

SUMMIT BANCSHARES INC /TX/  
Form 10-Q  
May 14, 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 March 31, 2001; or

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-11986

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

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The number of shares of common stock, \$1.25 par value, outstanding at March 31, 2001 was 6,379,478 shares.

SUMMIT BANCSHARES, INC.

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The March 31, 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.

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

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SUMMIT BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited)
	March 31, 2001
	-----
ASSETS	
CASH AND DUE FROM BANKS - NOTE 1	\$ 28,494
FEDERAL FUNDS SOLD & DUE FROM TIME	111,229
INVESTMENT SECURITIES - NOTE 2	
Securities Available-for-Sale, at fair value	134,206
Securities Held-to-Maturity, at cost (fair value of \$10,084,000	
\$25,345,000, and \$21,949,000 March 31, 2001 and 2000	
and December 31, 2000, respectively)	10,018
LOANS - NOTE 3 AND 11	
Loans, Net of Unearned Discount	387,798
Allowance for Loan Losses	(5,537)
	-----
LOANS, NET	382,261
PREMISES AND EQUIPMENT - NOTE 4	7,930
ACCRUED INCOME RECEIVABLE	4,732
OTHER REAL ESTATE - NOTE 5	283
OTHER ASSETS	5,931
	-----
TOTAL ASSETS	\$685,084
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
DEPOSITS - NOTE 6	
Noninterest-Bearing Demand	\$131,995
Interest-Bearing	474,782
	-----
TOTAL DEPOSITS	606,777
SHORT TERM BORROWINGS - NOTE 7	16,831
ACCRUED INTEREST PAYABLE	1,137
OTHER LIABILITIES	2,987
	-----
TOTAL LIABILITIES	627,732
	-----
COMMITMENTS AND CONTINGENCIES - NOTE 12, 14, 16 AND 18	

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SHAREHOLDERS' EQUITY - NOTES 13, 15 AND 19

Common Stock - \$1.25 Par Value; 20,000,000 shares authorized; 6,379,478, 6,431,285 and 6,362,278 shares issued and outstanding at March 31, 2001 and 2000 and at December 31, 2000, respectively	7,974
Capital Surplus	6,730
Retained Earnings	42,066
Accumulated Other Comprehensive Income - Unrealized Gain (Loss) on Available-for-Sale Investment Securities, Net of Tax	1,159
Treasury Stock at Cost (30,005 and 51,644 shares at March 31, 2001 and 2000, respectively)	(577)
	-----

TOTAL SHAREHOLDERS' EQUITY	57,352
	-----

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$685,084
	=====

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 Months  
March 31,

2001	20
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(In Thousands, Except

INTEREST INCOME		
Interest and Fees on Loans	\$ 9,084	
Interest and Dividends on Investment Securities:		
Taxable	2,145	
Exempt from Federal Income Taxes	3	
Interest on Federal Funds Sold and Due From Time	854	
	-----	-----
TOTAL INTEREST INCOME	12,086	
	-----	-----
INTEREST EXPENSE		
Interest on Deposits	4,689	
Interest on Short Term Borrowings	211	
	-----	-----
TOTAL INTEREST EXPENSE	4,900	
	-----	-----
NET INTEREST INCOME	7,186	
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	180	

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NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,006
NON-INTEREST INCOME	
Service Charges and Fees on Deposits	554
Loss on Sale of Investment Securities	-0-
Other Income	484
TOTAL NON-INTEREST INCOME	1,038
NON-INTEREST EXPENSE	
Salaries and Employee Benefits - NOTE 14	2,539
Occupancy Expense - Net	309
Furniture and Equipment Expense	361
Other Real Estate Owned Expense - Net	(6)
Merger Related Expense - NOTE 9	598
Other Expense - NOTE 9	1,022
TOTAL NON-INTEREST EXPENSE	4,823
INCOME BEFORE INCOME TAXES	3,221
APPLICABLE INCOME TAXES - NOTE 10	1,110
NET INCOME	\$ 2,111
NET INCOME PER SHARE - NOTE 15	
Basic	\$0.33
Diluted	0.32

The accompanying Notes should be read with these financial statements.

