SUMMIT BANCSHARES INC /TX/
Form 10-Q
November 08, 2001

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 September 30, 2001; or

[_] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from ____________ to ___________.

Commission File Number 0-11986

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 September 30, 2001 was 6,317,773 shares.

SUMMIT BANCSHARES, INC.

INDEX

PART I - FINANCIAL INFORMATION Page No.

Item 1. Financial Statements

The September 30, 2001 and 2000 and the December 31, 2000 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

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited September 3	
	2001	
ASSETS		(In Th
CASH AND DUE FROM BANKS - NOTE 1	$ 28,992	$
FEDERAL FUNDS SOLD & DUE FROM TIME		
INVESTMENT SECURITIES - NOTE 2	1,116	
Securities Available-for-Sale, at fair value	161,223	1
Securities Held-to-Maturity, at cost (fair value of $22,673,000 and $21,949,000 September 30, 2000 and December 31, 2000, respectively)	-0-	
LOANS - NOTE 3 AND 11		
Loans, Net of Unearned Discount	421,048	3
Allowance for Loan Losses	(6,190)	
LOANS, NET	414,858	3
PREMISES AND EQUIPMENT - NOTE 4	8,024	
ACCRUED INCOME RECEIVABLE	4,417	
OTHER REAL ESTATE - NOTE 5	-0-	
OTHER ASSETS	4,897	
TOTAL ASSETS	$ 623,527	$ 5
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS - NOTE 6		
Noninterest-Bearing Demand	$ 139,981	$ 1
Interest-Bearing	395,874	3
TOTAL DEPOSITS	535,855	5
SHORT TERM BORROWINGS - NOTE 7	23,590	
NOTE PAYABLE - NOTE 8	300	
ACCRUED INTEREST PAYABLE	737	
OTHER LIABILITIES	3,083	
TOTAL LIABILITIES	563,565	5
COMMITMENTS AND CONTINGENCIES - NOTE 12, 14, 16 AND 18		
SHAREHOLDERS' EQUITY - NOTES 13, 15 AND 19		
Common Stock - $1.25 Par Value; 20,000,000 shares authorized; 6,317,773, 6,354,678 and 6,362,278 shares issued and outstanding at September 30, 2001 and 2000 and at December 31, 2000, respectively	7,897	
Capital Surplus	6,844	
Retained Earnings	43,967	

Accumulated Other Comprehensive Income - Unrealized Gain (Loss) on Available-for-Sale Investment Securities, Net of Tax	2,217	
Treasury Stock at Cost (47,912 shares at September 30, 2001)	(963)	
TOTAL SHAREHOLDERS' EQUITY	59,962	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 623,527	$ 5

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) For the Nine Months Ended September 30,	
	2001	2000
	(In Thousands, Except P	
INTEREST INCOME		
Interest and Fees on Loans	$ 26,643	$ 27,17
Interest and Dividends on Investment Securities:		
Taxable	5,949	6,89
Exempt from Federal Income Taxes	9	1
Interest on Federal Funds Sold and Due From Time	1,936	84
TOTAL INTEREST INCOME	34,537	34,93
INTEREST EXPENSE		
Interest on Deposits	12,411	12,38
Interest on Short Term Borrowings	491	1,13
Interest on Notes Payable	1	-0
TOTAL INTEREST EXPENSE	12,903	13,51
NET INTEREST INCOME	21,634	21,41
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	860	2,30
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,774	19,10
NON-INTEREST INCOME		

Service Charges and Fees on Deposits	1,740	1,47
Loss on Sale of Investment Securities	-0-	-0
Other Income	1,554	1,26
TOTAL NON-INTEREST INCOME	3,294	2,74
NON-INTEREST EXPENSE		
Salaries and Employee Benefits - NOTE 14	7,753	7,04
Occupancy Expense - Net	996	75
Furniture and Equipment Expense	1,118	1,04
Other Real Estate Owned and Foreclosed Asset Expense - Net	174	38
Merger Related Expense - NOTE 9	598	-0
Other Expense - NOTE 9	3,009	2,92
TOTAL NON-INTEREST EXPENSE	13,648	12,15
INCOME BEFORE INCOME TAXES	10,420	9,70
APPLICABLE INCOME TAXES - NOTE 10	3,601	3,36
NET INCOME	$ 6,819	$ 6,33
NET INCOME PER SHARE - NOTE 15		
Basic	$ 1.08	$ 1.0
Diluted	1.05	0.9

The accompanying Notes should be read with these financial statements.

