SUMMIT BANCSHARES INC /TX/
Form 10-Q
May 12, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Mark One

|X| Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003 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 0-11986

SUMMIT BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

| Texas | 75-1694807 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

1300 Summit Avenue, Fort Worth, Texas 76102
(Address of principal executive offices)

(817) 336-6817
(Registrant's telephone number, including area code)

No Change
(Former name, former address and former fiscal year if changed since last report)

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 |_|

The number of shares of common stock, $1.25 par value, outstanding at March 31, 2003 was 6,179,317 shares.

SUMMIT BANCSHARES, INC.

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The March 31, 2003 and 2002 and the December 31, 2002 financial statements included herein are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management of the registrant, necessary to a fair statement of the results for the interim periods.





PART II - OTHER INFORMATION





PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | (Unaudited March 31, 2003 | |
|---|---|---|
| ASSETS | | (In |
| CASH AND DUE FROM BANKS - NOTE 1 | $ 31,961 | $ |
| FEDERAL FUNDS SOLD & DUE FROM TIME | 76 | |
| INVESTMENT SECURITIES - NOTE 2 | | |
| Securities Available-for-Sale, at fair value | 163,639 | |
| LOANS - NOTES 3 AND 11 | | |
| Loans, Net of Unearned Discount | 489,352 | |
| Allowance for Loan Losses | (7,365) | |
| LOANS, NET | 481,987 | |
| PREMISES AND EQUIPMENT - NOTE 4 | 11,652 | |
| ACCRUED INCOME RECEIVABLE | 3,606 | |
| OTHER REAL ESTATE - NOTE 5 | -0- | |
| OTHER ASSETS | 4,972 | |
| TOTAL ASSETS | $ 697,893 | $ |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| DEPOSITS - NOTE 6 | | |
| Noninterest-Bearing Demand | $ 165,220 | $ |
| Interest-Bearing | 421,699 | |
| TOTAL DEPOSITS | 586,919 | |
| SHORT TERM BORROWINGS - NOTE 7 | 41,317 | |
| ACCRUED INTEREST PAYABLE | 373 | |
| OTHER LIABILITIES | 2,704 | |
| TOTAL LIABILITIES | 631,313 | |
| COMMITMENTS AND CONTINGENCIES - NOTES 12, 14, 16 AND 18 | | |
| SHAREHOLDERS' EQUITY - NOTES 13, 15 AND 19 | | |
| Common Stock - $1.25 Par Value; 20,000,000 shares authorized; 6,179,317, 6,269,861 and 6,158,542 shares issued and outstanding at March 31, 2003 and 2002 and at December 31, 2002, respectively | 7,724 | |
| Capital Surplus | 7,330 | |
| Retained Earnings | 48,974 | |
| Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Investment Securities, Net of Tax | 2,908 | |
| Treasury Stock at Cost (18,500, 5,000 and 20,000 shares at March 31, 2003 and 2002 and at December 31, 2002, respectively) | (356) | |
| TOTAL SHAREHOLDERS' EQUITY | 66,580 | |

| | | |
|---|---|---|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 697,893 | $ |

The accompanying Notes should be read with these financial statements.

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SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | (Unaudited) For the Three Month March 31, | |
|---|---|---|
| | 2003 | |
| | (In Thousands, Ex | |
| INTEREST INCOME | | |
| Interest and Fees on Loans | $ 7,489 | $ |
| Interest and Dividends on Investment Securities: | | |
| Taxable | 1,711 | |
| Exempt from Federal Income Taxes | 47 | |
| Interest on Federal Funds Sold and Due From Time | 4 | |
| TOTAL INTEREST INCOME | 9,251 | |
| INTEREST EXPENSE | | |
| Interest on Deposits | 1,660 | |
| Interest on Short Term Borrowings | 156 | |
| Interest on Note Payable | -0- | |
| TOTAL INTEREST EXPENSE | 1,816 | |
| NET INTEREST INCOME | 7,435 | |
| LESS: PROVISION FOR LOAN LOSSES - NOTE 3 | 300 | |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 7,135 | |
| NON-INTEREST INCOME | | |
| Service Charges and Fees on Deposits | 758 | |
| Gain on Sale of Investment Securities | -0- | |
| Other Income | 590 | |
| TOTAL NON-INTEREST INCOME | 1,348 | |
| NON-INTEREST EXPENSE | | |
| Salaries and Employee Benefits - NOTE 14 | 2,905 | |
| Occupancy Expense - Net | 293 | |
| Furniture and Equipment Expense | 429 | |
| Other Real Estate Owned Expense - Net | (15) | |
| Other Expense - NOTE 9 | 1,185 | |
| TOTAL NON-INTEREST EXPENSE | 4,797 | |

| | | |
|---|---|---|
| INCOME BEFORE INCOME TAXES | 3,686 | |
| APPLICABLE INCOME TAXES - NOTE 10 | 1,253 | |
| NET INCOME | $ 2,433 | $ |
| NET INCOME PER SHARE - NOTE 15 | | |
| Basic | $ 0.39 | $ |
| Diluted | 0.39 | |

The accompanying Notes should be read with these financial statements.



SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
AND FOR THE YEAR ENDED DECEMBER 31, 2002
(Unaudited)

| | Common Stock | | | | Accumulat Other Comprehen Income - Unrealized (Loss) |
|---|---|---|---|---|---|
| | Shares | Amount | Capital Surplus | Retained Earnings | Investm Securit |
| | (Dollars in Thousands, Except Per Share D | | | | |
| Balance at January 1, 2002 | 6,262,961 | $ 7,829 | $ 6,865 | $ 44,166 | $ 1 |
| Stock Options Exercised | 7,900 | 9 | 44 | | |
| Purchases of Stock Held in Treasury | | | | | |
| Retirement of Stock Held in Treasury | (1,000) | (1) | | (17) | |
| Cash Dividend - $.12 Per Share | | | | (752) | |
| Net Income for the Three Months Ended March 31, 2002 | | | | 2,286 | |
| Securities Available-for-Sale Adjustment | | | | | |
| Total Comprehensive Income NOTE 22 | | | | | |
| Balance at March 31, 2002 | 6,269,861 | 7,837 | 6,909 | 45,683 | 1 |
| Stock Options Exercised | 31,625 | 40 | 213 | | |
| Purchases of Stock Held in Treasury | | | | | |
| Retirement of Stock Held in Treasury | (142,944) | (179) | | (2,820) | |
| Cash Dividend - $.36 Per Share | | | | (2,234) | |
| Net Income for the Nine Months Ended December 31, 2002 | | | | 7,031 | |

| | | | | | |
|---|---|---|---|---|---|
| Securities Available-for-Sale Adjustment | | | | | 1 |
| Total Comprehensive Income NOTE 22 | | | | | |
| Balance at December 31, 2002 | 6,158,542 | 7,698 | 7,122 | 47,660 | 2 |
| Stock Options Exercised | 40,775 | 51 | 208 | | |
| Purchases of Stock Held in Treasury | | | | | |
| Retirement of Stock Held in Treasury | (20,000) | (25) | | (378) | |
| Cash Dividend - $.12 Per Share | | | | (741) | |
| Net Income for the Three Months Ended March 31, 2003 | | | | 2,433 | |
| Securities Available-for-Sale Adjustment | | | | | |
| Total Comprehensive Income NOTE 22 | | | | | |
| Balance at March 31, 2003 | 6,179,317 | $ 7,724 | $ 7,330 | $ 48,974 | $ 2 |