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SUMMIT BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000  
AND FOR THE YEAR ENDED DECEMBER 31, 2000  
(Unaudited)

Common Stock		Capital Surplus	Retained Earnings	Accumulate
Shares	Amount			Other Comprehensi Income - N Unrealized (Loss) o Investmen Securitie
-----				

(Dollars in Thousands, Except Per Share Data)

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BALANCE AT					
January 1, 2000	6,361,247	\$7,952	\$6,469	\$35,474	\$ (1,
Stock Options Exercised	70,038	87	172		
Purchases of Stock Held in Treasury					
Cash Dividend \$.10 Per Share				(643)	
Net Income for the Three Months Ended March 31, 2000				2,450	
Securities Available- for-Sale Adjustment					(
Total Comprehensive Income NOTE 22	-----	-----	-----	-----	-----
BALANCE AT					
March 31, 2000	6,431,285	8,039	6,641	37,281	(1,
Stock Options Exercised	11,200	14	37		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(80,207)	(100)		(1,248)	
Cash Dividend - \$.30 Per Share				(1,904)	
Net Income for the Months Nine Months Ended December 31, 2000				6,526	
Securities Available- for-Sale Adjustment					1,
Total Comprehensive Income NOTE 22	-----	-----	-----	-----	-----
BALANCE AT					
December 31, 2000	6,362,278	7,953	6,678	40,655	
Stock Options Exercised	17,200	21	52		
Purchases of Stock Held in Treasury					
Cash Dividend - \$.11 Per Share				(700)	
Net Income for the Three Months Ended March 31, 2001				2,111	
Securities Available- for-Sale Adjustment					
Total Comprehensive Income NOTE 22	-----	-----	-----	-----	-----
BALANCE AT					
March 31, 2001	6,379,478	\$7,974	\$6,730	\$42,066	\$ 1,
	=====	=====	=====	=====	=====

The accompanying Notes should be read with these financial statements.

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

	(Unaudited) For Three Months March 31,
	----- 2001 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	\$ 2,111
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	267
Net Premium Accretion of Investment Securities	(70)
Provision for Loan Losses	180
Deferred Income Taxes Benefit	(127)
Net Loss on Sale of Investment Securities	-0-
Writedown of Other Real Estate	3
Net Gain From Sale of Other Real Estate	-0-
Net Decrease (Increase) in Accrued Income and Other Assets	1,147
Net Decrease (Increase) in Accrued Expenses and and Other Liabilities	150
	-----
Total Adjustments	1,550
	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,661
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in Federal Funds Sold & Due From Time	(64,768)
Proceeds from Matured and Prepaid Investment Securities	
. Held-to-Maturity	12,000
. Available-for-Sale	31,996
Proceeds from Sales of Investment Securities	-0-
Purchase of Investment Securities	
. Available-for-Sale	(37,179)
Loans Originated and Principal Repayments, Net	(7,858)
Recoveries of Loans Previously Charged-Off	48
Proceeds from Sale of Premises and Equipment	124
Proceeds from Sale of Other Real Estate/Foreclosed Assets	244
Purchases of Premises and Equipment	(197)
	-----
NET CASH USED BY INVESTING ACTIVITIES	(65,590)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net Increase in Demand Deposits, Savings Accounts and Interest Bearing Transaction Accounts	63,457
Net Increase in Certificates of Deposit	3,654
Net Decrease in Repurchase Agreements	(3,079)
Payments of Cash Dividends	(700)

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Proceeds from Stock Options Exercised	73
Purchase of Treasury Stock	(577)
	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	62,828
	-----
NET INCREASE IN CASH AND DUE FROM BANKS	899
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	27,595
	-----
CASH AND DUE FROM BANKS AT END OF PERIOD	\$ 28,494
	=====
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES	
Interest Paid	\$ 4,854
Income Taxes Paid	-0-
Other Real Estate Acquired in Settlement of Loans	-0-
Bank Financed Sales of Other Real Estate	-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, 2001 AND 2000 (UNAUDITED)  
AND FOR THE YEAR ENDED DECEMBER 31, 2000 (UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

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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

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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. will be merged with and into Summit National Bank and Summit National Bank will change its name to Summit Bank, National Association. Also Summit Bancservices, Inc. will be liquidated effective May 14, 2001 and its assets will be 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

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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



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reporting periods. Actual results could differ from those estimates.

### Cash and Due From Banks

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The Subsidiary Banks are required to maintain certain balances at the Federal Reserve Bank based on their levels of deposits. During the first three months of 2001 the average cash balance maintained at the Federal Reserve Bank was \$700,000. Compensating balances held at correspondent banks, to minimize service charges, averaged approximately \$18,433,000 during the same period.

