SUMMIT BANCSHARES INC /TX/
Form 10-Q
October 29, 2004

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, 2004; or

o **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.)**

3880 Hulen St., Fort Worth, Texas 76107

(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** o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). **Yes** x **No** o

The number of shares of common stock, $1.25 par value, outstanding at September 30, 2004 was 6,167,099 shares.

SUMMIT BANCSHARES, INC.

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The September 30, 2004 and 2003 and the December 31, 2003 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. The financial statements for the year ended December 31, 2003 included herein are headed unaudited . These financial statements were reported as audited in our Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission but are required to be reflected herein as unaudited because of the absence of an independent auditor s report.

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2004	(Unaudited) September 30, 2003	(Unaudited) December 31, 2003
		(In Thousands)	
ASSETS			
CASH AND DUE FROM BANKS NOTE 1	$ 30,836	$ 32,076	$ 28,620
FEDERAL FUNDS SOLD & DUE FROM TIME	19,467	724	1,336
INVESTMENT SECURITIES NOTE 3			
Securities Available-for-Sale, at fair value	219,264	210,048	195,959
LOANS NOTES 4, 14 AND 20			
Loans, Net of Unearned Discount	689,906	517,994	553,769
Allowance for Loan Losses	(10,079)	(7,483)	(7,784)
LOANS, NET	679,827	510,511	545,985
PREMISES AND EQUIPMENT NOTE 5	15,643	13,237	12,920
GOODWILL NOTE 6	7,978	-0-	-0-
OTHER INTANGIBLE ASSETS, NET NOTE 6	2,560	-0-	-0-
ACCRUED INCOME RECEIVABLE	4,729	3,626	3,754
OTHER REAL ESTATE NOTE 7	-0-	-0-	-0-
OTHER ASSETS	10,102	7,336	6,904
TOTAL ASSETS	$ 990,406	$ 777,558	$ 795,478
LIABILITIES AND SHAREHOLDERS EQUITY			
DEPOSITS NOTE 8			
Noninterest-Bearing Demand	$ 232,586	$ 180,765	$ 192,877
Interest-Bearing	558,938	456,706	448,504
TOTAL DEPOSITS	791,524	637,471	641,381
SHORT TERM BORROWINGS NOTE 9	106,733	69,230	82,234
NOTES PAYABLE NOTE 10	2,250	-0-	-0-
JUNIOR SUBORDINATED DEFERRABLE DEBENTURES NOTE 11	12,372	-0-	-0-
ACCRUED INTEREST PAYABLE	601	326	294
OTHER LIABILITIES	3,378	2,519	2,885
TOTAL LIABILITIES	916,858	709,546	726,794
COMMITMENTS AND CONTINGENCIES NOTES 15, 17, 19 AND 21			
SHAREHOLDERS EQUITY NOTES 16, 18 AND 22			
Common Stock $1.25 Par Value; 20,000,000 shares authorized; 6,167,099, 6,164,929 and 6,152,329 shares issued and outstanding at September 30, 2004 and 2003 and at December 31, 2003, respectively	7,709	7,706	7,690
Capital Surplus	7,580	7,345	7,421
Retained Earnings	57,588	51,956	52,988
Accumulated Other Comprehensive Income Unrealized Gain on Available-for-Sale Investment Securities, Net of Tax	671	1,156	688
	-0-	(151)	(103)

Treasury Stock at Cost (6,250 and 3,700 shares at September 30, 2003 and at December 31, 2003, respectively)			
TOTAL SHAREHOLDERS EQUITY	73,548	68,012	68,684
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 990,406	$ 777,558	$ 795,478