5

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) For the Three Months Ended September 30,	
	2001	2000
	(In Thousands, Except Per Share D	
INTEREST INCOME		
Interest and Fees on Loans	$ 8,592	$ 9,
Interest and Dividends on Investment Securities:		
Taxable	1,824	2,
Exempt from Federal Income Taxes	3	
Interest on Federal Funds Sold and Due From Time	478	
TOTAL INTEREST INCOME	10,897	12,

INTEREST EXPENSE		
Interest on Deposits	3,617	4,
Interest on Short Term Borrowings	113	
Interest on Note Payable	1	
TOTAL INTEREST EXPENSE	3,731	4,
NET INTEREST INCOME	7,166	7,
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	370	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,796	6,
NON-INTEREST INCOME		
Service Charges and Fees on Deposits	594	
Other Income	551	
TOTAL NON-INTEREST INCOME	1,145	
NON-INTEREST EXPENSE		
Salaries and Employee Benefits - NOTE 14	2,621	2,
Occupancy Expense - Net	372	
Furniture and Equipment Expense	391	
Other Real Estate Owned and Foreclosed Asset Expense - Net	47	
Other Expense	942	
TOTAL NON-INTEREST EXPENSE	4,373	3,
INCOME BEFORE INCOME TAXES	3,568	3,
APPLICABLE INCOME TAXES - NOTE 10	1,236	1,
NET INCOME	$ 2,332	$ 2,
NET INCOME PER SHARE - NOTE 15		
Basic	$ 0.37	$ 0
Diluted	0.36	0

The accompanying Notes should be read with these financial statements.

6

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

AND FOR THE YEAR ENDED DECEMBER 31, 1999
(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulate Other Comprehensi Income - N Unrealized (Loss) o Investment Securiti
	(Dollars in Thousands, Except Per Share Da				
BALANCE AT January 1, 2000	6,361,247	$ 7,952	$ 6,469	$ 35,474	$ (1,1
Stock Options Exercised	73,638	91	180		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(80,207)	(100)		(1,248)	
Cash Dividend $.30 Per Share				(1,911)	
Net Income for the Nine Months Ended September 30, 2000				6,337	
Securities Available-for-Sale Adjustment					5
Total Comprehensive Income NOTE 22					
BALANCE AT September 30, 2000	6,354,678	7,943	6,649	38,652	(6
Stock Options Exercised	7,600	10	29		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury					
Cash Dividend - $.10 Per Share				(636)	
Net Income for the Three Months Ended December 31, 2000				2,639	
Securities Available-for-Sale Adjustment					9
Total Comprehensive Income NOTE 22					
BALANCE AT December 31, 2000	6,362,278	7,953	6,678	40,655	2
Stock Options Exercised	33,600	42	166		
Purchases of Stock Held in Treasury					
Retirement of Stock in Treasury	(78,105)	(98)		(1,413)	

Cash Dividend - $.33 Per Share				(2,094)	
Net Income for the Nine Months Ended September 30, 2001				6,819	
Securities Available-for-Sale Adjustment					1,9
Total Comprehensive Income NOTE 22					
BALANCE AT September 30, 2001	6,317,773	$ 7,897	$ 6,844	$ 43,967	$ 2,2

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
AND FOR THE YEAR ENDED DECEMBER 31, 2000

	(Unaudited) For Nine Months Ended September 30, 2001	2000	(Unaudit Year End December 2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 6,819	$ 6,337	$ 8,
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	782	788	1,
Net Premium Amortization (Accretion) of Investment Securities	42	(56)	(
Provision for Loan Losses	860	2,305	2,
Deferred Income Taxes (Benefit)	(575)	(167)	(
Net (Gain) Loss on Sale of Investment Securities	-0-	2	
Writedown of Other Real Estate	11	423	
Writedown of Foreclosed Assets	301	-0-	
Net Gain From Sale of Premises and Equipment	-0-	(2)	
Net Gain From Sale of Other Real Estate	(308)	(77)	(
Net Decrease (Increase) in Accrued Income and Other Assets	1,839	(1,458)	(1,
Net Decrease (Increase) in Accrued Expenses and Other Liabilities	(154)	(14)	
Total Adjustments	2,798	1,744	2,
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,617	8,081	11,
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (Increase) in Federal Funds Sold and Due From Time	45,345	(11,153)	(28,
Proceeds from Matured and Prepaid Investment Securities			

. Held-to-Maturity	15,000	285	1,
. Available-for-Sale	76,401	17,144	82,
Proceeds from Sales of Investment Securities	9,987	59,922	59,
Purchase of Investment Securities			
. Available-for-Sale	(110,080)	(66,933)	(134,
Loans Originated and Principal Repayments, Net	(41,265)	(24,730)	(27,
Recoveries of Loans Previously Charged-Off	192	202	
Proceeds from Sale of Premises and Equipment	126	25	
Proceeds from Sale of Other Real Estate/Foreclosed Assets	1,073	503	
Purchases of Premises and Equipment	(808)	(467)	(
NET CASH USED BY INVESTING ACTIVITIES	(4,029)	(25,202)	(46,
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase (Decrease) in Demand Deposits, Savings Accounts and Interest Bearing Transaction Accounts	13,450	(846)	14,
Net Increase (Decrease)in Certificates of Deposit	(17,261)	41,897	44,
Net Increase (Decrease) in Federal Funds Purchased and Repurchase Agreements	3,680	(13,420)	(12,
Proceeds from Notes Payable	300	-0-	
Payments of Cash Dividends	(2,094)	(1,911)	(2,
Proceeds from Stock Options Exercised	208	271	
Purchase of Treasury Stock	(2,474)	(1,348)	(1,
NET CASH PROVIDED BY FINANCING ACTIVITIES	(4,191)	24,643	43,
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	1,397	7,522	8,
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	27,595	19,092	19,
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 28,992	$ 26,614	$ 27,
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES			
Interest Paid	$ 13,257	$ 13,085	$ 18,
Income Taxes Paid	2,607	3,651	5,
Other Real Estate Acquired in Settlement of Loans	-0-	230	1,
Bank Financed Sales of Other Real Estate	-0-	-0-	1,

The accompanying Notes should be read with these financial statements.

