SUMMIT BANCSHARES INC /TX/
Form 10-K
March 29, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the Fiscal Year Ended December 31, 2000 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)

Securities registered pursuant to Section 12(b) of the Act:

None	Not Applicable
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $1.25 par value
(Title of Class)

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 authorized to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the shares of voting stock held by non-affiliates of the registrant at March 12, 2001 was approximately $101,172,000.

The number of shares of common stock, $1.25 par value, outstanding at March 12, 2001 was 6,379,478 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement dated March 14, 2001 filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 for the 1999 Annual Meeting of Shareholders of Summit Bancshares, Inc., are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS.

The Corporation. Summit Bancshares, Inc. (the "Corporation"), a corporation incorporated under the laws of the state of Texas in 1979, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Corporation maintains its principal office at 1300 Summit Avenue, Suite 604, Fort Worth, Texas 76102. The Corporation's principal activity is the ownership and management of its subsidiaries. The Corporation owns all of the issued and outstanding shares of capital stock of two national banking associations, Summit National Bank and Summit Community Bank, N.A. (the "Subsidiary Banks") and a nonbank subsidiary, Summit Bancservices, Inc., all located in Fort Worth, Texas. In January 1997 Camp Bowie National Bank, at the time a wholly-owned subsidiary, changed its name to Summit Community Bank, N.A. and in March 1997 Alta Mesa National Bank merged with Summit Community Bank, N.A. Alta Mesa National Bank was a former wholly-owned subsidiary of the Corporation.

At December 31, 2000 the Corporation had consolidated total assets of $619,121,000, consolidated total loans of $380,016,000, consolidated total deposits of $539,666,000 and consolidated total shareholders' equity of $55,571,000.

The Corporation provides advice and services to the Subsidiary Banks and coordinates their activities in the areas of financial accounting controls and reports, internal audit programs, regulatory compliance, financial planning and employee benefit programs. However, each Subsidiary Bank operates under the day-to-day management of its own officers and directors.

The Corporation's major source of income is dividends received from the Subsidiary Banks which are restricted as discussed on page 12. Dividend payments by the Subsidiary Banks are determined on an individual basis, generally in relation to each Subsidiary Bank's earnings, deposits and capital.

The Corporation's business is neither seasonal in nature nor in any manner related to or dependent upon patents, licenses, franchises or concessions and the Corporation has not spent material amounts on research activities.

The Subsidiary Banks. The services offered by the Subsidiary Banks are generally those offered by commercial banks of comparable size in their respective areas. Certain of the principal services offered by the Subsidiary Banks are described below.

Commercial Banking. The Subsidiary Banks provide general commercial banking services for corporate and other business clients principally located in Tarrant County, Texas. Loans are made for a wide variety of purposes, including interim construction and mortgage financing on real estate and financing of equipment and inventories.

Consumer Banking. The Subsidiary Banks provide a full range of consumer

banking services, including interest and non-interest-bearing checking accounts, various savings programs, installment and real estate loans, money transfers, on-site ATM facilities and safe deposit facilities.

Securities Services. Summit Bancshares, Inc. through an agreement with LM Financial Partners, Inc. offers investment brokerage services. LM Financial Partners, Inc., a subsidiary of Legg Mason, Inc. is a registered broker-dealer and member of the National Association of Securities Dealers, Inc. Investment executives are available at each of the Subsidiary Banks and can provide information about tax-free municipals, government securities, stocks, mutual funds, or annuities.

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Certain information with respect to each Subsidiary Bank as of February 28, 2001 is set forth in the following table. Interbank balances have not been eliminated in the table as such balances are not material to total deposits or total assets.

	As of February 28, 2001 (In Thousands)				
Name and Address of Subsidiary Bank	Organization Date	Acquisition Date	Total Assets	Total Loans	Total Deposits
Summit National Bank 1300 Summit Avenue Fort Worth, TX 76102	1975	1980	$239,625	$132,078	$203,553
Summit Community Bank, N.A. 3859 Camp Bowie Blvd. Fort Worth, TX 76107	1984	1984	$360,995	$250,239	$325,042

Competition. There is significant competition among bank holding companies in Tarrant County, Texas and the Corporation believes that such competition among such bank holding companies will continue in the future.

Additionally, the Subsidiary Banks encounter intense competition in their commercial banking businesses, primarily from other banks represented in their respective market areas, many of which have far greater assets and financial resources. The Subsidiary Banks also encounter intense competition in their commercial banking businesses from savings and loan associations, credit unions, factors, insurance companies, commercial and captive finance companies and certain other types of financial institutions located in its own and in other major metropolitan areas in the United States, many of which are larger in terms of capital, resources and personnel.

Employees. As of December 31, 2000 the Corporation and the Subsidiary Banks collectively had a total of 167 full-time employees and 23 part-time employees.

REGULATION AND SUPERVISION

The Corporation and the Subsidiary Banks are subject to federal and state law applicable to businesses generally and also to federal and state laws specifically applicable to financial institutions and financial institution holding companies. The laws and regulations governing financial institutions and their parent holding companies are intended primarily for the protection of depositors, the deposit insurance funds of the Federal Deposit Insurance Corporation, and the banking system as a whole and not for the protection of shareholders or creditors. Those laws give regulatory authorities broad enforcement powers over banks and bank holding companies including the power to require remedial actions and to impose substantial fines and other penalties for violation of laws or regulations.

The following description of statutory and regulatory provisions does not purport to be complete and is qualified in its entirety by reference to the applicable statutes and regulations. Any change in applicable statutes or regulations or the policies of regulatory authorities may have a material effect on the business, operations, and prospects of the Corporation and the Subsidiary Banks. The Corporation is unable to predict the nature or extent of the affect on its business and earnings that fiscal or monetary policies, economic controls, or changes in federal or state statutes or regulations or regulatory policies may have in the future.

The Corporation

General. The Corporation is a bank holding company within the meaning of the BHC Act and as such is subject to regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "FRB"). Under federal law, bank holding companies are subject to restrictions on the types of activities in which they may engage and to a wide range of supervisory requirements and actions, including periodic examinations and reporting requirements and regulatory enforcement actions for any violations of laws, regulations, or policies. The FRB has authority to order a bank holding company to cease and desist from unsafe or unsound practices, to assess civil money penalties against holding companies and affiliated individuals who violate the BHC Act or FRB regulations or orders, and to order termination by a bank holding company of any activities or control of any nonbank subsidiary which the FRB believes constitutes a serious risk to the financial safety, soundness, or stability of a subsidiary bank and is inconsistent with sound banking principles or the purposes of various provisions of law.

The Corporation is a legal entity, separate and distinct from its subsidiaries. As a result, the Corporation's right to participate in the distribution of assets of any subsidiary upon liquidation or reorganization of the subsidiary will be subject to the prior claims of depositors and creditors of the subsidiary. In the event of a liquidation or reorganization of a Subsidiary Bank, the claims of depositors and creditors of the Bank will have priority over the rights of the Corporation and its shareholders and creditors.

Scope of Permissible Activities. The BHC Act prohibits a bank holding company, with certain limited exceptions, from directly or indirectly engaging in, or from directly or indirectly acquiring ownership or control of more than 5% of any class of voting shares of any company engaged in, any activities other than banking or managing or controlling banks or certain other subsidiaries or other activities determined by the FRB to be so closely related to banking as to be a proper incident thereto. Some of the activities which have been determined by FRB regulation to be closely related to banking are making or servicing loans, performing certain data processing

services, acting as an investment or financial advisor to certain investment

trusts or investment companies, and providing certain securities brokerage services. In approving or disapproving a bank holding company's acquisition of a company engaged in bank-related activities or participation itself in bank-related activities, the FRB considers a number of factors and weighs the expected benefits to the public (such as greater convenience and increased competition or gains in efficiency) against possible adverse effects (such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices). In considering these factors, the FRB may differentiate between a bank holding company's commencement of activities itself and its acquisition of a going concern already engaged in those activities.

The Gramm-Leach-Bliley Act (the "GLB Act"), which became law on November 12, 1999, amended the BHC Act to permit the creation of a "financial holding company," a new type of bank holding company with powers exceeding those of a traditional bank holding company. A financial holding company may engage in, and hold shares of any company engaged in, any activity which the FRB determines by regulation or order to be financial in nature, or incidental to such financial activity or complimentary to a financial activity, and not to pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. Among the activities which will be considered to be financial in nature are lending, investing or safeguarding money or securities, underwriting insurance or annuities or acting as an insurance principal, agent, or broker, providing financial or investment advice, issuing or selling interests in pools of assets a bank could hold, underwriting, dealing in, or making a market in securities, engaging in any activity which, prior to enactment of the GLB Act, the FRB determined to be closely related to banking, and, subject to certain limitations, merchant banking activities. The amendments to the BHC Act made by the GLB Act, which became effective on March 11, 2000, allow qualifying bank holding companies to provide a wide variety of financial services previously reserved for insurance companies and securities firms. To become a financial holding company, a bank holding company must file with its Federal Reserve Bank a declaration that it elects to become a financial holding company along with a certification that all depository institutions controlled by the company are well-capitalized and well managed. Such a declaration will become effective 30 days after filing unless the FRB notifies the bank holding company prior to that time that its declaration is ineffective. Once the declaration becomes effective, the bank holding company can commence activities permitted to a financial holding company unless the FRB imposes supervisory limitations on the company. The FRB serves as the primary "umbrella" regulator of a financial holding company. The primary regulatory authority of a financial holding company subsidiary will depend upon the activities in which the subsidiary is engaged.

