SUMMIT BANCSHARES INC /TX/
Form 10-Q
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2002; or

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

For the Transition period from ______________ to ______________.

Commission File Number 0-11986

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

The number of shares of common stock, $1.25 par value, outstanding at September 30, 2002 was 6,274,664 shares.

SUMMIT BANCSHARES, INC.

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The September 30, 2002 and 2001 and the December 31, 2001 financial statements included herein are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management of the registrant, necessary to a fair statement of the results for the interim periods.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 3	
	2002	
ASSETS		(In T
CASH AND DUE FROM BANKS - NOTE 1	$ 25,781	$
FEDERAL FUNDS SOLD & DUE FROM TIME	114	
INVESTMENT SECURITIES - NOTE 2		
Securities Available-for-Sale, at fair value	168,250	
LOANS - NOTES 3, 11 AND 17		
Loans, Net of Unearned Discount	474,401	
Allowance for Loan Losses	(6,334)	
LOANS, NET	468,067	
PREMISES AND EQUIPMENT - NOTE 4	10,011	
ACCRUED INCOME RECEIVABLE	3,755	
OTHER REAL ESTATE - NOTE 5	250	
OTHER ASSETS	6,377	
TOTAL ASSETS	$ 682,605	$
LIABILITIES AND SHAREHOLDERS' EQUITY		
DEPOSITS - NOTE 6		
Noninterest-Bearing Demand	$ 157,519	$
Interest-Bearing	413,391	
TOTAL DEPOSITS	570,910	
SHORT TERM BORROWINGS - NOTE 7	43,871	
NOTE PAYABLE - NOTE 8	-0-	
ACCRUED INTEREST PAYABLE	372	
OTHER LIABILITIES	2,679	
TOTAL LIABILITIES	617,832	
COMMITMENTS AND CONTINGENCIES - NOTES 12, 14, 16 AND 18		
SHAREHOLDERS' EQUITY - NOTES 13, 15 AND 19		
Common Stock - $1.25 Par Value; 20,000,000 shares authorized; 6,274,664, 6,317,773 and 6,262,961 shares issued and outstanding at September 30, 2002 and 2001 and at December 31, 2001, respectively	7,843	
Capital Surplus	7,056	
Retained Earnings	48,704	
Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Investment Securities, Net of Tax	2,483	
Treasury Stock at Cost (60,322, 47,912 and 1,000 shares at		

September 30, 2002 and 2001 and at December 31, 2001, respectively)	(1,313)	
TOTAL SHAREHOLDERS' EQUITY	64,773	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 682,605	$

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) For the Nine Months Ended September 30,		(Unau Year Dece
	2002	2001	20
	(In Thousands, Except Per Sha		
INTEREST INCOME			
Interest and Fees on Loans	$23,528	$26,643	$34
Interest and Dividends on Investment Securities:			
Taxable	5,284	5,949	7
Exempt from Federal Income Taxes	71	9	
Interest on Federal Funds Sold and Due From Time	171	1,936	1
TOTAL INTEREST INCOME	29,054	34,537	44
INTEREST EXPENSE			
Interest on Deposits	6,065	12,411	14
Interest on Short Term Borrowings	466	491	
Interest on Note Payable	-0-	1	
TOTAL INTEREST EXPENSE	6,531	12,903	15
NET INTEREST INCOME	22,523	21,634	28
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	2,365	860	1
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,158	20,774	27
NON-INTEREST INCOME			
Service Charges and Fees on Deposits	2,161	1,740	2

Gain on Sale of Investment Securities	165	-0-	
Other Income	1,786	1,554	2
TOTAL NON-INTEREST INCOME	4,112	3,294	4
NON-INTEREST EXPENSE			
Salaries and Employee Benefits - NOTE 14	8,508	7,753	10
Occupancy Expense - Net	855	996	1
Furniture and Equipment Expense	1,160	1,118	1
Other Real Estate Owned and Foreclosed Asset Expense - Net	148	174	
Merger Related Expense - NOTE 9	-0-	598	
Other Expense - NOTE 9	2,868	3,009	4
TOTAL NON-INTEREST EXPENSE	13,539	13,648	18
INCOME BEFORE INCOME TAXES	10,731	10,420	13
APPLICABLE INCOME TAXES - NOTE 10	3,679	3,601	4
NET INCOME	$ 7,052	$ 6,819	$ 8
NET INCOME PER SHARE - NOTE 15			
Basic	$ 1.13	$ 1.08	$
Diluted	1.10	1.05	

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) For the Three Months Ended September 30,	
	2002	2001
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Interest and Fees on Loans	$ 7,951	$ 8,592
Interest and Dividends on Investment Securities:		
Taxable	1,774	1,824
Exempt from Federal Income Taxes	34	3
Interest on Federal Funds Sold and Due From Time	80	478
TOTAL INTEREST INCOME	9,839	10,897

INTEREST EXPENSE		
Interest on Deposits	2,024	3,617
Interest on Short Term Borrowings	176	113
Interest on Note Payable	-0-	1
TOTAL INTEREST EXPENSE	2,200	3,731
NET INTEREST INCOME	7,639	7,166
LESS: PROVISION FOR LOAN LOSSES - NOTE 3	1,350	370
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,289	6,796
NON-INTEREST INCOME		
Service Charges and Fees on Deposits	793	594
Gain on Sale of Investment Securities	163	-0-
Other Income	574	551
TOTAL NON-INTEREST INCOME	1,530	1,145
NON-INTEREST EXPENSE		
Salaries and Employee Benefits - NOTE 14	2,768	2,621
Occupancy Expense - Net	285	372
Furniture and Equipment Expense	388	391
Other Real Estate Owned and Foreclosed Asset Expense - Net	40	47
Other Expense	734	942
TOTAL NON-INTEREST EXPENSE	4,215	4,373
INCOME BEFORE INCOME TAXES	3,604	3,568
APPLICABLE INCOME TAXES - NOTE 10	1,232	1,236
NET INCOME	$ 2,372	$ 2,332
NET INCOME PER SHARE - NOTE 15		
Basic	$ 0.38	$ 0.37
Diluted	0.37	0.36