8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 (UNAUDITED)
AND FOR THE YEAR ENDED DECEMBER 31, 2000 (UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Summit Bancshares, Inc. (the "Corporation") and Subsidiaries 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 the Corporation include its accounts and those of its wholly-owned subsidiaries, Summit National Bank and Summit Community Bank, National Association (the "Subsidiary Banks") and Summit Bancservices, Inc., a wholly-owned operations subsidiary. Effective May 14, 2001, Summit Community Bank, N.A. merged with and into Summit National Bank and Summit National Bank changed its name to Summit Bank, National Association (the "Bank" or "Subsidiary"). Also Summit Bancservices, Inc. was liquidated effective May 14, 2001 and its assets were contributed by the Corporation to Summit Bank, N.A. All operations of Summit Bancservices will be continued in the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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 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 balances at the Federal Reserve Bank based on their levels of deposits. During the first nine months of 2001 the average cash balance maintained at the Federal Reserve Bank was $874,000. Compensating balances held at correspondent banks, to minimize service charges, averaged approximately $19,481,000 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 2001 and 2000 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 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. Direct costs related to loan originations are not separately allocated to loans but are charged to non-interest expense in the period incurred. The net effect of not recognizing such fees and related costs over the life of the related loan is not considered to be material to the financial statements. 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.

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

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 writedown 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 Subsidiary in filing a consolidated federal income tax return. The Subsidiary pays to the parent a charge equivalent to its current federal income tax based on the separate taxable income of the Subsidiary.

The Corporation and the Subsidiary 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 2000 financial statements to conform to the 2001 presentation.

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

Earnings Per Common and Common Equivalent Share

Earnings per common and common equivalent share is calculated by dividing net income by the weighted average number of common shares and common share equivalents. Stock options are regarded as common share equivalents and are therefore considered in earnings per share calculations, if dilutive. The number of common share equivalents is determined using the treasury stock method.

Audited Financial Statements

The consolidated balance sheet as of December 31, 2000, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2000 are headed "unaudited" in these financial statements. These statements were reported in the Securities Exchange Commission Form 10-K as of December 31, 2000 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):

	September 30, 200		
	Amortized Cost	Gross Unrealized Gains	Gros Unreal Loss
Investment Securities - Available-for-Sale			
U.S. Treasury Securities	$ 10,040	$ 225	$
U.S. Government Agencies and Corporations	124,077	2,841	
U.S. Government Agency Mortgage Backed Securities	22,291	290	
Obligations of States and Political Subdivisions	125	2	
Federal Reserve and Federal Home Loan Bank Stock	1,332	-0-	
Total Available-for-Sale Securities	157,865	3,358	
Total Investment Securities	$ 157,865	$ 3,358	$

During the second quarter of 2001, $7 million of securities previously classified as Held-to-Maturity Securities were reclassified to Available-for Sale Securities related to the merger of the two bank subsidiaries. The unrealized gain on the reclassified securities of $52,000 was added to the Available-for-Sale Investment Securities balance. All Investment Securities are now carried on the consolidated balance sheet as of September 30, 2001 at fair value. The unrealized gain of $3,358,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders' Equity.

11

NOTE 2 - Investment Securities (cont'd)

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

	September 30, 200		
	Amortized Cost	Gross Unrealized Gains	G Unre L
Investment Securities - Held-to-Maturity			
U.S. Treasury Securities	$ 5,000	$ 7	$
U.S. Government Agencies and Corporations	18,025	-0-	(
Total Held-to-Maturity Securities	23,025	7	(
Investment Securities - Available-for-Sale			
U.S. Treasury Securities	17,081	51	
U.S. Government Agencies and Corporations	95,106	117	(
U.S. Government Agency Mortgage Backed Securities	11,160	5	(
Obligations of States and Political Subdivisions	240	-0-	
Federal Reserve and Federal Home Loan Bank Stock	1,260	-0-	
Total Available-for-Sale Securities	124,847	173	(1,
Total Investment Securities	$ 147,872	$ 180	$ (1,

In the above schedule the amortized cost of Total Held-to-Maturity Securities of $23,025,000 and the fair value of Total Available-for-Sale Securities of $123,882,000 are reflected in Investment Securities on the consolidated balance sheet as of September 30, 2000 for a total of $146,907,000. A net unrealized loss of $965,000 is included in the Available-for-Sale Investment Securities balance. The unrealized loss, net of tax benefit, is included in Shareholders' Equity.