The Corporation cannot at this time fully evaluate the effect on the Corporation and the Subsidiary Banks of the changes made by the GLB Act, including possible new opportunities for expansion of the Corporation's activities and changes in competition for the Corporation and the Subsidiary Banks.

Safety and Soundness. Bank holding companies may not engage in unsafe or unsound banking practices. For example, with some exceptions for well-capitalized and well-managed companies, FRB regulations require a bank holding company to give the FRB prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding twelve-month period, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove a redemption or repurchase if it finds the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. A holding company may not impair the financial soundness of a subsidiary bank by causing it to make funds available to nonbanking subsidiaries or their customers when such a transaction would not be prudent. In some circumstances, the FRB may take the position that paying a dividend would

constitute an unsafe or unsound banking practice. The policy of the FRB is generally that a bank holding company should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's future needs and financial condition. This policy provides that a bank holding company should not maintain a level of cash dividends that undermines the company's ability to serve as a source of strength to its banking subsidiaries.

The FRB may exercise various administrative remedies to enforce safety and soundness standards, including issuing orders requiring parent bank holding companies and their nonbanking subsidiaries to refrain from actions believed by the FRB to constitute a serious risk to the financial safety, soundness, or stability of a subsidiary bank.

Source of Strength to Subsidiary Banks. FRB regulations require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks and commit resources to their support. This concept has become known as the "source of strength" doctrine. The FRB takes the position that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial adversity and should maintain the financial flexibility and capital-raising capacity necessary to obtain resources for assisting its subsidiary banks if required. A bank holding company which fails to meet its obligations to serve as a source of strength to its subsidiary banks may be considered by the FRB to be engaged in an unsafe and unsound banking practice and in violation of FRB regulations. Further, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires a bank holding company to guarantee, up to certain limits, an undercapitalized subsidiary bank's compliance with any capital restoration plan approved by the bank's primary federal regulatory authority. See Imposition of Liability for Undercapitalized Subsidiaries below.

Enforcement. The Financial Institution Reform, Recovery and Enforcement Act of 1989 ("FIRREA") expanded the FRB's authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which are unsafe or unsound banking practices or constitute violations of laws or regulations. Bank regulatory authorities may issue cease and desist orders which may, among other things, require affirmative action to correct conditions resulting from such a violation or practice, including restitution, reimbursement, and indemnification or guaranty against loss. Under FIRREA, a bank holding company or financial institution may also be ordered to restrict its growth, dispose of certain assets, or take other appropriate action as determined by the ordering agency.

FIRREA increased the amount of civil money penalties that the FRB and other regulatory agencies may assess for certain activities conducted on a knowing or reckless basis, if those activities cause a substantial loss to a depository institution. The penalties may

reach as much as $1,000,000 per day. FIRREA also expanded the scope of individuals and entities against whom such penalties may be assessed.

FIRREA contains a "cross-guarantee" provision which makes commonly controlled insured depository institutions liable to the Federal Deposit Insurance Corporation (the "FDIC") for any losses incurred, or which the FDIC reasonably anticipates incurring, in connection with the failure of an affiliated insured depository institution. By law, the "cross-guarantee" liability to the FDIC of an insured depository institution has priority over the rights of the institution's shareholders including those of any parent holding company.

Anti-Tying Restrictions. Bank holding companies and their affiliates are

prohibited from tying the provision of certain services, such as extensions of credit, to certain other services offered by a holding company or its affiliates.

Reporting and Examination. The Corporation is required to file quarterly and annual reports with the Federal Reserve Bank of Dallas (the "Federal Reserve Bank") and to provide such additional information as the Federal Reserve Bank may require pursuant to the BHC Act. The Federal Reserve Bank may examine the Corporation and any nonbank subsidiary and charge the Corporation for the cost of such an examination. The Corporation is also subject to reporting and disclosure requirements under state and federal securities laws.

Capital Adequacy Requirements. The FRB monitors the capital adequacy of bank holding companies using a combination of risk-based guidelines and leverage ratios. Under the risk-based capital guidelines, asset categories are assigned different risk weights based generally on perceived credit risk. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. Certain off-balance sheet items are added to the risk-weighted asset base by converting them to balance sheet components. For the purposes of the guidelines, a bank holding company's qualifying total capital is defined as the sum of its "Tier 1" and "Tier 2" capital elements, with the "Tier 2" element being limited to an amount not exceeding 100% of the "Tier 1" element. "Tier 1" capital includes, with certain limitations, common stockholders' equity, qualifying perpetual noncumulative and cumulative preferred stock, and minority interests in consolidated subsidiaries. "Tier 2" capital includes, with some limitations, certain other preferred stock as well as qualifying debt instruments and all or part of the allowance for possible loan losses.

The FRB guidelines require a minimum ratio of qualifying total capital to total risk-weighted assets of 8.0% (of which at least 4.0% must be in the form of "Tier 1" capital). At December 31, 2000, the Corporation's ratios of "Tier 1" and qualifying total capital to risk-weighted assets were 13.72% and 14.97%, respectively. At such date, both ratios exceeded regulatory minimums.

The FRB uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is defined as a company's "Tier 1" capital divided by its adjusted average total consolidated assets. The FRB guidelines require a minimum ratio of 3.0% "Tier 1" capital to total assets for bank holding companies having the highest regulatory rating. For other bank holding companies, the minimum ratio of "Tier 1" capital to total assets is 4.0%. Companies with supervisory, financial, or managerial weaknesses, as well as those anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The Corporation's leverage ratio at December 31, 2000, was 9.04% which exceeded the regulatory minimum.

A bank holding company which fails to meet the applicable capital standards will be at a disadvantage in several respects. For example, FRB policy discourages the payment of dividends by a bank holding company if payment would adversely affect capital adequacy and borrowing by a company with inadequate capital for the purpose of paying dividends. In some circumstances, a failure to meet the capital guidelines may also result in enforcement action by the FRB.

Imposition of Liability for Undercapitalized Subsidiaries. FDICIA requires bank regulators to take "prompt corrective action" to resolve insured depository institutions problems. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan to its federal regulatory agency. The regulatory agency will not accept the plan unless it meets certain criteria. One requirement for acceptance of a capital restoration plan is that each company "having control of" the undercapitalized institution must guarantee, up to certain limits, the subsidiary's compliance with the capital restoration

plan. The Corporation has control of the Subsidiary Banks for purposes of this statute. See below The Subsidiary Banks - Capital Adequacy Requirements below.

Under FDICIA, the aggregate liability of all companies controlling a particular insured depository institution is generally limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with application capital standards. FDICIA grants greater powers to regulatory authorities in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a timely and acceptable capital restoration plan or to implement an accepted capital restoration plan. A bank holding company controlling an undercapitalized insured depository institution may be required to obtain prior FRB approval of proposed dividends or a consent to merger or to divest itself of the troubled institution or other affiliates.

In the event of a proceeding for a bank holding company under Chapter 11 of the U.S. Bankruptcy Code, the trustee (or the debtor-in-possession) will, by law, be deemed to have assumed, and required immediately to cure any deficit under, any commitment made by the company to a federal regulatory agency to maintain the capital of an insured depository institution, and any claim based upon such a commitment will have a priority of payment.

Acquisition by Bank Holding Companies. The BHC Act prohibits a bank holding company, with some limited exceptions, from acquiring direct or indirect control of more than 5% of the outstanding shares of any class of voting stock or substantially all of the assets of any bank or bank holding company, or merging or consolidating with another bank holding company, without the prior approval of the FRB. In approving acquisitions of a bank or bank holding company by a bank holding company, the FRB is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors. The Attorney General of the United States may, within 30 days after approval of an acquisition by the FRB, bring an action challenging such acquisition under the federal antitrust

laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts. In some circumstances, any such action must be brought in less than 30 days after FRB approval.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") permits adequately capitalized and managed bank holding companies to acquire banks located in other states, regardless of whether the acquisition would be prohibited by applicable state law. An out-of-state bank holding company seeking to acquire ownership or control of a state or national bank located in Texas or any bank holding company owning or controlling a state bank or a national bank located in Texas must obtain the prior approval of both the FRB and the Banking Commissioner of Texas. If the FRB approves an acquisition which the Texas Banking Commissioner disapproves, the Commissioner may accept the FRB decision or attempt to have the decision overturned by a federal court. Under the Interstate Banking Act, a bank holding company and its insured depository institution affiliates may not complete an acquisition which would cause it to control more than 10% of total deposits in insured depository institutions nationwide or to control 30% or more of total deposits in insured depository institutions in the home state of the bank sought to be acquired. However, state deposit concentration caps adopted by various states, such as Texas, which limit control of in-state insured deposits to a greater extent than the Interstate Banking Act will be given effect. Texas has adopted a deposit concentration cap of 20% of in-state insured deposits; therefore, the Texas state deposit concentration cap will lower the otherwise applicable 30% federal

deposit concentration cap. State law may establish a minimum age (not to exceed five years) of local banks subject to interstate acquisition. The minimum age established by Texas is five years.

