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SUMMIT BANCSHARES INC /TX/
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended June 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 No

The number of shares of common stock, \$1.25 par value, outstanding at June 30,

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2001 was 6,360,673 shares.

SUMMIT BANCSHARES, INC.

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30,	
	2001	2000
ASSETS		(In Thousands)
CASH AND DUE FROM BANKS - NOTE 1	\$ 29,057	\$ 27,577
FEDERAL FUNDS SOLD & DUE FROM TIME	49,259	19,245
INVESTMENT SECURITIES - NOTE 2		
Securities Available-for-Sale, at fair value	125,781	121,769
Securities Held-to-Maturity, at cost (fair value of \$23,396,000 and \$21,949,000 June 30, 2000 and December 31, 2000, respectively)	--	24,029
LOANS - NOTES 3, 11 AND 17		
Loans, Net of Unearned Discount	402,432	377,641
Allowance for Loan Losses	(5,745)	(6,899)
LOANS, NET	396,687	370,742
PREMISES AND EQUIPMENT - NOTE 4	8,048	8,404
ACCRUED INCOME RECEIVABLE	4,310	5,021
OTHER REAL ESTATE - NOTE 5	-0-	1,343
OTHER ASSETS	6,707	7,241
TOTAL ASSETS	\$ 619,849	\$ 585,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS - NOTE 6		
Noninterest-Bearing Demand	\$ 140,601	\$ 140,466
Interest-Bearing	401,965	362,755
TOTAL DEPOSITS	542,566	503,221
SHORT TERM BORROWINGS - NOTE 7	14,945	29,052
ACCRUED INTEREST PAYABLE	904	752
OTHER LIABILITIES	2,818	2,313

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	-----	-----
TOTAL LIABILITIES	561,233	535,338
	-----	-----
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;		
6,360,673, 6,380,841 and 6,362,278 shares issued		
and outstanding at June 30, 2001 and 2000 and at		
December 31, 2000, respectively		
	7,951	7,976
Capital Surplus	6,831	6,643
Retained Earnings	43,204	37,179
Accumulated Other Comprehensive Income - Unrealized Gain		
(Loss) on Available-for-Sale Investment Securities, Net of Tax	1,411	(1,298)
Treasury Stock at Cost (40,000 and 28,563 shares at		
June 30, 2001 and 2000, respectively)	(781)	(467)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	58,616	50,033
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 619,849	\$ 585,371
	=====	=====

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 Six Months Ended		(Unaudited)
	June 30,		Year
	2001	2000	December
	-----	-----	-----
	(In Thousands, Except Per Share Data)		
INTEREST INCOME			
Interest and Fees on Loans	\$ 18,051	\$ 17,718	\$ 3
Interest and Dividends on Investment Securities:			
Taxable	4,125	4,570	
Exempt from Federal Income Taxes	6	10	
Interest on Federal Funds Sold and Due From Time	1,458	403	
	-----	-----	-----
TOTAL INTEREST INCOME	23,640	22,701	4
	-----	-----	-----
INTEREST EXPENSE			
Interest on Deposits	8,794	7,813	1
Interest on Short Term Borrowings	378	721	
	-----	-----	-----
TOTAL INTEREST EXPENSE	9,172	8,534	1
	-----	-----	-----

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NET INTEREST INCOME	14,468	14,167	2
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	490	1,728	
	-----	-----	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,978	12,439	2
	-----	-----	
NON-INTEREST INCOME			
Service Charges and Fees on Deposits	1,146	970	
Loss on Sale of Investment Securities	-0-	-0-	
Other Income	1,003	856	
	-----	-----	
TOTAL NON-INTEREST INCOME	2,149	1,826	
	-----	-----	
NON-INTEREST EXPENSE			
Salaries and Employee Benefits - NOTE 14	5,132	4,689	
Occupancy Expense - Net	624	505	
Furniture and Equipment Expense	727	692	
Other Real Estate Owned and Foreclosed Asset Expense - Net	127	356	
Merger Related Expense - NOTE 9	598	-0-	
Other Expense - NOTE 9	2,067	2,200	
	-----	-----	
TOTAL NON-INTEREST EXPENSE	9,275	8,442	1
	-----	-----	
INCOME BEFORE INCOME TAXES	6,852	5,823	1
APPLICABLE INCOME TAXES - NOTE 10	2,365	2,026	
	-----	-----	
NET INCOME	\$ 4,487	\$ 3,797	\$
	=====	=====	=====
NET INCOME PER SHARE - NOTE 15			
Basic	\$ 0.71	\$ 0.60	\$
Diluted	0.69	0.58	

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 Ended
June 30,

2001 2000

(In Thousands, Except Per Share Data)