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
AND FOR THE YEAR ENDED DECEMBER 31, 2001
(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehe Income - Ne Unrealized Gai Investmen Securitie
			(Dollars in Thousands, Except Per Share D		
BALANCE AT January 1, 2001	6,362,278	$ 7,953	$ 6,678	$ 40,655	$ 2
Stock Options Exercised	33,600	42	166		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(78,105)	(98)		(1,413)	
Cash Dividend - $.33 Per Share				(2,094)	
Net Income for the Nine Months Ended Sepember 30, 2001				6,819	
Securities Available-for-Sale Adjustment					1,9
Total Comprehensive Income - NOTE 22					
BALANCE AT September 30, 2001	6,317,773	7,897	6,844	43,967	2,2
Stock Options Exercised	4,600	6	21		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(59,412)	(74)		(1,096)	
Cash Dividend - $.11 Per Share				(688)	
Net Income for the Three Months Ended December 31, 2001				1,983	
Securities Available-for-Sale Adjustment					(5
Total Comprehensive Income - NOTE 22					
BALANCE AT December 31, 2001	6,262,961	7,829	6,865	44,166	1,6
Stock Options Exercised	25,325	31	191		
Purchases of Stock Held in Treasury					
Retirement of Stock Held in Treasury	(13,622)	(17)		(262)	
Cash Dividend - $.36 Per Share				(2,252)	

Net Income for the Nine Months Ended September 30, 2002				7,052	
Securities Available-for-Sale Adjustment					7
Total Comprehensive Income - NOTE 22					
BALANCE AT September 30, 2002	6,274,664	$ 7,843	$ 7,056	$ 48,704	$ 2,4

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
AND FOR THE YEAR ENDED DECEMBER 31, 2001

	(Unaudited) For the Nine Months Ended September 30, 2002	2001	(U Y De
	(In Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 7,052	$ 6,819	$
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	817	782	
Net Premium Amortization of Investment Securities	681	42	
Provision for Loan Losses	2,365	860	
Deferred Income Taxes Benefit	(168)	(575)	
Net Gain on Sale of Investment Securities	(165)	-0-	
Writedown of Other Real Estate	-0-	11	
Writedown of Foreclosed Assets	-0-	301	
Net Gain From Sale of Other Real Estate	(17)	(308)	
Net Gain From Sale of Foreclosed Assets	(319)	-0-	
Net Loss From Sale of Premises and Equipment	11	-0-	
Net Decrease (Increase) in Accrued Income and Other Assets	694	1,839	
Net Decrease in Accrued Expenses and Other Liabilities	(200)	(154)	
Total Adjustments	3,699	2,798	
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,751	9,617	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Decrease in Federal Funds Sold and Due From Time	2,170	45,345	
Proceeds from Matured and Prepaid Investment Securities			
o Held-to-Maturity	-0-	15,000	
o Available-for-Sale	40,307	76,401	

Proceeds from Sales of Investment Securities	143,444	9,987	
Purchase of Investment Securities			
o Available-for-Sale	(191,187)	(110,080)	
Loans Originated and Principal Repayments, Net	(46,481)	(41,265)	
Recoveries of Loans Previously Charged-Off	138	192	
Proceeds from Sale of Premises and Equipment	31	126	
Proceeds from Sale of Other Real Estate & Repossessed Assets	1,150	1,073	
Purchases of Premises and Equipment	(2,728)	(808)	
NET CASH USED BY INVESTING ACTIVITIES	(53,156)	(4,029)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase in Demand Deposits, Savings Accounts and Interest Bearing Transaction Accounts	26,547	13,450	
Net Increase (Decrease) in Certificates of Deposit	560	(17,261)	
Net Increase in Short Term Borrowings	15,505	3,680	
Proceeds from Note Payable	-0-	300	
Payments of Cash Dividends	(2,252)	(2,094)	
Proceeds from Stock Options Exercised	222	208	
Purchase of Treasury Stock	(1,574)	(2,474)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	39,008	(4,191)	
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(3,397)	1,397	
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	29,178	27,595	
CASH AND DUE FROM BANKS AT END OF PERIOD	$ 25,781	$ 28,992	$
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES			
Interest Paid	$ 6,764	$ 13,257	$
Income Taxes Paid	3,729	2,607	
Bank Financed Sales of Other Real Estate	-0-	-0-	

The accompanying Notes should be read with these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001 (UNAUDITED)
AND FOR THE YEAR ENDED DECEMBER 31, 2001 (UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

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

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of Summit Bancshares, Inc. (hereinafter, collectively with its Subsidiaries, the "Corporation"), include its accounts and its direct and indirect wholly-owned subsidiaries, Summit Delaware Financial Corporation and Summit Bank, National Association (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements included herein are unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management of the registrant, necessary to a fair statement of the results for the interim periods.

Use of Estimates

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

Cash and Due From Banks

The Bank is required to maintain certain noninterest-bearing cash balances at the Federal Reserve Bank based on its level of deposits. During the first nine months of 2002 the average cash balance maintained at the Federal Reserve Bank was $1,359,000. Compensating balances held at other correspondent banks, to minimize service charges, averaged approximately $18,671,000 during the same period.

Investment Securities

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

The Corporation has the ability and intent to hold to maturity its investment securities classified as held-to-maturity; accordingly, no adjustment has been made for the excess, if any, of amortized cost over market. In determining the investment category classifications at the time of purchase of securities, management considers its asset/liability strategy, changes in interest rates and prepayment risk, the need to increase capital and other factors. Under certain circumstances (including the deterioration of the issuer's creditworthiness, a change in tax law, or statutory or regulatory requirements), the Corporation may change the investment security classification. In the periods reported for 2002 and 2001 the Corporation held no securities that would have been classified as trading securities.