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, 2004	(Unaudited) For the Nine Months Ended September 30, 2003	(Unaudited) Year Ended December 31, 2003
	(In Thousands, Except Per Share Data)		
INTEREST INCOME			
Interest and Fees on Loans	$ 28,097	$ 23,111	$ 31,134
Interest and Dividends on Investment Securities:			
Taxable	5,435	5,175	7,106
Exempt from Federal Income Taxes	191	147	206
Interest on Federal Funds Sold and Due From Time	139	74	81
TOTAL INTEREST INCOME	33,862	28,507	38,527
INTEREST EXPENSE			
Interest on Deposits	5,474	5,166	6,810
Interest on Short Term Borrowings	1,005	418	627
Interest on Note Payable	41	-0-	-0-
Interest on Junior Subordinated Deferrable Debentures	203	-0-	-0-
TOTAL INTEREST EXPENSE	6,723	5,584	7,437
NET INTEREST INCOME	27,139	22,923	31,090
LESS: PROVISION FOR LOAN LOSSES NOTE 4	1,500	586	880
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,639	22,337	30,210
NON-INTEREST INCOME			
Service Charges and Fees on Deposits	3,164	2,562	3,443
Gain on Sale of Investment Securities	32	101	230
Other Income	2,235	1,865	2,355
TOTAL NON-INTEREST INCOME	5,431	4,528	6,028
NON-INTEREST EXPENSE			
Salaries and Employee Benefits NOTE 17	11,169	9,332	12,926
Occupancy Expense Net	1,560	1,260	1,734
Furniture and Equipment Expense	1,670	1,368	1,877
Core Deposit Intangible Amortization	137	-0-	-0-
Other Real Estate Owned and Foreclosed Asset Expense Net	38	15	(4)
Other Expense NOTE 12	4,415	3,724	4,920
TOTAL NON-INTEREST EXPENSE	18,989	15,699	21,453
INCOME BEFORE INCOME TAXES	12,081	11,166	14,785
APPLICABLE INCOME TAXES NOTE 13	4,238	3,801	5,017
NET INCOME	$ 7,843	$ 7,365	$ 9,768

NET INCOME PER SHARE NOTE 18			
Basic	$ 1.27	$ 1.19	$ 1.59
Diluted	1.24	1.17	1.55

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,	
	2004	2003
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Interest and Fees on Loans	$ 10,297	$ 7,754
Interest and Dividends on Investment Securities:		
Taxable	1,939	1,865
Exempt from Federal Income Taxes	74	53
Interest on Federal Funds Sold and Due From Time	51	37
TOTAL INTEREST INCOME	12,361	9,709
INTEREST EXPENSE		
Interest on Deposits	1,996	1,725
Interest on Short Term Borrowings	385	109
Interest on Notes Payable	25	-0-
Interest on Junior Subordinated Deferrable Debentures	127	-0-
TOTAL INTEREST EXPENSE	2,533	1,834
NET INTEREST INCOME	9,828	7,875
LESS: PROVISION FOR LOAN LOSSES NOTE 4	495	46
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,333	7,829
NON-INTEREST INCOME		
Service Charges and Fees on Deposits	1,180	914
Gain on Sale of Investment Securities	32	89
Other Income	929	580
TOTAL NON-INTEREST INCOME	2,141	1,583
NON-INTEREST EXPENSE		
Salaries and Employee Benefits - NOTE 17	4,029	3,336
Occupancy Expense - Net	570	571
Furniture and Equipment Expense	610	493
Core Deposit Amortization	82	-0-
Other Real Estate Owned and Foreclosed Asset Expense - Net	23	28
Other Expense NOTE 12	1,795	1,228
TOTAL NON-INTEREST EXPENSE	7,109	5,656

INCOME BEFORE INCOME TAXES	4,365	3,756
APPLICABLE INCOME TAXES NOTE 13	1,569	1,281
NET INCOME	$ 2,796	$ 2,475
NET INCOME PER SHARE - NOTE 18		
Basic	$ 0.45	$ 0.40
Diluted	0.44	0.39

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, 2004 AND 2003
AND FOR THE YEAR ENDED DECEMBER 31, 2003
(Unaudited)