The accompanying Notes should be read with these financial statements.



| | (Unaudited) For the Three Month March 31, 2003 | (In T |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $ 2,433 | $ |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 298 | |
| Net Premium Amortization of Investment Securities | 360 | |
| Provision for Loan Losses | 300 | |
| Deferred Income Taxes Benefit | (212) | |
| Net Gain on Sale of Investment Securites | -0- | |
| Net Gain From Sale of Other Real Estate | -0- | |
| Net Loss From Sale of Premises and Equipment | -0- | |
| Net Decrease in Accrued Income and Other Assets | 1,619 | |
| Net (Decrease) Increase in Accrued Expenses and and Other Liabilities | (533) | |
| Total Adjustments | 1,832 | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 4,265 | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |

| | | |
|---|---|---|
| Net Decrease (Increase) in Federal Funds Sold and Due From Time | 186 | |
| Proceeds from Matured and Prepaid Investment Securities -Available-for-Sale | 13,439 | |
| Proceeds from Sales of Investment Securities | -0- | |
| Purchase of Investment Securities -Available-for-Sale | (3,855) | |
| Loans Originated and Principal Repayments, Net | (20,287) | |
| Recoveries of Loans Previously Charged-Off | 439 | |
| Proceeds from Sale of Premises and Equipment | 17 | |
| Proceeds from Sale of Other Real Estate & Repossessed Assets | 1,142 | |
| Purchases of Premises and Equipment | (482) | |
| NET CASH USED BY INVESTING ACTIVITIES | (9,401) | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net Increase in Demand Deposits, Savings Accounts and Interest Bearing Transaction Accounts | 87 | |
| Net Increase (Decrease) in Certificates of Deposit | 4,883 | |
| Net Increase (Decrease) in Short Term Borrowings | 4,062 | |
| Payments of Cash Dividends | (741) | |
| Proceeds from Stock Options Exercised | 259 | |
| Purchase of Treasury Stock | (356) | |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 8,194 | |
| NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS | 3,058 | |
| CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD | 28,903 | |
| CASH AND DUE FROM BANKS AT END OF PERIOD | $ 31,961 | $ |
| SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES | | |
| Interest Paid | $ 1,797 | $ |
| Income Taxes (Refunded) Paid | (325) | |
| Other Real Estate Acquired and Other Assets Acquired in Settlement of Loans | -0- | |

The accompanying Notes should be read with these financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002 (UNAUDITED)
AND FOR THE YEAR ENDED DECEMBER 31, 2002 (UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Summit Bancshares, Inc. are in accordance with accounting principles generally accepted in the United States of America and the prevailing practices within the banking industry. A summary of the more significant policies follows:

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of Summit Bancshares, Inc. (hereinafter, collectively with its subsidiaries, the "Corporation"), include its accounts and its direct and indirect wholly-owned subsidiaries, Summit Delaware Financial Corporation, Summit Bank, National Association (the "Bank") and SIA Insurance Agency. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Due From Banks

The Bank is required to maintain certain noninterest-bearing cash balances at the Federal Reserve Bank based on its level of deposits. During the first three months of 2003, the average cash balance maintained at the Federal Reserve Bank was $1,954,000. Compensating balances held at other correspondent banks, to minimize service charges, averaged approximately $18,833,000 during the same period.

Investment Securities

The Corporation has adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). At the date of purchase, the Corporation is required to classify debt and equity securities into one of three categories: held-to-maturity, trading or available-for-sale. At each reporting date, the appropriateness of the classification is reassessed. Investments in debt securities are classified as held-to-maturity and measured at amortized cost in the financial statements only if management has the positive intent and ability to hold those securities to maturity. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and measured at fair value in the financial statements with unrealized gains and losses included in earnings. Investments not classified as either held-to-maturity or trading are classified as available-for-sale and measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, in a separate component of shareholders' equity until realized.

The Corporation has the ability and intent to hold to maturity its investment securities classified as held-to-maturity; accordingly, no adjustment has been made for the excess, if any, of amortized cost over market. In determining the investment category classifications at the time of purchase of securities, management considers its asset/liability strategy, changes in interest rates and prepayment risk, the need to increase capital and other factors. Under certain circumstances (including the deterioration of the issuer's creditworthiness, a change in tax law, or statutory or regulatory requirements), the Corporation may change the investment security classification. In the periods reported for 2003 and 2002, the Corporation held no securities that would have been classified as trading securities.

All investment securities are adjusted for amortization of premiums and accretion of discounts. Amortization of premiums and accretion of discounts are recorded to income over the contractual maturity or estimated life of the individual investment on the level yield method. Gain or loss on sale of investments is based upon the specific identification method and the gain or loss is recorded in non-interest income. Income earned on the Corporation's investments in state and political subdivisions is not taxable.

Loans and Allowance for Loan Losses

Loans are stated at the principal amount outstanding less unearned discount, deferred fees and the allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by a method approximating the interest method. Interest income on all other loans is recognized based upon the principal amounts outstanding, the simple interest method. Loan origination fee income, net of direct loan origination costs, is deferred and amortized over the life of the related loan. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously earned, but uncollected on such loans, is written off. After loans are placed on non-accrual all payments received are applied to principal and no interest income is recorded until the loan is returned to accrual status or the principal has been reduced to zero.



NOTE 1 - Summary of Significant Accounting Policies (cont'd.)

The Corporation has adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by Statement of Financial Accounting Standards No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure." Under this standard, the allowance for loan losses related to loans that are identified for evaluation in accordance with Statement No. 114 (impaired loans) is based on discounted cash flows using the loan's initial effective rate or the fair value of the collateral for certain collateral dependent loans.

The allowance for loan losses is comprised of amounts charged against income in the form of a provision for loan losses as determined by management. Management's evaluation is based on a number of factors, including the Bank's loss experience in relation to outstanding loans and the existing level of the allowance, prevailing and prospective economic conditions, and management's continuing review of the discounted cash flow values of impaired loans and its evaluation of the quality of the loan portfolio. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely.

The evaluation of the adequacy of loan collateral is often based upon estimates and appraisals. Because of changing economic conditions, the valuations determined from such estimates and appraisals may also change. Accordingly, the Corporation may ultimately incur losses which vary from management's current estimates. Adjustments to the allowance for loan losses will be reported in the period such adjustments become known or are reasonably estimable.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is computed on the straight-line method based upon the estimated useful lives of the assets ranging from three to forty years. Maintenance and repairs are charged to non-interest expense. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. Depreciable assets sold or retired are removed from the asset and related accumulated depreciation accounts and any gain or loss is reflected in the income and expense accounts.

Other Real Estate

Other real estate is foreclosed property held pending disposition and is valued at the lower of its fair value or the recorded investment in the related loan. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Corporation's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Any subsequent reduction in value is recognized by a charge to income. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in non-interest expense.