Acquisition of Bank Holding Companies. The Change in Bank Control Act of 1978 prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FRB has been given prior notice and has not disapproved the acquisition. Acquisition of 25% or more of any class of voting shares of a bank holding company constitutes acquisition of "control." The FRB presumes that the acquisition of 10% or more of any class of voting stock of a bank holding company constitutes acquisition of control if either the company has securities registered under Section 12 of the Exchange Act, as does the Corporation, or no other person will own or control a greater percentage of that class of voting securities immediately after the transaction. That presumption can be rebutted by showing the FRB that the acquisition will not in fact result in control. Any company would be required to obtain the approval of the FRB under the BHC Act before acquiring 25% or more (or more than 5% in the case of an acquiror that is a bank holding company) of the outstanding common stock of the company or otherwise exercising control or a "controlling influence" over the company.

The Subsidiary Banks

General. The Subsidiary Banks are national banking associations organized under the National Bank Act, as amended, (the "National Bank Act") and are subject to regulatory supervision and examination by the Office of the Comptroller of the Currency (the "OCC"). Pursuant to such regulation, the Banks are subject to various restrictions and supervisory requirements, and potentially to enforcement actions. The OCC regularly examines national banks with respect to, among other matters, capital adequacy, reserves, loan portfolio, investments and management practices. The Subsidiary Banks must also furnish quarterly and annual reports to the OCC, and the OCC may exercise cease and desist and other enforcement powers over the Subsidiary Banks if their actions represent unsafe or unsound practices or violations of law. Since the deposits of the Subsidiary Banks are insured by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Company (the "FDIC"), the Subsidiary Banks are also subject to regulation and supervision by the FDIC. Because the FRB regulates the Corporation, the FRB has supervisory authority which affects the Subsidiary Banks.

Banks are subject to the credit policies of governmental authorities that affect the national supply of bank credit. Such policies influence the overall growth of bank loans, investments, and deposits and may affect interest rates charged on loans and paid on deposits. The monetary policies of the FRB have had a significant effect on the results of operations of commercial banks in the past and may be expected to continue to do so in the future.

Scope of Permissible Activities. The National Bank Act provides the rights, privileges, and powers of national banks and defines the activities in which national banks may engage. Permitted activities for a national bank include making, arranging, purchasing, or selling loans, purchasing, holding, and conveying real estate under certain conditions, dealing in investment securities in certain circumstances, and, generally, engaging in the "business of banking" and activities that are "incidental" to banking. Activities deemed "incidental" to the business of banking include the borrowing and lending of money, receiving deposits (including deposits of public funds), holding or selling stock or other property acquired in connection with security on a loan, discounting and negotiating evidences of debt, acting as guarantor (if the bank has a "substantial interest in the performance of the transaction"), issuing letters of credit to or on behalf of its customers, operating a safe deposit business, providing check guarantee plans, issuing credit cards, operating a loan production office, selling loans under repurchase agreements, selling money

orders at offices other than bank branches, providing consulting services to banks, and verifying and collecting checks.

In addition to expanding permitted activities for qualifying bank holding companies, the GLB Act also permits the creation of a "financial subsidiary" which can be used by a national bank to engage in many of the activities permitted for a financial holding company. The Corporation cannot at this time fully evaluate the effect on the Subsidiary Banks of this change made by the GLB Act.

Branching. National banks located in Texas may establish a branch anywhere in Texas with prior OCC approval. For this purpose, a national bank is located in Texas if it has either its main office or a branch in Texas. In acting on a branch application, the OCC considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers.

The Interstate Banking Act, which expanded the authority of bank holding companies to engage in interstate bank acquisitions regardless of state law prohibitions, also allows banks to merge across state lines and thereafter have interstate branches by continuing to operate, as a main office or a branch, any office of any bank involved in the merger. States were, however, permitted to "opt-out" of

interstate mergers by enacting laws meeting certain requirements. The Texas Legislature "opted out" of the interstate branching provisions during its 1995 Session. However, the Texas "opt-out" legislation, which by its terms was to have expired in September of 1999, proved to be ineffective to prohibit interstate mergers involving banks in Texas because it did not meet the requirement of the Interstate Banking Act. The Texas Banking Commissioner determined that, under federal law, the "opt-out" legislation was ineffective to prohibit interstate mergers and began accepting applications for interstate merger and branching transactions for state-chartered institutions before the September, 1999, expiration date of the Texas "opt-out" legislation as enacted. As a consequence, the Texas "opt-out" legislation did not have the effect of prohibiting interstate merger and branching transactions otherwise allowed under federal law.

The Interstate Banking Act also allows a bank to open new branches in a state in which it does not already have banking operations if the laws of that state permit a de novo branch of an out-of-state bank. A "de novo branch" is a branch office of a bank originally established as a branch and not one becoming a branch by acquisition or merger. In 1995, Texas elected not to permit de novo branching, but the Texas legislation prohibiting de novo branching proved ineffective. In 1999, the Texas law was amended to permit entry into Texas by an out-of-state bank's establishing a de novo branch in Texas if the laws of the home state of the out-of-state bank permit a Texas bank to establish a de novo branch there. Out-of-state banks are also permitted to enter Texas by merger with an in-state bank if the resulting bank in such a merger would not control 20% or more of total in-state deposits and the in-state bank has been in existence and operation for at least five years. An out-of-state bank that has established or acquired a branch in Texas may establish or acquire additional in-state branches to the same extent that a Texas bank may acquire or establish branches in Texas.

Restrictions on Transactions with Affiliates. The Subsidiary Banks are subject to federal statutes which limit transactions with the Corporation and other affiliates. One set of restrictions is found in Section 23A of the Federal Reserve Act, which limits loans to, purchases of assets from, and investments in

"affiliates" of the Subsidiary Banks. The term "affiliates" would include the Corporation and any of its subsidiaries. Section 23A imposes limits on the amount of such transactions and also requires certain levels of collateral for such loans. In addition, Section 23A limits the amount of loans or extensions of credit to third parties which are collateralized by the securities or obligations of the Corporation or its subsidiaries.

Another set of restrictions is found in Section 23B of the Federal Reserve Act. Among the other things, Section 23B requires that certain transactions between a Subsidiary Bank and its affiliates must be on terms substantially the same, or at least as favorable to the Subsidiary Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. In the absence of such comparable transactions, any transaction between a Subsidiary Bank and an affiliate must be on terms and under circumstances, including credit underwriting standards and procedures, that in good faith would be offered to or would apply to nonaffiliated companies. Each Subsidiary Bank is also subject to certain prohibitions against advertising that suggest that the Subsidiary Bank is responsible for the obligations of its affiliates.

The regulations and restrictions on transactions with affiliates may limit the Corporation's ability to obtain funds from its Subsidiary Banks for its cash needs, including funds for payment of dividends and operating expenses.

Under the Federal Reserve Act and FRB Regulation O, there are restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as "insiders") which apply to all banks with deposits insured by the FDIC and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. There is also an aggregate limitation on all loans to insiders and their related interests. In the aggregate, these loans may not exceed the bank's total unimpaired capital and surplus. In some circumstances the OCC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Federal law and regulations also prohibit or limit "golden parachute payments" by FDIC- insured depository institutions and their holding companies. Golden parachute payments are defined generally as payments made by an insured depository institution or its holding company to a director, officer, employee, or other affiliated person contingent upon termination of the person's employment by the depository institution or its holding company when the institution or holding company is in troubled condition as determined by regulatory authorities. Indemnification payments are also prohibited or limited in certain instances.

Interest Rate Limits and Lending Regulations. The Subsidiary Banks are subject to various state and federal statutes relating to the extension of credit and the making of loans. The maximum legal rate of interest that the Subsidiary Banks may charge on a loan depends on a variety of factors such as the type of borrower, purpose of the loan, amount of the loan and date the loan is made. Texas statutes establish maximum legal rates of interest for various lending situations. Penalties are provided by law for charging interest in excess of the maximum lawful rate.

Loans made by banks located in Texas are subject to numerous other federal and state laws and regulations, including the Truth-in-Lending Act, the Texas Finance Code, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, and the Home Mortgage Disclosure Act. These laws provide remedies for the borrower and penalties for the lender for failure of the lender to comply with such laws. The scope and requirements of these laws and regulations have expanded in recent years, and claims by borrowers under these laws and regulations may increase.

