SUMMIT BANCSHARES INC/CA
Form 10-Q
August 13, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED: June 30, 2003

COMMISSION FILE NUMBER: 0-11108

SUMMIT BANCSHARES, INC.

STATE OF CALIFORNIA

2969 BROADWAY, OAKLAND CALIFORNIA 94611

(510) 839-8800

I.R.S. IDENTIFICATION NUMBER

94-2767067

Indicate by the check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes	No
x	o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act

Yes	No
o	x

The number of shares outstanding of the registrant s common stock was 1,826,905 shares of no par value common stock issued as of June 30, 2003

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2003 AND DECEMBER 31, 2002

		Unaudited 06/30/03		Audited 12/31/02
ASSETS				
Cash and due from banks		$ 7,360,437		$ 9,243,949
Federal funds sold		11,315,000		9,875,000
Cash and cash equivalents		18,675,437		19,118,949
Time deposits with other financial institutions		11,613,753		15,347,432
Investment securities (fair value of $3,535,858 at June 30, 2003 and $2,061,250 at December 31, 2002) held to maturity		3,519,254		2,013,784
Loans:	$ 103,540,060		105,079,730	
Less: allowance for loan losses	$ 1,662,610		1,638,588	
Net loans		101,877,450		103,441,142
Premises and equipment, net		702,207		700,288
Interest receivable and other assets		5,625,672		6,614,004
Total Assets		$ 142,013,773		$ 147,235,599
LIABILITIES AND SHAREHOLDERS EQUITY				
Deposits:				
Demand		$ 44,798,259		$ 51,408,566
Interest-bearing transaction accounts		42,839,658		39,978,860
Savings		2,382,533		2,136,146
Time certificates $100,000 and over		22,739,884		27,573,742
Other time certificates		5,557,142		6,247,901
Total Deposits		118,317,476		127,345,215
Fed Funds Purchased		3,000,000		0
Interest payable and other liabilities		1,429,515		938,293
Total Liabilities		122,746,991		128,283,508
Shareholders Equity				
Preferred Stock, no par value:				
2,000,000 shares authorized, no shares outstanding		0		0
Common Stock, no par value:				
3,000,000 shares authorized; 1,826,905 shares outstanding at June 30, 2003 and 1,837,643 shares outstanding at December 31, 2002		3,260,302		3,475,640
Retained Earnings		16,006,480		15,476,451
Total Shareholders Equity		19,266,782		18,952,091
Total Liabilities and Shareholders Equity		$ 142,013,773		$ 147,235,599

The accompanying notes are an integral part of these consolidated financial statements

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SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

	THREE MONTHS ENDED 6-30-03	THREE MONTHS ENDED 6-30-02	SIX MONTHS ENDED 6-30-03	SIX MONTHS ENDED 6-30-02
INTEREST INCOME:				
Interest and fees on loans	$ 1,854,556	$ 2,107,595	$ 3,708,682	$ 3,912,208
Interest on time deposits with other financial institutions	142,446	283,013	317,519	595,201
Interest on U.S. government treasury securities	23,830	22,259	46,088	44,517
Interest on federal funds sold	20,668	106,841	32,389	217,287
Total interest income	2,041,500	2,519,708	4,104,678	4,769,213
INTEREST EXPENSE:				
Interest on deposits	243,284	769,837	491,830	1,269,714
Total interest expense	243,284	769,837	491,830	1,269,714
Net interest income	1,798,216	1,749,871	3,612,848	3,499,499
Provision for loan losses	4,000	15,000	7,000	32,000
Net interest income after provision for loan losses	1,794,216	1,734,871	3,605,848	3,467,499
NON-INTEREST INCOME:				
Service charges on deposit accounts	70,519	54,084	138,906	117,103
Other customer fees and charges	63,900	28,631	115,334	101,291
Total non-interest income	134,419	82,715	254,240	218,394
NON-INTEREST EXPENSE:				
Salaries and employee benefits	737,272	678,888	1,530,287	1,485,148
Occupancy expense	82,575	73,353	160,576	148,382
Equipment expense	84,105	92,535	176,277	172,716
Other	261,123	285,744	509,485	561,829
Total non-interest expense	1,165,075	1,130,520	2,376,625	2,368,075
Income before income taxes	763,560	687,066	1,483,463	1,317,818
Provision for income taxes	317,661	285,480	610,389	538,765
Net Income	$ 445,899	$ 401,586	$ 873,074	$ 779,053
EARNINGS PER SHARE:				
Earnings per common share	$ 0.24	$ 0.22	$ 0.48	$ 0.42
Earnings per common share assuming dilution	$ 0.24	$ 0.21	$ 0.47	$ 0.42
Weighted average shares outstanding	1,826,813	1,854,328	1,831,577	1,853,141
Weighted avg. shrs. outsdg. assuming dilution	1,834,203	1,871,894	1,851,280	1,870,643