Federal Income Taxes

The Corporation joins with its subsidiaries in filing a consolidated federal income tax return. The subsidiaries pay to the parent a charge equivalent to their current federal income tax based on the separate taxable income of the subsidiaries.

The Corporation and the subsidiaries maintain their records for financial reporting and income tax reporting purposes on the accrual basis of accounting. Deferred income taxes are provided in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred income taxes are provided for accumulated temporary differences due to basic differences for assets and liabilities for financial reporting and income tax purposes.

Realization of net deferred tax assets is dependent on generating sufficient future taxable income. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax assets will be realized. The amount of the net deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and Due from Banks."

Reclassification

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

Earnings Per Common and Common Equivalent Shares

Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings Per Share," requires presentation of basic and diluted earnings per share. Basic earnings per share has been computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Net income per share for all periods presented has been calculated in accordance with SFAS 128. Outstanding stock options issued by the Corporation represent the only dilutive effect reflected in diluted weighted average shares.

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NOTE 1 - Summary of Significant Accounting Policies (cont'd.)

Stock Based Compensation

The Corporation accounts for stock-based compensation in accordance with the intrinsic value based method recommended by Accounting Principles Board

Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date over the amount an employee must pay to acquire the stock. The impact on the financial statements of using this method is disclosed in Note 13, "Stock Option Plans" to the financial statements.

Audited Financial Statements

The consolidated balance sheet as of December 31, 2002, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2002 are headed "unaudited" in these financial statements. These statements were reported in the Securities Exchange Commission Form 10-K as of December 31, 2002 as "audited" but are required to be reflected in these statements as unaudited because of the absence of an independent auditor's report.

NOTE 2 - Investment Securities

A summary of amortized cost and estimated fair values of investment securities is as follows (in thousands):

| | March 31, 2003 | | |
|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |
| Investment Securities - Available-for-Sale | | | |
| U.S. Treasury Securities | $ 998 | $ 9 | $ -0- |
| U.S. Government Agencies and Corporations | 114,306 | 3,793 | -0- |
| U.S. Government Agency Mortgage Backed Securities | 33,788 | 426 | (6) |
| Obligations of States and Political Subdivisions | 5,014 | 185 | -0- |
| Community Reinvestment Act Investment Fund | 3,000 | -0- | -0- |
| Federal Reserve and Federal Home Loan Bank Stock | 2,126 | -0- | -0- |
| Total Available-for-Sale Securities | 159,232 | 4,413 | (6) |
| Total Investment Securities | $ 159,232 | $ 4,413 | $ (6) |

All investment securities are carried on the consolidated balance sheet as of March 31, 2003 at fair value. The net unrealized gain of $4,407,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders' Equity.

Included in the Other Securities category at March 31, 2003 is $1,806,000 of Federal Home Loan Bank Stock and $320,000 of Federal Reserve Stock which are classified as restricted investment securities, carried at cost, and evaluated for impairment. No impairment losses were recorded as of March 31, 2003. The Corporation is required to have stock holdings of Federal Home Loan Bank Stock equal to 5% of its outstanding advancements from the FHLB. The Corporation is also required to have stock holdings of Federal Reserve Stock equal to 6% of its Capital Stock and Surplus.

NOTE 2 - Investment Securities (cont'd.)

A summary of amortized cost and estimated fair values of investment securities is as follows (in thousands):

| | March 31, 2002 | | |
|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses |
| Investment Securities - Available-for-Sale | | | |
| U.S. Treasury Securities | $ 5,019 | $ 117 | $-0- |
| U.S. Government Agencies and Corporations | 113,852 | 1,661 | (131) |
| U.S. Government Agency Mortgage Backed Securities | 17,258 | 139 | -0- |
| Obligations of States and Political Subdivisions | 1,953 | 2 | (14) |
| Federal Reserve and Federal Home Loan Bank Stock | 1,623 | -0- | -0- |
| Total Available-for-Sale Securities | 139,705 | 1,919 | (145) |
| Total Investment Securities | $ 139,705 | $ 1,919 | $ (145) |

All investment securities were carried on the consolidated balance sheet as of March 31, 2002 at fair value. The net unrealized gain of $1,774,000 was included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, was included in Shareholders' Equity.

Included in the Other Securities category at March 31, 2002 was $1,303,000 of Federal Home Loan Bank Stock and $320,000 of Federal Reserve Stock which are classified as restricted investment securities, carried at cost, and evaluated for impairment. No impairment losses were recorded as of March 31, 2002. The Corporation is required to have stock holdings of Federal Home Loan Bank Stock equal to 5% of its outstanding advancements from the FHLB. The Corporation is also required to have stock holdings of Federal Reserve Stock equal to 6% of its Capital Stock and Surplus.

NOTE 3 - Loans and Allowance for Loan Losses

The book values of loans by major type follow (in thousands):

| | March 31, 2003 | March 31, 2002 | December 31, 2002 |
|---|---|---|---|
| Commercial | $ 202,448 | $ 189,511 | $ 195,120 |
| Real Estate Mortgage - Commercial | 135,353 | 120,352 | 130,755 |
| Real Estate Mortgage - Residential | 53,388 | 47,913 | 48,447 |
| Real Estate Construction | 64,679 | 61,812 | 59,941 |
| Loans to Individuals | 33,484 | 34,235 | 34,882 |
| Less: Unearned Discount | -0- | (5) | -0- |

| | | | |
|---|---|---|---|
| | 489,352 | 453,818 | 469,145 |
| Allowance for Loan Losses | (7,365) | (6,534) | (6,706) |
| Loans - Net | $ 481,987 | $ 447,284 | $ 462,439 |

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NOTE 3 - Loans and Allowance for Loan Losses (cont'd.)

Transactions in the allowance for loan losses are summarized as follows (in thousands):

| | Three Months Ended March 31, | | Year Ended December 31, |
|---|---|---|---|
| | 2003 | 2002 | 2002 |
| Balance, Beginning of Period | $ 6,706 | $ 6,015 | $ 6,015 |
| Provisions, Charged to Income | 300 | 545 | 3,140 |
| Loans Charged-Off | (80) | (42) | (2,821) |
| Recoveries of Loans Previously Charged-Off | 439 | 16 | 372 |
| Net Loans Recovered (Charged-Off) | 359 | (26) | (2,449) |
| Balance, End of Period | $ 7,365 | $ 6,534 | $ 6,706 |

The provisions for loan losses charged to operating expenses during the three months ended March 31, 2003 and March 31, 2002 of $300,000 and $545,000, respectively, were considered adequate to maintain the allowance in accordance with the policy discussed in Note 1. For the year ended December 31, 2002, a provision of $3,140,000 was recorded.

At March 31, 2003, the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was $1,596,000 (of which $1,596,000 were on non-accrual status). The related allowance for loan losses for these loans was $815,000. The average recorded investment in impaired loans during the three months ended March 31, 2003 was approximately $1,637,000. For this period, the Corporation recognized no interest income on these impaired loans.