NOTE 3 - Loans and Allowance for Loan Losses

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

	September 30, 2001	September 30, 2000	December 31, 2000
Commercial	$ 183,111	$ 167,404	$ 167,818
Real Estate Mortgage	144,138	129,675	132,062
Real Estate Construction	61,040	47,934	47,183
Loans to Individuals	32,774	34,308	32,996
Less: Unearned Discount	(15)	(62)	(43)
	421,048	379,259	380,016
Allowance for Loan Losses	(6,190)	(6,918)	(5,399)
Loans - Net	$ 414,858	$ 372,341	$ 374,617

12

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

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

	Nine Months End September 30, 2001
Balance, Beginning of Period	$ 5,399
Provisions, Charged to Income	860
Loans Charged-Off	(261)
Recoveries of Loans Previously Charged-Off	192
Net Loans (Charged-Off) Recovered	(69)
Balance, End of Period	$ 6,190

The provisions for loan losses charged to operating expenses during the nine months ended September 30, 2001 and September 30, 2000 of $860,000 and $2,305,000, respectively, were considered adequate to maintain the allowance in accordance with the policy discussed in Note 1. For the year ended December 31, 2000, a provision of $2,606,000 was recorded.

At September 30, 2001 the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was $2,392,000 (of which $2,392,000 were on non-accrual status). The related allowance for loan losses for these loans was $888,000. The average recorded investment in impaired loans during the nine months ended September 30, 2001 was approximately $2,471,000. 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):

	September 30,	
	2001	200
Land	$ 2,317	$
Buildings and Improvements	8,150	
Furniture & Equipment	7,454	
Total Cost	17,921	1
Less: Accumulated Amortization and Depreciation	(9,897)	(
Net Book Value	$ 8,024	$

NOTE 5 - Other Real Estate

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

	September 30,	
	2001	20
Other Real Estate	$ -0-	$

There were direct writedowns of other real estate charged to income for the nine months ended September 30, 2001 of $11,000. There were direct writedowns of other real estate for the nine months ended September 30, 2000 of $423,000. For the year ended December 31, 2000, writedowns of other real estate of $426,000 were recorded.

NOTE 6 - Deposits

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

	September
	2001
Noninterest-Bearing Demand Deposits	$139,981
Interest-Bearing Deposits:	
Interest-Bearing Transaction Accounts and Money Market Funds	170,793
Savings	99,121
Savings Certificates - Time	69,910
Certificates of Deposits $100,000 or more	55,322
Other	728
Total	395,874
Total Deposits	$535,855

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 is summarized as follows (in thousands):

	September
	2001
Securities Sold Under Repurchase Agreements:	
Average	$ 17,935
Period-End	15,590
Maximum Month-End Balance During Period	20,374
Interest Rate:	
Average	3.49%
Period-End	2.10%
Federal Funds Purchased	
Average	$ 170
Period-End	8,000
Maximum Month-End Balance During Period	8,000
Interest Rate:	
Average	3.54%
Period-End	3.65%

The Corporation, through its Subsidiary, has available a line of credit with the Federal Home Loan Bank of Dallas which allows the subsidiary to borrow on a collateralized basis at a fixed term. At September 30, 2001, the subsidiary had no borrowings outstanding. For the nine months ended September 30, 2001, the subsidiary no borrowings. For the year ended December 31, 2000, the subsidiary had borrowed an average of $4,929,000 under the line of credit, bearing an average interest rate of 6.49%.

NOTE 8 - Notes Payable

On July 15, 2001, 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 Subsidiary Bank and matures on August 15, 2002, 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 September 30, 2001, $300,000 had been borrowed under these lines.

14

NOTE 9 - Other Non-Interest Expense

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

	Nine Months Ended September 30, 2001	2000
Business Development	$ 458	$ 387
Legal and Professional Fees	477	604
Printing and Supplies	260	281
Regulatory Fees and Assessments	191	175
Other	1,623	1,477
Total	$ 3,009	$ 2,924

The Merger Related Expenses reported in the first quarter of 2001 include expenses, accrued and incurred, related to the merger or the Corporation's subsidiaries as reported in Note 1 Basis of Presentation and Principles of Consolidation. The expenses include the cost of severance payments to a former chief executive officer of one of the units and legal and professional fees and other expenses related to the merger and to the name change of Summit Bank, N.A.

NOTE 10 - Income Taxes

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

	September 30, 2001	2
Current Tax Asset (Liability)	$ (1,505)	
Deferred Tax Asset	1,277	

Total Included in Other Assets (Liabilities)	$ (228)	

The deferred tax asset at September 30, 2001 of $1,277,000 included $1,142,000 related to unrealized gains on Available-for-Sale Securities.

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

	Nine Months En September 3	
	2001	
Federal Income Tax Expense:		
Current	$ 4,176	
Deferred (benefit)	(575)	
Total Federal Income Tax Expense	$ 3,601	
Effective Tax Rates	34.56%	

15

NOTE 10 - Income Taxes (con't)

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):

	Nine Months Ended September 30,		Year End December
	2001	2000	2000
Federal Income Taxes at Statutory Rate of 34.3%	$ 3,576	$ 3,333	$ 4,7
Effect of Tax Exempt Interest Income	(3)	(5)	
Non-deductible Expenses	47	40	
Other	(19)	(4)	(
Income Taxes Per Income Statement	$ 3,601	$ 3,364	$ 4,7

	September 30, 2001	September 30, 2000	December 2000
Federal Deferred Tax Assets:			
Allowance for Loan Losses	$ 1,881	$ 1,354	$ 1,
Valuation Reserves - Other Real Estate	105	145	
Interest on Non-accrual Loans	306	264	
Deferred Compensation	527	473	
Unrealized Losses on Available-for-Sale Securities	-0-	329	
Other	26	17	
Gross Federal Deferred Tax Assets	2,845	2,582	2,
Federal Deferred Tax Liabilities:			
Depreciation and Amortization	278	319	
Accretion	128	98	
Unrealized Gain on Available-for Sale Securities	1,142	-0-	
Other	20	22	
Gross Federal Deferred Tax Liabilities	1,568	439	
Net Deferred Tax Asset	$ 1,277	$ 2,143	$ 1,

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 $3,241,000 at December 31, 2000.