The accompanying notes are an integral part of these consolidated financial statements

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SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2003 and 2002

(UNAUDITED)

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at December 31, 2001	1,850,492	$ 3,752,486	$ 14,457,382	$ 18,209,868
Stock Options Exercised	3,836	12,467	0	12,467
Issuance of cash dividends of $.1875 per share	0	0	(347,686)	(347,686)
Net Income	0	0	779,053	779,053
Balance at June 30, 2002	1,854,328	$ 3,764,953	$ 14,888,749	$ 18,653,702
Balance at December 31, 2002	1,837,643	3,475,640	15,476,451	18,952,091
Stock Options Exercised	6,554	30,191	0	30,191
Repurchase of common stock	(17,292)	(245,529)	0	(245,529)
Issuance of cash dividends of $.1875 per share	0	0	(343,045)	(343,045)
Net Income	0	0	873,074	873,074
Balance at June 30, 2003	1,826,905	$ 3,260,302	$ 16,006,480	$ 19,266,782

The accompanying notes are an integral part of these consolidated financial statements

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SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002

(UNAUDITED)

	SIX MONTHS ENDED 6-30-03	SIX MONTHS ENDED 6-30-02
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 3,715,206	$ 4,207,535
Fees received	675,264	714,684
Interest paid	(515,914)	(1,252,898)
Cash paid to suppliers and employees	(2,723,935)	(2,268,251)
Income taxes paid	(535,000)	(443,820)
Net cash provided by operating activities	615,621	957,250
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in time deposits with other financial institutions	3,733,679	4,943,587
Maturity of investment securities	3,992	7,983
Purchase of investment securities	(1,509,462)	0
Net (increase) decrease in loans to customers	1,554,517	(7,366,129)
Recoveries on loans previously charged-off	17,570	18,632
(Increase) decrease in premises and equipment	(102,005)	(69,353)
Net cash provided by (used in) investing activities	3,695,291	(2,465,280)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in demand, interest bearing transaction, and savings deposits	(1,671,424)	(2,193,041)
Net increase (decrease) in time deposits	(5,524,617)	6,897,558
Increase (decrease) fed funds purchased	3,000,000	0
Exercise of stock options	30,192	12,467
Repurchase of common stock (decrease)	(245,529)	0
Dividends paid (decrease)	(343,046)	(347,686)
Net cash provided by (used in) financing activities	(4,754,424)	4,369,298
Net increase (decrease) in cash and cash equivalents	(439,512)	2,861,268
Cash and cash equivalents at the beginning of the year	19,118,949	25,602,202
Cash and cash equivalents as of 6-30-03 and 6-30-02	$ 18,675,437	$ 28,463,470
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income	$ 873,074	$ 779,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	100,086	122,957
Provision for loan losses and OREO losses	7,000	32,000
(Increase) decrease in interest receivable	(843,366)	(380,085)
Increase (decrease) in unearned loan fees	(12,395)	97,305
Increase (decrease) in Int Pay and Other Liab.	491,222	306,020
Total adjustments	(257,453)	178,197
Net cash provided by operating activities	615,621	957,250

The accompanying notes are an integral part of these consolidated financial statements

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For the periods reported, the Company had no reconciling items between net income (loss) and income (loss) available to common shareholders.