NOTE 4 - Premises and Equipment

The investment in premises and equipment stated at cost and net of accumulated amortization and depreciation is as follows (in thousands):

| | March 31, | | December |
|---|---|---|---|
| | 2003 | 2002 | 2002 |

| | | | |
|---|---|---|---|
| Land | $ 2,317 | $ 2,317 | $ 2, |
| Buildings and Improvements | 10,154 | 8,265 | 9, |
| Furniture & Equipment | 9,347 | 7,754 | 9, |
| Total Cost | 21,818 | 18,336 | 21, |
| Less: Accumulated Amortization and Depreciation | 10,166 | 9,677 | 9, |
| Net Book Value | $ 11,652 | $ 8,659 | $ 11, |

NOTE 5 - Other Real Estate

The carrying value of other real estate is as follows (in thousands):

| | March 31, 2003 | March 31, 2002 | December 2002 |
|---|---|---|---|
| Other Real Estate | $-0- | $-0- | $ 1, |

There were no direct write-downs of other real estate charged to income for the three months ended March 31, 2003 or March 31, 2002. There were also no direct write-downs of other real estate charged to income for the year ended December 31, 2002.

Included in Other Assets at March 31, 2003 and March 31, 2002 were $125,000 and $97,000 of Other Foreclosed Assets. The 2003 assets were comprised of motor vehicles and the 2002 assets were comprised of an inventory of textbooks. There were no direct write-downs of these assets as of March 31, 2003 or for any period during 2002.



NOTE 6 - Deposits

The book values of deposits by major type follow (in thousands):

| | March 31, 2003 | March 31, 2002 | December 2002 |
|---|---|---|---|
| Noninterest-Bearing Demand Deposits | $ 165,220 | $ 151,236 | $ 167, |
| Interest-Bearing Deposits: | | | |
| Interest-Bearing Transaction Accounts and Money Market Funds | 185,055 | 178,617 | 184, |
| Savings | 115,962 | 109,631 | 113, |
| Certificates of Deposit under $100,000 and IRA's | 62,959 | 61,339 | 63, |
| Certificates of Deposit $100,000 or more | 57,407 | 44,782 | 52, |
| Other | 316 | 316 | |

| | | | |
|---|---|---|---|
| Total | 421,699 | 394,685 | 414, |
| Total Deposits | $ 586,919 | $ 545,921 | $ 581, |

NOTE 7 - Short Term Borrowings

Securities sold under repurchase agreements generally represent borrowings with maturities ranging from one to thirty days. Information relating to these borrowings and Federal Funds Purchased is summarized as follows (in thousands):

| | Three Months Ended March 31, | | Year End December |
|---|---|---|---|
| | 2003 | 2002 | 2002 |
| Securities Sold Under Repurchase Agreements: | | | |
| Average Balance | $ 21,138 | $ 14,400 | $ 20, |
| Period-End Balance | 17,017 | 13,437 | 22, |
| Maximum Month-End Balance During Period | 22,597 | 14,466 | 29, |
| Interest Rate: | | | |
| Average | 0.54% | 0.74% | 0 |
| Period-End | 0.61 | 0.77 | 0 |
| Federal Funds Purchased: | | | |
| Average Balance | $ 4,908 | $ 2,865 | $ 1, |
| Period-End Balance | -0- | -0- | |
| Maximum Month-End Balance During Period | 1,075 | 1,657 | 8, |
| Interest Rate: | | | |
| Average | 1.53% | 2.01% | 2 |
| Period-End | -0- | -0- | |

The Corporation has available a line of credit with the Federal Home Loan Bank of Dallas which allows it to borrow on a collateralized basis at a fixed term. The borrowings are collateralized by a blanket floating lien on all first mortgage loans, the FHLB capital stock owned by the Corporation and any funds on deposit with FHLB. At March 31, 2003, the Corporation had $22.0 million of borrowings outstanding under the line of credit at a rate of 1.65%, $5.0 million of which matures in May 2003, $10.0 matures in July 2003 and the remaining $7.0 million matures in October 2003. For the three months ended March 31, 2003, the Corporation had average borrowings under the line of credit of $19.7 million. In addition, at March 31, 2003, the Corporation had $2.3 million borrowed under a match funding agreement with Federal Home Loan Bank at a rate of 4.41% which matures in June 2003. For the three months ended March 31, 2002, the Corporation had $10.0 million of borrowings outstanding under the line of credit at a rate of 2.08% which matured in July 2002. For the three months ended March 31, 2002, the Corporation had average borrowings under the line of credit of $18.5 million. In addition, at March, 31, 2002, the Corporation had $1,055,000 borrowed under the match funding agreement mentioned above. At December 31, 2002, $12.0 million of borrowings were outstanding at a rate of 2.11%, comprised of the $5.0 million and $7.0 million increments described above. For the year ended December 31, 2002, the Corporation had average borrowings of $16.5 million. The Corporation, at December 31, 2002, also had the same $2.3 million borrowed under the match funding agreement with the Federal Home Loan Bank at the rate of 4.41%.

NOTE 8 - Notes Payable

On September 15, 2002, the Corporation obtained lines of credit from a bank under which the Corporation may borrow $11,000,000 at prime rate. The lines of credit are secured by stock of the Bank and mature on September 15, 2003, whereupon, if balances are outstanding, the lines convert to term notes having five year terms. The Corporation will not pay a fee for any unused portion of the lines. As of March 31, 2003, no funds had been borrowed under these lines nor were any borrowings outstanding.



NOTE 9 - Other Non-Interest Expense

The significant components of other non-interest expense are as follows (in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Business Development | $ 173 | $ 168 | $ |
| Legal and Professional Fees | 169 | 173 | |
| Printing and Supplies | 106 | 80 | |
| Regulatory Fees and Assessments | 62 | 58 | |
| Other | 675 | 572 | 2, |
| Total | $ 1,185 | $ 1,051 | $ 4, |

NOTE 10 - Income Taxes

Federal income taxes included in the consolidated balance sheets were as follows (in thousands):

| | March 31, 2003 | March 31, 2002 | December 2002 |
|---|---|---|---|
| Current Tax Asset (Liability) | $ (1,418) | $ (1,409) | $ |
| Net Deferred Tax Asset | 1,056 | 1,968 | |
| Total Included in Other (Liabilities) Assets | $ (362) | $ 559 | $ 1, |

The net deferred tax asset at March 31, 2003 of $1,056,000, included $(1,498,000), a deferred tax liability related to unrealized gains on Available-for-Sale Securities.

The components of income tax expense were as follows (in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Federal Income Tax Expense | | | |
| Current | $ 1,465 | $ 1,460 | $ 4, |
| Deferred (benefit) | (212) | (267) | |
| Total Federal Income Tax Expense | $ 1,253 | $ 1,193 | $ 4, |
| Effective Tax Rates | 34.00% | 34.30% | 34 |

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NOTE 10 - Income Taxes (cont'd.)