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INTEREST INCOME		
Interest and Fees on Loans	\$ 8,967	\$ 9,037
Interest and Dividends on Investment Securities:		
Taxable	1,980	2,291
Exempt from Federal Income Taxes	3	4
Interest on Federal Funds Sold and Due From Time	604	219
	-----	-----
TOTAL INTEREST INCOME	11,554	11,551
	-----	-----
INTEREST EXPENSE		
Interest on Deposits	4,105	4,073
Interest on Short Term Borrowings	167	370
	-----	-----
TOTAL INTEREST EXPENSE	4,272	4,443
	-----	-----
NET INTEREST INCOME	7,282	7,108
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	310	1,496
	-----	-----
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,972	5,612
	-----	-----
NON-INTEREST INCOME		
Service Charges and Fees on Deposits	592	488
Other Income	519	430
	-----	-----
TOTAL NON-INTEREST INCOME	1,111	918
	-----	-----
NON-INTEREST EXPENSE		
Salaries and Employee Benefits - NOTE 14	2,593	2,332
Occupancy Expense - Net	315	247
Furniture and Equipment Expense	366	354
Other Real Estate Owned and Foreclosed Asset Expense - Net	46	368
Other Expense	1,132	1,148
	-----	-----
TOTAL NON-INTEREST EXPENSE	4,452	4,449
	-----	-----
INCOME BEFORE INCOME TAXES	3,631	2,081
APPLICABLE INCOME TAXES - NOTE 10	1,255	734
	-----	-----
NET INCOME	\$ 2,376	\$ 1,347
	=====	=====
NET INCOME PER SHARE - NOTE 15		
Basic	\$ 0.38	\$ 0.22
Diluted	0.37	0.21

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 SIX MONTHS ENDED JUNE 30, 2001 AND 2000
AND FOR THE YEAR ENDED DECEMBER 31, 2000
(Unaudited)

	Common Stock		Capital	Retained	Accumulated
	Shares	Amount	Surplus	Earnings	Other Comprehensive Income - Net Unrealized Gain (Loss) on Investment Securities
(Dollars in Thousands, Except Per Share Data)					
BALANCE AT					
January 1, 2000	6,361,247	\$ 7,952	\$ 6,469	\$ 35,474	\$ (1,186)
Stock Options Exercised	71,238	89	174		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(51,644)	(65)		(816)	
Cash Dividend \$.20 Per Share				(1,276)	
Net Income for the Six Months Ended June 30, 2000				3,797	
Securities Available- for-Sale Adjustment					(112)
Total Comprehensive Income NOTE 22					
BALANCE AT					
June 30, 2000	6,380,841	7,976	6,643	37,179	(1,298)
Stock Options Exercised	10,000	12	35		
Retirement of Stock Held in Treasury	(28,563)	(35)		(432)	
Cash Dividend - \$.20 Per Share				(1,271)	
Net Income for the Months Six Months Ended December 31, 2000				5,179	
Securities Available- for-Sale Adjustment					1,583
Total Comprehensive Income NOTE 22					
BALANCE AT					
December 31, 2000	6,362,278	7,953	6,678	40,655	285

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Stock Options Exercised	28,400	35	153		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(30,005)	(37)		(540)	
Cash Dividend - \$.22 Per Share				(1,398)	
Net Income for the Six Months Ended June 30, 2001				4,487	
Securities Available- for-Sale Adjustment					1,126
Total Comprehensive Income NOTE 22					
BALANCE AT June 30, 2001	6,360,673	\$ 7,951	\$ 6,831	\$ 43,204	\$ 1,411

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 SIX MONTHS ENDED JUNE 30, 2001 AND 2000
AND FOR THE YEAR ENDED DECEMBER 31, 2000

	(Unaudited) For Six Months Ended June 30,		(Unaudited) Year Ended December 31,
	2001	2000	2000
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 4,487	\$ 3,797	\$
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	532	526	
Net Premium Accretion of Investment Securities	(36)	(41)	
Provision for Loan Losses	490	1,728	
Deferred Income Taxes Benefit	(253)	(713)	
Net Loss on Sale of Investment Securities	-0-	-0-	
Writedown of Other Real Estate	11	420	
Writedown of Foreclosed Assets	301	-0-	
Net Gain From Sale of Other Real Estate	(308)	(77)	
Net Decrease (Increase) in Accrued Income and Other Assets	(1,385)	(920)	
Net Decrease (Increase) in Accrued Expenses and and Other Liabilities	(252)	(375)	
Total Adjustments	(900)	548	

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NET CASH PROVIDED BY OPERATING ACTIVITIES	3,587	4,345	
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in Federal Funds Sold & Due From Time	(2,798)	(1,233)	
Proceeds from Matured and Prepaid Investment Securities			
o Held-to-Maturity	15,000	285	
o Available-for-Sale	60,186	1,272	
Proceeds from Sales of Investment Securities	9,987	45,929	
Purchase of Investment Securities			
o Available-for-Sale	(59,565)	(36,978)	
Loans Originated and Principal Repayments, Net	(20,868)	(22,673)	
Recoveries of Loans Previously Charged-Off	81	128	
Proceeds from Sale of Premises and Equipment	126	-0-	
Proceeds from Sale of Other Real Estate/Foreclosed Assets	941	503	
Purchases of Premises and Equipment	(582)	(368)	
	-----	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	2,508	(13,135)	
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase in Demand Deposits, Savings			
Accounts and Interest Bearing Transaction Accounts	6,890	2,519	
Net Increase (Decrease) in Certificates of Deposit	(3,991)	20,156	
Net Increase (Decrease) in Repurchase Agreements	(4,964)	(3,039)	
Payments of Cash Dividends	(1,398)	(1,276)	
Proceeds from Stock Options Exercised	188	263	
Purchase of Treasury Stock	(1,358)	(1,348)	
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	(4,633)	17,275	
	-----	-----	-----
NET INCREASE IN CASH AND DUE FROM BANKS	1,462	8,485	
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	27,595	19,092	
	-----	-----	-----
CASH AND DUE FROM BANKS AT END OF PERIOD	\$ 29,057	\$ 27,577	\$
	=====	=====	=====
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES			
Interest Paid	\$ 9,359	\$ 8,358	\$
Income Taxes Paid	2,607	2,762	
Other Real Estate Acquired in Settlement of Loans	-0-	242	
Bank Financed Sales of Other Real Estate	-0-	-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 SIX MONTHS ENDED JUNE 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