### Investment Securities

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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

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

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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 Subsidiary Banks' 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

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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

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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

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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

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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

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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

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Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

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

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### Earnings Per Common and Common Equivalent Share

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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

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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):

	March 31, 2001	
	Amortized Cost	Gross Unrealized Gains
Investment Securities -		
Held-to-Maturity		
U.S. Treasury Securities	\$ 3,000	\$ 18
U.S. Government Agencies and Corporations	7,018	48
Total Held-to-Maturity Securities	10,018	66
Investment Securities -		
Available-for-Sale		
U.S. Treasury Securities	23,049	222
U.S. Government Agencies and Corporations	78,629	1,576
U.S. Government Agency Mortgage Backed Securities	29,222	29
Obligations of States and Political Subdivisions	240	3
Federal Reserve and Federal Home Loan Bank Stock	1,309	-0-
Total Available-for-Sale Securities	132,449	1,830
Total Investment Securities	\$142,467	\$1,896

In the above schedule the amortized cost of Total Held-to-Maturity Securities of \$10,018,000 and the fair value of Total Available-for-Sale Securities of \$134,206,000 are reflected in Investment Securities on the consolidated balance sheet as of March 31, 2001 for a total of \$144,224,000. A net unrealized gain of \$1,757,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders' Equity.

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

	March 31, 2000		
	Amortized Cost	Gross Unrealized Gains	Gr Unre Lo
	-----	-----	-----
Investment Securities - Held-to-Maturity			
U.S. Treasury Securities	\$ 7,997	\$ 2	\$
U.S. Government Agencies	18,035	-0-	
	-----	-----	-----
Total Held-to-Maturity Securities	26,032	2	
	-----	-----	-----
Investment Securities - Available-for-Sale			
U.S. Treasury Securities	16,997	5	
U.S. Government Agencies and Corporations	90,376	9	(
U.S. Government Agency Mortgage Backed Securities	12,593	52	
Obligations of States and Political Subdivisions	350	-0-	
Federal Reserve and Federal Home Loan Bank Stock	1,229	-0-	
	-----	-----	-----
Total Available-for-Sale Securities	121,545	66	(
	-----	-----	-----
Total Investment Securities	\$147,577	\$ 68	\$ (
	=====	=====	=====

In the above schedule the amortized cost of Total Held-to-Maturity Securities of \$26,032,000 and the fair value of Total Available-for-Sale Securities of \$119,272,000 are reflected in Investment Securities on the consolidated balance sheet as of March 31, 2000 for a total of \$145,304,000. A net unrealized loss of \$2,273,000 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):

	March 31,	
	2001	2000
	-----	-----
Commercial	\$173,409	\$164,383
Real Estate Mortgage	131,096	124,158

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Real Estate Construction	49,244	48,368
Loans to Individuals	34,078	33,339
Less: Unearned Discount	(29)	(123)
	-----	-----
	387,798	370,125
Allowance for Loan Losses	(5,537)	(5,440)
	-----	-----
Loans - Net	\$382,261	\$364,685
	=====	=====

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

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

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Balance, Beginning of Period	\$5,399	\$5,169
Provisions, Charged to Income	180	232
Loans Charged-Off	(90)	(31)
Recoveries of Loans Previously Charged-Off	48	70
	-----	-----
Net Loans (Charged-Off) Recovered	(42)	39
	-----	-----
Balance, End of Period	\$5,537	\$5,440
	=====	=====

The provisions for loan losses charged to operating expenses during the three months ended March 31, 2001 and March 31, 2000 of \$180,000 and \$232,000, 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 March 31, 2001, the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was \$2,847,000 (of which \$2,847,000 were on non-accrual status). The related allowance for loan losses for these loans was \$977,000. The average recorded investment in impaired loans during the three months ended March 31, 2001 was approximately \$2,481,000. For this period the Corporation recognized no interest income on these impaired loans.

NOTE 4 - Premises and Equipment

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

	March 31,		December
	2001	2000	2000
Land	\$ 2,317	\$ 2,320	
Buildings and Improvements	7,867	7,783	
Furniture & Equipment	7,900	8,010	
<b>Total Cost</b>	<b>18,084</b>	<b>18,113</b>	
Less: Accumulated Amortization and Depreciation	10,154	9,671	
<b>Net Book Value</b>	<b>\$ 7,930</b>	<b>\$ 8,442</b>	

### NOTE 5 - Other Real Estate

-----

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

	March 31,		December
	2001	2000	2000
Other Real Estate	\$ 283	\$1,945	

There were direct writedowns of other real estate charged to income for the three months ended March 31, 2001 of \$3,000. There were direct writedowns of other real estate charged to income for the three months ended March 31, 2000 of \$5,000. For the year ended December 31, 2000, \$426,000 was charged to income.