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

Loans and Allowance for Loan Losses

Loans are stated at the principal amount outstanding less unearned discount and the allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by a method approximating the interest method. Interest income on all other loans is recognized based upon the principal amounts outstanding, the simple interest method. Direct costs related to loan originations are not separately allocated to loans but are charged to non-interest expense in the period incurred. The net effect of not recognizing such fees and related costs over the life of the related loan is not considered to be material to the financial statements. The accrual of interest on a loan is discontinued when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal. Interest previously earned, but uncollected on such loans, is written off. After loans are placed on

non-accrual all payments received are applied to principal and no interest income is recorded until the loan is returned to accrual status or the principal has been reduced to zero.

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

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

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

Premises and Equipment

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

Other Real Estate

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

Federal Income Taxes

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

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

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

Cash and Cash Equivalents

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

Reclassification

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

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

Earnings Per Common and Common Equivalent Share

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

Audited Financial Statements

The consolidated balance sheet as of December 31, 2001, and the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2001 are headed "unaudited" in these financial statements. These statements were reported in the Securities Exchange Commission Form 10-K as of December 31, 2001 as "audited" but are required to be reflected in these statements as unaudited because of the absence of an independent auditor's report.

NOTE 2 - Investment Securities

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

	September 30, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Valu
Investment Securities - Available-for-Sale				
U.S. Treasury Securities	$ 4,000	$ 47	$ -0-	$ 4,0
U.S. Government Agencies and Corporations	119,884	3,371	(71)	123,1
U.S. Government Agency Mortgage Backed Securities	34,173	319	(13)	34,4
Obligations of States and Political Subdivisions	4,789	113	(4)	4,8
Federal Reserve and Federal Home Loan Bank Stock	1,642	-0-	-0-	1,6
Total Available-for-Sale Securities	164,488	3,850	(88)	168,2
Total Investment Securities	$164,488	$ 3,850	$ (88)	$168,2

All investment securities are carried on the consolidated balance sheet as of September 30, 2002 at fair value. The net unrealized gain of $3,762,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders' Equity.

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NOTE 2 - Investment Securities (cont'd.)

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

	September 30, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Valu
Investment Securities - Available-for-Sale				
U.S. Treasury Securities	$ 10,040	$ 225	$ -0-	$ 10,2
U.S. Government Agencies and Corporations	124,077	2,841	-0-	126,9
U.S. Government Agency Mortgage Backed Securities	22,291	290	-0-	22,5
Obligations of States and Political Subdivisions	125	2	-0-	1
Federal Reserve and Federal Home Loan Bank Stock	1,332	-0-	-0-	1,3
Total Available-for-Sale Securities	157,865	3,358	-0-	161,2
Total Investment Securities	$157,865	$ 3,358	$ -0-	$161,2

All investment securities are carried on the consolidated balance sheet as of September 30, 2001 at fair value. The net unrealized gain of $3,358,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders' Equity.

NOTE 3 - Loans and Allowance for Loan Losses

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

	September 30,		Decembe
	2002	2001	2001
Commercial	$ 197,346	$ 183,111	$ 184,
Real Estate Mortgage - Commercial	131,874	101,573	107,
Real Estate Mortgage - Residential	51,327	42,975	44,
Real Estate Construction	59,996	61,040	60,
Loans to Individuals	33,859	32,364	33,
Less: Unearned Discount	(1)	(15)	
	474,401	421,048	430,
Allowance for Loan Losses	(6,334)	(6,190)	(6,
Loans - Net	$ 468,067	$ 414,858	$ 424,

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

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001
Balance, Beginning of Period	$ 6,015	$ 5,399	$ 5,399
Provisions, Charged to Income	2,365	860	1,755
Loans Charged-Off	(2,184)	(261)	(1,407)
Recoveries of Loans Previously Charged-Off	138	192	268
Net Loans (Charged-Off) Recovered	(2,046)	(69)	(1,139)
Balance, End of Period	$ 6,334	$ 6,190	$ 6,015

The provisions for loan losses charged to operating expenses during the nine months ended September 30, 2002 and September 30, 2001 of $2,365,000 and $860,000, respectively, were considered adequate to maintain the allowance in accordance with the policy discussed in Note 1. For the year ended December 31, 2001, a provision of $1,755,000 was recorded.

At September 30, 2002, the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was $4,081,000 (of which $4,081,000 were on non-accrual status). The related allowance for loan losses for these loans was $974,000. The average recorded investment in impaired loans during the nine months ended September 30, 2002 was approximately $4,133,000. For this period the Corporation recognized no interest income on these impaired loans.

NOTE 4 - Premises and Equipment

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

	September 30, 2002	September 30, 2001	December 31, 2001
Land	$ 2,317	$ 2,317	$ 2,317
Buildings and Improvements	9,049	8,150	8,247
Furniture & Equipment	8,809	7,454	7,540
Total Cost	20,175	17,921	18,104
Less: Accumulated Amortization and Depreciation	(10,164)	(9,897)	(9,973)

Net Book Value	$ 10,011	$ 8,024	$ 8,131

NOTE 5 - Other Real Estate

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

	September 30, 2002	September 30, 2001	December 31, 2001
Other Real Estate	$ 250	$ -0-	$ -0-

There were no direct writedowns of other real estate charged to income for the nine months ended September 30, 2002. There were direct writedowns of other real estate charged to income for the nine months ended September 30, 2001 of $11,000. For the year ended December 31, 2001, $11,000 was charged to income.