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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. 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 Subsidiary Bank is required to maintain certain balances at the Federal Reserve Bank based on their levels of deposits. During the first six months of 2001 the average cash balance maintained at the Federal Reserve Bank was \$815,000. Compensating balances held at correspondent banks, to minimize service charges, averaged approximately \$18,698,000 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

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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

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

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.

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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

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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.)

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):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
Investment Securities - Available-for-Sale				
U.S. Treasury Securities	\$ 13,057	\$ 234	\$ -0-	\$ 13,291
U.S. Government Agencies and Corporations	83,596	1,814	-0-	85,410
U.S. Government Agency Mortgage Backed Securities	25,420	102	(14)	25,508
Obligations of States and Political Subdivisions	240	2	-0-	242
Federal Reserve and Federal Home Loan Bank Stock	1,330	-0-	-0-	1,330
	-----	-----	-----	-----
Total Available-for-Sale Securities	123,643	2,152	(14)	125,781
	-----	-----	-----	-----
Total Investment Securities	\$ 123,643	\$ 2,152	\$ (14)	\$ 125,781
	=====	=====	=====	=====

During the second quarter of 2001, \$7 million of securities previously

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classified as Held-to-Maturity Securities were reclassified to Available-for-Sale Securities. All Investment Securities are now carried on the consolidated balance sheet as of June 30, 2001 at fair value. A net unrealized gain of \$2,138,000 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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NOTE 2 - Investment Securities (cont'd)

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

	June 30, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	-----	-----	-----	-----
Investment Securities - Held-to-Maturity				
U.S. Treasury Securities	\$ 5,999	\$ 10	\$ -0-	\$ 6
U.S. Government Agencies	18,030	-0-	(643)	17
	-----	-----	-----	-----
Total Held-to-Maturity Securities	24,029	10	(643)	23
	-----	-----	-----	-----
Investment Securities - Available-for-Sale				
U.S. Treasury Securities	17,974	24	(50)	17
U.S. Government Agencies and Corporations	92,238	11	(1,707)	90
U.S. Government Agency Mortgage Backed Securities	11,934	10	(257)	11
Obligations of States and Political Subdivisions	350	-0-	(2)	1
Federal Reserve and Federal Home Loan Bank Stock	1,244	-0-	-0-	1
	-----	-----	-----	-----
Total Available-for-Sale Securities	123,740	45	(2,016)	121
	-----	-----	-----	-----
Total Investment Securities	\$ 147,769	\$ 55	\$ (2,659)	\$ 145
	=====	=====	=====	=====

In the above schedule the amortized cost of Total Held-to-Maturity Securities of \$24,029,000 and the fair value of Total Available-for-Sale Securities of \$121,769,000 are reflected in Investment Securities on the consolidated balance sheet as of June 30, 2000 for a total of \$145,798,000. A net unrealized loss of \$1,971,000 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):

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	June 30,		December 31,
	2001	2000	2000
Commercial	\$ 177,360	\$ 166,919	\$ 167,818
Real Estate Mortgage	134,835	127,421	132,062
Real Estate Construction	55,993	49,339	47,183
Loans to Individuals	34,264	34,049	32,996
Less: Unearned Discount	(20)	(87)	(43)
	402,432	377,641	380,016
Allowance for Loan Losses	(5,745)	(6,899)	(5,399)
	\$ 396,687	\$ 370,742	\$ 374,617

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

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

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
Balance, Beginning of Period	\$ 5,399	\$ 5,169	\$ 5,169
Provisions, Charged to Income	490	1,728	2,606
Loans Charged-Off	(225)	(126)	(2,600)
Recoveries of Loans Previously Charged-Off	81	128	224
Net Loans (Charged-Off) Recovered	(144)	2	(2,376)
Balance, End of Period	\$ 5,745	\$ 6,899	\$ 5,399

The provisions for loan losses charged to operating expenses during the six months ended June 30, 2001 and June 30, 2000 of \$490,000 and \$1,728,000, 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 June 30, 2001, the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was \$2,380,000 (of which \$2,380,000 were on non-accrual status). The related allowance for loan losses for these loans was \$873,000. The average recorded investment in impaired loans during the six months ended June 30, 2001 was

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approximately \$2,482,000. 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):

	June 30,		December 31, 2000
	2001	2000	
Land	\$ 2,317	\$ 2,320	\$ 2,320
Buildings and Improvements	8,075	7,784	7,845
Furniture & Equipment	7,769	8,034	8,134
	-----	-----	-----
Total Cost	18,161	18,138	18,299
Less: Accumulated Amortization and Depreciation	(10,113)	(9,734)	(10,175)
	-----	-----	-----
Net Book Value	\$ 8,048	\$ 8,404	\$ 8,124
	=====	=====	=====

NOTE 5 - Other Real Estate

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

	June 30,		December 31, 2000
	2001	2000	
Other Real Estate	\$ -0-	\$ 1,343	\$ 286
	=====	=====	=====

There were direct writedowns of other real estate charged to income for the six months ended June 30, 2001 of \$11,000. There were direct writedowns of other real estate charged to income for the six months ended June 30, 2000 of \$420,000. For the year ended December 31, 2000, \$426,000 was charged to income.