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### NOTE 6 - Deposits

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

	March 31,	
	2001	2000

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Noninterest-Bearing Demand Deposits	\$131,995	\$133,389
Interest-Bearing Deposits:		
Interest-Bearing Transaction		
Accounts and Money Market Funds	217,081	172,354
Savings	110,826	94,468
Savings Certificates - Time	83,562	59,164
Certificates of Deposits \$100,000 or more	62,535	41,671
Other	778	778
	-----	-----
Total	474,782	368,435
	-----	-----
Total Deposits	\$606,777	\$501,824
	=====	=====

NOTE 7 - Short Term Borrowings

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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):

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Securities Sold Under Repurchase Agreements:		
Average	\$18,724	\$25,420
Period-End	16,831	24,438
Maximum Month-End Balance During Period	20,374	25,019
Interest Rate:		
Average	4.58%	4.66%
Period-End	4.23%	4.80%

The Corporation, through one of its subsidiaries, 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 March 31, 2001, the subsidiary had no borrowings outstanding. For the three months ended March 31, 2000, the subsidiary had borrowed an average balance of \$4,000,000 bearing an average interest rate of 5.58%. For the year ended December 31, 2000, the subsidiary had borrowed an average balance of \$4,929,000 under the line of credit, bearing an average interest rate of 6.49%.

NOTE 8 - Notes Payable

-----

On July 15, 2000, the Corporation obtained lines of credit from a bank under which the Corporation may borrow \$9,000,000 at prime rate. The lines of credit are secured by stock of one of the Subsidiary Banks and mature in July 2001, 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, 2001, no funds had been borrowed under



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these lines nor were any borrowings outstanding.

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NOTE 9 - Other Non-Interest Expense

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

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Business Development	\$ 137	\$ 176
Legal and Professional Fees	158	188
Printing and Supplies	78	100
Regulatory Fees and Assessments	63	60
Other	586	528
	-----	-----
Total	\$1,022	\$1,052
	=====	=====

The Merger-Related Expenses include expenses, accrued and incurred, related to the merger of 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, legal and professional fees and expenses related 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):

	March 31, 2001	
	2001	2000
	-----	-----
Current Tax Asset (Liability)	\$ (1,169)	\$ (1,335)
Deferred Tax Asset	1,369	2,470
	-----	-----
Total Included in Other Assets	\$ 200	\$ 1,135
	=====	=====

The deferred tax asset at March 31, 2001 of \$1,369,000 included \$(597,000)

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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,	
	2001	2000
Federal Income Tax Expense		
Current	\$1,237	\$1,340
Deferred (benefit)	(127)	(48)
	-----	-----
Total Federal Income Tax Expense	\$1,110	\$1,292
	=====	=====
Effective Tax Rates	34.40%	34.50%

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### 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):

	Three Months Ended March 31,	
	2001	2000
Federal Income Taxes at Statutory		
Rate of 34.3%	\$1,106	\$1,285
Effect of Tax Exempt Interest Income	(1)	(2)
Non-deductible Expenses	13	15
Other	(8)	(6)
	-----	-----
Income Taxes Per Income Statement	\$1,110	\$1,292
	=====	=====

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,	
2001	2000

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	-----	-----
Federal Deferred Tax Assets:		
Allowance for Loan Losses	\$1,580	\$1,437
Valuation Reserves - Other Real Estate	6	2
Interest on Non-accrual Loans	267	180
Deferred Compensation	502	455
Unrealized Losses on Available-for-Sale Securities	-0-	775
Other	19	18
	-----	-----
 Gross Federal Deferred Tax Assets	 2,374	 2,867
	-----	-----
Federal Deferred Tax Liabilities:		
Depreciation and Amortization	302	325
Accretion	106	72
Unrealized Gains on Available-for-Sale Securities	597	-0-
Other	-0-	-0-
	-----	-----
 Gross Federal Deferred Tax Liabilities	 1,005	 397
	-----	-----
 Net Deferred Tax Asset	 \$1,369	 \$2,470
	=====	=====

NOTE 11 - Related Party Transactions

-----

The Subsidiary Banks have transactions made 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 March 31, 2001, outstanding documentary and standby letters of credit totaled \$5,369,000 and commitments to extend credit totaled \$121,642,000.