NOTE 6 - Deposits

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

	September 30, 2002	September 30, 2001	December 31, 2001
Noninterest-Bearing Demand Deposits	$157,519	$139,981	$150,040
Interest-Bearing Deposits:			
Interest-Bearing Transaction Accounts and Money Market Funds	182,130	170,793	175,965
Savings	118,211	99,121	105,308
Certificates of Deposits under $100,000 and IRA's	64,222	69,910	64,380
Certificates of Deposits $100,000 or more	48,512	55,322	47,644
Other	316	728	466
Total	413,391	395,874	393,763
Total Deposits	$570,910	$535,855	$543,803

NOTE 7 - Short Term Borrowings

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001
Securities Sold Under Repurchase Agreements:			
Average Balance	$ 17,752	$ 17,935	$ 17,470
Period-End Balance	23,571	15,590	14,816
Maximum Month-End Balance During Period	24,469	20,374	20,374
Interest Rate:			
Average	0.91%	3.49%	2.94%
Period-End	1.11%	2.10%	0.75%
Federal Funds Purchased:			
Average Balance	$ 1,412	$ 170	$ 567
Period-End Balance	6,000	8,000	8,550
Maximum Month-End Balance During Period	8,650	8,000	8,550
Interest Rate:			
Average	2.03%	3.54%	2.76%
Period-End	2.21%	3.65%	1.92%

The Corporation has available a line of credit with the Federal Home Loan Bank of Dallas which allows it to borrow on a collateralized basis at a fixed term. At September 30, 2002, $12,000,000 of borrowings were outstanding under the line of credit at an average rate of 2.39%, $7,000,000 of which matures in October, 2002 and $5,000,000 maturing in May, 2003. For the nine months ended September 30, 2002, the Corporation had average borrowings of $17,345,000. In addition, at September 30, 2002, the subsidiary had $2,300,000 borrowed under a match funding agreement with Federal Home Loan Bank at a rate of 4.41% which matures in June 2003. For the nine months ended September 30, 2001, the subsidiary had no borrowings outstanding. At December 31, 2001, $5,000,000 of borrowings were outstanding at a rate of 1.92% which matured in January 2002. For the year ended December 31, 2001, the Corporation had average borrowings of $452,000.

NOTE 8 - Notes Payable

On September 15, 2002, the Corporation obtained lines of credit from a bank under which the Corporation may borrow $11,000,000 at prime rate. The lines of credit are secured by stock of the Bank and matures on September 15, 2003, whereupon, if balances are outstanding, the lines convert to term notes having five year terms. The Corporation will not pay a fee for any unused portion of the lines. As of September 30, 2002, no funds had been borrowed under these lines nor were any borrowings outstanding. As of September 30, 2001, $300,000 was borrowed under these lines.

NOTE 9 - Other Non-Interest Expense

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

Nine Months Ended September 30,		Year Ended December 31,

	2002	2001	2001
Business Development	$ 600	$ 458	$ 734
Legal and Professional Fees	501	477	634
Printing and Supplies	233	260	362
Regulatory Fees and Assessments	179	191	244
Other	1,355	1,623	2,139
Total	$ 2,868	$ 3,009	$ 4,113

NOTE 10 - Income Taxes

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

	September 30,		December 31,
	2002	2001	2001
Current Tax Asset (Liability)	$ 374	$ (1,505)	$ 493
Net Deferred Tax Asset	1,195	1,277	1,432
Total Included in Other Assets (Liabilities)	$ 1,569	$ (228)	$ 1,925

The net deferred tax asset at September 30, 2002 of $1,195,000 included $(1,279,000), a deferred tax liability related to unrealized gains on Available-for-Sale Securities.

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

	Nine Months Ended September 30,		Year Ended December 31,
	2002	2001	2001
Federal Income Tax Expense:			
Current	$ 3,847	$ 4,176	$ 5,144
Deferred (benefit)	(168)	(575)	(480)
Total Federal Income Tax Expense	$ 3,679	$ 3,601	$ 4,664
Effective Tax Rates	34.3%	34.5%	34.6%

NOTE 10 - Income Taxes (cont'd.)

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001
Federal Income Taxes at Statutory Rate of 34.3%	$ 3,702	$ 3,576	$ 4,621
Effect of Tax Exempt Interest Income	(44)	(3)	(3)
Non-deductible Expenses	54	47	65
Other	(33)	(19)	(19)
Income Taxes Per Income Statement	$ 3,679	$ 3,601	$ 4,664

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001
Federal Deferred Tax Assets:			
Allowance for Loan Losses	$ 2,134	$ 1,881	$ 1,859
Valuation Reserves - Other Real Estate	-0-	105	104
Interest on Non-accrual Loans	242	306	237
Deferred Compensation	585	527	555
Other	-0-	26	9
Gross Federal Deferred Tax Assets	2,961	2,845	2,764
Federal Deferred Tax Liabilities:			
Depreciation and Amortization	283	278	286
Accretion	174	128	150
Unrealized Gains on Available-for-Sale Securities	1,279	1,142	873
Other	30	20	23
Gross Federal Deferred Tax Liabilities	1,766	1,568	1,332
Net Deferred Tax Asset	$ 1,195	$ 1,277	$ 1,432

NOTE 11 - Related Party Transactions

The Bank has transactions made in the ordinary course of business with certain of its officers, directors and their affiliates. All loans included in such transactions are made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons. Total loans outstanding to such parties amounted to approximately $6,315,000 at December 31, 2001.

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NOTE 12 - Commitments and Contingent Liabilities

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

At September 30, 2002, outstanding documentary and standby letters of credit totaled $8,408,000 and commitments to extend credit totaled $133,198,000.

NOTE 13 - Stock Option Plans

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

The Corporation applies APB Opinion No. 25 and related Interpretations in accounting for its plans. Since the option prices are considered to approximate fair market value at date of grant, no compensation expense has been reported. Had compensation cost for these plans been determined consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" the Corporation's net income and earnings per share would have been reduced by insignificant amounts on a proforma basis for the year ended December 31, 2001, and the nine months ended September 30, 2002.

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

	Shares Under Option	
	Nine Months Ended September 30, 2002	Year Ended December 31, 2001
Outstanding, Beginning of Period	445,959	359,559
Additional Options Granted During the Period	12,500	124,600
Forfeited During the Period	(4,000)	-0-
Exercised During the Period	(25,325)	(38,200)

Outstanding, End of Period	429,134	445,959
	========	========

Options outstanding at September 30, 2002 ranged in price from $3.00 to $20.10 per share with a weighted average exercise price of $11.04 and 312,754 shares exercisable. At September 30, 2002, there remained 354,200 shares reserved for future grants of options under the 1997 Plan.