5. NEW ACCOUNTING PROUNOUNCEMENTS

In August 2001, FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations , which requires the Bank to record the fair value of an asset retirement obligation as a liability in the period in which its incurs a legal obligation associated with the retirement of long-term assets. SFAS No. 143 is effective for the Bank in 2003; however, management does not believe adoption will have a material impact on the Bank s financial statements.

6. STOCK BASED COMPENSATION

Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock Based Compensation, defines a fair-value method of accounting for stock based compensation. As permitted by SFAS No. 123, the Company continues to account for stock options under the intrinsic value method of APB Opinion No. 25, under which no compensation cost has been recognized. Pro-Forma net income and earnings per share data as if compensation costs for stock option grants had been determined consistent with SFAS No. 123 are shown in the table below:

	Three Months Ended 6/30/2003	Three Months Ended 6/30/2002	Six Months Ended 6/30/2003	Six Months Ended 6/30/2002
Net Income				
As reported	$ 445,899	$ 401,586	$ 873,074	$ 779,053
Stock Based Compensation using Intrinsic Value Method	$ 0	$ 0	$ 0	$ 0
Stock Based Compensation that would have been reported using the Fair Value Method of SFAS 123	(1,106)	(1,465)	(2,211)	(2,930)
Pro Forma	$ 444,793	$ 400,121	$ 870,863	$ 776,123
Basic earnings per share				
As Reported	$ 0.24	$ 0.22	$ 0.48	$ 0.42
Pro Forma	$ 0.24	$ 0.22	$ 0.48	$ 0.42
Diluted earnings per share				
As Reported	$ 0.24	$ 0.21	$ 0.47	$ 0.42
Pro Forma	$ 0.24	$ 0.21	$ 0.47	$ 0.41

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company s financial position at June 30, 2003 and the results of operations for three months and six months ended June 30, 2003 and 2002 and cash flows for the six months ended June 30, 2003 and 2002.

Certain information and footnote disclosures presented in the Company s annual consolidated financial statements are not included in these interim financial statements. Accordingly, the accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2002 Annual Report to Shareholders, which is incorporated by reference in the Company s 2002 annual report on Form 10-K. The results of operations for the three months and six months ended June 30, 2003 are not necessarily indicative of the operating results for the full year.

2. COMPREHENSIVE INCOME

The Company had no items of other comprehensive income for the six-month period ended June 30, 2003 and 2002. Accordingly, total comprehensive income was equal to net income for each of those periods.

3. SEGMENT REPORTING

The Company is principally engaged in community banking activities through the three banking offices of its subsidiary bank. The community banking activities include accepting deposits, providing loans and lines of credit to local individuals and businesses, and investing in investment securities and money market instruments. The three banking offices have been aggregated into a single reportable segment. Because the Company s financial information is internally evaluated as a single operating segment, no separate segment information is presented. The combined results are reflected in these financial statements.

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4. EARNINGS PER SHARE

The following table reconciles the numerator and denominator of the basic and diluted earnings per share computations:

	Net Income (Loss)	Weighted Avg. Shares	Per Share Amount
	For the quarter ended June 30, 2003		
Basic Earnings (Loss) per share	$ 446	1,826,813	$ .24
Stock Options		7,390	
Diluted Earnings (Loss) per share	$ 446	1,834,203	$ .24

	Net Income (Loss)	Weighted Avg. Shares	Per Share Amount
	For the quarter ended June 30, 2002		
Basic Earnings (Loss) per share	$ 402	1,854,328	$ .22
Stock Options		17,566	
Diluted Earnings (Loss) per share	$ 402	1,871,894	$ .21

	Net Income (Loss)	Weighted Avg. Shares	Per Share Amount
	For the six months ended June 30, 2003		
Basic Earnings (Loss) per share	$ 873	1,831,577	$ .48
Stock Options		19,703	
Diluted Earnings (Loss) per share	$ 873	1,851,280	$ .47

	Net Income (Loss)	Weighted Avg. Shares	Per Share Amount
	For the six months ended June 30, 2002		
Basic Earnings (Loss) per share	$ 779	1,853,141	$ .42
Stock Options		17,502	
Diluted Earnings (Loss) per share	$ 779	1,870,643	$ .42

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The following table provides an interest rate sensitivity and interest rate risk analysis for the quarter ended June 30, 2003. The table presents each major category of interest-earning assets and interest bearing-liabilities.