	Common Stock						
	Shares	Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income - Net Unrealized Gain (Loss) on Investment Securities	Treasury Stock	Total Share-Holder s Equity
	(Dollars in Thousands, Except Per Share Data)						
Balance at January 1, 2003	6,158,542	$ 7,698	$ 7,122	$ 47,660	$ 2,861	$ (403)	$ 64,938
Stock Options Exercised	45,575	57	223				280
Purchases of Stock Held in Treasury						(523)	(523)
Retirement of Stock Held in Treasury	(39,188)	(49)		(726)		775	-0-
Cash Dividend - .38 Per Share				(2,343)			(2,343)
Net Income for the Nine Months Ended September 30, 2003				7,365			7,365
Securities Available-for-Sale Adjustment					(1,705)		(1,705)
Total Comprehensive Income - NOTE 25							5,660
Balance at September 30, 2003	6,164,929	7,706	7,345	51,956	1,156	(151)	68,012
Stock Options Exercised	7,650	9	76				85
Purchases of Stock Held in Treasury						(486)	(486)
Retirement of Stock Held in Treasury	(20,250)	(25)		(509)		534	-0-
Cash Dividend - .14 Per Share				(862)			(862)
Net Income for the Three Months Ended December 31, 2003				2,403			2,403
Securities Available-for-Sale Adjustment					(468)		(468)
Total Comprehensive Income - NOTE 25							1,935
Balance at December 31, 2003	6,152,329	7,690	7,421	52,988	688	(103)	68,684
Stock Options Exercised	38,970	49	159				208
Purchases of Stock Held in Treasury						(581)	(581)
Retirement of Stock Held in Treasury	(24,200)	(30)		(654)		684	-0-
Cash Dividend - .42 Per Share				(2,589)			(2,589)
Net Income for the Nine Months Ended September 30, 2004				7,843			7,843
Securities Available-for-Sale Adjustment					(17)		(17)

Total Comprehensive Income - NOTE 25													7,826
Balance at September 30, 2004	6,167,099	$	7,709	$	7,580	$	57,588	$	671	$	-0-	$	73,548

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, 2004 AND 2003
AND FOR THE YEAR ENDED DECEMBER 31, 2003

	(Unaudited) For the Nine Months Ended September 30, 2004	(Unaudited) For the Nine Months Ended September 30, 2003	(Unaudited) Year Ended December 31, 2003
		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 7,843	$ 7,365	$ 9,768
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	1,204	997	1,370
Net Premium Amortization of Investment Securities	1,035	1,117	1,486
Amortization of Core Deposit Intangible	137	-0-	-0-
Provision for Loan Losses	1,500	586	880
Deferred Income Taxes Expense (Benefit)	(493)	(108)	336
Net Gain on Sale of Investment Securities	(32)	(101)	(230)
Net (Gain) Loss From Sale of Other Real Estate & Repossessed Assets	(69)	10	10
Net Gain From Sale of Premises and Equipment	(37)	(46)	(46)
Net Increase in Accrued Income and Other Assets	(3,146)	(139)	(68)
Net Increase (Decrease) in Accrued Expenses and Other Liabilities	106	(718)	(352)
Total Adjustments	205	1,598	3,386
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,048	8,963	13,154
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Decrease (Increase) in Federal Funds Sold and Due From Time	5,291	(462)	(1,074)
Proceeds from Matured and Prepaid Investment Securities	116,413	40,189	101,354
Proceeds from Sales of Investment Securities	22,306	104,928	125,620
Purchase of Investment Securities	(162,740)	(185,253)	(253,971)
Premium Paid for ANB Financial Corporation	(10,538)	-0-	-0-
Net Assets Acquired in the Purchase of ANB Financial Corporation (Net of Acquired Cash of $3,871)	(2,039)	-0-	-0-
Loans Originated and Principal Repayments, Net	(76,714)	(49,224)	(85,163)
Recoveries of Loans Previously Charged-Off	289	567	737
Proceeds from Sale of Premises and Equipment	57	278	279
Proceeds from Sale of Other Real Estate & Repossessed Assets	638	1,257	1,257
Purchases of Premises and Equipment	(1,524)	(2,981)	(3,038)
NET CASH USED BY INVESTING ACTIVITIES	(108,561)	(90,701)	(113,999)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net Increase in Demand Deposits, Savings Accounts and Interest Bearing Transaction Accounts	51,368	47,052	49,540
Net Increase in Certificates of Deposit	15,202	8,470	9,892
Net Increase in Short Term Borrowings	24,499	31,975	44,979
Proceeds from Notes Payable	2,250	-0-	-0-
Proceeds from Issuance of Junior Subordinated Debentures	12,372	-0-	-0-
Payments of Cash Dividends	(2,589)	(2,343)	(3,205)
Proceeds from Stock Options Exercised	208	280	365
Purchase of Treasury Stock	(581)	(523)	(1,009)