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 September 30, 2001, outstanding documentary and standby letters of credit totaled $4,709,000 and commitments to extend credit totaled $132,112,000.

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 Corporation applies APB Opinion No. 25 and related Interpretations in accounting for its plans. Since the option prices are considered to approximate fair market value at date of grant, no compensation expense has been reported. Had compensation cost for these plans been determined consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" the Corporation's net income and earnings per share would have been reduced by insignificant amounts on a proforma basis for the year ended December 31, 2000, and the nine months ended September 30, 2001.

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

	Shares Under Option	
	Nine Months Ended September 30, 2001	Year Ended December 31, 2000
Outstanding, Beginning of Period	359,559	445,497
Additional Options Granted During the Period	20,500	15,000
Forfeited During the Period	-0-	(19,700)
Exercised During the Period	(33,600)	(81,238)
Outstanding, End of Period	346,459	359,559

Options outstanding at September 30, 2001 ranged in price from $3.00 to $20.10 per share with a weighted average exercise price of $10.88 and 293,659 shares exercisable. At September 30, 2001, there remained 466,800 shares reserved for future grants of options under the 1997 Plan. There are no shares available for grant under the 1993 Plan.

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 2001, the Corporation will make 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 Corporation expensed $254,100 and $274,700 in support of the plan during the first nine months of 2001 and 2000, respectively, and $333,500 for the year 2000.

Management Security Plan

In 1992, the Corporation established a Management Security Plan to provide key employees with retirement, death or disability benefits in addition to those provided by the Pension Plan. The expense charged to operations for such future obligations was $144,000 and $136,000 during the first nine months of 2001 and 2000, respectively, and $203,000 for the year 2000.

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).

	September 30,		December 31,
	2001	2000	2000
Net income	$ 6,819	$ 6,337	$ 8,976
Weighted average number of common shares used in Basic EPS	6,338,469	6,366,865	6,364,492
Effect of dilutive stock options	157,701	151,426	159,467
Weighted number of common shares and dilutive potential common stock used in Diluted EPS	6,496,170	6,518,291	6,523,959

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):

	September 30,	
	2001	2000

Financial Instruments Whose Contract Amounts Represent Credit Risk:		
Loan Commitments Including Unfunded Lines of Credit	$ 132,112	$ 127,345
Standby Letters of Credit	4,709	2,866

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 grants 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 director 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.

18

NOTE 18 - Litigation

The Bank 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 17, 2001, the Board of Directors approved a stock repurchase plan. The plan authorized management to purchase up to 318,973 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 nine months of 2001, 126,017 shares were purchased by the Corporation through a similar repurchase plan through the open market.

NOTE 20 - Subsequent Event

On October 16, 2001, the Board of Directors of the Corporation approved a quarterly dividend of $.11 per share to be paid on November 15, 2001 to shareholders of record on November 1, 2001.

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):

	September 30,		
	2001		
	Carrying Amount	Fair Value	Carrying Amount
Financial Assets			
Cash and due from banks	$ 28,992	$ 28,992	$ 26,614
Federal Funds Sold and Due From Time	1,116	1,116	29,165
Securities	161,223	161,223	146,907
Loans	421,048	432,268	379,259
Reserve for loan losses	(6,190)	(6,190)	(6,918
Financial Liabilities			
Deposits	535,855	537,256	521,597
Short Term Borrowings	23,890	23,891	18,671
Off-balance Sheet Financial Instruments			

Loan commitments	132,112
Letters of credit	4,709

NOTE 22 - Comprehensive Income

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

	Nine Months Ended September 30,		Year En December
	2001	2000	2000
Net Income	$ 6,819	$ 6,337	$
Other Comprehensive Income:			
Unrealized gain (loss) on securities available-for-sale, net of tax	1,932	550	
Comprehensive Income	$ 8,751	$ 6,887	$

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 third quarter of 2001 was $2,232,000, or $.36 diluted earnings per share, compared with $2,540,000, or $.39 diluted earnings per share, for the third quarter of 2000. Net income for the first nine months of 2001 was $6,819,000, or $1.05 diluted earnings per share, compared with $6,337,000, or $.97 diluted earnings per share, for the first nine months of the prior year. On a per share basis, diluted earnings per shares decreased 8.2% over the third quarter of the prior year. Per share amounts are based on average shares outstanding of 6,496,170 for the first nine months of 2001 and 6,518,291 for the comparable period of 2000 adjusted to reflect stock options granted. Excluding the impact of merger related expenses, net income for the nine months ended September 30, 2001 would have been $7,211,000, or $1.11 diluted earnings per share.