INTEREST RATE RISK REPORTING SCHEDULE

REPORTING INSTITUTION: SUMMIT BANK REPORTING DATE: 6-30-03

REMAINING TIME BEFORE MATURITY OR INTEREST RATE ADJUSTMENT

	($000.00) OMITTED TOTAL	UP 1 Yr	>1 yr. <2Yrs.	>2Yrs. <3Yrs.	>3Yrs. <4Yrs.	>4Yrs. <5Yrs.	>5 Yrs <10Yrs
EARNING ASSETS							
INVESTMENTS:							
U. S. TREASURIES	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
U. S. AGENCIES	3,519	2,515	1,004	0	0	0	0
FED FUNDS SOLD	11,315	11,315	0	0	0	0	0
PURCHASED CDS	11,614	10,525	1,089	0	0	0	0
TOTAL INVESTMENTS	$ 26,448	$ 24,355	$ 2,093	$ 0	$ 0	$ 0	$ 0
LOANS	$ 99,126	$ 80,123	$ 9,163	$ 4,204	$ 3,644	$ 1,551	$ 440
TOTAL LOANS -1	$ 99,126	$ 80,123	$ 9,163	$ 4,204	$ 3,644	$ 1,551	$ 440
TOTAL EARNING ASSETS	$ 125,574	$ 104,478	$ 11,256	$ 4,204	$ 3,644	$ 1,551	$ 440
COST OF FUNDS (DEPOSITS)							
CERTIFICATE OF DEPOSITS	$ 28,297	$ 27,731	$ 566	$ 0	$ 0	$ 0	$ 0
MONEY MARKET ACCOUNTS	38,718	35,007	1,936	1,775	0	0	0
TRANSACTION ACCOUNTS	4,748	2,297	635	608	309	293	607
SAVINGS ACCOUNTS	2,383	1,531	220	211	107	102	211
FED FUNDS PURCHASED	3,000	3,000	0	0			
TOTAL COST OF FUNDS	$ 77,146	$ 69,566	$ 3,357	$ 2,594	$ 416	$ 395	$ 818
INTEREST SENSITIVE ASSETS	$ 125,574	$ 104,478	$ 11,256	$ 4,204	$ 3,644	$ 1,551	$ 440
INTEREST SENSITIVE LIABILITIES	$ 77,146	$ 69,566	$ 3,357	$ 2,594	$ 416	$ 395	$ 818
GAP	$ 48,428	$ 34,912	$ 7,899	$ 1,610	$ 3,228	$ 1,156	$ (378)
CUMULATIVE GAP	$ 48,428	$ 34,912	$ 42,811	$ 44,421	$ 47,649	$ 48,805	$ 48,427
GAP RATIO	1.63	1.50	3.35	1.62	8.76	3.93	0.54
CUMULATIVE RATIO	1.63	1.50	1.59	1.59	1.63	1.64	1.63
GAP AS A % OF TOTAL ASSETS	35.09	25.30	5.72	1.17	2.34	0.84	-0.27
CUMULATIVE GAP AS A % OF TOTAL ASSETS	35.09	25.30	31.02	32.19	34.52	36.36	35.09

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ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2003

The registrant, Summit Bancshares, Inc. (the Company) is a bank holding company whose only operating subsidiary is Summit Bank (the Bank). The following discussion primarily concerns the financial condition and results of operations of the Company on a consolidated basis, including the subsidiary Bank. All adjustments made in the compilation of this information are of a normal recurring nature.