NOTE 13 - Stock Option Plans

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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 subsidiaries 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 three months ended March 31, 2001.

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

	Shares Under Option
	-----
	Three Months Ended
	March 31, 2001
	-----
Outstanding, Beginning of Period	359,559
Additional Options Granted During the Period	4,000
Forfeited During the Period	-0-
Exercised During the Period	(17,200)
	-----
Outstanding, End of Period	346,359
	=====

Options outstanding at March 31, 2001 ranged in price from \$3.00 to \$19.375 per share with a weighted average exercise price of \$10.35 and 298,559 shares exercisable. At March 31, 2001, there remained 483,300 shares reserved for future grants of options under the 1997 Plan.

NOTE 14 - Employee Benefit Plans

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401(k) Plan

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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 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.

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For the first three months of 2001, the Corporation expensed \$90,000 in support of the plan.

### 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 \$39,000 and \$50,000 during the first three 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).

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### 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,	
	2001	2000
	-----	-----
Net income	\$ 2,111	\$ 2,450
	-----	-----
Weighted average number of common shares used in Basic EPS	6,368,562	6,384,238
Effect of dilutive stock options	157,721	163,669
	-----	-----
Weighted number of common shares and dilutive potential common stock used in Diluted EPS	6,526,283	6,547,907
	=====	=====

### 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

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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):

	----- 2001 -----
Financial Instruments Whose Contract Amounts Represent Credit Risk:	
Loan Commitments Including Unfunded Lines of Credit	\$121,642
Standby Letters of Credit	5,369

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

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The Subsidiary Banks grant commercial, consumer and real estate loans in their direct market which is defined as Fort Worth and its surrounding area. The Board of Directors of each Subsidiary Bank monitors concentrations of credit by purpose, collateral and industry at least quarterly. Certain limitations for concentration are set by the Boards. Additional loans in excess of these limits must have prior approval of the bank's directors' loan committee. Although its Subsidiary Banks have diversified loan portfolios, 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

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Certain of the Subsidiary Banks are 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

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On April 17, 2001, the Board of Directors approved a stock repurchase plan.

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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 three months of 2001, 30,005 shares were purchased by the Corporation through a similar repurchase plan through the open market.

### NOTE 20 - Subsequent Event

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On April 17, 2001, the Board of Directors of the Corporation approved a quarterly dividend of \$.11 per share to be paid on May 15, 2001 to shareholders of record on May 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):

		March 31,
		-----
		2001
		-----
Carrying Amount	Fair Value	

Financial Assets		
Cash and due from banks	\$ 28,494	\$ 28,494
Federal funds sold and Due From Time	111,229	111,245
Securities	144,224	144,290
Loans	387,798	391,146
Allowance for loan losses	(5,537)	(5,537)
Financial Liabilities		
Deposits	606,777	608,239
Short Term Borrowings	16,831	16,829
Off-balance Sheet Financial Instruments		
Loan commitments		121,642
Letters of credit		5,369

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NOTE 22 - Comprehensive Income

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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):

	Three Months Ended March 31,	
	2001	2000
	-----	-----
Net Income	\$2,111	\$2,450
Other Comprehensive Income:		
Unrealized gain (loss) on securities available-for-sale, net of tax	874	(312)
	-----	-----
Comprehensive Income	\$2,985	\$2,138
	=====	=====

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

of Operations

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Summary

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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



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read in conjunction with the consolidated financial statements and accompanying notes.

Net income for the first quarter of 2001 was \$2,111,000, or \$.32 diluted earnings per share, compared with \$2,450,000, or \$.37 diluted earnings per share, for the first quarter of 2000. On a per share basis, diluted earnings per share decreased 13.5% over the first quarter of the prior year. For the first quarter of 2001 net income was impacted negatively by merger-related expenses of \$598,000 before tax effect. After taxes the amount was \$392,000 or \$.06 per diluted share. Per share amounts are based on average diluted shares outstanding of 6,526,283 for the first three months of 2001 and 6,547,907 for the comparable period of 2000 adjusted to reflect stock options granted.

Outstanding loans at March 31, 2001 of \$387.8 million represented an increase of \$17.7 million, or 4.8%, over March 31, 2000 and an increase of \$7.8 million, or 2.0%, from December 31, 2000.