NOTE 14 - Employee Benefit Plans

401(k) Plan

The Corporation implemented a 401(k) plan in December 1997 covering substantially all employees. The Corporation made no contribution to this plan in 1999 or 1998. In 2001 and for the nine months ended September 30, 2002, the Corporation made matching contributions to the participant's deferrals of compensation up to 100% of the employee contributions not to exceed 6% of the employee's annual compensation.

The amount expensed in support of the plan was $317,000 and $254,000 during the first nine months of 2002 and 2001, respectively, and $353,000 for the year 2001.

Management Security Plan

The Corporation provides key employees with retirement, death or disability benefits in addition to those provided by the 401(k) Plan. The expense charged to operations for such future obligations was $200,000 and $144,000 during the first nine months of 2002 and 2001, respectively, and $256,000 for the year 2001.

Employment Contracts

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

Other Post Retirement Benefits

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

NOTE 15 - Earnings per Share

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

	Nine Months Ended September 30,		Year Ended December 31,
	2002	2001	2001

Net income	$ 7,052	$ 6,819	$ 8,802
Weighted average number of common shares used in Basic EPS	6,252,288	6,338,469	6,317,991
Effect of dilutive stock options	179,614	157,701	153,032
Weighted number of common shares and dilutive potential common stock used in Diluted EPS	6,431,902	6,496,170	6,471,023

NOTE 16 - Financial Instruments with Off-Balance Sheet Risk

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

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

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

	September 30, 2002	September 30, 2001	Year Ended December 31, 2001
Financial Instruments Whose Contract Amounts Represent Credit Risk:			
Loan Commitments Including Unfunded Lines of Credit	$133,198	$132,112	$131,337
Standby Letters of Credit	8,408	4,709	6,294

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

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

NOTE 17 - Concentrations of Credit Risk

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

NOTE 18 - Litigation

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

NOTE 19 - Stock Repurchase Plan

On April 16, 2002, the Board of Directors approved a stock repurchase plan. The plan authorized management to purchase up to 318,973 shares of the Corporation's common stock over the next twelve months through the open market or in privately negotiated transactions in accordance with all applicable state and federal laws and regulations.

In the nine months ended September 30, 2002, 72,944 shares were purchased through the open market by the Corporation through this and a similar, previously approved, repurchase plan.

NOTE 20 - Subsequent Event

On October 23, 2002, the Board of Directors of the Corporation approved a quarterly dividend of $.12 per share to be paid on November 15, 2002 to shareholders of record on November 1, 2002.

NOTE 21 - Fair Values of Financial Instruments

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

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and due from banks and federal funds sold approximate those assets' fair values.

Investment securities (including mortgage-backed securities): Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans, fair values are based on carrying values. The fair values for fixed rate loans such as mortgage loans (e.g., one-to-four family residential) and installment loans are estimated using discounted cash flow analysis. The carrying amount of accrued interest receivable approximates its fair value.

Deposit liabilities: The fair value disclosed for interest bearing and noninterest-bearing demand deposits, passbook savings, and certain types of money market accounts are, by definition, equal to the amount payable on demand at the reporting date or their carrying amounts. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: The carrying amounts of borrowings under repurchase agreements approximate their fair values.

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

	September 30,			
	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	F Va
Financial Assets				
Cash and due from banks	$ 25,781	$ 25,781	$ 28,992	$ 2
Federal funds sold and Due From Time	114	114	1,116	
Securities	168,250	168,250	161,223	16
Loans	474,401	486,471	421,048	43
Allowance for loan losses	(6,334)	(6,334)	(6,190)	(
Financial Liabilities				
Deposits	570,910	572,740	535,855	53
Short Term Borrowings	43,871	43,978	23,890	2
Off-balance Sheet Financial Instruments				
Loan commitments		133,198		13
Letters of credit		8,408		

NOTE 22 - Comprehensive Income

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

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001	Year Ended December 31, 2001
Net Income	$ 7,052	$ 6,819	$ 8,802
Other Comprehensive Income:			
Unrealized gain on securities available-for-sale, net of tax	789	1,932	1,409
Comprehensive Income	$ 7,841	$ 8,751	$10,211

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

Summary

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

Net income for the third quarter of 2002 was $2,372,000, or $.37 diluted earnings per share, compared with $2,332,000, or $.36 diluted earnings per share, for the third quarter of 2001. Net income for the first nine months of 2002 was $7,052,000 or $1.10 diluted earnings per share, compared with $6,819,000 or $1.05 diluted earnings per share for the first nine months of the prior year. Net income for the first nine months of last year would have been $7,211,000 or $1.11 per diluted share if certain merger related expenses recorded in the first quarter of 2001 were excluded. Per share amounts are based on average diluted shares outstanding of 6,431,902 for the first nine months of 2002 and 6,496,170 for the comparable period of 2001 adjusted to reflect stock options granted.

Outstanding loans at September 30, 2002 of $474.4 million represented an increase of $53.4 million, or 12.7%, over September 30, 2001 and an increase of $43.6 million, or 10.1%, from December 31, 2001.

Total deposits at September 30, 2002 of $570.9 million represented an increase of $35.1 million, or 6.5%, over September 30, 2001 and an increase of $27.1 million, or 5.0%, from December 31, 2001.

The following table summarizes the Corporation's performance for the nine months ended September 30, 2002 and 2001 (tax equivalent basis and dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Interest Income	$ 9,869	$10,898	$29,123	$34,542
Interest Expense	2,200	3,731	6,531	12,903
Net Interest Income	7,669	7,167	22,592	21,639
Provision for Loan Losses	1,350	370	2,365	860
Net Interest Income After Provision for Loan Losses	6,319	6,797	20,227	20,779
Non-Interest Income	1,530	1,145	4,112	3,294
Non-Interest Expense	4,215	4,373	13,539	13,648
Income Before Income Tax	3,634	3,569	10,800	10,425
Income Tax Expense	1,262	1,237	3,748	3,606

Net Income	$ 2,372	$ 2,332	$ 7,052	$ 6,819
Net Income per Share-				
Basic	$ 0.38	$ 0.37	$ 1.13	$ 1.08
Diluted	0.37	0.36	1.10	1.05
Return on Average Assets	1.37%	1.47%	1.43%	1.46%
Return on Average Stockholders' Equity	14.64%	15.59%	15.01%	15.73%