FINANCIAL CONDITION

Liquidity Management

The consolidated loan-to-deposit ratio at June 30, 2003 was 86.1%, which was an increase from 70.7% for the same period in 2002. Net outstanding loans as of June 30, 2003 increased $7,517,000 or 8% compared to the same period a year ago, while total deposits decreased $15,131,000 or 11.3% versus the same time last year. The increase in loans was mainly due to Summit s effort in marketing its products and the continuing success of the Real Estate Capital Markets Group. Regarding the decrease in deposits, at the beginning of 2002, a large depositor merged and consolidated its operations in Southern California, moving many of its largest accounts with the bank there. Brokered deposits were purchased to assist in the liquidation of this relationship. Although some accounts in the amount of $5,000,000 did transfer, some have remained with the Bank as the transfer has taken longer than anticipated. As of June 30, 2003, the balance remaining in these accounts was approximately $11,655,000. To reduce expenses, all brokered deposits in the amount of $19,000,000 were allowed to mature and were not renewed. In addition, at the beginning of 2002, another client was involved in a legal suit, which resulted in a settlement and liquidation of $8,000,000 in time deposits. The Bank is actively pursuing other depository relationships to offset this decline in deposits. The average loan-to-deposit ratio at the end of the first six months of 2003 was 89.4%, an increase from 66.3% for the same period last year. This increase was caused by a decrease in average total deposits of $19,881,000 or 14.2% from the same period last year, while average total loans increased $12,976,000 or 14% from the same period last year.

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Net liquid assets, which consists primarily of cash, due from banks, interest-bearing deposits with other financial institutions, investment securities and federal funds sold totaled $33,808,000 on June 30, 2003. This amount represented 28.6% of total deposits in comparison to the liquidity ratio of 38.0% as of June 30, 2002. This decrease is primarily a result of the decrease in deposits discussed previously. It is management s belief that the current liquidity level is appropriate given current economic conditions and is sufficient to meet current needs.

The following table sets forth book value of investments by category and the percent of total investments at the dates specified.

Investment Comparative
($000.00 Omitted)

	6-30-03	%	12-31-02	%	6-30-02	%
Fed funds sold	$ 11,315	43%	$ 9,875	36%	$ 16,945	41%
Interest bearing deposits	11,614	44%	15,347	56%	22,246	54%
Securities	3,519	13%	2,014	8%	2,022	5%
Total	$ 26,448	100%	$ 27,236	100%	$ 41,213	100%

Interest bearing deposits are comprised of Time Certificates of Deposit with other banks and savings and loan institutions with no more than $100,000 in any institution.

Securities on June 30, 2003 were comprised of U.S. Gov t agencies.

Changes in Financial Position

As of June 30, 2003, total deposits decreased $9,028,000 or 7.1% from December 31, 2002 while at the same time net loans outstanding decreased $1,564,000 or 1.5% from December 31, 2002. Total deposits as of June 30, 2003 were $118,317,000, a decrease of 23.1% from $133,449,000 as of June 30, 2002. Net loans as June 30, 2003 were $101,877,000, an increase of 8.0% from $94,360,000 as of June 30, 2002.

The following table sets forth the amount of deposits by each category and the percent of total deposits at the dates specified.

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Deposit Comparative
($000.00 Omitted)

	6-30-03	%	12-31-02	%	6-30-02	%
Demand	$ 44,798	38%	$ 51,409	40%	$ 45,508	34%
Savings	2,383	2%	2,136	2%	3,233	2%
Interest bearing Trans. Deposits	42,840	36%	39,979	31%	38,669	29%
Other time	28,296	24%	33,821	27%	46,038	35%
Total	$ 118,317	100%	$ 127,345	100%	$ 133,448	100%

The following table sets forth the amount of loans outstanding by category and the percent of total loans outstanding at the dates specified.

Loan Comparative
($000.00 Omitted)

	6-30-03	%	12-31-02	%	6-30-02	%
Commercial	$ 33,842	33%	$ 29,269	28%	$ 29,499	31%
Real estate-const	19,988	19%	26,922	25%	24,881	26%
Real estate-other	43,648	42%	42,498	41%	35,399	37%
Installment/other	6,062	6%	6,391	6%	6,136	6%
Total	$ 103,540	100%	$ 105,080	100%	$ 95,915	100%

Non-Performing Assets

The following table provides information with respect to the Bank s past due loans and components for non-performing assets at the dates indicated.