NOTE 6 - Deposits

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

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	June 30,		December 31, 2000
	2001	2000	
Noninterest-Bearing Demand Deposits	\$ 140,601	\$ 140,466	\$ 146,083
Interest-Bearing Deposits:			
Interest-Bearing Transaction			
Accounts and Money Market Funds	163,738	160,085	156,348
Savings	98,997	83,684	94,014
Savings Certificates - Time	82,239	64,656	82,248
Certificates of Deposits \$100,000 or more	56,213	53,552	60,195
Other	778	778	778
Total	401,965	362,755	393,583
Total Deposits	\$ 542,566	\$ 503,221	\$ 539,666

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):

	Six Months Ended June 30,		Year Ended December 31, 2000
	2001	2000	
Securities Sold Under Repurchase Agreements:			
Average for Period	\$ 18,473	\$ 22,437	\$ 20,797
Period-End	14,945	19,052	19,910
Maximum Month-End Balance During Period	20,374	25,019	25,019
Interest Rate:			
Average for Period	4.13%	4.98%	5.19%
Period-End	2.65%	6.06%	5.44%

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 June 30, 2001, the subsidiary had no borrowings outstanding. For the six months ended June 30, 2001, the subsidiary had no borrowings. At June 30, 2000, the subsidiary had borrowings outstanding of \$10,000,000. 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 the Subsidiary Bank and mature in July 2001, whereupon, if balances are outstanding, the lines convert to term notes having

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five year terms. The Corporation will not pay a fee for any unused portion of the lines. As of June 30, 2001, no funds had been borrowed under these lines nor were any borrowings outstanding.

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NOTE 9 - Other Non-Interest Expense

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

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
	-----	-----	-----
Business Development	\$ 312	\$ 360	\$ 601
Legal and Professional Fees	314	390	866
Printing and Supplies	185	190	369
Regulatory Fees and Assessments	124	116	237
Other	1,132	1,144	1,909
	-----	-----	-----
Total	\$ 2,067	\$ 2,200	\$ 3,982
	=====	=====	=====

The Merger-Related Expenses reported in the first quarter of 2001 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 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):

	June 30,		December 31,
	2001	2000	2000
	-----	-----	-----
Current Tax Asset (Liability)	\$ 57	\$ (46)	\$ 68
Deferred Tax Asset	1,366	3,030	1,693
	-----	-----	-----
Total Included in Other Assets	\$ 1,423	\$ 2,984	\$ 1,761
	=====	=====	=====

The deferred tax asset at June 30, 2001 of \$1,366,000 included \$(727,000) related to unrealized gains on Available-for-Sale Securities.

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

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	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
Federal Income Tax Expense:			
Current	\$ 2,618	\$ 2,739	\$ 4,959
Deferred (benefit)	(253)	(713)	(194)
Total Federal Income Tax Expense	\$ 2,365	\$ 2,026	\$ 4,765
Effective Tax Rates	34.5%	34.80%	34.70%

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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):

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
Federal Income Taxes at Statutory Rate of 34.3%	\$ 2,352	\$ 2,000	\$ 4,716
Effect of Tax Exempt Interest Income	(2)	(4)	(6)
Non-deductible Expenses	32	32	66
Other	(17)	(2)	(11)
Income Taxes Per Income Statement	\$ 2,365	\$ 2,026	\$ 4,765

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):

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000

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Federal Deferred Tax Assets:			
Allowance for Loan Losses	\$ 1,689	\$ 1,927	\$ 1,494
Valuation Reserves - Other Real Estate	2	144	5
Interest on Non-accrual Loans	284	214	238
Deferred Compensation	514	463	505
Unrealized Losses on Available-for-Sale Securities	-0-	672	-0-
Other	24	7	20
	-----	-----	-----
Gross Federal Deferred Tax Assets	2,513	3,427	2,262
	-----	-----	-----
Federal Deferred Tax Liabilities:			
Depreciation and Amortization	294	312	318
Accretion	110	85	104
Unrealized Gains on Available-for-Sale Securities	727	-0-	147
Other	16	-0-	-0-
	-----	-----	-----
Gross Federal Deferred Tax Liabilities	1,147	397	569
	-----	-----	-----
Net Deferred Tax Asset	\$ 1,366	\$ 3,030	\$ 1,693
	=====	=====	=====

NOTE 11 - Related Party Transactions

The Subsidiary Bank 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 June 30, 2001, outstanding documentary and standby letters of credit totaled \$5,333,000 and commitments to extend credit totaled \$125,400,000.