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Summary of Earning Assets and Interest-Bearing Liabilities

The following schedule presents average balance sheets that highlight earning assets and interest-bearing liabilities and their related rates earned and paid for the third quarter of 2002 and 2001 (rates on tax equivalent basis):

	Three Months Ended Se			
	2002			
	Average Balances	Interest	Average Yield/Rate	Averag Balance
			(Dollars in Thousands)	
Earning Assets:				
Federal Funds Sold & Due From Time	$ 18,991	$ 80	1.66%	$ 53,8
Investment Securities (Taxable)	151,925	1,774	4.63%	128,3
Investment Securities (Tax-exempt)	3,574	52	5.79%	2
Loans, Net of Unearned Discount(1)	471,888	7,963	6.70%	409,0
Total Earning Assets	646,378	9,869	6.06%	591,4
Non-interest Earning Assets:				
Cash and Due From Banks	25,641			24,4
Other Assets	19,942			17,4
Allowance for Loan Losses	(6,572)			(5,9
Total Assets	$ 685,389			$ 627,3
Interest-Bearing Liabilities:				
Interest-Bearing Transaction Accounts and Money Market Funds	$ 184,680	626	1.35%	$ 169,7
Savings	114,851	480	1.66%	100,4
Certificates of Deposit under $100,000 and IRA's	66,400	502	3.00%	78,3
Certificates of Deposit $100,000 or more	53,753	413	3.05%	56,0
Other Time	316	3	2.90%	7
Other Borrowings	41,035	176	1.70%	17,4

Total Interest-Bearing Liabilities	461,035	2,200	1.89%	422,7
Non-interest Bearing Liabilities:				
Demand Deposits	156,742			141,9
Other Liabilities	3,339			3,2
Shareholders' Equity	64,273			59,3
Total Liabilities and Shareholders' Equity	$ 685,389			$ 627,3
Net Interest Income and Margin (Tax-equivalent Basis)(2)		$ 7,669	4.71%	

(1) Loan interest income includes various loan fees and loan volumes include loans on non-accrual.
(2) Presented on tax equivalent basis ("T/E") using a federal income tax rate of 34% both years.

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Summary of Earning Assets and Interest-Bearing Liabilities (cont'd.)

The following schedule presents average balance sheets that highlight earning assets and interest-bearing liabilities and their related rates earned and paid for the first nine months of 2002 and 2001 (rates on tax equivalent basis):

	Nine Months Ended Sept			
	2002			
	Average Balances	Interest	Average Yield/Rate	Av Ba
			(Dollars in Thousa	
Earning Assets:				
Federal Funds Sold & Due From Time	$ 13,067	$ 170	1.74%	$
Investment Securities (Taxable)	146,831	5,284	4.81%	
Investment Securities (Tax-exempt)	2,479	109	5.87%	
Loans, Net of Unearned Discount(1)	460,359	23,560	6.84%	
Total Earning Assets	622,736	29,123	6.25%	
Non-interest Earning Assets:				
Cash and Due From Banks	25,183			
Other Assets	19,252			
Allowance for Loan Losses	(6,403)			
Total Assets	$ 660,768			$
Interest-Bearing Liabilities:				
Interest-Bearing Transaction				

Accounts and Money Market Funds	$ 179,378	1,852	1.38%	$
Savings	111,196	1,463	1.76%	
Certificates of Deposit under $100,000 and IRA's	64,080	1,559	3.25%	
Certificates of Deposit $100,000 or more	48,023	1,182	3.29%	
Other Time	347	9	3.37%	
Other Borrowings	37,756	466	1.65%	
Total Interest-Bearing Liabilities	440,780	6,531	1.98%	
Non-interest Bearing Liabilities:				
Demand Deposits	153,873			
Other Liabilities	3,323			
Shareholders' Equity	62,792			
Total Liabilities and Shareholders' Equity	$ 660,768			$
Net Interest Income and Margin (Tax-equivalent Basis)(2)		$ 22,592	4.85%	

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

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

Net Interest Income

Net interest income (tax equivalent) for the third quarter of 2002 was $7,669,000 which represented an increase of $502,000 or 7.0%, over the third quarter of 2001. In this same period, total interest income decreased $1,029,000 or 9.4% while total interest expense decreased $1,531,000 or 41.0% and reflects a 475 basis point decrease in the national prime rate for loans from January 2001, most of the decrease occurring in the twelve months of 2001.

The following table summarizes the effects of changes in interest rates, average volumes of earning assets and interest bearing liabilities on net interest income (tax equivalent) for the periods ended September 30, 2002 and 2001:

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

	3rd Qtr. 2002 vs. 3rd Qtr. 2001 Increase (Decrease) Due to Changes in:			Nine Months Inc Du
	Volume	Rate	Total	Volume
Interest Earning Assets:				

Federal Funds Sold	$ (309)	$ (89)	$ (398)	$(1,498)
Investment Securities (Taxable)	336	(387)	(51)	610
Investment Securities (Tax-exempt)	64	(16)	48	130
Loans, Net of Unearned Discount	1,319	(1,948)	(629)	4,332
Total Interest Income	1,410	(2,440)	(1,030)	3,574
Interest-Bearing Liabilities:				
Deposits	15	(1,609)	(1,594)	(643)
Other Borrowings	154	(92)	62	532
Total Interest Expense	169	(1,701)	(1,532)	(111)
Net Interest Income	$ 1,241	$ (739)	$ 502	$ 3,685

Allowance for Loan Losses and Non-Performing Assets

The Corporation's allowance for loan losses was $6,334,000, or 1.34% of total loans, as of September 30, 2002 compared to $6,190,000, or 1.47% of total loans, as of September 30, 2001.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Balance, Beginning of Period	$ 6,394	$ 5,745	$ 6,015	$ 5,399
Provisions, Charged to Income	1,350	370	2,365	860
Loans Charged-Off	(1,492)	(36)	(2,184)	(261)
Recoveries of Loans Previously Charged-Off	82	111	138	192
Net Loans (Charged-Off) Recovered	(1,410)	75	(2,046)	(69)
Balance, End of Period	$ 6,334	$ 6,190	$ 6,334	$ 6,190

For the nine months ended September 30, 2002 and 2001, net charge-offs (recoveries) were .44% and .02% of loans, respectively, not annualized. The loan charge-offs recorded in the third quarter of 2002 were primarily related to five loans and reflect the weakness in the economy.