Non-Performing Assets
($000.00 Omitted)

	6-30-03	12-31-02	6-30-02
Loans 90 days or more past due & still accruing	$ 119	$ 150	$ 2,182
Non-accrual loans	348	363	0
Other real estate owned	0	0	0
Total non-performing assets	$ 467	$ 513	$ 2,182
Non-performing assets to period end loans plus other real estate owned	0.45%	0.49%	2.27%
Allowance to non-performing loans	356.1%	319.5%	71%

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The Bank s policy is to recognize interest income on an accrual basis unless the full collectibility of principal and interest is uncertain. Loans that are delinquent 90 days as to principal or interest are placed on a non-accrual basis, unless they are well secured and in the process of collection, and any interest earned but uncollected is reversed from income. Collectibility is determined by considering the borrower s financial condition, cash flow, quality of management, the existence of collateral or guarantees and the state of the local economy.

Other real estate owned (OREO)is comprised of properties acquired through foreclosure. These properties are carried at the lower of the recorded loan balance or their estimated fair market value based on appraisal, less estimated costs to sell. When the loan balance plus accrued interest exceeds the fair value of the property less disposal costs, the difference is charged to the allowance for loan losses at the time of foreclosure. Subsequent declines in value from the recorded amount, if any, and gains or losses upon disposition are included in noninterest expense. Operating expenses related to other real estate owned are charged to non-interest expense in the period incurred. The Bank did not have any OREO properties at the end of the period.

The decrease in non-performing assets from June 30, 2002 to June 30, 2003 is due primarily to a decrease in loans 90 days or more past due and still accruing.

Capital Position

As of June 30, 2003, Shareholders Equity was $19,267,000. This represents an increase of $613,000 or 3.3% over the same period last year. Since the inception of the repurchase program in 1989, the Company has authorized the repurchase of $3,500,000 of its stock. As of June 30, 2003, the Company has repurchased a total of 705,857 shares of the Company stock constituting 32.7% of the Company s original stock outstanding in 1989 prior to the repurchase program, at a total cost of $3,216,756, or an average price per share of $4.56. The Company plans to continue its repurchase program as an additional avenue for liquidity for its shareholders. The repurchases have not significantly affected the Company s liquidity or capital position or its ability to operate. In addition, the Company s subsidiary Bank remains more than well-capitalized under current regulations.

The following table shows the risk-based capital and leverage ratios as well as the minimum regulatory requirements for the same categories as of June 30, 2003:

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	Capital Ratio	Minimum Regulatory requirement
Tier 1 Capital	14.76%	4.00%
Total Capital	15.92%	8.00%
Leverage Ratio	13.69%	4.00%

RESULTS OF OPERATIONS

Net Interest Income

Total interest income, including loan fees decreased from $4,769,000 for the first six months of 2002 to $4,105,000 for the same period in 2003.

Although loans increased in the first six months of 2003 versus the same period last year, the yield on loans and fees decreased from 8.37% in 2002 to 7.03% in the 2003. This was primarily due to a decrease in the average prime rate from an average rate of 4.75% in the first six months of 2002 to an average rate of 4.25% for the same period this year. In addition, several real estate construction loans were paid off, which had floor rates of 6.50%. Average outstanding loans increased from $94,208,000 in the first six months of 2002 to $106,446,000 in the first six months of 2003.

The decrease in interest income from investments was due to a decrease in the average total investments outstanding from $52,537,000 in the first six months of 2002 to $21,429,000 for the same period in 2003. The primary reason for the decline in investments outstanding was the increase in loans and a decrease in brokered deposits. The yield on investments increased from 3.29% in 2002 to 3.73% for the same period in 2003 primarily due to long term CDs and investments.

Interest expense decreased from $1,269,000 at the end of the first six months of 2002 to $492,000 for the same period in 2003. This was caused by a decrease in average outstanding interest bearing deposits, which decreased from an average outstanding of $99,033,000 for the first six months of 2002 to $75,877,000 for the same period in 2003. This decrease was caused by circumstances mentioned previously in this report. In addition, the average cost of funds for the period ending June 30, 2003 decreased to 1.31% from 2.58% for the same period last year.

As a result of these factors, net interest margin for the first six months of 2003 was 5.73% compared to 5.79% for the same period last year.