Outstanding loans at September 30, 2001 of $421.0 million represented an increase of $41.8 million, or 11.0%, over September 30, 2000 and an increase of $41.0 million, or 10.8%, from December 31, 2000.

Total deposits at September 30, 2001 of $535.9 million represented an increase of $14.3 million, or 2.7%, over September 30, 2000 but a decrease of $3.8 million, or .7%, from December 31, 2000.

The following table summarizes the Corporation's performance for the three months and nine months ended September 30, 2001 and 2000 (tax equivalent basis and dollars in thousands).

	Three Months Ended September 30,		Nine Months En September 30	
	2001	2000	2001	
Interest Income	$ 10,898	$ 12,231	$ 34,542	$
Interest Expense	3,731	4,985	12,903	
Net Interest Income	7,167	7,246	21,639	
Provision for Loan Loss	370	577	860	
Net Interest Income After Provision for Loan Loss	6,797	6,669	20,779	
Non-Interest Income	1,145	918	3,294	
Non-Interest Expense	4,373	3,708	13,648	
Income Before Income Tax	3,569	3,879	10,425	
Income Tax Expense	1,237	1,339	3,606	
Net Income	$ 2,332	$ 2,540	$ 6,819	$
Net Income per Share-				
Basic	$ 0.37	$ 0.40	$ 1.08	$
Diluted	0.36	0.39	1.05	
Return on Average Assets	1.47%	1.72%	1.46%	
Return on Average Stockholders' Equity	15.59%	19.71%	15.73%	

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 third quarter of 2001 and 2000 (rates on tax equivalent basis).

	Three Months Ended September 30			
	2001			
	Average Balances	Interest	Average Yield/Rate	Average Balances
	(Dollars in Thousands)			
Earning Assets:				
Federal Funds Sold & Due From Time	$ 53,844	$ 477	3.51%	$ 27,065
Investment Securities (Taxable)	128,320	1,825	5.64%	148,032
Investment Securities (Tax-exempt)	206	4	7.55%	314
Loans, Net of Unearned Discount/(1)/	409,094	8,592	8.33%	378,302
Total Earning Assets	591,464	10,898	7.31%	553,713
Non-interest Earning Assets:				
Cash and Due From Banks	24,405			23,787
Other Assets	17,404			18,801
Allowance for Loan Losses	(5,928)			(6,974
Total Assets	$627,345			$ 589,327
Interest-Bearing Liabilities:				
Interest-Bearing Transaction Accounts and Money Market Funds	$169,732	1,084	2.53%	$ 158,913
Savings	100,462	779	3.08%	89,356
Savings Certificates	78,303	1,028	5.21%	69,136
Certificates of Deposit $100,000 or more	56,075	715	5.06%	54,755
Other Time	773	11	5.84%	778
Other Borrowings	17,414	114	2.59%	28,332
Total Interest-Bearing Liabilities	422,759	3,731	3.50%	401,270
Non-interest Bearing Liabilities:				
Demand Deposits	141,991			135,769
Other Liabilities	3,246			1,003
Shareholders' Equity	59,349			51,285
Total Liabilities and Shareholders' Equity	$ 627,345			$ 589,327
Net Interest Income and Margin (Tax-equivalent Basis)/(2)/		$ 7,167	4.81%	

(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.

Summary of Earning Assets and Interest-Bearing Liabilities (con't)

The following schedule presents average balance sheets that highlight earning assets and interest-bearing liabilities and their related rates earned and paid for the nine months ended September 30, 2001 and 2000 (rates on tax equivalent basis).

	Nine Months Ended Se			
	2001			
	Average Balances	Interest	Average Yield/Rate	Ave Bala
			(Dollars in Thousan	
Earning Assets:				
Federal Funds Sold & Due From Time	$ 57,763	$ 1,936	4.48%	$ 1
Investment Securities (Taxable)	133,185	5,950	5.97%	14
Investment Securities (Tax-exempt)	229	13	7.75%	
Loans, Net of Unearned Discount/(1)/	395,972	26,643	9.00%	37
Total Earning Assets	587,149	34,542	7.87%	53
Non-interest Earning Assets:				
Cash and Due From Banks	23,919			2
Other Assets	18,036			1
Allowance for Loan Losses	(5,676)			(
Total Assets	$ 623,428			$ 57
Interest-Bearing Liabilities:				
Interest-Bearing Transaction Accounts and Money Market Funds	$ 165,589	3,573	2.89%	$ 15
Savings	100,502	2,803	3.73%	9
Savings Certificates	81,582	3,473	5.69%	6
Certificates of Deposit $100,000 or more	59,147	2,527	5.71%	4
Other Time	776	35	6.09%	
Other Borrowings	18,132	492	3.63%	2
Total Interest-Bearing Liabilities	425,728	12,903	4.05%	39
Non-interest Bearing Liabilities:				
Demand Deposits	136,449			13
Other Liabilities	3,311			
Shareholders' Equity	57,940			5

Total Liabilities and Shareholders' Equity	$ 623,428			$ 57
Net Interest Income and Margin (Tax-equivalent Basis)/(2)/		$ 21,639	4.93%	

(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.