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

	September 30, 2002	June 30, 2002	March 31, 2002	December 31, 2001	September 30, 2001
Non-Accrual Loans	$ 4,635	$ 3,870	$ 3,458	$ 4,115	$ 2,632
Renegotiated Loans	-0-	-0-	-0-	-0-	-0-
Other Real Estate Owned and Other Foreclosed Assets	288	56	97	444	511
Total Non-Performing Assets	$ 4,923	$ 3,926	$ 3,555	$ 4,559	$ 3,143
As a Percent of:					
Total Assets	0.72%	0.58%	0.56%	0.72%	0.50%
Total Loans and Other Real Estate/ Foreclosed Assets	1.04%	0.84%	0.78%	1.06%	0.75%
Loans Past Due 90 days or More and Still Accruing	$ 37	$ 13	$ 228	$ 16	$ 58

Non-accrual loans to total loans were .98% at September 30, 2002 and non-performing assets were 1.04% of loans and other real estate owned/foreclosed assets at the same date.

As of September 30, 2002, non-accrual loans were comprised of $3,299,000 in commercial loans, $1,152,000 in real estate mortgage loans and $184,000 in consumer loans. During the quarter ended September 30, 2002, payments of just under $300,000 were collected on non-accrual loans but an additional $3,100,000 of loans were placed on non-accrual, $1,200,000 of which was one real estate borrower.

As of September 30, 2002, there was one property recorded as other real estate with a value of $250,000. In addition, the Company has $38,000 of vehicles in Other Foreclosed Assets, reported in Other Assets on the Balance Sheet.

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

	September 30, 2002	June 30, 2002	March 31, 2002	December 31, 2001	September 30, 2001
Non-Performing Loans	$ 4,635	$ 3,870	$ 3,458	$ 4,115	$ 2,632
Criticized Loans	22,284	25,398	23,043	24,879	18,713
Allowance for Loan Losses	6,334	6,394	6,534	6,015	6,190
Allowance for Loan Losses as a Percent of:					
Non-Performing Loans	137%	165%	189%	146%	235%

Criticized Loans	28%	25%	28%	24%	33%

Non-Interest Income

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

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2002	2001	% Change	2002	2001	% Chan
Service Charges on Deposit Accounts	$ 793	$ 594	33.5%	$2,161	$1,740	24.2%
Gain on Sale of Securities	163	-0-	-0-	165	-0-	-0-
Non-recurring Income	-0-	-0-	-0-	51	-0-	-0-
Other Non-interest Income	574	551	4.2	1,735	1,554	11.6
Total Non-interest Income	$1,530	$1,145	33.6%	$4,112	$3,294	24.8%

The increase in other non-interest income in the third quarter of 2002 as compared to the same quarter last year is primarily due to increases in mortgage brokerage/origination fees, letter of credit fees and ATM service fees.

Non-interest Expense

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

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2002	2001	% Change	2002	2001	% Chan
Salaries & Employee Benefits	$ 2,768	$ 2,621	5.6%	$ 8,508	$ 7,753	9.7
Occupancy Expense - Net	285	372	(23.4)	855	996	(14.2
Furniture and Equipment Expense	388	391	(0.8)	1,160	1,118	3.8
Other Real Estate and Foreclosed Asset Expense - Net	40	47	(14.9)	148	174	(14.9
Merger Related Expense	-0-	-0-	-0-	-0-	598	-0-
Other Expenses:						
Business Development	207	145	42.8	600	458	31.0
Insurance - Other	60	41	46.3	137	104	31.7

Legal & Professional Fees	160	163	(1.8)	501	477	5.0
Taxes - Other	25	31	(19.4)	61	103	(40.8
Postage & Courier	92	104	(11.5)	264	266	(0.8
Printing & Supplies	76	75	1.3	233	260	(10.4
Regulatory Fees & Assessments	60	66	(9.1)	179	191	(6.3
Other Operating Expenses	54	317	(83.0)	893	1,150	(22.3
Total Other Expenses	735	942	(22.0)	2,868	3,009	(4.7
Total Non-interest Expense	$ 4,215	$ 4,373	(3.6)%	$13,539	$13,648	(0.8

Total non-interest expense decreased 3.6% in the third quarter of 2002 over 2001, primarily due to the collection of a $319,000 insurance claim on damaged assets previously carried on the books as other foreclosed assets. This offset additional salary expenses from staffing additions made in the fourth quarter of 2001 and the first quarter of 2002, additional business development expenses due to advertising costs and an increase in insurance expense due to premium increases. As a percent of average assets, non-interest expenses were 2.44% in the third quarter of 2002 (annualized) and 2.77% in the same period of 2001. The "efficiency ratio" (non-interest expenses divided by total non-interest income plus net interest income) was 45.82% for the third quarter of 2002. The "efficiency ratio" for the third quarter, excluding the insurance claim, would have been 49.29%.