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 subsidiaries incentive stock options, as defined under the current tax law. The options under the Plans will

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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 six months ended June 30, 2001.

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

	Shares Under Option	
	Six Months Ended June 30, 2001	Year Ended December 31, 2000
Outstanding, Beginning of Period	359,559	445,497
Additional Options Granted During the Period	4,000	15,000
Forfeited During the Period	-0-	(19,700)
Exercised During the Period	(28,400)	(81,238)
	-----	-----
Outstanding, End of Period	335,159	359,559
	=====	=====

Options outstanding at June 30, 2001 ranged in price from \$3.00 to \$19.375 per share with a weighted average exercise price of \$10.36 and 309,859 shares exercisable. At June 30, 2001, there remained 483,300 shares reserved for future grants of options under the 1997 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 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.

For the first six months of 2001, the Corporation expensed \$172,000 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 \$85,000 and \$94,000 during the first six months of

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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).

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
Net income	\$ 4,487	\$ 3,797	\$ 8,976
	=====	=====	=====
Weighted average number of common shares used in Basic EPS	6,348,564	6,373,667	6,364,492
Effect of dilutive stock options	157,563	156,947	159,467
	-----	-----	-----
Weighted number of common shares and dilutive potential common stock used in Diluted EPS	6,506,127	6,530,614	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):

June 30,

2001

2000

Financial Instruments Whose Contract Amounts Represent Credit Risk:

Loan Commitments Including Unfunded Lines of Credit	\$ 125,400	\$ 137,
Standby Letters of Credit	5,333	3,

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 Subsidiary Bank grants 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 the Subsidiary 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 directors' loan committee. Although its Subsidiary Bank has a diversified loan portfolio, a substantial portion of its debtors' abilities to honor their contracts is dependent upon the strength of the local and state economy.

NOTE 18 - Litigation

The Subsidiary 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.

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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 first six months of 2001, 70,005 shares were purchased through the open market by the Corporation through this plan or a similar repurchase plan approved in the prior year.

NOTE 20 - Subsequent Event

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

	June 30,			
	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$ 29,057	\$ 29,057	\$ 27,577	\$ 27,577
Federal funds sold and Due From Time	49,259	49,273	19,245	19,245
Securities	125,781	125,781	145,798	145,165
Loans	402,432	410,440	377,641	373,696
Allowance for loan losses	(5,745)	(5,745)	(6,899)	(6,899)
Financial Liabilities				
Deposits	542,566	546,191	503,221	502,835
Short Term Borrowings	14,945	14,988	29,052	29,052
Off-balance Sheet Financial Instruments				
Loan commitments		125,400		137,012
Letters of credit		5,333		3,697

NOTE 22 - Comprehensive Income

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

	Six Months Ended June 30,		Year Ended December 31,
	2001	2000	2000
	-----	-----	-----
Net Income	\$ 4,487	\$ 3,797	\$ 8,976
Other Comprehensive Income:			
Unrealized gain (loss) on securities available-for-sale, net of tax	1,126	(112)	1,471
	-----	-----	-----
Comprehensive Income	\$ 5,613	\$ 3,685	\$ 10,447
	=====	=====	=====

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 second quarter of 2001 was \$2,376,000, or \$.37 diluted earnings per share, compared with \$1,347,000, or \$.21 diluted earnings per share, for the second quarter of 2000. Net income for the first six months of 2001 was \$4,487,000, or \$.69 diluted earnings per share, compared with \$3,797,000 or \$.58 diluted earnings per share for the first six months of the prior year. On a per share basis, diluted earnings per share increased 76.2% over the second quarter of the prior year. Per share amounts are based on average diluted shares outstanding of 6,506,127 for the first six months of 2001 and 6,530,614 for the comparable period of 2000 adjusted to reflect stock options granted.

Outstanding loans at June 30, 2001 of \$402.4 million represented an increase of \$24.8 million, or 6.6%, over June 30, 2000 and an increase of \$22.4 million, or 5.9%, from December 31, 2000.

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Total deposits at June 30, 2001 of \$542.6 million represented an increase of \$39.3 million, or 7.8%, over June 30, 2000 and an increase of \$2.9 million, or .5%, from December 31, 2000.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Interest Income	\$ 11,556	\$ 11,554	\$ 23,643	\$ 22,707
Interest Expense	4,272	4,443	9,172	8,534
	7,284	7,111	14,471	14,173
Provision for Loan Loss	310	1,496	490	1,728
	6,974	5,615	13,981	12,445
Net Interest Income After Provision for Loan Loss	6,974	5,615	13,981	12,445
Non-Interest Income	1,111	918	2,149	1,826
Non-Interest Expense	4,452	4,449	9,275	8,442
	3,633	2,084	6,855	5,829
Income Before Income Tax	3,633	2,084	6,855	5,829
Income Tax Expense	1,257	737	2,368	2,032
	2,376	1,347	4,487	3,797
Net Income	\$ 2,376	\$ 1,347	\$ 4,487	\$ 3,797
	0.38	0.22	0.71	0.60
Net Income per Share-	\$ 0.38	\$ 0.22	\$ 0.71	\$ 0.60
Basic	0.38	0.22	0.71	0.60
Diluted	0.37	0.21	0.69	0.58
Return on Average Assets	1.53%	0.95%	1.45%	1.34%
Return on Average Stockholders' Equity	16.45%	10.81%	15.78%	15.40%