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For the second quarter, total interest income including loan fees decreased from $2,520,000 in 2002 to $2,042,000 for the same period in 2003. This decrease is due to the decrease in the average prime rate, which for the second quarter 2002 was 4.75% versus the average of 4.25% for the same period in 2003. Offsetting this decrease was an increase in average loans outstanding of $10,431,000 for the second quarter of 2003 to $105,712,000 versus an average balance of $95,280,000 for the same period in 2002. Average outstanding investments decreased $25,918,000 during the second quarter of 2003 to $24,325,000 versus an average balance of $50,243,000 for the same period last year, primarily due to the increase in loans as well as the decrease in brokered deposits.

For the second quarter of 2003, interest expense decreased $527,000 compared to the same period in 2002. Average outstanding interest bearing deposits decreased from $93,504,000 in 2002 to $73,335,000 in 2003. Average cost of funds for the same period was 1.33% compared to 2.59% in 2002. As a result, net interest income for the second quarter of 2003 increased $48,000, or 2.8% compared to the same period in 2002.

Other Operating Income

Service charges on deposit accounts as of the end of the first six months of 2003 increased to $139,000 versus $117,000 for the same period in 2002. The increase was centered in fees collected on service charges related to NSF fees on commercial accounts.

Other customer fees and charges for the first six months increased $14,000 or 14%, which was centered in safe deposit box fees and wire fees over the amount collected in 2002.

Service charges on deposit accounts as of the end of the second quarter of 2003 increased to $71,000 versus $54,000 for the same period in 2002. This was primarily related to an increase in service charges collected on returned checks and analysis charges.

Other customer fees and charges increased $35,000 for the second quarter. This was primarily related to an increase in wire fees, safe deposit fees, and non-interest income on life insurance policies.

Loan Loss Provision

The allowance for loan losses is maintained at a level that management of the Company considers adequate for losses that are inherent in the loan portfolio. The allowance is increased by charges to operating expenses and reduced by net-charge-offs. The level of the allowance for loan losses is based on

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management s evaluation of losses in the loan portfolio, as well as prevailing economic conditions.

Management employs a systematic methodology on a monthly basis to determine the adequacy of the allowance for current loan losses. The credit administrator grades each loan at the time of extension or renewal. Gradings are assigned a risk factor, which is calculated to assess the adequacy of the allowance for loan losses. Further, management considers other factors such as overall portfolio quality, trends in the level of delinquent and classified loans, specific problem loans, and current economic conditions.

The following table summarizes the allocation of the allowance for loan losses by loan type for the years indicated and the percent of loans in each category to total loans:

($000.0 omitted)

	6-30-03		12-31-02		6-30-02	
	Amount	Loan Percent	Amount	Loan Percent	Amount	Loan Percent
Commercial	$ 615	32.7%	$ 580	27.8%	$ 615	30.8%
Construction	478	19.3%	400	25.6%	350	25.9%
Real Estate	504	42.1%	411	40.5%	300	36.9%
Consumer	66	5.9%	48	6.1%	50	6.4%
Unallocated	N/A	0.0%	200	0.0%	240	0.0%
	$ 1,663	100.0%	$ 1,639	100.0%	$ 1,555	100.0%

The following table summarizes the activity in the Bank s allowance for credit losses for the six months ended June 30, 2003 and 2002.

	Six Months Ended (000.00 Omitted)	
	6/30/03	6/30/02
Balance, beginning of the period	$ 1,639	$ 1,507
Provision for loan losses	7	32
Recoveries	19	21
Loans Charged-off	(2)	(5)
	$ 1,663	$ 1,555

The balance in the allowance for loan losses at June 30, 2003 was 1.61% of loans compared to 1.62% of loans at June 30, 2002. This level is considered appropriate and is approximately the same as the industry average.

Other Operating Expenses

Total other operating expenses increased $8,000 or 0.3% as of the end of the first six months of 2003 compared to the same period last year. This increase was centered in personnel and occupancy expenses while decreases were shown in legal fees and auto expenses.

Total other operating expenses increased $35,000 as of the end of the second quarter of 2003. This increase was primarily due to an increase in salaries and occupancy expenses.

Provision for Income Taxes

The Company s provision for income taxes as of the end of the first six months of 2003 increased from $539,000 in 2002 to $610,000. This increase is attributable to an increase in profits from operations as a result of increased loan activity. For the same period in 2003 the Company s total effective tax rate was 41.1% compared to 40.9% in 2002.