Total deposits at March 31, 2001 of \$606.8 million represented an increase of \$105.0 million, or 20.9%, over March 31, 2000 and an increase of \$67.1 million, or 12.4%, from December 31, 2000. At March 31, 2001, deposits included approximately \$72.0 million of funds that are not considered core deposits and remained on deposit for a short time.

The following table summarizes the Corporation's performance for the three months ended March 31, 2001 and 2000 (tax equivalent basis and dollars in thousands).

	Three Months Ended March 31,	
	2001	2000
Interest Income	\$12,088	\$11,153
Interest Expense	4,900	4,091
	-----	-----
Net Interest Income	7,188	7,062
Provision for Loan Loss	180	232
	-----	-----
Net Interest Income After Provision for Loan Loss	7,008	6,830
Non-Interest Income	1,038	908
Non-Interest Expense	4,823	3,993
	-----	-----
Income Before Income Tax	3,223	3,745
Income Tax Expense	1,112	1,295
	-----	-----
Net Income	\$ 2,111	\$ 2,450
	=====	=====
Net Income per Share-		
Basic	\$ 0.33	\$ 0.38
Diluted	0.32	0.37
Return on Average Assets	1.38%	1.74%
Return on Average Stockholders' Equity	15.15%	20.06%

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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 2001 and 2000 (rates on tax equivalent basis).

	Three Months Ended Mar			
	2001			
	Average Balances	Interest	Average Yield/Rate	Ave Bala
(Dollars in Thousands)				
<b>Earning Assets:</b>				
Federal Funds Sold & Due From Time	\$ 64,286	\$ 854	5.39%	\$ 1
Investment Securities (Taxable)	137,519	2,145	6.33%	14
Investment Securities (Tax-exempt)	240	5	7.65%	
Loans, Net of Unearned Discount (1)	381,849	9,084	9.65%	36
<b>Total Earning Assets</b>	<b>583,894</b>	<b>12,088</b>	<b>8.40%</b>	<b>52</b>
<b>Non-interest Earning Assets:</b>				
Cash and Due From Banks	23,317			2
Other Assets	18,506			1
Allowance for Loan Losses	(5,464)			(
<b>Total Assets</b>	<b>\$620,253</b>			<b>\$56</b>
<b>Interest-Bearing Liabilities:</b>				
Interest-Bearing Transaction				
Accounts and Money Market Funds	\$167,548	1,394	3.38%	\$15
Savings	98,511	1,085	4.47%	9
Savings Certificates	83,365	1,248	6.07%	5
Certificates of Deposit				
\$100,000 or more	61,842	950	6.23%	3
Other Time	778	12	6.29%	
Other Borrowings	18,724	211	4.58%	2
<b>Total Interest-Bearing Liabilities</b>	<b>430,768</b>	<b>4,900</b>	<b>4.61%</b>	<b>38</b>
<b>Non-interest Bearing Liabilities:</b>				
Demand Deposits	129,967			13
Other Liabilities	3,005			
Shareholders' Equity	56,513			4
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$620,253</b>			<b>\$56</b>
<b>Net Interest Income and Margin (Tax-equivalent Basis) (2)</b>		<b>\$ 7,188</b>	<b>4.99%</b>	

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

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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 2001 was \$7,188,000 which represented an increase of \$126,000 or 1.8%, over the first quarter of 2000. In this same period, total interest income increased 8.4% and total interest expense increased 19.8% and reflects a 150 basis point decrease in market interest rates from the first of January 2001 to mid-March 2001.

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, 2001 and 2000.

ANALYSIS OF CHANGES IN NET INTEREST INCOME				
(Dollars in Thousands)				
1st Qtr. 2001 vs. 1st Qtr. 2000				
Increase (Decrease)				
Due to Changes in:				
	Volume	Rate	Total	
<b>Interest Earning Assets:</b>				
Federal Funds Sold	\$ 737	\$(67)	\$ 670	\$ (
Investment Securities (Taxable)	(434)	300	(134)	
Investment Securities (Tax-exempt)	(7)	3	(4)	
Loans, Net of Unearned Discount	345	58	403	1,
<b>Total Interest Income</b>	<b>641</b>	<b>294</b>	<b>935</b>	
<b>Interest-Bearing Liabilities:</b>				
Deposits	615	334	949	
Other Borrowings	(125)	(15)	(140)	
<b>Total Interest Expense</b>	<b>490</b>	<b>319</b>	<b>809</b>	
<b>Net Interest Income</b>	<b>\$ 151</b>	<b>\$(25)</b>	<b>\$ 126</b>	<b>\$</b>

Allowance for Loan Losses and Non-Performing Assets

The Corporation's allowance for loan losses was \$5,537,000, or 1.43% of total loans, as of March 31, 2001 compared to \$5,440,000, or 1.47% of total loans, as of March 31, 2000.