Restrictions on Subsidiary Bank Dividends. Substantially all of the Corporation's cash revenues are derived from dividends paid by the Subsidiary Banks. Dividends payable by the Subsidiary Banks are restricted under the National Bank Act. See Item 5. Market for Registrant's Common Equity and Related Stockholder Matters - Dividends. The Subsidiary Banks' ability to pay dividends is further restricted by the requirement that the Subsidiary Banks maintain adequate levels of capital in accordance with guidelines promulgated from time to time by the OCC. Moreover, the prompt corrective action provisions of FDICIA and implementing regulations

prohibit a bank from paying dividends or management fees if, following the payment, the bank would be in any of the three capital categories for undercapitalized institutions. See Capital Adequacy Requirements below.

Examinations. The OCC periodically examines and evaluates national banks. Based upon such evaluations, the OCC may require revaluation of certain assets of a bank and require the bank to establish specific reserves to allow for the difference between the regulatory-determined value and the book value of such assets. The OCC is authorized to assess the institution an annual fee based on, among other things, the costs of conducting the examinations.

Capital Adequacy Requirements. OCC regulations require national banks to maintain minimum risk-based capital ratios similar to those for bank holding companies discussed above. The applicable regulations establish five capital levels, ranging from "well capitalized" to "critically undercapitalized." A national bank is considered "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater, and if it is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A national bank is considered "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of at least 4.0% and leverage capital ratio of 4.0% or greater (or a leverage ratio of 3.0% or greater if the institution was given the highest rating in its most recent report of examination) and the bank does not meet the definition of a "well capitalized" bank. A national bank is considered "undercapitalized" if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage ratio that is less than 4.0% (or a leverage ratio that is less than 3.0% if the institution received the highest rating in its most recent report of examination). A "significantly undercapitalized" national bank is one which has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%. A "critically undercapitalized" national bank is one which has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

At December 31, 2000, each of the Subsidiary Banks was "well capitalized." See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources.

Corrective Measures for Capital Deficiencies. FDICIA requires the federal banking regulators to take "prompt corrective action" with respect to capital-deficient insured depository institutions with the overall goal of limiting losses to the depository insurance fund. FDICIA contains broad restrictions on certain activities of undercapitalized institutions involving asset growth, acquisitions, branch establishment and expansion into new lines of business.

With certain exceptions, national banks will be prohibited from making capital

distributions, including dividends, or paying management fees to a holding company if the payment of such distributions or fees will cause them to become undercapitalized. Furthermore, undercapitalized national banks will be required to file capital restoration plans with the OCC. Such a plan will not be accepted unless, among other things, the banking institution's holding company guarantees the plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. Undercapitalized national banks also will be subject to restrictions on growth, acquisitions, branching, and engaging in new lines of business unless they have an approved capital plan that permits otherwise. The OCC also may, among other things, require an undercapitalized national bank to issue shares or obligations, which could be voting stock, to recapitalize the institution or, under certain circumstances, to divest itself of any subsidiary.

The OCC and other Federal banking agencies are authorized by FDICIA to take various enforcement actions against any significantly undercapitalized national bank and any national bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted to the OCC. These powers include, among other things, requiring the institution to be recapitalized, prohibiting asset growth or requiring asset reduction, restricting interest rates paid, requiring FRB prior approval of any capital distributions by any bank holding company which controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring new election of directors, and requiring the dismissal of directors and officers.

Significantly and critically undercapitalized national banks may be subject to more extensive control and supervision. A critically undercapitalized institution may be prohibited from, among other things, entering into any material transaction not in the ordinary course of business, amending its charter or bylaws, or engaging in certain transactions with affiliates. In addition, critically undercapitalized institutions generally will be prohibited from making payments of principal or interest on outstanding subordinated debt. Within 90 days of a national bank's becoming critically undercapitalized, the OCC must appoint a receiver or conservator unless certain findings are made with respect to the prospect for the institution's continued viability.

Deposit Insurance Assessments. The FDIC is required by the Federal Deposit Insurance Act to assess all banks a fee in order to fund adequately the Bank Insurance Fund (the "BIF") so as to resolve any insured bank that is declared insolvent by its primary regulator. FDICIA required the FDIC to establish a risk-based deposit insurance premium schedule. The risk-based assessment system is used to calculate deposit insurance assessments made on BIF member banks to maintain the designated reserves for the fund. In addition, the FDIC can impose special assessments to repay borrowings from the U.S. Treasury, the Federal Financing Bank, and BIF member banks. Under the risk-based system, banks are assessed insurance premiums according to how much risk they are deemed to present to the BIF. Such premiums currently range from zero percent of insured deposits to 0.27% of insured deposits. Banks with higher levels of capital and involving a low degree of supervisory concern are assessed lower premiums than those banks with lower levels of capital and a higher degree of supervisory concern. Each of the Subsidiary Banks are currently being assessed at the lowest rate of zero percent.

Under the Deposit Insurance Funds Act of 1996 (the "Funds Act"), beginning in 1997 banks insured under the BIF were required to pay a part of the interest on bonds issued by the Financing Corporation ("FICO") in the late 1980s to recapitalize the defunct Federal Savings and Loan Insurance Corporation. Before the Funds Act, FICO payments were made only by depository institutions which were

members of the Savings Association Insurance Fund (the "SAIF"). Under the Funds Act, until January 1, 2000, BIF members were assessed for FICO payments at only one-fifth the rate of assessment on SAIF members. The Funds Act required that, as of January 1, 2000, all BIF- and SAIF- insured institutions will pay FICO assessments at the same rate. For the first quarter of 2001, FICO rates have been set at .01960% for both BIF and SAIF members. The FICO assessment rates for both BIF and SAIF members for 2000 were:

Fourth Quarter	.0202
Third Quarter	.0206
Second Quarter	.0208
First Quarter	.0212

Internal Operating Requirements. FDICIA requires FDIC-insured depository institutions with over $500 million in assets to file an annual report with the FDIC and its primary federal regulator and any appropriate state banking agency within 90 days after the end of its fiscal year. The report must contain financial statements audited by an independent public accountant; a statement of management's responsibilities for (1) preparing the financial statements and for maintaining internal controls; (2) financial reporting and complying with designated safety and soundness laws and regulations; and (3) assessing the effectiveness of the institution's internal controls and compliance with safety and soundness laws and regulations. The independent public accountant also must report separately on the institution's internal controls and certain of the statements made by management in the report. The requirement of an annual audit of the Subsidiary Banks can be satisfied by an annual audit of the Corporation. The annual report must be available for public inspection. Each institution to which the annual report requirement applies must also have an independent audit committee entirely made up of outside directors. The audit committee's duties must include reviewing with management and the independent public accounts the basis for the annual report. The requirement of audit committees for the Subsidiary Banks can be satisfied by the services of an audit committee of the Corporation.

Community Reinvestment Act. The Community Reinvestment Act of 1977 ("CRA") and the regulations issued by the OCC to implement that law are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. FIRREA requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of its subsidiary banks is reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction. A less than satisfactory CFA rating can limit the extent to which a bank and its affiliates can take advantage of the expanded range of activities permitted by the GLB Act.

Customer Privacy. The GLB Act enacted new measures to protect the security, confidentiality, and integrity of information concerning customers of financial institutions. The federal banking agencies were directed by the GLB Act to adopt rules of carry out those measures, and were given broad authority to enforce the privacy provisions of the Act and rules adopted to carry out those provisions. The agencies have adopted guidelines for safeguarding customer information which will become effective July 1, 2001. The agencies' guidelines require each financial institution to establish an information security program which will identify and assess risks that may threaten the confidentiality of

customer information. The institution must develop a written plan containing policies and procedures to manage and control those risks and implement and test the plan. The plan must be adjusted on a continuing basis for changes in technology, the sensitivity of customer information, and internal and external threats to information security. A financial institution's policy for protecting the confidentiality and security of nonpublic personal information must be disclosed to the customer at the time the customer relationship is established and at least annually thereafter.

Expanding Enforcement Authority

One of the major effects of FDICIA was the increased ability of banking regulators to monitor the activities of banks and their holding companies. The Federal banking agencies have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC may terminate the deposit insurance of any institution which it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties, issue cease and desist or removal orders, seek judicial enforcement of their orders, and publicly disclose such actions.

Changing Regulatory Structure

Legislative and regulatory proposals regarding changes in banking, regulations of banks, thrifts and other financial institutions, are being considered by the executive branch of the federal government, Congress, and various state governments, including Texas. Certain of these proposals, if adopted, could significantly change the regulation of banks and the financial service industry. The Corporation cannot predict accurately whether any of these proposals will be adopted or, if adopted, how these proposals will affect the Corporation or the Subsidiary Banks. Also, there will be regulatory changes to deal with the expanded permissible activities permitted for financial holding companies and financial subsidiaries of national banks. The Corporation cannot predict at this time the effect of regulatory changes resulting from the enactment of the GLB Act.