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

Three Months Ended June 30,

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	2001				
	Average Balances	Interest	Average Yield/Rate	Average Balances	I
	(Dollars in Thousands)				
Earning Assets:					
Federal Funds Sold & Due From Time	\$ 55,316	\$ 605	4.38%	\$ 13,986	\$
Investment Securities (Taxable)	133,817	1,979	5.93%	147,212	
Investment Securities (Tax-exempt)	240	5	7.68%	350	
Loans, Net of Unearned Discount(1)	396,672	8,967	9.07%	373,251	
Total Earning Assets	586,045	11,556	7.91%	534,799	
Non-interest Earning Assets:					
Cash and Due From Banks	23,980			24,250	
Other Assets	19,249			19,488	
Allowance for Loan Losses	(5,630)			(5,524)	
Total Assets	\$ 623,644			\$ 573,013	
Interest-Bearing Liabilities:					
Interest-Bearing Transaction					
Accounts and Money Market Funds	\$ 159,463	1,095	2.75%	\$ 160,178	
Savings	102,511	939	3.67%	89,170	
Savings Certificates	83,133	1,197	5.78%	61,397	
Certificates of Deposit					
\$100,000 or more	59,587	862	5.80%	47,636	
Other Time	778	12	6.08%	778	
Other Borrowings	18,224	167	3.67%	26,182	
Total Interest-Bearing Liabilities	423,696	4,272	4.04%	385,341	
Non-interest Bearing Liabilities:					
Demand Deposits	137,257			136,250	
Other Liabilities	4,764			1,347	
Shareholders' Equity	57,927			50,075	
Total Liabilities and Shareholders' Equity	\$ 623,644			\$ 573,013	
Net Interest Income and Margin (Tax-equivalent Basis) (2)		\$ 7,284	4.98%		\$

- (1) Loan interest income includes various loan 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'td.)

The following schedule presents average balance sheets that highlight

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earning assets and interest-bearing liabilities and their related rates earned and paid for the first six months of 2001 and 2000 (rates on tax equivalent basis).

	Six Months Ended June 30,			
	2001			
	Average Balances	Interest	Average Yield/Rate	Average Balances
	(Dollars in Thousands)			
Earning Assets:				
Federal Funds Sold & Due From Time	\$ 59,727	\$ 1,459	4.92%	\$ 13,527
Investment Securities (Taxable)	135,658	4,125	6.13%	147,807
Investment Securities (Tax-exempt)	240	9	7.72%	421
Loans, Net of Unearned Discount (1)	389,299	18,050	9.35%	369,001
Total Earning Assets	584,924	23,643	8.15%	530,756
Non-interest Earning Assets:				
Cash and Due From Banks	23,650			24,182
Other Assets	19,500			19,391
Allowance for Loan Losses	(5,547)			(5,416)
Total Assets	\$ 622,527			\$ 568,913
Interest-Bearing Liabilities:				
Interest-Bearing Transaction				
Accounts and Money Market Funds	\$ 163,483	2,489	3.07%	\$ 160,012
Savings	100,522	2,024	4.06%	92,614
Savings Certificates	83,249	2,445	5.92%	60,003
Certificates of Deposit				
\$100,000 or more	60,708	1,812	6.02%	43,456
Other Time	778	24	6.18%	778
Other Borrowings	18,473	378	4.13%	27,832
Total Interest-Bearing Liabilities	427,213	9,172	4.33%	384,695
Non-interest Bearing Liabilities:				
Demand Deposits	133,632			133,224
Other Liabilities	4,324			1,403
Shareholders' Equity	57,358			49,591
Total Liabilities and Shareholders' Equity	\$ 622,527			\$ 568,913
Net Interest Income and Margin				
(Tax-equivalent Basis) (2)		\$ 14,471	4.99%	\$

(1) Loan interest income includes various loan 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 second quarter of 2001 was \$7,284,000 which represented an increase of \$173,000 or 2.4%, over the second quarter of 2000. In this same period, total interest income increased \$2,000 while total interest expense decreased \$171,000 or 3.8% and reflects a 275 basis point decrease in the national prime rate for loans from the first of January 2001 to mid-June 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 June 30, 2001 and 2000.

	ANALYSIS OF CHANGES IN NET INTEREST INCOME (Dollars in Thousands)				
	2nd Qtr. 2001 vs. 2nd Qtr. 2000 Increase (Decrease) Due to Changes in:			Six Months 2001 Increase Due to Changes in:	
	Volume	Rate	Total	Volume	Rate
Interest Earning Assets:					
Federal Funds Sold	\$ 649	\$ (263)	\$ 386	\$ 1,311	\$ (378)
Investment Securities (Taxable)	(209)	(103)	(312)	(378)	(6)
Investment Securities (Tax-exempt)	(2)	-0-	(2)	(6)	972
Loans, Net of Unearned Discount	569	(639)	(70)	972	
Total Interest Income	1,007	(1,005)	2	1,899	
Interest-Bearing Liabilities:					
Deposits	619	(586)	33	1,311	(242)
Other Borrowings	(113)	(91)	(204)	(242)	
Total Interest Expense	506	(677)	(171)	1,069	
Net Interest Income	\$ 501	\$ (328)	\$ 173	\$ 830	\$ (173)

Allowance for Loan Losses and Non-Performing Assets

The Corporation's allowance for loan losses was \$5,745,000, or 1.43% of total loans, as of June 30, 2001 compared to \$6,899,000, or 1.83% of total loans, as of June 30, 2000.