The reasons for the difference between income tax expense and the amount computed by applying the statutory federal income tax rate to operating earnings are as follows (in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Federal Income Taxes at Statutory Rate of 34.5% | $ 1,271 | $ 1,207 | $ 4, |
| Effect of Tax Exempt Interest Income | (23) | (11) | |
| Non-deductible Expenses | 17 | 15 | |
| Other | (12) | (18) | |
| Income Taxes Per Income Statement | $ 1,253 | $ 1,193 | $ 4, |

Deferred income tax expense (benefit) results from differences between amounts of assets and liabilities as measured for income tax return and financial reporting purposes. The significant components of federal deferred tax assets and liabilities are in the following table (in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Federal Deferred Tax Assets: | | | |
| Allowance for Loan Losses | $ 2,526 | $ 2,111 | $ 2, |
| Valuation Reserves - Other Real Estate | -0- | 106 | |
| Interest on Non-accrual Loans | 290 | 258 | |
| Deferred Compensation | 551 | 560 | |

| | | | |
|---|---|---|---|
| Gross Federal Deferred Tax Assets | 3,367 | 3,035 | 3, |
| Federal Deferred Tax Liabilities: | | | |
| Depreciation and Amortization | 575 | 286 | |
| Accretion | 191 | 150 | |
| Unrealized Gains on Available-for-Sale Securities | 1,498 | 603 | 1, |
| Other | 47 | 28 | |
| Gross Federal Deferred Tax Liabilities | 2,311 | 1,067 | 2, |
| Net Deferred Tax Asset | $ 1,056 | $ 1,968 | $ |

NOTE 11 - Related Party Transactions

The Bank has made transactions in the ordinary course of business with certain of its officers, directors and their affiliates. All loans included in such transactions are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons. Total loans outstanding to such parties amounted to approximately $8,864,000 at December 31, 2002.

NOTE 12 - Commitments and Contingent Liabilities

In the normal course of business, there are various outstanding commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the financial statements. No losses are anticipated as a result of these transactions. Commitments are most frequently extended for real estate, commercial and industrial loans.

At March 31, 2003, outstanding documentary and standby letters of credit totaled $9,720,000 and commitments to extend credit totaled $123,766,000.

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NOTE 13 - Stock Option Plans

The Corporation has two Incentive Stock Option Plans, the 1993 Plan and the 1997 Plan, ("the Plans"). Each Plan has reserved 600,000 shares (adjusted for two-for-one stock splits in 1995 and 1997) of common stock for grants thereunder. The Plans provide for the granting to executive management and other key employees of Summit Bancshares, Inc. and its subsidiary incentive stock options, as defined under the current tax law. The options under the Plans will be exercisable for ten years from the date of grant and generally vest ratably over a five year period. Options will be and have been granted at prices which will not be less than 100-110% of the fair market value of the underlying common stock at the date of grant.

The following is a summary of transactions during the periods presented:

| | Shares Und |
|---|---|
| | Three Months Ended March 31, 2003 |

| | |
|---|---|
| Outstanding, Beginning of Period | 418,934 |
| Additional Options Granted During the Period | -0- |
| Forfeited During the Period | (4,950) |
| Exercised During the Period | (40,775) |
| Outstanding, End of Period | 373,209 |

Options outstanding at March 31, 2003 ranged in price from $3.00 to $21.05 per share with a weighted average exercise price of $12.78 and 290,499 shares exercisable. At March 31, 2003, there remained 355,150 shares reserved for future grants of options under the 1997 Plan.

The Corporation accounts for this plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized for options granted. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation.

| | Three Months Ended March 31, 2003 |
|---|---|
| Net Income, as Reported | $ 2,433 |
| Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects | (30) |
| Pro Forma Net Income | $ 2,403 |
| Earnings Per Share: | |
| Basic - as Reported | $ 0.39 |
| Basic - Pro Forma | 0.39 |
| Diluted - as Reported | 0.39 |
| Diluted - Pro Forma | 0.38 |

NOTE 14 - Employee Benefit Plans

401(k) Plan

The Corporation implemented a 401(k) plan in December 1997 covering substantially all employees. The Corporation made no contribution to this plan in 1999 or 1998. In 2002, 2001 and 2000, the Corporation made matching contributions to the participant's deferrals of compensation up to 100% of the employee contributions not to exceed 6% of the employee's annual compensation.

The amount expensed in support of the plan was $105,000 and $99,000 during the first three months of 2003 and 2002, respectively, and $427,000 for the year 2002.

Supplemental Executive Retirement Plan

In 2002, the Corporation established a Supplemental Executive Retirement Plan to provide key employees with retirement, death or disability benefits. For currently employed employees, the plan replaces the previous Management Security Plan. The current plan is a defined contribution plan. The expense charged to earnings for such future obligations was $46,000 for the first three months of 2003 and $180,000 for the year 2002. There was no expense recorded for the plan during the first three months of 2002.



Employment Contracts

The Chief Executive Officer of the Corporation has entered into a severance agreement providing for salary and fringe benefits in the event of termination for other than cause and under certain changes in control.

Other Post Retirement Benefits

The Corporation provides certain health care benefits for certain retired employees who bear all costs of these benefits. These benefits are covered under the "Consolidated Omnibus Budget Reconciliation Act" (COBRA).

NOTE 15 - Earnings per Share

The following data shows the amounts used in computing earnings per share and the weighted average number of shares of dilutive potential common stock (dollars in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Net income | $ 2,433 | $ 2,286 | $ 9, |
| Weighted average number of common shares used in Basic EPS | 6,166,000 | 6,263,193 | 6,224, |
| Effect of dilutive stock options | 110,486 | 154,753 | 171, |
| Weighted number of common shares and dilutive potential common stock used in Diluted EPS | 6,276,486 | 6,417,946 | 6,395, |

NOTE 16 - Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments, standby letters of credit and documentary letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

The Corporation's exposure to credit loss in the event of non-performance by the other party of these loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The total contractual amounts of financial instruments with off-balance sheet risk are as follows (in thousands):

| | March 31 |
|---|---|
| | 2003 |
| Financial Instruments Whose Contract Amounts Represent Credit Risk: | |
| Loan Commitments Including Unfunded Lines of Credit | $ 123,766 |
| Standby Letters of Credit | 9,720 |

Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, owner-occupied real estate and income-producing commercial properties.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE 17 - Concentrations of Credit Risk

The Bank makes commercial, consumer and real estate loans in its direct market which is defined as Fort Worth and its surrounding area. The Board of Directors of the Bank monitors concentrations of credit by purpose, collateral and industry at least quarterly. Certain limitations for concentration are set by the Board. Additional loans in excess of these limits must have prior approval of the bank's directors' loan committee. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' abilities to honor their contracts is dependent upon the strength of the local and state economy.



NOTE 18 - Litigation

The Corporation is involved in legal actions arising in the ordinary course of business. It is the opinion of management, after reviewing such actions with outside legal counsel, that the settlement of these matters will not materially affect the Corporation's financial position.

NOTE 19 - Stock Repurchase Plan

On April 15, 2003, the Board of Directors approved a stock repurchase plan. The plan authorized management to purchase up to 308,900 shares of the Corporation's common stock over the next twelve months through the open market or in privately negotiated transactions in accordance with all applicable state and federal laws and regulations.

In the three months ended March 31, 2003, 18,500 shares were purchased by the Corporation through a similar repurchase plan through the open market.

NOTE 20 - Subsequent Event

On April 15, 2003, the Board of Directors of the Corporation approved a quarterly dividend of $.12 per share to be paid on May 15, 2003 to shareholders of record on May 1, 2003.