NET CASH PROVIDED BY FINANCING ACTIVITIES		102,729		84,911		100,562
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		2,216		3,173		(283)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		28,620		28,903		28,903
CASH AND DUE FROM BANKS AT END OF PERIOD	$	30,836	$	32,076	$	28,620
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES						
Interest Paid	$	6,506	$	5,612	$	7,497
Income Taxes Paid		4,821		3,631		4,296
Other Real Estate and Other Assets Acquired in Settlement of Loans		55		-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, 2004 AND 2003 (UNAUDITED)
AND FOR THE YEAR ENDED DECEMBER 31, 2003 (UNAUDITED)

NOTE 1 - Summary of Significant Accounting Policies

The accounting and reporting policies of Summit Bancshares, Inc. 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, Summit Bank, National Association (the Bank), SIA Insurance Agency, Inc. (SIA). All significant intercompany balances and transactions have been eliminated in consolidation.

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 materially 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 2004, the average cash balance maintained at the Federal Reserve Bank was $2,422,000. Compensating balances held at other correspondent banks, to minimize service charges, averaged approximately $21,722,000 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 2004 and 2003, 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, deferred fees 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. Loan origination fee income, net of direct loan origination costs, is deferred and amortized over the life of the related loan. 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.

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

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 for certain loans when it is probable that all amounts due pursuant to the contractual terms of the loan will not be collected. In these situations, a reserve is recorded when the carrying amount of the loan exceeds the discounted cash flows using the loan s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Income on impaired loans is recognized based on the collectibility of the principal amount. Adjustments to the allowance for loan losses will be reported in the period such adjustments become known or are reasonably estimable.

The amount maintained in the allowance reflects management s continuing assessment of the potential losses inherent in its loan portfolio based on its evaluation of a number of factors, including the Bank 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.

Premises and Equipment

Land is carried at cost. 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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted Financial Accounting Standards Board Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets . FAS 142 eliminates amortization of goodwill associated with business combinations completed after June 30, 2001. Goodwill is periodically assessed for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present.

Amortization of Core Deposit Intangibles

Core Deposit Intangibles (CDI) are amortized using a straight line amortization method over an estimated useful life of eight years.

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 write-down 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 its 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.

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

Cash and Cash Equivalents

For the purpose of presentation in the Statements of Cash Flows, cash and cash equivalents include cash on hand, clearings and exchanges, and balances due from correspondent banks.

Reclassification

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

Earnings Per Common and Common Equivalent Shares

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 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.

Stock Based Compensation

The Corporation accounts for stock-based compensation in accordance with the intrinsic value based method recommended by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date over the amount an employee must pay to acquire the stock. The impact on the financial statements of using this method is disclosed below.

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148 (SFAS 123), requires pro forma disclosures of net income and earnings per share for companies not adopting its fair value accounting method for stock-based compensation. The pro forma disclosures presented below use the fair value method of SFAS 123 to measure compensation expense for stock-based compensation plans.

The Corporation accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, under which no compensation cost has been recognized for options granted. The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation:

	Nine Months Ended September 30, 2004	Year Ended December 31, 2003
Net Income, as Reported	$ 7,843	$ 9,768
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(99)	(135)
Pro Forma Net Income	$ 7,744	$ 9,633
Earnings Per Share:		
Basic as Reported	$ 1.27	$ 1.59
Basic Pro Forma	1.26	1.56
Diluted as Reported	1.24	1.55
Diluted Pro Forma	1.22	1.52

Comprehensive Income

Comprehensive income includes all changes in shareholders equity during a period, except those resulting from investments by and distributions to owners and treasury stock transactions. Besides net income, the other component of the Corporation s comprehensive income is the after tax effect of changes in the fair value of available-for-sale securities. Comprehensive income for the periods ended September 30, 2004 and 2003 and for the year ended December 31, 2003 is reported in Note 25, Comprehensive Income.

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

Audited Financial Statements

The consolidated balance sheet as of December 31, 2003, and the consolidated statements of income, changes in shareholders equity and cash flows for the year ended December 31, 2003 are headed unaudited in these financial statements. These statements were reported as audited in our Annual Report of Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission but are required to be reflected in these statements as unaudited because of the absence of an independent auditor s report.