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Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the FRB, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the FRB to affect the money supply are open market operations in U.S. Government securities, control of borrowings at the "discount window," changes in the discount rate on member bank borrowing, changes in reserve requirements against member bank deposits and against certain borrowings by banks and their affiliates and the placing of limits on interest rates that member banks may pay on time and savings deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits, and their use may affect interest rates charged on loans or paid for deposits. FRB monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The Corporation cannot predict the nature of future monetary policies and the effect of such policies on the business and earnings of the Corporation and the Subsidiary Banks.

ITEM 2. PROPERTIES.

The principal offices of the Corporation are located at 1300 Summit Avenue, Fort

Worth, Texas 76102. The Corporation and Summit National Bank, a subsidiary, lease space at this address from an unrelated third-party through leases that expire December 31, 2004 and December 31, 2009, respectively. Summit National Bank owns a detached motor bank facility.

Summit Community Bank, N.A. owns the building at its principal office at 3859 Camp Bowie Boulevard, Fort Worth, Texas. There are no encumbrances on this property.

The Alta Mesa office of Summit Community Bank, N.A. is located at 3000 Alta Mesa Boulevard, Fort Worth, Texas. The building is owned by the Corporation with the bank office using approximately 25% of the facility. The remainder of the building is fully leased. There are no third-party encumbrances on the property.

The Northeast office and motor bank facility of Summit Community Bank, N.A., at 9001 Airport Freeway, North Richland Hills, Texas, is leased from a third-party under a lease agreement expiring in April 2008. Summit Community Bank, N.A. owns a tract of land adjacent to the Northeast office to be used for building of a new motor bank facility that would be owned by the bank.

The Fossil Creek office of Summit Community Bank, N.A., at 3851 NE Loop 820, Fort Worth, Texas is located in a building that is a joint venture between the Summit Community Bank, N.A. and an unrelated third party. The Fossil Creek office occupies approximately 28% of the building under a long-term lease with the joint venture.

Summit Community Bank, N.A. owns approximately 1.5 acres near the intersection of Tarrant County Parkway and Davis Boulevard in Northeast Tarrant County. This unimproved property is to be used to establish a new branch office in late 2001.

A subsidiary of the Corporation owns an improved tract of land that serves as the site of the operations center which is the principal office of Summit Bancservices Inc. This site is located at 500 Eighth Avenue, Fort Worth, Texas.

ITEM 3. LEGAL PROCEEDINGS.

In the opinion of management, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the Corporation's business, to which it or any of its subsidiaries is a party or of which any of their property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise, during the fourth quarter of 2000.

ITEM 4A. EXECUTIVE OFFICERS OF THE CORPORATION.

The executive officers of the Corporation, each elected to serve at the pleasure of the Board of Directors until the next annual meeting of the Board of Directors to be held on April 17, 2001, their respective ages, and their present positions with the Corporation are as follows:

Name	Age	Position With the Corporation	Position Held Since
Philip E. Norwood	51	Chairman/President	1998/2001
Bob G. Scott	63	Executive Vice President and Chief Operating Officer	1998

The business experience of each of these executive officers during the past five (5) years is set forth below:

Mr. Norwood became Chairman of the Board of Summit Bancshares, Inc. and Chairman of Summit Community Bank, N.A. in January 1998 and President of Summit Community Bank, N.A. in July 1994 and continues to serve in these capacities. In January 2001 Mr. Norwood also became President of Summit Bancshares, Inc. and President and a director of Summit National Bank. From October 1993 to January 1998 Mr. Norwood served as President and Chief Executive Officer of the Corporation. He has served as a director of the Corporation since March 1984. Mr. Norwood served as a director and senior officer of Alta Mesa National Bank (currently a banking office of Summit Community Bank, N.A.) from April 1981 to December 1995. Mr. Norwood served as a director of Summit National Bank from March 1983 to January 1996.

Mr. Scott became Executive Vice President, Chief Operating Officer, Secretary and Treasurer in January 1998 and continues to serve in these capacities. He served as Senior Vice President and Chief Financial Officer from June 1994 to January 1998. From February 1992 to June 1994 Mr. Scott was a Senior Vice President with Alexander and Alexander of Texas, Inc. Prior to February 1992, Mr. Scott was a financial officer with Team Bancshares, Inc., Fort Worth, Texas and with Texas American Bancshares, Inc., Fort Worth, Texas.

No family relationships exist among the executive officers and directors of the Corporation.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information. Since May 3, 1993 the Corporation's Common Stock has been traded on the Nasdaq Stock Market under the symbol "SBIT." The following table sets forth the high and low stock prices as quoted for the Corporation's Common Stock for the periods indicated:

	High	Low
2000 Fiscal Year:		
First Quarter	$18.50	$14.50
Second Quarter	17.75	15.38
Third Quarter	18.06	14.75
Fourth Quarter	22.19	17.00
1999 Fiscal Year:		

First Quarter	$18.13	$17.38
Second Quarter	20.00	16.88
Third Quarter	19.38	17.00
Fourth Quarter	20.00	17.75

On March 12, 2001 the closing price reported for the Common Stock was $18.81. The foregoing quotations reflect prices quoted by market makers of the Corporation's Common Stock, without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

Shareholders. At the close of business on March 12, 2001 there were 588 shareholders of record of Common Stock of the Corporation. The number of beneficial shareholders is unknown to the Corporation at this time.

Dividends. The Corporation has paid regular cash dividends on its common stock on a quarterly basis since the beginning of 1993. The following table sets forth, for each quarter since the beginning of 1999, the quarterly dividends paid by the Corporation on its Common Stock for the indicated periods.

2000	Dividends Per Share
First Quarter	$0.100
Second Quarter	0.100
Third Quarter	0.100
Fourth Quarter	0.100
1999	
First Quarter	$0.080
Second Quarter	0.080
Third Quarter	0.080
Fourth Quarter	0.080

Although the Board of Directors intends to continue to pay quarterly cash dividends in the future, there can be no assurance that cash dividends will continue to the paid in the future or, if paid, that such cash dividends will be comparable to cash dividends previously paid by the Corporation, since future dividend policy is subject to the discretion of the Board of Directors of the Corporation and will depend upon a number of factors, including future earnings of the Corporation, the financial condition of the Corporation, the Corporation's cash needs, general business conditions and the amount of dividends paid to the Corporation by the Subsidiary Banks.

The principal source of the Corporation's cash revenues is dividends received from the Subsidiary Banks. Pursuant to the National Bank Act, no national bank may pay dividends from its paid-in capital. All dividends must be paid out of current or retained net profits, after deducting reserves for losses and bad debts. The National Bank Act further restricts the payment of dividends out of net profits by prohibiting a national bank from declaring a dividend on its shares of common stock until the surplus fund equals the amount of capital stock or, if the surplus fund does not equal the amount of capital stock, until one-tenth of a bank's net profits for the preceding half year in the case of quarterly or semi-annual dividends, or the preceding two half-year periods in the case of annual dividends, are transferred to the surplus fund. The approval of the OCC is required prior to the payment of a dividend if the total of all dividends declared by a national bank in any calendar year would exceed the

total of its net profits for that year combined with its net profits for the two preceding years. Under FDICIA, a Subsidiary Bank may not pay a dividend if, after paying the dividend, the Subsidiary Bank would be undercapitalized.

In addition, the appropriate regulatory authorities are authorized to prohibit banks and bank holding companies from paying dividends which would constitute an unsafe and unsound banking practice. The Subsidiary Banks and the Corporation are not currently subject to any regulatory restrictions on their dividends.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth summary historical data for the past five years (in thousands except ratios and per share data). All share and per share information has been restated to reflect a two-for-one stock split in 1997.

	Years Ended D		
	2000	1999	199
Summary of Earnings:			
Interest Income	$ 47,609	$ 40,232	$ 37,0
Interest Expense	18,870	13,772	13,4
Net Interest Income	28,739	26,460	23,5
Provision for Loan Losses	2,606	1,001	7
Securities Gains (Losses)	(2)	(3)	
Non-interest Income	3,780	3,883	3,8
Non-interest Expense	16,170	15,224	14,1
Earnings Before Income Taxes	13,741	14,115	12,4
Income Tax Expense	4,765	4,893	4,3
Net Income	$ 8,976	$ 9,222	$ 8,1
Balance Sheet Data (at period-end):			
Total Assets	$619,121	$564,786	$532,7
Investment Securities	149,647	156,440	148,0
Loans, Net of Unearned Discount	380,016	355,414	305,8
Allowance for Loan Losses	5,399	5,169	4,7
Demand Deposits	146,083	128,685	141,1
Total Deposits	539,666	480,546	465,5
Short Term Borrowings	19,910	32,091	17,8
Shareholders' Equity	55,571	48,709	46,2
Per Share Data:			
Net Income - Basic	$ 1.41	$ 1.44	$ 1.
Net Income - Diluted	1.38	1.39	1.
Book Value - Period-End	8.73	7.66	7.
Dividends Declared and Paid	0.40	0.32	0.
Weighted Average Shares Outstanding (000)	6,364	6,411	6,4
Average Common Share Equivalents (000)	160	245	3
Selected Performance Ratios:			
Return on Average Assets	1.54 %	1.72 %	1.