NOTE 21 - Fair Values of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and due from banks and federal funds sold approximate those assets' fair values.
Investment securities (including mortgage-backed securities): Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
Loans: For variable-rate loans, fair values are based on carrying values. The fair values for fixed rate loans such as mortgage loans (e.g., one-to-four family residential) and installment loans are estimated using discounted cash flow analysis. The carrying amount of accrued interest receivable approximates its fair value.
Deposit liabilities: The fair value disclosed for interest bearing and noninterest-bearing demand deposits, passbook savings, and certain types of money market accounts are, by definition, equal to the amount payable on demand at the reporting date or their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.
Short-term borrowings: The carrying amounts of borrowings under repurchase agreements approximate their fair values.

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

| | March 31, | | |
|---|---|---|---|
| | 2003 | | 20 |
| | Carrying Amount | Fair Value | Carrying Amount |
| Financial Assets | | | |
| Cash and due from banks | $ 31,961 | $ 31,961 | $ 23,788 |
| Federal funds sold and Due From Time | 76 | 76 | 4,246 |
| Securities | 163,639 | 163,639 | 141,479 |
| Loans | 489,352 | 492,835 | 453,818 |
| Allowance for loan losses | (7,365) | (7,365) | (6,534) |
| Financial Liabilities | | | |
| Deposits | 586,919 | 588,636 | 545,921 |
| Short Term Borrowings | 41,317 | 41,308 | 24,492 |
| Off-balance Sheet Financial Instruments | | | |
| Loan commitments | | 123,766 | |
| Letters of credit | | 9,720 | |

NOTE 22 - Comprehensive Income

The Corporation has adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income". This standard requires an entity to report and display comprehensive income and its components. Comprehensive income is as follows (in thousands):

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year End December 2002 |
|---|---|---|---|
| Net Income | $ 2,433 | $ 2,286 | $ 9, |
| Other Comprehensive Income: | | | |
| Unrealized gain (loss) on securities available-for-sale, net of tax | 47 | (523) | 1, |
| Comprehensive Income | $ 2,480 | $ 1,763 | $ 10, |

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Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Management's Discussion and Analysis of Financial Condition and Results of Operations of the Corporation analyzes the major elements of the Corporation's consolidated balance sheets and statements of income. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes.

Net income for the first quarter of 2003 was $2,433,000 or $.39 diluted earnings per share, compared with $2,286,000, or $.36 diluted earnings per share, for the first quarter of 2002. On a per share basis, diluted earnings per share increased 8.3% over the first quarter of the prior year. Per share amounts are based on average diluted shares outstanding of 6,276,486 for the first three months of 2003 and 6,417,946 for the comparable period of 2002 adjusted to reflect stock options granted.

Outstanding loans at March 31, 2003 of $489.4 million represented an increase of $35.5 million, or 7.8%, over March 31, 2002 and an increase of $20.2 million, or 4.3%, from December 31, 2002.

Total deposits at March 31, 2003 of $586.9 million were up $41.0 million, or 7.5% from $545.9 million at March 31, 2002. Growth was experienced in every category of deposits with the largest growth coming in demand deposits and certificates of deposit over $100,000 which were up $14.0 million and $12.6 million, respectively. Demand deposits made up 28.2% of total deposits at March 31, 2003. Deposits were also up $5.0 million, or .8% from December 31, 2002.

The following table summarizes the Corporation's performance for the three months ended March 31, 2003 and 2002 (tax equivalent basis and dollars in thousands):

| | Three Months March 3 |
|---|---|
| | 2003 |
| Interest Income | $ 9,285 |
| Interest Expense | 1,816 |
| Net Interest Income | 7,469 |
| Provision for Loan Loss | 300 |
| Net Interest Income After Provision for Loan Loss | 7,169 |
| Non-Interest Income | 1,348 |
| Non-Interest Expense | 4,797 |
| Income Before Income Tax | 3,720 |
| Income Tax Expense | 1,287 |
| Net Income | $ 2,433 |
| Net Income per Share- | |
| Basic | $ 0.39 |
| Diluted | 0.39 |
| Return on Average Assets | 1.43% |
| Return on Average Stockholders' Equity | 14.89% |

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Summary of Earning Assets and Interest-Bearing Liabilities

The following schedule presents average balance sheets that highlight earning assets and interest-bearing liabilities and their related rates earned and paid for the first quarter of 2003 and 2002 (rates on tax equivalent basis):

| | Three Months Ended March 3 | | | |
|---|---|---|---|---|
| | 2003 | | | |
| | Average Balances | Interest | Average Yield/Rate | Average Balances |
| | (Dollars in Thousands) | | | |
| Earning Assets: | | | | |
| Federal Funds Sold & Due From Time | $ 1,286 | $ 4 | 1.18% | $ 3,55 |
| Investment Securities (Taxable) | 165,615 | 1,711 | 4.19% | 150,26 |
| Investment Securities (Tax-exempt) | 4,994 | 71 | 5.77% | 1,89 |
| Loans, Net of Unearned Discount(1) | 476,298 | 7,499 | 6.39% | 446,44 |
| Total Earning Assets | 648,193 | 9,285 | 5.81% | 602,15 |
| Non-interest Earning Assets: | | | | |

| | | | | |
|---|---|---|---|---|
| Cash and Due From Banks | 25,639 | | | 24,10 |
| Other Assets | 21,686 | | | 18,82 |
| Allowance for Loan Losses | (6,996) | | | (6,20 |
| Total Assets | $ 688,522 | | | $ 638,87 |
| Interest-Bearing Liabilities: | | | | |
| Interest-Bearing Transaction Accounts and Money Market Funds | $ 177,053 | 462 | 1.06% | $ 173,48 |
| Savings | 116,568 | 397 | 1.38% | 108,79 |
| Certificates of Deposit under $100,000 and IRA's | 63,026 | 426 | 2.74% | 62,55 |
| Certificates of Deposit $100,000 or more | 54,350 | 373 | 2.78% | 45,72 |
| Other Time | 316 | 2 | 2.25% | 41 |
| Other Borrowings | 48,012 | 156 | 1.32% | 36,03 |
| Total Interest-Bearing Liabilities | 459,325 | 1,816 | 1.60% | 426,99 |
| Non-interest Bearing Liabilities: | | | | |
| Demand Deposits | 160,011 | | | 146,78 |
| Other Liabilities | 2,933 | | | 3,26 |
| Shareholders' Equity | 66,253 | | | 61,83 |
| Total Liabilities and Shareholders' Equity | $ 688,522 | | | $ 638,87 |
| Net Interest Income and Margin (Tax-equivalent Basis)(2) | | $ 7,469 | 4.67% | |

(1) Loan interest income includes fees and loan volumes include loans on non-accrual.

(2) Presented on tax equivalent basis ("T/E") using a federal income tax rate of 34% both years.

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Net Interest Income

Net interest income (tax equivalent) for the first quarter of 2003 was $7,469,000 which represented an increase of $35,000 or .5%, over the first quarter of 2002. In this same period, total interest income declined 2.9% and total interest expense declined 14.8% and reflects a 50 basis point decrease in market interest rates from the first of January 2002 to March 2003.