NOTE 2   Acquisitions

On May 1, 2004, the Corporation completed its merger with ANB Financial Corporation and its wholly-owned subsidiary, Arlington National Bank of Arlington, Texas (collectively, ANB). Under the terms of the merger agreement with ANB, the Corporation acquired ANB for approximately $16.0 million in cash. ANB was privately held and operated four (4) banking offices in Arlington, Texas. On May 1, 2004, ANB had total assets of $89.0 million, loans of $59.4 million, deposits of $83.6 million and shareholder s equity of $3.1 million. This acquisition was partially funded through the formation of Summit Bancshares, Inc. Statutory Trust I and its subsequent issuance of $12.0 million of its floating rate Capital Securities.

NOTE 3 - Investment Securities

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

	September 30, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities Available-for-Sale				
U.S. Government Agencies and Corporations	$ 155,191	$ 1,813	$ (512)	$ 156,492
U.S. Government Agency Mortgage Backed Securities	45,967	112	(643)	45,436
Obligations of States and Political Subdivisions	8,024	168	(17)	8,175
Community Reinvestment Act Investment Fund	3,000	96	-0-	3,096
Federal Reserve and Federal Home Loan Bank Stock	5,989	-0-	-0-	5,989
Other	76	-0-	-0-	76
Total Available-for-Sale Securities	218,247	2,189	(1,172)	219,264
Total Investment Securities	$ 218,247	$ 2,189	$ (1,172)	$ 219,264

All investment securities are carried on the consolidated balance sheet as of September 30, 2004 at fair value. The net unrealized gain of $1,017,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders Equity.

Included in the Federal Reserve and Federal Home Loan Bank Stock category at September 30, 2004 is $5,189,000 of Federal Home Loan Bank Stock and $800,000 of Federal Reserve Stock which are classified as restricted investment securities, carried at cost, and evaluated for impairment. No impairment losses were recorded as of September 30, 2004. The Corporation was required at September 30, 2004 to have stock holdings of Federal Home Loan Bank Stock equal to .20% of the Corporation s total assets as of the previous year end plus 4.25% of its outstanding advancements from the Federal Home Loan Bank (FHLB). The Corporation is also required to have stock holdings of Federal Reserve Stock equal to 6% of its Capital Stock and Surplus.

NOTE 3 - Investment Securities (cont d.)

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

	September 30, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities Available-for-Sale				
U.S. Government Agencies and Corporations	$ 135,192	$ 2,509	$ (776)	$ 136,925
U.S. Government Agency Mortgage Backed Securities	60,396	148	(308)	60,236
Obligations of States and Political Subdivisions	6,865	144	(47)	6,962
Community Reinvestment Act Investment Fund	3,000	82	-0-	3,082
Federal Reserve and Federal Home Loan Bank Stock	2,843	-0-	-0-	2,843
Total Available-for-Sale Securities	208,296	2,883	(1,131)	210,048
Total Investment Securities	$ 208,296	$ 2,883	$ (1,131)	$ 210,048

All investment securities are carried on the consolidated balance sheet as of September 30, 2003 at fair value. The net unrealized gain of $1,752,000 is included in the Available-for-Sale Investment Securities balance. The unrealized gain, net of tax, is included in Shareholders Equity.

Included in the Federal Reserve and Federal Home Loan Bank Stock category at September 30, 2003 was $2,523,000 of Federal Home Loan Bank Stock and $320,000 of Federal Reserve Stock which are classified as restricted investment securities, carried at cost, and evaluated for impairment. No impairment losses were recorded as of September 30, 2003. The Corporation was required at September 30, 2003 to have stock holdings of Federal Home Loan Bank Stock equal to .20% of the Corporation s total assets as of the previous year end plus 4.25% of its outstanding advancements from the FHLB. The Corporation was also required to have stock holdings of Federal Reserve Stock equal to 6% of its Capital Stock and Surplus.