Interest Rate Sensitivity

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

The following table, commonly referred to as a "static GAP report", indicates the interest rate sensitivity position at September 30, 2002 and may not be reflective of positions in subsequent periods (dollars in thousands):

	Matures or Reprices within:			Total Rate Sensitive
	30 Days or Less	31-180 Days	181 to One Year	One Year or Less
Earning Assets:				
Loans	$ 250,543	$ 24,880	$ 25,682	$ 301,105
Investment Securities	7,204	22,096	21,828	51,128
Federal Funds Sold and Due From Time	114	-0-	-0-	114
Total Earning Assets	257,861	46,976	47,510	352,347
Interest Bearing Liabilities:				

Interest-Bearing Transaction Accounts and Savings	300,341	-0-	-0-	300,341
Certificate of Deposits under $100,000 and IRA's	6,312	21,921	20,679	48,912
Certificate of Deposits > $100,000	6,806	14,153	17,547	38,506
Short Term Borrowings	29,571	7,000	7,300	43,871
Total Interest Bearing Liabilities	343,030	43,074	45,526	431,630
Interest Sensitivity Gap	$ (85,169)	$ 3,902	$ 1,984	$ (79,283)
Cumulative Gap	$ (85,169)	$ (81,267)	$ (79,283)	
Cumulative Gap to Total Earning Assets	(13.25%)	(12.64%)	(12.33%)	
Cumulative Gap to Total Assets	(12.48%)	(11.91%)	(11.61%)	

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

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

As a result of applying the beta factors established by management to the earning assets and interest bearing liabilities in the static GAP report via a simulation model, the negative cumulative GAP to total assets ratio at one year of (11.61%) was reversed to a positive 12.75% "beta adjusted" GAP position.

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

The Corporation manages its interest rate risk through structuring the balance sheet to maximize net interest income while maintaining an acceptable level of risk to changes in market interest rates. This process requires a balance between profitability, liquidity and interest rate risk.

To effectively measure and manage interest rate risk, the Corporation uses simulation analysis to determine the impact on net interest income and the market value of equity for changes in interest rates under various interest rate scenarios, balance sheet trends, and strategies. From these simulations, interest rate risk is quantified and appropriate strategies are developed and implemented. The overall interest rate risk position and strategies are reviewed by senior management, the Asset/Liability Management Committee and the Corporation's Board of Directors on an ongoing basis.

Based on simulation analysis of the interest rate sensitivity inherent in the Corporation's net interest income and market value of equity, as of September 30, 2002 and as adjusted by instantaneous rate changes upward and downward of up to 100 basis points, the Corporation is somewhat asset sensitive. The analysis indicates an instantaneous 100 basis point move upward in interest rates would increase net interest income by 4.8% and increase the market value of equity by 3.3%. These sensitivities are all within the threshold set by the Corporation's Asset/Liability Committee. Since there are limitations inherent in any methodology used to estimate the exposure to changes in market interest rates, this analysis is not intended to be a forecast to the actual effect of a change in market interest rates on the Corporation. The market value sensitivity analysis presented includes assumptions that the composition of the Corporation's interest sensitive assets and liabilities existing at period end will remain constant over the twelve month measurement period and that changes in market rates are parallel and instantaneous across the yield curve regardless of duration or repricing characteristics of specific assets or liabilities. Further, the analysis does not contemplate any actions that the Corporation might undertake in response to changes in market interest rates. Accordingly, this analysis is not intended and does not provide a precise forecast of the effect actual changes in market interest rates will have on the Corporation.

Capital

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

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

The regulatory minimum ratio for total qualifying capital is 8.00% of which 4.00% must be Tier I capital. At September 30, 2002, the Corporation's Tier I capital represented 12.21% of risk weighted assets and total qualifying capital (Tier I and Tier II) represented 13.45% of risk weighted assets. Both ratios are well above current regulatory guidelines.

Also, as of September 30, 2002, the Corporation and its Subsidiary Bank met the criteria for classification as a "well-capitalized" institution under the rules of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

The Corporation and Subsidiary Bank's regulatory capital positions as of September 30, 2002, were as follows (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To Be We Capitalized Prompt Corr Action Prov
	Amount	Ratio	Amount	Ratio	Amount
CONSOLIDATED:					
As of September 30, 2002					
Total Capital (to Risk Weighted Assets)	$68,624	13.45%	$40,806	8.00%	
Tier I Capital (to Risk Weighted Assets)	62,290	12.21%	20,403	4.00%	
Tier I Capital (to Average Assets)	62,290	9.13%	20,478	3.00%	
SUMMIT BANK, N.A.:					
As of September 30, 2002					
Total Capital (to Risk Weighted Assets)	$68,318	13.39%	$40,803	8.00%	$51,004
Tier I Capital (to Risk Weighted Assets)	61,984	12.15%	20,402	4.00%	30,602
Tier I Capital (to Average Assets)	61,984	9.08%	20,477	3.00%	34,128

Forward-Looking Statements

Certain statements contained in this document, which are not historical in nature, including statements regarding the Corporation's and/or management's intentions, strategies, beliefs, expectations, representations, plans, projections, or predictions of the future, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are intended to be covered by the safe harbor provisions for forward-looking statements contained in such Act. We are including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements are made based on assumptions involving certain known and unknown risks and uncertainties, many of which are beyond the Corporation's control, and other important factors that could cause actual results, performance or achievements to differ materially from the expectations expressed or implied by such forward-looking statements. These risk factors and uncertainties are listed from time to time in the Corporation's filings with the Securities and Exchange Commission, including but not limited to the annual report on Form 10-K for the year ended December 31, 2001.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

Management considers interest rate risk to be a significant market risk for the Company. See "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" for disclosure regarding this market risk.

Item 4 - Controls and Procedures

As of October 10, 2002, an evaluation was performed by the Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), with the participation of the Corporation's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's CEO and CFO have concluded that the Corporation's disclosure controls and procedures were effective as of October 10, 2002. The Corporation's CEO and CFO have indicated that there have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect internal controls subsequent to October 10, 2002, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Change in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10 Second Amendment to Loan Agreement dated September 15, 2001 between the Corporation and Frost National Bank

11 Computation of Earnings Per Common Share

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

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

(b) No Reports on Form 8-K were filed during the period ending September 30, 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUMMIT BANCSHARES, INC.
Registrant

Date: 11-01-02 By: /s/ Philip E. Norwood

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

Date: 11-01-02 By: /s/ Bob G. Scott

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

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I, Philip E. Norwood, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: 11-01-02 By: /s/ Philip E. Norwood

Philip E. Norwood
Chairman, President and Chief
Executive Officer

I, Bob G. Scott, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: 11-01-02

By: /s/ Bob G. Scott

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

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EXHIBIT INDEX