Return on Shareholders' Equity	17.57	19.66	18.
Net Interest Margin (tax equivalent)	5.25	5.31	5.
Efficiency Ratio	49.71	50.14	51.
Asset Quality Ratios:			
Non-Performing Loans to Total Loans - Period-End	0.58 %	0.69 %	1.
Non-Performing Assets to Total Assets - Period-End	0.61	0.78	1.
Allowance for Loan Losses to Total Loans - Period-End	1.42	1.45	1.
Allowance for Loan Losses to Non-Performing Loans - Period-End	246.0	211.0	94
Net Charge-Offs (Recoveries) to Average Loans	0.64	0.16	0.
Capital Ratios:			
Shareholders' Equity to Total Assets - Period-End	8.98 %	8.62 %	8.
Average Shareholders' Equity to Average Assets	8.74	8.71	9.
Total Risk-based Capital to Risk Weighted Assets - Period-End*	14.97	14.59	15.
Leverage Ratio - Period-End*	8.88	8.77	8.

*Calculated in accordance with Federal Reserve guidelines currently in effect.

Quarterly Results (Unaudited)

A summary of the unaudited results of operations for each quarter of 2000 and 1999 follows (in thousands except for per share data):

	First Quarter	Secon Quart
2000		
Interest Income	$11,150	$11,
Interest Expense	4,091	4,
Net Interest Income	7,059	7,
Provision for Loan Losses	232	1,
Non-interest Income	908	
Non-interest Expense	3,993	4,
Income Tax Expense	1,292	
Net Income	2,450	1,
Per Share Data:		
Net Income:		
Basic	$ 0.38	$ 0
Diluted	0.37	0
Dividends Paid	0.10	0
Stock Price Range:		
High	18.50	17
Low	14.50	15
Close	15.50	17

First Quarter	Secon Quart

1999		
Interest Income	$ 9,394	$ 9,
Interest Expense	3,254	3,
Net Interest Income	6,140	6,
Provision for Loan Losses	220	
Non-interest Income	1,031	
Non-interest Expense	3,738	3,
Income Tax Expense	1,117	1,
Net Income	2,096	2,
Per Share Data:		
Net Income:		
Basic	$ 0.33	$ 0
Diluted	0.31	0
Dividends Paid	0.08	0
Stock Price Range:		
High	18.13	20
Low	17.38	16
Close	17.50	17

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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, accompanying notes, and selected financial data appearing elsewhere in this report.

Performance Summary. Net income for 2000 was $9.0 million, a decrease of $.2 million, or 2.7%, compared to $9.2 million recorded for 1999. On a weighted average share basis, net income for 2000 was $1.38 per diluted share as compared to $1.39 per share for 1999, a decrease of .7%. The major decline in earnings during 2000 was due to a significant increase in provision for loan losses and a write- down of foreclosed assets. The increase in provision for loan losses was related to the charge-off of $1.7 million of one loan and $.5 million of another. Further explanations of these changes are set forth below.

Continuing to reflect the strong economy in the Corporation's market area, loans increased 6.9% over the previous year-end to $380 million at December 31, 2000. Total funding (deposits and short term borrowings) experienced similar growth, increasing 9.2% over the same period to $560 million. Shareholders' equity was $56 million at year-end, an increase of 14.1%.

Net income for 1999 was $9.2 million compared to net income of $8.1 million for 1998, an increase of 13.2%. The increase in earnings for 1999 was attributable to a significant increase in net interest income.

The following table shows selected key performance ratios over the last three (3) years:

--

Return on Average Assets	
Return on Average Shareholders' Equity	1
Shareholders' Equity to Assets - Average	
Dividend Payout Ratio	2

The ratio, return on assets, is calculated by dividing net income by average total assets for the year. The return on equity ratio is calculated by dividing net income by average shareholders' equity for the year. The equity to assets ratio is calculated by dividing average shareholders' equity by average total assets for the year. The dividend payout is determined by dividing the total dividends paid by the total net income.

Net Interest Income. Net interest income is the difference between interest earned on earning assets and interest paid for the funds supporting those assets. The largest category of earning assets consists of loans to businesses and individuals. The second largest is investment securities. Net interest income is the principal source of the Corporation's earnings. Interest rate fluctuations, as well as changes in the amount and type of earning assets and liabilities supporting those assets, affect net interest income. Interest rates primarily are determined by national and international market trends, as well as competitive pressures in the Corporation's operating markets. For analytical purposes, income from tax-exempt assets, primarily securities issued by or loans made to state and local governments, is adjusted by an increment which equates tax-exempt income to interest from taxable assets.

Net interest income (tax equivalent) for 2000 was $28.8 million, an increase of $2.3 million, or 8.6% compared to the prior year. The net increase reflected a $7.4 million increase in interest income which was offset by a $5.1 million increase in interest expense. The Corporation's yield on earning assets increased to 8.70% in 2000 from 8.06% for 1999. Rates paid on the Corporation's interest-bearing liabilities, increased from 3.86% in 1999 to 4.76% in 2000. These shifts in yield on earning assets and cost of interest-bearing liabilities resulted in the net interest margin decreasing from 5.31% in 1999 to 5.25% for 2000. Contributing to the improved net interest income for 2000 was the increase in noninterest-bearing demand deposits. In 2000, the average balance of demand deposits increased 3.2%. The average demand deposits as a percent of average total deposits decreased to 26.7% in 2000 from 28.2% in 1999; however, this ratio remains very positive compared to the Corporation's peers.

Summary of Earning Assets and Interest Bearing Liabilities

Although the year-end detail provides satisfactory indicators of general trends, the daily average balance sheets are more meaningful for analysis purposes than year-end data because averages reflect the day-to-day fluctuations that are common to bank balance sheets. Also, average balances for earning assets and interest-bearing liabilities can be related directly to the components of interest income and interest expense on the statements of income. This provides the basis for analysis of rates earned and paid, and sources of increases and decreases in net interest income as derived from changes in volumes and rates. The following schedule presents average balance sheets for the most recent three years in a format that highlights earning assets and interest-bearing liabilities.

(Dollars in Thousands)	2000 Average Balance	2000 Interest	2000 Average Yield/ Rate	1999 Average Balance	1999 Interest	1999 Average Yield/ Rate
Earning Assets:						
Federal Funds Sold	$ 24,659	$ 1,571	6.37%	$ 21,277	$ 1,082	5.08%
Investment Securities (Taxable)	148,598	9,253	6.23	145,109	8,496	5.85
Investment Securities (Tax-exempt)(2)	348	26	7.50	745	52	7.03
Loans, Net of Unearned Discount(1)	373,997	36,768	9.83	331,963	30,622	9.22
Total Earning Assets	547,602	47,618	8.70	499,094	40,252	8.06
Other Assets:						
Cash and Due From Banks	24,140			23,981		
Other Assets	19,122			20,110		
Allowance for Loan Losses	(6,167)			(4,886)		
Total Assets	$584,697			$538,299		
Interest-Bearing Liabilities:						
Interest-Bearing Transaction Accounts	$158,476	6,168	3.89	$156,054	5,043	3.23
Savings	93,594	4,472	4.78	85,571	3,440	4.02
Savings Certificates	67,605	3,808	5.63	55,169	2,543	4.61
Certificates of Deposit $100,000 or more	50,625	2,978	5.88	36,463	1,772	4.86
Other Time	778	44	5.70	778	39	5.06
Other Borrowings	25,748	1,400	5.44	22,404	935	4.17
Total Interest-Bearing Liabilities	396,826	18,870	4.76	356,439	13,772	3.86
Other Liabilities:						
Demand Deposits	135,165			131,002		
Other Liabilities	1,607			3,953		
Shareholders' Equity	51,099			46,905		
Total Liabilities and Shareholders' Equity	$584,697			$538,299		
Net Interest Income and Margin (T/E Basis)(2)		$28,748	5.25		$26,480	5.31

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

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

Net interest margin, the net return on earning assets which is computed by

dividing net interest income by average total earning assets, was 5.25% for 2000, a 6 basis point decrease from the previous year. This decrease in the margin reflected a higher cost of funds of 90 basis points in 2000 compared to the prior year somewhat offset by a higher yield on earning assets of 64 basis points, resulting in the net interest spread decreasing from 4.20% to 3.94%. The somewhat disproportionate increase in cost of funds compared to the increase in yield of earning assets reflects the competitive pressures of funding asset growth. The competitive pressures experienced by the Corporation are similar to those pressures experienced throughout the industry at this time.

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The table below analyzes the increase in net interest income for each of the years ended December 31, 2000 and 1999 on a fully tax equivalent basis. Non-accruing loans have been included in assets for these computations, thereby reducing yields on total loans. The changes in interest due to both rate and volume in the rate/volume analysis table below have been allocated to volume or rate change in proportion to the absolute amounts of the change in each.