NOTE 4 - Loans and Allowance for Loan Losses

The book values of loans by major type are as follows (in thousands):

	September 30,		December 31,
	2004	2003	2003
Commercial	$ 257,721	$ 211,616	$ 219,805
Real Estate Mortgage - Commercial	198,796	142,317	159,082
Real Estate Mortgage - Residential	81,318	61,676	67,635
Real Estate Construction	111,641	69,840	74,069
Loans to Individuals	40,430	32,545	33,178
	689,906	517,994	553,769
Allowance for Loan Losses	(10,079)	(7,483)	(7,784)
Loans - Net	$ 679,827	$ 510,511	$ 545,985

Loans are net of unearned income of $890,000 and $629,000 at September 30, 2004 and 2003, respectively, and $690,000 at December 31, 2003.

NOTE 4 - 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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Balance, Beginning of Period	$ 7,784	$ 6,706	$ 6,706
Balance Acquired in the Arlington National Bank Acquisition	1,254	-0-	-0-
Provisions, Charged to Income	1,500	586	880
Loans Charged-Off	(748)	(376)	(539)
Recoveries of Loans Previously Charged-Off	289	567	737
Net Loans (Charged-Off) Recovered	(459)	191	198
Balance, End of Period	$ 10,079	$ 7,483	$ 7,784

The provisions for loan losses charged to operating expenses during the nine months ended September 30, 2004 and September 30, 2003 of $1,500,000 and $586,000, respectively, were considered adequate to maintain the allowance in accordance with the policy discussed in Note 1, Summary of Significant Accounting Policies . For the year ended December 31, 2003, a provision of $880,000 was recorded.

At September 30, 2004, the recorded investment in loans that are considered to be impaired under Statement of Financial Accounting Standards No. 114 was $1,606,000 (of which $1,606,000 were on non-accrual status). The related allowance for loan losses for these loans was $227,000. The average recorded investment in impaired loans during the nine months ended September 30, 2004 was approximately $1,599,000. For this period the Corporation recognized no interest income on these impaired loans.

NOTE 5 - 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, 2004	September 30, 2003	December 31, 2003
Land	$ 3,038	$ 2,212	$ 2,212
Buildings and Improvements	12,056	10,209	10,209
Furniture & Equipment	11,695	10,674	10,515
Total Cost	26,789	23,095	22,936
Less: Accumulated Amortization and Depreciation	11,146	9,858	10,016
Net Book Value	$ 15,643	$ 13,237	$ 12,920

NOTE 6 Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. The Corporation has adopted Financial Accounting Standards Board Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets . FAS 142 eliminates amortization of goodwill associated with business combinations completed after June 30, 2001. Goodwill is periodically assessed for impairment when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Corporation bases its evaluation on such impairment factors as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. On May 1, 2004, the Corporation completed its acquisition of ANB. A premium of $10.7 million was paid in connection with the acquisition of ANB, $2.7 million of which was identified as core deposit intangibles. The remaining $8.0 million has been recorded as goodwill. In accordance with FAS 142, the goodwill will not be amortized. The core deposit intangibles are being amortized using a straight line method over their estimated useful life of 8 years. Amortization expense of $137,000 has been recorded on the core deposit intangibles through September 30, 2004.

NOTE 7 - Other Real Estate

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

	September 30, 2004	September 30, 2003	December 31, 2003
Other Real Estate	$ -0-	$ -0-	$ -0-

There was no Other Real Estate at September 30, 2004. There were no direct write-downs of other real estate charged to income for the nine months ended September 30, 2004 or September 30, 2003. There were also no direct write-downs of other real estate charged to income for the year ended December 31, 2003.

Included in Other Assets at September 30, 2004 was $4,000 of Other Foreclosed Assets. These assets were comprised of motor vehicles. There were no direct write-downs of these assets as of September 30, 2004. There were no Other Foreclosed Assets as of September 30, 2003.

NOTE 8 - Deposits

The book values of deposits by major type are as follows (in thousands):

	September 30, 2004	September 30, 2003	December 31, 2003
Noninterest-Bearing Demand Deposits	$ 232,586	$ 180,765	$ 192,877
Interest-Bearing Deposits:			
Interest-Bearing Transaction			
Accounts and Money Market Funds	245,472	208,176	195,184
Savings	160,338	124,262	127,630
Certificates of Deposits under $100,000 and IRA s	72,462	62,722	62,275
Certificates of Deposits $100,000 or more	80,450	61,230	63,099
Other	216	316	316
Total	558,938	456,706	448,504
Total Deposits	$ 791,524	$ 637,471	$ 641,381