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

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thousands):

	Three Months Ended March 31,	
	2001	2000
Balance, Beginning of Period	\$5,399	\$5,169
Provisions, Charged to Income	180	232
Loans Charged-Off	(90)	(31)
Recoveries of Loans Previously Charged-Off	48	70
Net Loans (Charged-Off) Recovered	(42)	39
Balance, End of Period	\$5,537	\$5,440

For the Three Months ended March 31, 2001 and 2000, net charge-offs were .01% 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, 2001	December 31, 2000	September 30, 2000	Jun 2
Non-Accrual Loans	\$2,904	\$2,182	\$5,273	\$5
Renegotiated Loans	-0-	-0-	-0-	
Other Real Estate Owned and Other Foreclosed Assets	1,348	1,595	1,329	1
Total Non-Performing Assets	\$4,252	\$3,777	\$6,602	\$6
As a Percent of:				
Total Assets	0.62%	0.61%	1.11%	
Total Loans and Other Real Estate/ Foreclosed Assets	1.10%	0.99%	1.73%	
Loans Past Due 90 days or More and Still Accruing	\$ 32	\$ 10	\$ -0-	\$

Non-accrual loans to total loans were .75% at March 31, 2001 and non-

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performing assets were 1.10% of loans and other real estate owned at the same date.

As of March 31, 2001, the Company had two large credits that were on non-accrual loan status and represented 73% of the Company's non-performing loans. The first with a balance of approximately \$1.3 million has been on non-accrual status since the second quarter of 1998. The balance of this loan has been reduced from approximately \$2.1 million as the borrower has continued to make monthly payments. These payments, principal and interest, have reduced the balance. The second large credit was placed on non-accrual status in the current quarter. A reserve of \$.5 million has been allocated for this credit. This loan has a balance of approximately \$.9 million and some amount of charge-off is expected on this credit before year-end.

The balance of Other Real Estate Owned as of March 31, 2001, was \$283,000. Of this balance, \$230,000 is projected to be sold in the second quarter at a gain. Also the Company has \$1.1 million in Other Foreclosed Assets which represents an inventory of textbooks. These assets are in 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).

	March 31, 2001	December 31, 2000	September 30, 2000	Ju 2
	-----	-----	-----	-----
Non-Performing Loans	\$ 2,904	\$ 2,182	\$ 5,273	\$ 5
Criticized Loans	11,586	11,536	16,562	13
Allowance for Loan Losses	5,537	5,399	6,918	6
Allowance for Loan Losses as a Percent of:				
Non-Performing Loans	191%	247%	131%	
Criticized Loans	48	47	42	

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Non-Interest Income

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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,		
	2001	2000	% Change
	-----	-----	-----
Service Charges on Deposit Accounts	\$ 554	\$ 482	15.0 %

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Non-recurring Income	-0-	61	-
Other Non-interest Income	484	365	32.6
	-----	-----	-----
Total Non-interest Income	\$1,038	\$ 908	14.3
	=====	=====	=====

The increase in other non-interest income in the first 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 March 31,		
	2001	2000	% Change
	-----	-----	-----
Salaries & Employee Benefits	\$2,539	\$2,357	7.7 %
Occupancy Expense - Net	309	258	19.8
Furniture and Equipment Expense	361	338	6.8
Other Real Estate Expense - Net	(6)	(12)	50.0
Merger Related Expense	598	# -0-	-
Other Expenses:			
Business Development	137	176	(22.2)
Insurance - Other	33	27	22.2
Legal & Professional Fees	158	188	(16.0)
Taxes - Other	36	56	(35.7)
Postage & Courier	86	83	3.6
Printing & Supplies	78	100	(22.0)
Regulatory Fees & Assessments	63	60	5.0
Other Operating Expenses	431	362	19.1
	-----	-----	-----
Total Other Expenses	1,022	1,052	(2.9)
	-----	-----	-----
Total Non-interest Expense	\$4,823	\$3,993	20.8
	=====	=====	=====

Total non-interest expense increased 20.8% in the first quarter of 2001 over 2000, reflecting increases in salaries and benefits, occupancy expense, merger related expenses, and other operating expenses partially offset by decreases in business development expense, legal and professional expense and state franchise taxes. As a percent of average assets, non-interest expenses were 3.16% in the first quarter of 2001 (annualized) and 2.83% in the same period of 2000. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 58.7% for the first quarter of 2001.