Net Income

Net income for the first six months of 2003 increased to $873,000 from $779,000 for the same period in 2002, or an increase of 12.1%.

Off Balance Sheet Transactions

The Bank in its ordinary course of business has commitments to disburse loan proceeds both under revolving and non-revolving arrangements. As of June 30, 2003 the total of these commitments approximated $29,850,000 compared to $43,776,000 as of December 31, 2003 and $46,812,000 as of June 30, 2002.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate and credit risks are the most significant market risks impacting the Company s performance. Other types of market risk, such as foreign currency exchange rate risk and the commodity price risk, do not arise in the normal course of the Company s business activities. The Company relies on loan reviews, prudent loan underwriting standards and an adequate allowance for loan losses to mitigate credit risk.

Interest rate risk is managed by subjecting the Company s balance sheet to hypothetical interest rate shocks. The Company s primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company s net interest income and capital, while structuring the

Company s asset/liability position to obtain the maximum yield-cost spread on that structure.

Rate shock is an instantaneous and complete adjustment in market rates of various magnitudes on a static or level balance sheet to determine the effect such a change in rates would have on the Company s net interest income for the succeeding twelve months, and the fair values of financial instruments.

Management has assessed these risks and has implemented an investment policy, continued to stress its loan programs and decreased interest rates it pays on deposit accounts commensurate with the marketplace to help mitigate the downward pressure on its net interest margin.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

The primary factor, which may affect future results, is the fluctuation of interest rates in the market place more commonly referred to as interest rate risk. Interest rate risk is the exposure of a bank s current and future earnings and equity capital arising from adverse movements in interest rates. It results from the possibility that changes in interest rates may have an adverse effect on a bank s earnings and its underlying economic value. Changes in interest rates affect a bank s earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. As mentioned previously, the potential decrease in a declining interest rate environment would be minimized by an increase in assets. In addition, earnings and growth of the company are and will be affected by general economic conditions, both domestic and international, and by monetary and fiscal policies of the United States Government, particularly the Federal Reserve Bank.

ITEM 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

The Company s Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company s disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-14(c) and 15d-14(c as of a date within 90 days of the filing date of this quarterly report on Form 10Q (the Evaluation Date), have concluded that as of the Evaluation Date, the Company s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be known to them by others within the Company, particularly during the period in which this report on Form 10Q was being prepared.

(b) Changes in Internal Controls.

There were no significant changes in the Company s internal controls, the Company s disclosure controls and procedures, or in other factors that could significantly affect internal controls subsequent to the Evaluation Date, nor were there any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

From time to time the Company is a party to claims and legal proceedings arising in the ordinary course of business. Currently, the Company has no outstanding suits brought against it.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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

The Annual Meeting of Shareholders was held on May 14, 2003. There were present at the Meeting, in person or by proxy, the holders of 1,574,855 shares of Stock of the Company, representing 86.2% of the total votes eligible to be cast. At the meeting two proposals were presented. The first proposal offered a slate of Directors who were all approved. The second and final proposal was the approval of Vavrinek, Trine Day and Co., LLP as the public accounting firm to perform the Company s audit for the year 2003. This proposal was also approved. There was no further business to come before the shareholders.

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of CEO pursuant to Section 302 of Sarbanes-Oxley

31.2 Certification of CFO pursuant to Section 302 of Sarbanes-Oxley

32.1 Certification of CEO pursuant to Section 906 of Sarbanes-Oxley

32.2 Certification of CFO pursuant to Section 906 of Sarbanes-Oxley

(b) Reports on Form 8-K
None

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SIGNATURES

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

	SUMMIT BANCSHARES, INC. **Registrant**	
DATE: August 12, 2003	**By:**	**/s/ SHIRLEY W. NELSON**
		Shirley W. Nelson **Chairman and CEO** **(Principal Executive Officer)**
DATE: August 12, 2003	**By:**	**/s/ KIKUO NAKAHARA**
		Kikuo Nakahara **Chief Financial Officer** **(Principal Financial Officer)**

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