NOTE 9 - 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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Securities Sold Under Repurchase Agreements:			
Average Balance	$ 31,558	$ 20,175	$ 26,850
Period-End Balance	36,733	27,030	32,234
Maximum Month-End Balance During Period	36,733	27,030	32,234
Interest Rate:			
Average	0.64%	0.49%	0.31%
Period-End	1.14%	0.53%	0.44%

Federal Home Loan Bank Advances:			
Average Balance	$ 71,423	$ 25,637	$ 30,532
Period-End Balance	70,000	27,000	50,000
Maximum Month-End Balance During Period	100,000	34,300	50,000
Interest Rate:			
Average	1.56%	1.80%	1.65%
Period-End	1.80%	1.53%	1.52%
Federal Funds Purchased:			
Average Balance	$ 2,197	$ 2,007	$ 2,774
Period-End Balance	-0-	7,200	-0-
Maximum Month-End Balance During Period	21,525	7,200	7,200
Interest Rate:			
Average	1.32%	1.50%	1.41%
Period-End	0.00%	1.36%	0.00%

Note 9 Short Term Borrowings (cont d.)

The Corporation has available a line of credit with the FHLB of Dallas which allows it to borrow on a collateralized basis at a fixed term. The borrowings are collateralized by a blanket floating lien on all first mortgage loans, the FHLB capital stock owned by the Corporation and any funds on deposit with FHLB. At September 30, 2004, the Corporation had $70.0 million of borrowings outstanding under the line of credit at a rate of 1.80%, $20.0 million of which matures in 2004, $40.0 million of which matures in 2005 and the last $10.0 million of which matures in April 2006. Through September 30, 2004, the Corporation had average borrowings on this line of $71.4 million. At September 30, 2003, the Corporation had $27.0 million of borrowings outstanding under the line of credit at an average rate of 1.51%. In addition, at September 30, 2003, the Corporation had another $8.0 million borrowed under an arrangement to purchase an investment security which matured in October 2003.

NOTE 10 Notes Payable

On September 15, 2004, the Corporation obtained a line of credit from a bank under which the Corporation may borrow $10,000,000 at a floating rate (three month LIBOR plus a margin of 2.00%). The line of credit is secured by stock of the Bank and matures on September 15, 2005, whereupon, if balances are outstanding, the line converts to term notes having five year terms. The Corporation will not pay a fee for any unused portion of the line. At September 30, 2004, $2,250,000 had been borrowed under this line. The rate at September 30, 2004 was 3.61%.

NOTE 11 Junior Subordinated Deferrable Debentures

On May 3, 2004, the Corporation formed Summit Bancshares, Inc. Statutory Trust I (SBI Trust) and SBI Trust subsequently issued $12.0 million of floating rate (three month LIBOR plus a margin of 2.65%) Capital Securities (the Trust Capital Securities). Concurrent with the issuance of the Trust Capital Securities, SBI Trust issued trust common securities to the Corporation in the aggregate liquidation value of $372,000. The proceeds of the issuance of the Trust Capital Securities and trust common securities were invested in the Corporation s Floating Rate Junior Subordinated Deferrable Debentures (the Deferrable Debentures), which mature on July 7, 2034 and have a call feature that permits the Corporation to redeem any or all of the securities after July 7, 2009. The interest rate on the Deferrable Debentures at September 30, 2004 was 4.25%. The Deferrable Debentures, which are the only assets of SBI Trust, are subordinated and junior in right of payment to all present and future senior indebtedness (as defined in the Indenture dated May 3, 2004) of the Corporation.

NOTE 12 - Other Non-Interest Expense

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Business Development	$ 641	$ 594	$ 762
Legal and Professional Fees	793	503	688
Item Processing	653	532	672
Printing and Supplies	303	315	435
Regulatory Fees and Assessments	224	186	250
Other	1,801	1,594	2,113
Total	$ 4,415	$ 3,724	$ 4,920

NOTE 13 - Income Taxes

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

	September 30, 2004	September 30, 2003	December 31, 2003
Current Tax Asset (Liability)	$ 563	$ 69	$ (39)

Net Deferred Tax Asset	2,715	1,879	1,677
Total Included in Other Assets	$ 3,278	$ 1,948	$ 1,638

The net deferred tax asset at September 30, 2004 of $2,715,000 included $(346,000) related to unrealized gains on Available-for-Sale Securities.