	2000 vs. 1999 Increase (Decrease) Due to Changes in:			
(Dollars in Thousands)	Volume	Rate	Total	V
Interest Earning Assets:				
Federal Funds Sold	$ 189	$ 301	$ 490	$
Investment Securities (Taxable)	208	549	757	
Investment Securities (Tax-exempt)	(29)	3	(26)	
Loans, Net of Unearned Discount	4,045	2,103	6,148	
Total Interest Income	4,413	2,956	7,369	
Interest-Bearing Liabilities:				
Transaction Accounts & Savings	380	1,779	2,159	
Certificates of Deposit and Other Time	1,409	1,067	2,476	
Other Borrowings	153	313	466	
Total Interest Expense	1,942	3,159	5,101	
Changes in Net Interest Income	$2,471	$ (203)	$2,268	$

Net interest income for 2000 increased $2,268,000, or 8.6% over the prior year. In this same period total interest income increased 18.4% and total interest expense increased 37.0%.

Non-interest Income. Non-interest income is an important contributor to net earnings. The major component of the Corporation's non-interest income is various charges and fees earned on deposit accounts and related services. The following table summarizes the changes in non-interest income during the past three years (dollars in thousands):

2000

	Amount	% Change	Amou
Service Charges on Deposit Accounts	$1,998	(0.2) %	$2,
Non-recurring Income	65	--	
Gain (Loss) on Sale of Investment Securities	(2)	--	
Other Non-interest Income	1,717	22.1	1,
Total Non-interest Income	$3,778	(2.6)	$3,

Service charges on deposits decreased in 2000 as a result of customers maintaining higher balances in accounts thereby avoiding service charges.

The non-recurring income in 2000 is primarily interest recovered on loans either charged-off in prior years or loans that were on non-accrual status in prior years. Non-recurring income in 1999 included refunds of state franchise tax of $155,000, gain on sale of land of $105,000, a forfeited deposit of $100,000 related to sale of foreclosed property and interest recovered on loans either charged-off in prior years or loans that were on non-accrual status in prior years of $114,000.

The increase in other non-interest income in 2000 is primarily due to an increase in income from debit card fees and mortgage brokerage/origination fees.

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Non-interest Expense. Non-interest expense includes all expenses of the Corporation other than interest expense, provision for loan losses and income tax expense. The following table summarizes the changes in the non-interest expenses for the past three years (dollars in thousands):

	2000		
	Amount	% Change	Amou
Salaries and Employee Benefits	$ 9,480	2.8 %	$ 9,22
Occupancy Expense - Net	993	(3.7)	1,03
Furniture and Equipment Expense	1,391	15.7	1,20
Other Real Estate Owned Expense	324	--	10
Other Expenses:			
Business Development	601	(0.2)	60
Insurance - Other	116	(4.1)	12
Legal and Professional Fees	866	39.9	61
Other Taxes	116	(31.4)	16
Postage and Courier	332	5.1	31
Printing and Supplies	369	(2.6)	37
Regulatory Fees and Assessments	237	29.5	18
Other Operating Expenses	1,345	6.0	1,26
Total Other Expenses	3,982	8.9	3,65
Total Non-interest Expense	$16,170	6.2	$15,22

Total non-interest expense increased 6.2% in 2000 over 1999 reflecting increases in salaries and benefits, furniture and equipment expenses, other real estate owned expense, legal and professional fees and regulatory fees and assessments. As a percent of average assets, non-interest expenses were 2.77%, 2.83%, and 2.95%, in 2000, 1999 and 1998, respectively. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 49.71% for 2000. The efficiency ratio measures what percentage of total revenues are absorbed by non-interest expense. These measures of operating efficiency compare very favorably to other financial institutions in the Corporation's peer groups.

The increase in salaries and employee benefits for 2000 is due to routine salary merit increases and additions to staff, offset by decreased incentive bonus payments. The average number of full-time equivalent employees increased by 5.5 in 2000 to an average full-time equivalent of 179.5. At year end 2000 the full-time equivalent staff was 178.5 versus 179 at the same time the prior year.

The increase in furniture and equipment expense is primarily a result of depreciation and service contract expense for expanded data processing equipment and software.

The increase in expenses for the other real estate owned ("ORE") reflects write-downs of ORE of $426,000, gains on sales of ORE of $151,000 and expenses of holding ORE prior to sale.

Legal and professional fees increased in 2000 and reflects increases in attorney fees related to certain problem loans and fees paid to consultants and attorneys for assistance in general corporate issues.

Regulatory fees and assessments increased primarily due to increases in the FDIC assessment for deposit insurance.

Federal and State Income Tax Expense. The Corporation has adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." See Note 10 of the Corporation's Notes to Consolidated Financial Statements for details of tax expense. The Corporation provided $4.8 million for federal income taxes for 2000, resulting in an effective tax rate of 34.7%.

Investment Securities. The following table presents the consolidated investment securities portfolio at amortized cost as of December 31, 2000, classified as to whether the security is to be Held-to-Maturity or is Available-for-Sale (see Note 1 of the Notes to Consolidated Financial Statements for a discussion of these designations), by stated maturity and with the weighted average interest yield for each range of maturities. The yields on tax-exempt obligations are computed on a fully taxable equivalent basis using statutory rates for federal income taxes.

December 31, 2000					
Due 1 Year or Less		Due 1 to 5 Years		Due 5 to 10 Years	
Amount	Yield	Amount	Yield	Amount	Yield

(Dollars in Thousands)

U.S. Treasury Securities - HTM	$ 4,001	6.33%	$ --	-- %	$ --	-- %
U.S. Treasury Securities - AFS	7,013	6.05	6,062	6.29	--	--
Total	11,014	6.15	6,062	6.29	--	--
U.S. Government Agencies - HTM	1,000	4.98	14,000	5.99	3,020	5.98
U.S. Government Agencies - AFS	13,935	6.20	87,218	6.25	1,011	5.62
Total	14,935	6.12	101,218	6.22	4,031	5.89
U.S. Government Agency Mortgage Back Securities - AFS	--	--	2,115	5.79	1,564	5.83
Obligations of States and Political Subdivisions - AFS	115	7.27	125	7.42	--	--
Total	115	7.27	2,240	5.88	1,564	5.83
Other Securities - AFS	--	--	--	--	--	--
Total	$26,064	6.13	$109,520	6.21	$5,595	5.87
Held-to Maturity ("HTM")	$ 5,001	6.06 %	$ 14,000	5.99 %	$3,020	5.98
Available-for-Sale ("AFS")	21,063	6.15	95,520	6.25	2,575	5.75

The yield on the investment securities portfolio of the Corporation at December 31, 2000 was 6.22% and the weighted average life of the portfolio on that date was approximately 2.3 years. At December 31, 1999 the yield of the portfolio was 5.96% and the weighted average life was 2.8 years.

Note 2 to the Corporation's Notes to Consolidated Financial Statements shown in this report reflects the estimated fair values for various categories of investment securities as of December 31, 2000 and 1999. As of December 31, 2000, there was a net unrealized gain of $360,000 in the portfolio of which $432,000 related to Available-for-Sale securities, or .3% of the amortized cost of those securities.

The following table summarizes the book value of investment securities held by the Corporation as of December 31 for the past five years (in thousands):

	Decemb		
	2000	1999	
U.S. Treasury Securities	$ 17,162	$ 27,974	$ 4
U.S. Government Agencies and Corporations	120,559	113,535	8
U.S. Government Agency Mortgage Backed Securities	10,409	13,079	1
Obligations of States and Political Subdivisions	240	637	
Federal Reserve Bank and Federal Home Loan Bank Stock	1,277	1,215	
Total	$149,647	$156,440	$14

In 2000, approximately $59.9 million of investment securities were sold,

resulting in a net loss on sale of securities of $2,000. Management of the Corporation views these trades as an opportunity to restructure the portfolio for future benefits.

Loans. The following schedule classifies loans according to type as of December 31 for the past five years (dollars in thousands):

	December 31,						
	2000	% of Total	1999	% of Total	1998	% of Total	1997
Commercial	$167,818	44.2%	$156,847	44.2%	$133,066	43.5%	$127,8
Real Estate Mortgage	132,062	34.7	120,596	33.9	100,421	32.9	90,6
Real Estate Construction	47,183	12.4	43,875	12.3	40,456	13.2	26,2
Loans to Individuals, Net of Unearned Discount	32,953	8.7	34,096	9.6	31,890	10.4	31,3
Total Loans, Net of Unearned Income	$380,016	100.0 %	$355,414	100.0%	$305,833	100.0%	$276,0

The preceding loan distribution table reflects that total loans increased $24.6 million (6.9%) between year-end 1999 and 2000. Although this dollar increase was significant, the Corporation is continuing to apply stringent credit criteria on all loan applications. At December 31, 2000, loans were 70.4% of deposits compared to 74.0% at the previous year-end reflecting a somewhat slower growth in loans compared to deposits. Average loans were 73.9% of average deposits in 2000 compared to 71.4% in 1999.

