,222 | 1,673 |
| Average rate (%) | 6.17% | 6.02% | 7.96% | 8.06% | 8.41% |

| | | | | | |
|---|---|---|---|---|---|
| Variable rate | - | - | - | - | - |
| Average rate (%) | - | - | - | - | - |
| Liabilities | | | | | |
| Savings and interest bearing checking | | | | | |
| Fixed rate | 212,947 | - | - | - | - |
| Average rate (%) | 1.76% | - | - | - | - |
| Certificates of deposit | | | | | |
| Fixed rate | 344,305 | 18,836 | 15,041 | 7,986 | - |
| Average rate (%) | 5.93% | 5.79% | 6.30% | 5.70% | - |
| Variable rate | 4,518 | 2,370 | - | - | - |
| Average rate (%) | 4.14% | 4.31% | - | - | - |
| Long-term debt | | | | | |
| Fixed rate | - | - | - | - | - |
| Average rate (%) | - | - | - | - | - |

Part ii - OTHER INFORMATION

Item 5. Other Information.

Forward-looking statements

The foregoing discussion may contain statements that could be deemed forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act, which statements are inherently subject to risks and uncertainties. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualifiers such as "expect," "believe," "estimate," "plan," "project" or other statements concerning opinions or judgments of BancShares and its management about future events. Factors that could influence the accuracy of such forward-looking statements include, but are not limited to, the financial success or changing strategies of BancShares' customers, actions of government regulators, the level of market interest rates, and general economic conditions.



Signatures

Pursuant to 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.

SOUTHERN BANCSHARES (N.C.), INC.
/s/John C. Pegram, Jr.

Dated: May 07, 2001

_________________________________________

John C. Pegram, Jr.,
President and Chief Executive Officer

Dated: May 04, 2001

/s/David A. Bean

______________________________________________

David A. Bean,
Secretary, Treasurer and Chief Financial Officer