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The increase in occupancy expense is primarily due to a decline in rent income because of a vacancy at one bank facility that has third party rental space. The property has subsequently been rented.

The Merger Related Expenses 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 name change of Summit Bank, N.A.

Other Operating Expense in the first quarter of 2001 includes \$88,000 of expense related to Other Foreclosed Assets. These expenses are the costs to liquidate the inventory of textbooks.

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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, 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
	30 Days or Less	31-180 Days	181 to One Year	
<b>Earning Assets:</b>				
Loans	\$224,655	\$ 22,890	\$ 13,960	\$261,505
Investment Securities	23,348	32,618	32,899	88,865
Federal Funds Sold and Due From Time	111,229	-0-	- 0-	111,229
<b>Total Earning Assets</b>	<b>359,232</b>	<b>55,508</b>	<b>46,859</b>	<b>461,599</b>
<b>Interest Bearing Liabilities:</b>				
Interest-Bearing Transaction Accounts and Savings	327,907	-0-	-0-	327,907
Certificate of Deposits >\$100,000	9,923	35,868	13,033	58,824
Other Time Deposits	6,425	42,206	26,840	75,471
Short Term Borrowings	16,831	-0-	-0-	16,831
<b>Total Interest Bearing Liabilities</b>	<b>361,086</b>	<b>78,074</b>	<b>39,873</b>	<b>479,033</b>
<b>Interest Sensitivity Gap</b>	<b>\$ (1,854)</b>	<b>\$ (22,566)</b>	<b>\$ 6,986</b>	<b>\$ (17,434)</b>
<b>Cumulative Gap</b>	<b>\$ (1,854)</b>	<b>\$ (24,420)</b>	<b>\$ (17,434)</b>	

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	=====	=====	=====
Cumulative Gap to			
Total Earning Assets	(0.29%)	(3.80%)	(2.71%)
Cumulative Gap to			
Total Assets	(0.27%)	(3.56%)	(2.54%)

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 repriced 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 (2.54%) was reversed to a positive 15.12% "beta adjusted" gap position.

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

Capital

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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



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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, 2001, the Corporation's Tier I capital represented 13.2% of risk weighted assets and total qualifying capital (Tier I and Tier II) represented 14.4% of risk weighted assets. Both ratios are well above current regulatory guidelines.

Also, as of March 31, 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 March 31, 2001, were as follows:

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
<b>CONSOLIDATED:</b>				
As of March 31, 2001				
Total Capital (to Risk Weighted Assets)	\$61,502	14.49%	\$33,963	8.00%
Tier I Capital (to Risk Weighted Assets)	56,193	13.24%	16,982	4.00%
Tier I Capital (to Average Assets)	56,193	9.06%	18,608	3.00%
<b>SUMMIT NATIONAL BANK:</b>				
As of March 31, 2001				
Total Capital (to Risk Weighted Assets)	\$23,686	14.65%	\$12,932	8.00%
Tier I Capital (to Risk Weighted Assets)	21,998	13.61%	6,466	4.00%
Tier I Capital (to Average Assets)	21,998	9.18%	7,189	3.00%
<b>SUMMIT COMMUNITY BANK, N.A.:</b>				
As of March 31, 2001				
Total Capital (to Risk Weighted Assets)	\$33,577	13.01%	\$20,650	8.00%
Tier I Capital (to Risk Weighted Assets)	30,343	11.76%	10,325	4.00%
Tier I Capital (to Average Assets)	30,343	8.04%	11,324	3.00%

### Forward-Looking Statements

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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.

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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

27 Financial Data Schedule

(b) During February a report on Form 8-K was filed reflecting a transaction made by Philip E. Norwood, Chairman of the Board of the Corporation. Mr. Norwood sold 12,000 shares of common stock of the Corporation. The sale of stock was made for the purpose of gaining cash to be used to pay Federal Income Taxes related to the exercise of stock options in 2000 previously granted to this individual.

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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: 04-23-01  
-----

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

Philip E. Norwood, Chairman & President

Date: 04-23-01

By: /s/ Bob G. Scott

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

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EXHIBIT INDEX

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