Primarily, the commercial loan customers of the Subsidiary Banks are small to medium-sized businesses and professionals and executives. The banks offer a variety of commercial loan products that include revolving lines of credit, letters of credit, working capital loans and loans to finance accounts receivable, inventory and equipment. Generally, these commercial loans have floating rates of interest with terms of maturity of three years or less.

A significant portion of the $132 million real estate mortgage portfolio is loans to finance owner-occupied real estate. At December 31, 2000, $79 million of loans, approximately 60% of the real estate mortgage portfolio, had been made for this purpose. Also, approximately 36% of the loans in the real estate mortgage portfolio have variable rates of interest with a significant portion of the remaining portfolio having balloon terms at five to seven years and/or rate adjustment clauses.

Real estate construction loans are made primarily to finance construction of single family residences in the Corporation's market area of Tarrant County. Construction loans generally are secured by first liens on real estate and have

floating interest rates. The Corporation's lending activities in this area are primarily with borrowers that have been in the building trade for many years and with which the banks have long standing relationships. The Corporation's lending officers meet quarterly with consultants that carefully track the residential building activities within the market. The Corporation will adjust its construction lending activities based on the trends of housing starts and absorption rates in the market.

The Corporation also lends to consumers for purchases of various consumer goods, such as automobiles, boats and home improvements. The terms of these loans typically are five years or less and are well secured with liens on products purchased or other assets. These loans are primarily made to customers who have other relationships with the banks. The Corporation does not issue credit cards and does not have any credit card loans outstanding.

The following table presents commercial loans and real estate construction loans at December 31, 2000, based on scheduled principal repayments and the total amount of loans due after one year classified according to sensitivity to changes in interest rates (in thousands):

	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Commercial	$141,206	$23,743	$2,869	$167,818
Real Estate Construction	41,563	2,200	3,420	47,183
Totals	$182,769	$25,943	$6,289	$215,001

Of the loans maturing after one year, all have fixed rates of interest, with many having rate adjustment clauses during the remaining term of the loan that allow for periodic adjustments to rates.

Allowance for Loan Losses. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Loans, or portions thereof, which are considered to be uncollectible are charged against this allowance and subsequent recoveries, if any, are credited to the allowance. The allowance represents the amount which, in management's judgment, will be adequate to absorb future charge-offs of existing loans which may become uncollectible. The adequacy of the allowance is determined by management's periodic evaluation of the loan portfolio and by the employment of third party loan review specialists. All known problem loans, unknown inherent risks generally associated with bank lending, past loan loss experience, delinquency ratios and current and projected economic conditions are taken into account in evaluating the adequacy of the allowance.

The Corporation has adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"), as amended by Statement of Financial Accounting Standards No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosure" ("SFAS No. 118"). These standards specify how allowances for certain impaired loans should be determined and the accounting for in-substance foreclosures.

Loans are generally placed on non-accrual status when principal or interest is

past due 90 days or more and the loan is not both well-secured and in the process of collection, or immediately, if in the opinion of management, full collection of principal or interest is doubtful. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely.

The following table presents average loans net of unearned income and an analysis of the consolidated allowance for loan losses (dollars in thousands):

	Years Ended December 31			
	2000	1999	1998	
Average Loans Outstanding	$373,997	$331,963	$292,060	$2
Analysis of Allowance for Loan Losses:				
Balance, Beginning of Year	$ 5,169	$ 4,724	$ 4,065	$
Charge-Offs:				
Commercial	2,429	376	128	
Real Estate Mortgage	-0-	3	39	
Real Estate Construction	-0-	230	6	
Loans to Individuals	171	118	170	
Total Charge-Offs	2,600	727	343	
Recoveries:				
Commercial	140	93	87	
Real Estate Mortgage	10	44	111	
Real Estate Construction	-0-	-0-	-0-	
Loans to Individuals	74	34	19	
Total Recoveries	224	171	217	
Net Charge-Offs (Recoveries)	2,376	556	126	
Provision Charged to Operating Expense	2,606	1,001	785	
Balance, End of Year	$ 5,399	$ 5,169	$ 4,724	$
Ratio of Net Charge-Offs (Recoveries) to Average Loans Outstanding	0.64 %	0.16 %	0.04 %	

The increase in provision for loan losses in 2000 over 1999 primarily recognizes an increase in loans and a significantly higher loan charge-off rate.

The following table reflects the allowance for loan losses compared to total loans at the end of each year (dollars in thousands):

	Decembe		
	2000	1999	19
Total Loans	$380,016	$355,414	$305
Allowance for Loan Losses	5,399	5,169	4
Allowance for Loan Losses as a Percent of Total Loans	1.42%	1.45%	
Allowance for Loan Losses as a Percent of Non-Performing Loans	246.0	211.0	

The following table illustrates the allocation of the allowance for loan losses to the various loan categories (dollars in thousands); see the table on page 35 for the percent of specific types of loans to total loans:

	December 31,						
	2000		1999		1998		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amoun
Allowance For Loan Losses:							
Commercial	$2,066	38.3 %	$2,686	52.0 %	$2,713	57.4 %	$1,72
Real Estate Mortgage	1,095	20.3	1,050	20.3	818	17.3	69
Real Estate Construction	381	7.1	371	7.2	452	9.6	18
Loans to Individuals	374	6.9	375	7.3	372	7.9	27
Unallocated Portion	1,483	27.4	687	13.2	369	7.8	1,18
Total	$5,399	100.0 %	$5,169	100.0 %	$4,724	100.0 %	$4,06

The allocation is determined by providing specific reserves against each criticized loan plus a general allocation against the remaining balance of the portfolio based on experience factors. Management of the Corporation believes that the allowance for loan losses at December 31, 2000, is adequate to cover losses inherent in the portfolio. There can be no assurance that the Corporation will not sustain loan losses in future periods which could be substantial in relation to the size of the current allowance. The total allowance is available to absorb losses from any segment of loans.

Non-Performing Assets. Non-performing assets consist of non-accrual loans,

renegotiated loans and other real estate. Non-accrual loans are those on which the accrual of interest has been suspended and on which the interest is recorded as earned when it is received. Loans are generally placed on non-accrual status when principal or interest is past due 90 days or more and the loan is not both well-secured and in the process of collection, or immediately, if in the opinion of management, full collection of principal or interest is doubtful. At the time a loan is placed on non-accrual status, interest previously recorded but not collected is reversed and charged against current interest income.

Renegotiated loans are loans on which the interest and/or the principal has been reduced due to a deterioration in the borrower's financial condition. Even though these loans are actually performing, they are included in non-performing assets because of the loss of revenue related to the reduction of interest and/or principal.

Other real estate is real estate acquired through foreclosure or through partial settlement of debts and which is awaiting sale and disposition. At the time of acquisition, other real estate is recorded at the lower of estimated fair value or the loan balance or settlement agreement with any write-down charged to the allowance for loan losses. Any further write-downs, expenses related to the property, and any gain or loss resulting from the sale of the property are recorded in current operating expenses.

The Subsidiary Banks are required, by the regulatory authorities, to have other real estate evaluated periodically. In the event the new evaluation value is less than the carrying value of the property, the excess is written off to expense. Some properties are written down below their evaluation values when management feels the economic value of the property has declined below the evaluation value.

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The following table summarizes the non-performing assets and loans 90 days past due and still accruing as of December 31, (dollars in thousands):

	Decemb		
	2000	1999	
Non-accrual Loans	$2,182	$2,450	$5
Renegotiated Loans	-0-	3	
Other Real Estate & Other Foreclosed Assets	1,595	1,947	
Total Non-Performing Assets	$3,777	$4,400	$5
As a Percent of:			
Total Assets	0.61%	0.78%	
Total Loans and Other Real Estate & Other Foreclosed Assets	0.99	1.23	
Loans Past Due 90 Days or More and Still Accruing	$ 10	$ -0-	$

Non-accrual loans at December 31, 2000, were comprised of $1,997,000 in commercial loans, $72,000 in real estate mortgages and $113,000 in consumer loans. Within the non-accrual commercial loans is one loan of $1,315,000 that is performing as to payment of principal and interest, however, the borrower is experiencing financial difficulty due to their line of business. Other Real Estate and Other Foreclosed Assets includes two assets - the first is multi-family residential units having a book value of $286,000; the second asset is the projected wholesale value of text books taken in lieu of foreclosure of a borrower that closed operations. It is anticipated that the multi-family residential property will be sold in the second quarter of 2001 at a profit.

The impact on interest income from the above non-accrual loans and renegotiated loans for the past five (5) years is provided below (in thousands):

	Years Ended De		
	2000	1999	1998
Gross Amount of Interest That Would Have Been Recorded at Original Rate	$ 600	$ 427	$ 537
Interest Included in Income	206	68	312
Interest Not Recorded in Income	$ 394	$ 359	$ 225

Loans of each Subsidiary Bank are graded on a system similar to that used by the banking industry regulators. The first level of criticized loans is "Other Assets Especially Mentioned" (OAEM). These loans are fundamentally sound but have potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the bank's credit position at some future d