Net Interest Income

Net interest income (tax equivalent) for the third quarter of 2001 was $7,167,000 which represented a decrease of $79,000 or 1.1%, over the third quarter of 2000. The decrease can be attributed to the sharp decrease in prime rate over the past nine months. In the quarter the national prime rate declined seventy-five (75) basis points to 6.00%. At the beginning of the year prime rate was 9.50%.

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 September 30, 2001 and 2000.

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

	3rd Qtr. 2001 vs. 3rd Qtr. 2000 Increase (Decrease) Due to Changes in:			Nine Months 2001 vs. Ni Increase (Decre Due to Changes	
	Volume	Rate	Total	Volume	Rate
Interest Earning Assets:					
Federal Funds Sold	$ 441	$ (407)	$ 34	$ 1,857	$ (768)
Investment Securities (Taxable)	(310)	(187)	(497)	(684)	(258)
Investment Securities (Tax-exempt)	(2)	-0-	(2)	(9)	1
Loans, Net of Unearned Discount	772	(1,640)	(868)	1,740	(2,275)
Total Interest Income	901	(2,234)	(1,333)	2,904	(3,300)
Interest-Bearing Liabilities:					
Deposits	426	(1,377)	(951)	1,766	(1,736)
Other Borrowings	(161)	(142)	(303)	(401)	(245)
Total Interest Expense	265	(1,519)	(1,254)	1,365	(1,981)

Net Interest Income	$ 636	$ (715)	$ (79)	$ 1,539	$(1,319)

Allowance for Loan Losses and Non-Performing Assets

The Corporation's allowance for loan losses was $6,190,000 or 1.47% of total loans, as of September 30, 2001 compared to $6,918,000, or 1.82% of total loans, as of September 30,2000.

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

	Three Months Ended September 30,		Nine Mon Septe
	2001	2000	2001
Balance, Beginning of Period	$ 5,745	$ 6,899	$ 5,399
Provisions, Charged to Income	370	577	860
Loans Charged-Off	(36)	(632)	(261)
Recoveries of Loans Previously Charged-Off	111	74	192
Net Loans (Charged-Off) Recovered	75	(558)	(69)
Balance, End of Period	$ 6,190	$ 6,918	$ 6,190

For the nine months ended September 30, 2001 and 2000, net charge-offs were .02 and .15% of loans, respectively, not annualized.

24

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

	September 30, 2001	June 30, 2001	March 31, 2001
Non-Accrual Loans	$ 2,632	$ 2,611	$ 2,904
Renegotiated Loans	-0-	-0-	-0-
Other Real Estate Owned and Other Foreclosed Assets	511	643	1,348

Total Non-Performing Assets	$ 3,143	$ 3,254	$ 4,252	
As a Percent of:				
Total Assets	0.50%	0.52%	0.62%	
Total Loans and Other Real Estate and Other Foreclosed Assets	0.75%	0.81%	1.10%	
Loans Past Due 90 days or More and Still Accruing	$ 58	$ 315	$ 32	

Non-accrual loans to total loans were .63% at September 30, 2001 and non-performing assets were .75% of loans and other real estate owned at the same date.

As of September 30, 2001, the Company had four credits that were on non-accrual loan status that represented 86% of the Company's non-performing loans. The largest with a balance of approximately $1.1 million has been on non-accrual status since the second quarter of 1998. The balance of this loan has been reduced from approximately $2.2 million as the borrower has continued to make monthly payments. These payments, principal and interest, have reduced the balance. The total balance of non-accrual loans of $2.6 million is reported before reducing the amount for SBA guarantees on cash collateral in the amount of $294,000 on certain of the loans.

As of September 30, 2001 the Company has $511,000 in Other Foreclosed Assets, reported in Other Assets on the Balance Sheet, which represents an inventory of textbooks. These assets are in the process of liquidation, however the process is expected to take several months. The cost of liquidation is recorded as a current period expense and all proceeds from sale of inventory reduces the carrying value of the inventory.

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

	September 30, 2001	June 30, 2001	March 31, 2001	December 31, 2000	Se
Non-Performing Loans	$ 2,632	$ 2,611	$ 2,904	$ 2,182	
Criticized Loans	18,713	11,677	11,586	11,536	
Allowance for Loan Losses	6,190	5,745	5,537	5,399	
Allowance for Loan Losses as a Percent of:					
Non-Performing Loans	235%	220%	191%	247%	
Criticized Loans	33%	49%	48%	47%	

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 September 30,			Nine Sep
	2001	2000	% Change	2001
Service Charges on Deposit Accounts	$ 594	$ 505	17.6%	$ 1,740
Non-recurring Income	-0-	-0-	-0-	-0-
Other Non-interest Income	551	413	33.4	1,554
Total Non-interest Income	$ 1,145	$ 918	24.7	$ 3,294

Non-recurring income is primarily interest recovered on loans charged-off in prior years and gains on sales of assets taken in satisfaction of debt in prior years. The increase in other non-interest income in the third quarter of 2001 is primarily due to increases in mortgage brokerage/origination fees and fees earned on investment services to customers.