The following table summarizes the effects of changes in interest rates, average volumes of earning assets and interest bearing liabilities on net interest income (tax equivalent) for the periods ended March 31, 2003 and 2002:

ANALYSIS OF CHANGES IN NET INTEREST INCOME
(Dollars in Thousands)

| | 1st Qtr. 2003 vs. 1st Qtr. 2002 Increase (Decrease) Due to Changes in: | 1st Qt |
|---|---|---|

| | Volume | Rate | Total | Volume |
|---|---|---|---|---|
| Interest Earning Assets: | | | | |
| Federal Funds Sold | $ (12) | $ (3) | $ (15) | $ (80 |
| Investment Securities (Taxable) | 188 | (325) | (137) | 19 |
| Investment Securities (Tax-exempt) | 46 | (3) | 43 | 3 |
| Loans, Net of Unearned Discount | 513 | (685) | (172) | 1,53 |
| Total Interest Income | 735 | (1,016) | (281) | 96 |
| Interest-Bearing Liabilities: | | | | |
| Deposits | 126 | (463) | (337) | (40 |
| Other Borrowings | 45 | (24) | 21 | 19 |
| Total Interest Expense | 171 | (487) | (316) | (20 |
| Net Interest Income | $ 564 | $ (529) | $ 35 | $ 1,16 |

Allowance for Loan Losses and Non-Performing Assets

The Corporation's allowance for loan losses was $7,365,000, or 1.50% of total loans, as of March 31, 2003 compared to $6,534,000, or 1.44% of total loans, as of March 31, 2002.

Transactions in the provision for loan losses are summarized as follows (in thousands):

| | Three Months March 3 |
|---|---|
| | 2003 |
| Balance, Beginning of Period | $ 6,706 |
| Provisions, Charged to Income | 300 |
| Loans Charged-Off | (80) |
| Recoveries of Loans Previously Charged-Off | 439 |
| Net Loans Recovered (Charged-Off) | 359 |
| Balance, End of Period | $ 7,365 |

For the three months ended March 31, 2003 and 2002, net recoveries (charge-offs) were .07% and (.01%) of loans, respectively, not annualized.

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The following table summarizes the non-performing assets as of the end of the last five quarters (in thousands):

| | March 31, 2003 | December 31, 2002 | September 30, 2002 | J |
|---|---|---|---|---|
| Non-Accrual Loans | $ 2,226 | $ 2,135 | $ 4,635 | $ |
| Renegotiated Loans | -0- | -0- | -0- | |
| Other Real Estate Owned and Other Foreclosed Assets | 125 | 1,268 | 288 | |
| Total Non-Performing Assets | $ 2,351 | $ 3,403 | $ 4,923 | $ |
| As a Percent of: | | | | |
| Total Assets | 0.34% | 0.49% | 0.72% | |
| Total Loans and Other Real Estate/ Foreclosed Assets | 0.48% | 0.72% | 1.04% | |
| Loans Past Due 90 days or More and Still Accruing | $ 80 | $ 16 | $ 37 | $ |

Non-accrual loans to total loans were .45% at March 31, 2003 and non-performing assets were .48% of loans and other real estate owned/foreclosed assets at the same date.

As of March 31, 2003, non-accrual loans were comprised of $1,632,000 in commercial loans, $345,000 in real estate mortgage loans and $249,000 in consumer loans.

As of March 31, 2003, there was no other real estate owned. However, the Corporation has $125,000 in Other Foreclosed Assets which represents several motor vehicles. These assets are in process of liquidation; however the process is expected to take several months. The cost of liquidation will be recorded as a current period expense.

The following table summarizes the relationship between non-performing loans, criticized loans and the allowance for loan losses (dollars in thousands):

| | March 31, 2003 | December 31, 2002 | September 30, 2002 | J |
|---|---|---|---|---|
| Non-Performing Loans | $ 2,226 | $ 2,135 | $ 4,635 | $ |
| Criticized Loans | 23,061 | 23,067 | 22,284 | |
| Allowance for Loan Losses | 7,365 | 6,706 | 6,334 | |
| Allowance for Loan Losses as a Percent of: | | | | |
| Non-Performing Loans | 331% | 314% | 137% | |
| Criticized Loans | 32% | 29% | 28% | |

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Non-Interest Income

The major component of non-interest income is service charges on deposits. Other service fees are the majority of other non-interest income.

The following table reflects the changes in non-interest income during the periods presented (dollars in thousands):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2003 | 2002 | %Change |
| Service Charges on Deposit Accounts | $ 758 | $ 645 | 1 |
| Non-recurring Income | -0- | 51 | |
| Other Non-interest Income | 590 | 554 | |
| Total Non-interest Income | $ 1,348 | $ 1,250 | |

The increase in other non-interest income in the first quarter of 2003 is primarily due to increases in mortgage brokerage/origination fees, letter of credit fees and debit card service fees. The non-recurring income in the first quarter of 2002 represented the gain on sale of assets previously held in other assets.

Non-interest Expense

Non-interest expenses include all expenses other than interest expense, provision for loan losses and income tax expense.

The following table summarizes the changes in non-interest expense during the periods presented (dollars in thousands):

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2003 | 2002 | %Change |
| Salaries & Employee Benefits | $ 2,905 | $ 2,867 | |
| Occupancy Expense - Net | 293 | 252 | 1 |
| Furniture and Equipment Expense | 429 | 404 | |
| Other Real Estate Expense - Net | (15) | 69 | |
| Other Expenses: | | | |
| Business Development | 173 | 168 | |
| Insurance - Other | 60 | 33 | 8 |
| Legal & Professional Fees | 169 | 173 | ( |
| Item Processing | 170 | 74 | 12 |
| Taxes - Other | 10 | 14 | (2 |
| Postage & Courier | 86 | 87 | ( |
| Printing & Supplies | 106 | 80 | 3 |
| Regulatory Fees & Assessments | 62 | 58 | |
| Other Operating Expenses | 349 | 364 | ( |
| Total Other Expenses | 1,185 | 1,051 | 1 |
| Total Non-interest Expense | $ 4,797 | $ 4,643 | |

Total non-interest expense increased 3.3% in the first quarter of 2003 over 2002, reflecting increases in salaries and benefits, occupancy and equipment, data processing and supplies expenses. As a percent of average assets, non-interest expenses were 2.83% in the first quarter of 2003 (annualized) and 2.94% in the same period of 2002. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 54.41% for the first quarter of 2003 compared to 53.47% for the first quarter of 2002.

The increase in occupancy expense and supplies expense are both primarily associated with the opening of a new branch facility in January 2003.

The increase in equipment expense and item processing expense are both related to the core system conversion the Corporation experienced in the fourth quarter of 2002. New equipment was purchased and item processing was outsourced at the time of conversion.

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Interest Rate Sensitivity

Interest rate sensitivity is the relationship between changes in market interest rates and net interest income due to the repricing characteristics of assets and liabilities.