Transactions in the provision for loan losses are summarized as follows

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(in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Balance, Beginning of Period	\$ 5,537	\$ 5,440	\$ 5,399	\$ 5,169
Provisions, Charged to Income	310	1,496	490	1,728
Loans Charged-Off	(135)	(95)	(225)	(126)
Recoveries of Loans Previously Charged-Off	33	58	81	128
Net Loans (Charged-Off) Recovered	(102)	(37)	(144)	2
Balance, End of Period	\$ 5,745	\$ 6,899	\$ 5,745	\$ 6,899

For the six months ended June 30, 2001 and 2000, net charge-offs (recoveries) were .04% and .00% 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).

	June 30, 2001	March 31, 2001	December 31, 2000	September 30, 2000	June 30, 2000
Non-Accrual Loans	\$ 2,611	\$ 2,904	\$ 2,182	\$ 5,273	\$ 5,273
Renegotiated Loans	-0-	-0-	-0-	-0-	-0-
Other Real Estate Owned and Other Foreclosed Assets	643	1,348	1,595	1,329	1,329
Total Non-Performing Assets	\$ 3,254	\$ 4,252	\$ 3,777	\$ 6,602	\$ 6,602
As a Percent of:					
Total Assets	0.52%	0.62%	0.61%	1.11%	1.11%
Total Loans and Other Real Estate/ Foreclosed Assets	0.81%	1.10%	0.99%	1.73%	1.73%
Loans Past Due 90 days or More and Still Accruing	\$ 315	\$ 32	\$ 10	\$ -0-	\$ -0-

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Non-accrual loans to total loans were .65% at June 30, 2001 and non-performing assets were .81% of loans and other real estate owned/foreclosed assets at the same date.

As of June 30, 2001, the Corporation had four credits that represented over 91% of the total non-accrual loans. The largest of these loans with a current balance of \$1.2 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 or cash collateral in the amount of \$588,000 on certain of the loans.

As of June 30, 2001 the Corporation has \$643,000 in Other Foreclosed Assets, reported in Other Assets on the Balance Sheet, 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).

	June 30, 2001	March 31, 2001	December 31, 2000	September 30, 2000
	-----	-----	-----	-----
Non-Performing Loans	\$ 2,611	\$ 2,904	\$ 2,182	\$ 5,273
Criticized Loans	11,677	11,586	11,536	16,562
Allowance for Loan Losses	5,745	5,537	5,399	6,918
Allowance for Loan Losses as a Percent of:				
Non-Performing Loans	220%	191%	247%	131%
Criticized Loans	49%	48%	47%	42%

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Non-Interest Income

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2001	2000	% Change	2001	2000	% Ch
	-----	-----	-----	-----	-----	-----
Service Charges on Deposit Accounts	\$ 592	\$ 488	21.3%	\$ 1,146	\$ 970	
Non-recurring Income	-0-	4	--	-0-	65	
Other Non-interest Income	519	426	21.8	1,003	791	

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Total Non-interest Income	\$ 1,111	\$ 918	21.0	\$ 2,149	\$ 1,826
	=====	=====	=====	=====	=====

The increase in other non-interest income in the second quarter of 2001 as compared to the same quarter last year is primarily due to increases in mortgage brokerage/origination fees, letters of credit fees, collection 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 June 30,			Six Months Ended June 30,		
	2001	2000	% Change	2001	2000	% Cha
Salaries & Employee Benefits	\$ 2,593	\$ 2,332	11.2%	\$ 5,132	\$ 4,689	
Occupancy Expense - Net	315	247	27.5	624	505	2
Furniture and Equipment Expense	366	354	3.4	727	692	
Other Real Estate Expense - Net	46	368	(87.5)	127	356	(6
Merger Related Expense	-0-	-0-	--	598	-0-	
Other Expenses:						
Business Development	175	184	(4.9)	312	360	(1
Insurance - Other	30	25	20.0	63	52	2
Legal & Professional Fees	156	202	(22.8)	314	390	(1
Taxes - Other	36	44	(18.2)	72	100	(2
Postage & Courier	77	82	(6.1)	162	165	(
Printing & Supplies	107	90	18.9	185	190	(
Regulatory Fees & Assessments	62	56	10.7	124	116	
Other Operating Expenses	489	465	5.2	835	827	
	-----	-----	-----	-----	-----	
Total Other Expenses	1,132	1,148	(1.4)	2,067	2,200	(
	-----	-----	-----	-----	-----	
Total Non-interest Expense	\$ 4,452	\$ 4,449	0.1	\$ 9,275	\$ 8,442	
	=====	=====	=====	=====	=====	

Total non-interest expense increased 0.1% in the second quarter of 2001 over 2000, reflecting increases in salaries and benefits, occupancy expense, and other operating expenses partially offset by decreases in business development expense, legal and professional expense, state franchise taxes and other real estate expense. As a percent of average assets, non-interest expenses were 2.86% in the second quarter of 2001 (annualized) and 3.18% in the same period of 2000. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 53.0% for the second 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 earlier in the year at one bank-owned facility that has third party rental space. The property has subsequently been rented.