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 September 30,			Nine Sep
	2001	2000	% Change	2001
Salaries & Employee Benefits	$ 2,621	$ 2,355	11.3 %	$ 7,753
Occupancy Expense - Net	372	245	51.8	996
Furniture and Equipment Expense	391	356	9.8	1,118
Other Real Estate Expense - Net	47	28	257.1	174
Merger Related Expenses	-0-	-0-	-0-	598
Other Expenses:				
Business Development	145	27	437.0	458
Insurance - Other	41	31	32.3	104
Legal & Professional Fees	163	214	(23.8)	477
Taxes - Other	31	30	3.3	103
Postage & Courier	104	78	33.3	266
Printing & Supplies	75	91	(17.6)	260
Regulatory Fees & Assessments	66	59	11.9	191
Other Operating Expenses	317	194	36.1	1,150
Total Other Expenses	942	724	22.8	3,009

Total Non-interest Expense	$ 4,373	$ 3,708	17.9	$ 13,648	$

Total non-interest expense increased 17.9% in the third quarter of 2001 over 2000, reflecting increases primarily in salary and benefits, occupancy expenses, business development expense, and other operating expenses partially offset by decreases in legal and professional expense and printing and supplies expense. As a percent of average assets, non-interest expenses were 2.77% in the third quarter of 2001 (annualized) and 2.50% in the same period of 2000. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 52.6% for the third quarter of 2001.

The increase in occupancy expense is primarily due to a decline in rent income because of a vacancy earlier in the year at one bank owned facility (which has subsequently been rented) plus repairs made in the third quarter at another facility.

The Merger Related Expenses recorded in the first quarter of 2001 include expenses, accrued and incurred, related to the merger of the Company's two banking subsidiaries and its non-banking subsidiary to form one unit. The expenses include the cost of severance payment to a former chief executive officer of one of the units, legal and professional fees and expenses related to the merger and to the name change of Summit Bank, N.A.

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 September 30, 2001 and may not be reflective of positions in subsequent periods (dollars in thousands):

	Matures or Reprices within:			Total Rate Sensitive One Year or Less	Repriced After 1 Year or Non-intere Sensitive
	30 Days or Less	31-180 Days	181 to One Year		
Earning Assets:					
Loans	$ 251,301	$ 18,939	$ 13,666	$ 283,906	$ 137,142
Investment Securities	11,243	31,739	31,281	74,263	86,960
Federal Funds Sold and Due from Bank Time	1,116	-0-	-0-	1,116	-0-
Total Earning Assets	263,660	50,678	44,947	359,285	224,102
Interest Bearing Liabilities:					
Interest-Bearing Transaction					

Accounts and Savings	269,914	-0-	-0-	269,914	-0-
Certificate of Deposits *$100,000	9,409	28,444	13,912	51,765	3,557
Other Time Deposits	7,370	34,613	21,836	63,819	6,819
Short Term Borrowings	23,890	-0-	-0-	23,890	-0-
Total Interest Bearing Liabilities	310,583	63,057	35,748	409,388	10,376
Interest Sensitivity Gap	$ (46,923)	$ (12,379)	$ 9,199	$ (50,103)	$ 213,726
Cumulative Gap	$ (46,923)	$ (59,302)	$ (50,103)		
Cumulative Gap to Total Earning Assets	(8.04)%	(10.17)%	(8.59)%		
Cumulative Gap to Total Assets	(7.53)	(9.51)	(8.04)		

* Greater Than

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 (8.0%) was reversed to a positive 7.9% "beta adjusted" gap position.

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

27

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 September 30, 2001, the Corporation's Tier I capital represented 13.4% of risk weighted assets and total qualifying capital (Tier I and Tier II) represented 14.7% of risk weighted assets. Both ratios are well above current regulatory guidelines.

Also, as of September 30, 2001, the Corporation and its Subsidiary Banks 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 Subsidiary Banks' regulatory capital positions as of September 30, 2001, were as follows:

	Actual		For Capital Adequacy Purposes		
	Amount	Ratio	Amount	Ratio	
CONSOLIDATED:					
As of September 30, 2001					
Total Capital (to Risk Weighted Assets)	$ 63,132	14.68%	$ 34,410	8.00%	
Tier I Capital (to Risk Weighted Assets)	57,745	13.43%	17,205	4.00%	
Tier I Capital (to Average Assets)	57,745	9.26%	18,703	3.00%	
SUMMIT BANK, N.A.:					
As of September 30, 2001					
Total Capital (to Risk Weighted Assets)	$ 63,081	14.67%	$ 34,407	8.00%	$
Tier I Capital (to Risk Weighted Assets)	57,695	13.41%	17,204	4.00%	
Tier I Capital (to Average Assets)	57,695	9.27%	18,679	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 2001 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

10 Loan Agreement dated August 15, 2001, between the Corporation and The Frost National Bank

11 Computation of Earnings Per Common Share

(b) No Reports on Form 8-K were filed during the period ending September 30, 2001

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: 11-01-01 By: /s/ Philip E. Norwood

Philip E. Norwood, Chairman, President & CEO

Date: 11-01-01 By: /s/ Bob G. Scott

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

EXHIBIT INDEX