The following table, commonly referred to as a "static GAP report", indicates the interest rate sensitivity position at March 31, 2003 and may not be reflective of positions in subsequent periods (dollars in thousands):

| | Matures or Reprices within: | | | Total Rate Sensitive | Repriced After |
|---|---|---|---|---|---|
| | 30 Days or Less | 31-180 Days | 181 to One Year | One Year or Less | 1 Year or Non-intere Sensitiv |
| Earning Assets: | | | | | |
| Loans | $ 253,267 | $ 38,925 | $ 32,694 | $ 324,886 | $ 164,46 |
| Investment Securities | 10,045 | 21,498 | 40,346 | 71,889 | 91,75 |
| Federal Funds Sold and Due From Time | 76 | -0- | -0- | 76 | -0 |
| Total Earning Assets | 263,388 | 60,423 | 73,040 | 396,851 | 256,21 |
| Interest Bearing Liabilities: | | | | | |
| Interest-Bearing Transaction Accounts and Savings | 301,017 | -0- | -0- | 301,017 | -0 |
| Certificates of Deposit under $100,000 and IRA's | 8,022 | 21,066 | 15,195 | 44,283 | 18,67 |
| Certificates of Deposit $100,000 or More | 5,282 | 20,686 | 10,055 | 36,023 | 21,70 |
| Short Term Borrowings | 17,017 | 17,300 | 7,000 | 41,317 | -0 |
| Total Interest Bearing Liabilities | 331,338 | 59,052 | 32,250 | 422,640 | 40,37 |
| Interest Sensitivity Gap | $ (67,950) | $ 1,371 | $ 40,790 | $ (25,789) | $ 215,84 |

| | | | | | |
|---|---|---|---|---|---|
| Cumulative Gap | $ (67,950) | $ (66,579) | $ (25,789) | | |
| Periodic Gap to Total Assets | (9.74%) | 0.20% | 5.84% | | |
| Cumulative Gap to Total Assets | (9.74%) | (9.54%) | (3.70%) | | |

The preceding static GAP report reflects a cumulative liability sensitive position during the one year horizon. An inherent weakness of this report is that it ignores the relative volatility any one category may have in relation to other categories or market rates in general. For instance, the rate paid on NOW accounts typically moves slower than the three month T-Bill. Management attempts to capture this relative volatility by utilizing a simulation model with a "beta factor" adjustment which estimates the volatility of rate sensitive assets and/or liabilities in relation to other market rates.

Beta factors are an estimation of the long term, multiple interest rate environment relation between an individual account and market rates in general. For instance, NOW, savings and money market accounts, which are repriceable within 30 days, will have considerably lower beta factors than variable rate loans and most investment categories. Taking this into consideration, it is quite possible for a bank with a negative cumulative GAP to total asset ratio to have a positive "beta adjusted" GAP risk position.

As a result of applying the beta factors established by management to the earning assets and interest bearing liabilities in the static gap report via a simulation model, the negative cumulative GAP to total assets ratio at one year of (3.70%) was reversed to a positive 23.80% "beta adjusted" GAP position.

Management feels that the "beta adjusted" GAP risk technique more accurately reflects the Corporation's GAP position.

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Capital

The Federal Reserve Board has guidelines for capital to total assets (leverage) and capital standards for bank holding companies. The Comptroller of the Currency also has similar guidelines for national banks. These guidelines require a minimum level of Tier I capital to total assets of 3 percent. A banking organization operating at or near these levels is expected to have well-diversified risk, excellent asset quality, high liquidity, good earnings and in general be considered a strong banking organization. Organizations not meeting these characteristics are expected to operate well above these minimum capital standards. Thus, for all but the most highly rated organizations, the minimum Tier I leverage ratio is to be 3 percent plus minimum additional cushions of at least 100 to 200 basis points. At the discretion of the regulatory authorities, additional capital may be required.

The Federal Reserve Board and Comptroller of the Currency also have risk-adjusted capital adequacy guidelines. Capital under these new guidelines is defined as Tier I and Tier II. At Summit Bancshares, Inc. the only components of Tier I and Tier II capital are shareholders' equity and a portion of the allowance for loan losses, respectively. The guidelines also stipulate that four categories of risk weights (0, 20, 50 and 100 percent), primarily based on the relative credit risk of the counterparty, be applied to the different types of balance sheet assets. Risk weights for all off-balance sheet exposures are determined by a two-step process whereby the face value of the off-balance sheet item is converted to a "credit equivalent amount" and that amount is assigned to the appropriate risk category.

The regulatory minimum ratio for total qualifying capital is 8.00% of which 4.00% must be Tier I capital. At March 31, 2003, the Corporation's Tier I capital represented 12.09% of risk weighted assets and total qualifying capital (Tier I and Tier II) represented 13.34% of risk weighted assets. Both ratios are well above current regulatory guidelines.

Also, as of March 31, 2003, the Corporation and the Bank met the criteria for classification as a "well-capitalized" institution under the rules of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

The Corporation and the Banks' regulatory capital positions as of March 31, 2003, were as follows:

| | Actual | | For Capital Adequacy Purposes | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| CONSOLIDATED: | | | | |
| As of March 31, 2003 | | | | |
| Total Capital (to Risk Weighted Assets) | $ 70,264 | 13.34% | $ 42,133 | 8.00 |
| Tier I Capital (to Risk Weighted Assets) | 63,672 | 12.09 | 21,066 | 4.00 |
| Tier I Capital (to Average Assets) | 63,672 | 9.04 | 21,135 | 3.00 |
| SUMMIT BANK, N.A.: | | | | |
| As of March 31, 2003 | | | | |
| Total Capital (to Risk Weighted Assets) | $ 68,968 | 13.10% | $ 42,132 | 8.00 |
| Tier I Capital (to Risk Weighted Assets) | 62,376 | 11.84 | 21,066 | 4.00 |
| Tier I Capital (to Average Assets) | 62,376 | 8.85 | 21,134 | 3.00 |

Forward-Looking Statements

The Corporation may from time to time make forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) with respect to earnings per share, credit quality, expected Year 2003 compliance program, corporate objectives and other financial and business matters. The Corporation cautions the reader that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, including economic conditions; actions taken by the Federal Reserve Board; legislative and regulatory actions and reforms; competition; as well as other reasons, all of which change over time. Actual results may differ materially from forward-looking statements.



## PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Change in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 Computation of Earnings Per Common Share

99.1 Certification of Chief Executive Officer of Summit Bancshares, Inc.

99.2 Certification of Chief Financial Officer of Summit Bancshares, Inc.

(b) On April 11, 2003, a report on Form 8-K was filed reporting the press release of April 10, 2003, as Summit Bancshares, Inc. announced the results of operations and financial condition for the first quarter of 2003.



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.

SUMMIT BANCSHARES, INC.
Registrant

Date: 04-23-03 By: /s/ Philip E. Norwood

Philip E. Norwood, Chairman, President and Chief Executive Officer

Date: 04-23-03 By: /s/ Bob G. Scott

Bob G. Scott, Executive Vice President and Chief Operating Officer (Chief Accounting Officer)



EXHIBIT INDEX

| Exhibit | | Page No. |
|---|---|---|
| 11 | Computation of Earnings Per Common Share | 30 |

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I, Philip E. Norwood, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Bancshares, Inc;

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

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

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

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

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

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

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

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

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

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

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

Date: 05-01-03

By: /s/ Philip E. Norwood

Philip E. Norwood
Chairman, President and Chief Executive Officer

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I, Bob G. Scott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit Bancshares, Inc;

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

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

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

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

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

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

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

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

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

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

Date: 05-01-03

By:/s/ Bob G. Scott

Bob G. Scott
Executive Vice President and
Chief Operating Officer
(Chief Accounting Officer)