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.

Other Operating Expense in the second quarter of 2001 includes \$72,000 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 June 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	Repri Afte 1 Yea Non-in Sensi
	30 Days or Less	31-180 Days	181 to One Year		
Earning Assets:					
Loans	\$ 243,508	\$ 23,539	\$ 14,626	\$ 281,673	\$ 120
Investment Securities	9,422	21,637	32,749	63,808	61
Federal Funds Sold and Due From Time	49,259	-0-	-0-	49,259	
	-----	-----	-----	-----	-----
Total Earning Assets	302,189	45,176	47,375	394,740	182
	-----	-----	-----	-----	-----
Interest Bearing Liabilities:					
Interest-Bearing Transaction					
Accounts and Savings	262,736	-0-	-0-	262,736	
Certificate of Deposits >\$100,000	9,084	33,452	10,560	53,096	3
Other Time Deposits	7,240	47,799	19,012	74,051	8
Short Term Borrowings	14,945	-0-	-0-	14,945	
	-----	-----	-----	-----	-----
Total Interest Bearing Liabilities	294,005	81,251	29,572	404,828	12
	-----	-----	-----	-----	-----

Interest Sensitivity

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Gap	\$ 8,184	\$ (36,075)	\$ 17,803	\$ (10,088)	\$ 170
	=====	=====	=====	=====	=====
Cumulative Gap	\$ 8,184	\$ (27,891)	\$ (10,088)		
	=====	=====	=====		
Cumulative Gap to Total Earning Assets	1.42%	(4.83%)	(1.75%)		
Cumulative Gap to Total Assets	1.32%	(4.50%)	(1.63%)		

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 repricable 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 (1.63%) was reversed to a positive 11.59% "beta adjusted" gap position.

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

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Capital

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

The Federal Reserve Board and Comptroller of the Currency also have risk-adjusted capital adequacy guidelines. Capital under these new guidelines is defined as Tier I and Tier II. At Summit Bancshares, Inc. the only components of Tier I and Tier II capital are shareholders' equity and a portion of the allowance for loan losses, respectively. The guidelines also stipulate that four

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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 June 30, 2001, the Corporation's Tier I capital represented 13.8% of risk weighted assets and total qualifying capital (Tier I and Tier II) represented 15.0% of risk weighted assets. Both ratios are well above current regulatory guidelines.

Also, as of June 30, 2001, the Corporation and its Subsidiary Bank met the criteria for classification as a "well-capitalized" institution under the rules of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

The Corporation and Subsidiary Bank's regulatory capital positions as of June 30, 2001, were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		T Capi Prom Acti
	Amount	Ratio	Amount	Ratio	Amou
CONSOLIDATED:					
As of June 30, 2001					
Total Capital (to Risk Weighted Assets)	\$ 62,480	14.82%	\$ 33,717	8.00%	
Tier I Capital (to Risk Weighted Assets)	57,205	13.57%	16,856	4.00%	
Tier I Capital (to Average Assets)	57,205	9.17%	18,705	3.00%	
SUMMIT BANK, N.A.:					
As of June 30, 2001					
Total Capital (to Risk Weighted Assets)	\$ 61,349	14.56%	\$ 33,708	8.00%	\$ 42,
Tier I Capital (to Risk Weighted Assets)	56,075	13.30%	16,865	4.00%	25,
Tier I Capital (to Average Assets)	56,075	9.01%	18,671	3.00%	31,

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.

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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

At the Corporation's annual shareholders' meeting, held on April 17, 2001, the shareholders of the Corporation:

- o ratified the appointment by the Board of Directors of Stovall, Grandey & Whatley as independent auditors of the Corporation for its fiscal year ending December 31, 2001. The shareholder vote in this matter was 5,544,474 for, 18,392 against, and 3,104 abstaining.
- o elected the Board of Directors, consisting of eleven (11) persons. The following directors, constituting the entire Board of Directors, were elected:

	For	Against	Abstain
	-----	-----	-----
D. Jerrell Farr	5,531,735	32,800	1,435
Elliott S. Garsek	5,436,235	128,300	1,435
Ronald J. Goldman	5,435,035	129,500	1,435
F.S. Gunn	5,508,635	55,900	1,435
Robert L. Herchert	5,416,335	148,200	1,435
Jay J. Lesok	5,531,435	33,100	1,435
William W. Meadows	5,416,635	147,900	1,435
James L. Murray	5,393,535	171,000	1,435
Philip E. Norwood	5,315,683	248,852	1,435
Byron B. Searcy	5,392,935	171,600	1,435
Roderick D. Stepp	5,531,435	33,100	1,435

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11 Computation of Earnings Per Common Share

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

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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: 08-10-01

By: /s/ PHILIP E. NORWOOD

Philip E. Norwood, Chairman & President

Date: 08-10-01

By: /s/ BOB G. SCOTT

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

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EXHIBIT INDEX

Exhibit

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11 Computation of Earnings Per Common Share

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