NOTE 13 - Income Taxes (cont d.)

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Federal Income Tax Expense:			
Current	$ 4,731	$ 3,909	$ 4,681
Deferred (benefit)	(493)	(108)	336
Total Federal Income Tax Expense	$ 4,238	$ 3,801	$ 5,017
Effective Tax Rates	35.00%	34.00%	34.00%

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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31 2003
Federal Income Taxes at Statutory Rate of 34.9%	$ 4,216	$ 3,830	$ 5,071
Effect of Tax Exempt Interest Income	(65)	(69)	(94)
Non-deductible Expenses	124	51	70
Other	(37)	(11)	(30)
Income Taxes Per Income Statement	$ 4,238	$ 3,801	$ 5,017

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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Federal Deferred Tax Assets:			
Allowance for Loan Losses	$ 3,517	$ 2,566	$ 2,667
Valuation Reserves Other Real Estate	-0-	2	2
Interest on Non-accrual Loans	181	171	121
Unrealized Losses on Available-for-Sale Securities	-0-	-0-	-0-
Deferred Compensation	599	542	541
Net Operating Loss Carryforward	161	-0-	-0-
Gross Federal Deferred Tax Assets	4,458	3,281	3,331
Federal Deferred Tax Liabilities:			
Depreciation and Amortization	1,201	530	1,087
Accretion	27	203	135
Unrealized Gains on Available-for-Sale Securities	346	595	354

Other	169	74	78
Gross Federal Deferred Tax Liabilities	1,743	1,402	1,654
Net Deferred Tax Asset	$ 2,715	$ 1,879	$ 1,677

NOTE 14 - Related Party Transactions

The Bank has made transactions in the ordinary course of business with certain of its and the Corporation s 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 and all loans are current as to principal and interest payments. Total loans outstanding to such parties amounted to approximately $10,599,000 at September 30, 2004, $9,389,000 at December 31, 2003 and $10,560,000 at September 30, 2003.

NOTE 15 - 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, 2004, outstanding documentary and standby letters of credit totaled $5,339,000 and commitments to extend credit totaled $181,304,000.

In addition, the Corporation leases certain office facilities under operating leases. Rent expense for all operating leases totaled $814,000 and $737,000 for the nine months ended September 30, 2004 and 2003, respectively, and $981,000 for the year ended December 31, 2003. Included in the September 30, 2004 totals is $69,000 of lease expense related to the ANB facilities.

NOTE 16 - Stock Option Plans

The Corporation has two Incentive Stock Option Plans, the 1993 Plan and the 1997 Plan, (each, a Plan, and, collectively, 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 the Corporation and its 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 following is a summary of transactions during the periods presented:

	Shares Under Option	
	Nine Months Ended September 30, 2004	**Year Ended December 31, 2003**
Outstanding, Beginning of Period	379,659	418,934
Additional Options Granted During the Period	34,000	25,000
Forfeited During the Period	(19,000)	(11,050)
Exercised During the Period	(38,970)	(53,225)
Outstanding, End of Period	355,689	379,659

Options outstanding at September 30, 2004 ranged in price from $5.25 to $31.76 per share with a weighted average exercise price of $15.13 and 277,249 shares exercisable. At September 30, 2004, there remained 321,250 shares reserved for future grants of options under the 1997 Plan. See Note 1 Summary of Significant Accounting Policies - Stock Based Compensation for information regarding the dilutive impact of these stock options.

NOTE 17 - 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. Beginning in 2000, the Corporation has made matching contributions, not to exceed 6% of the employee s annual compensation, to the participant s deferrals of compensation up to 100% of the employee contributions.

The amount expensed in support of the 401(k) plan was $417,000 and $311,000 during the first nine months of 2004 and 2003, respectively, and $411,000 for the year ended December 31, 2003.

Supplemental Executive Retirement Plan

In 2002, the Corporation established a Supplemental Executive Retirement Plan (the Retirement Plan) to provide key employees with retirement, death or disability benefits. For currently employed employees, the Retirement Plan replaces the previous Management Security Plan. The Retirement Plan is a defined contribution plan. The expense charged to earnings for such future obligations was $126,000 and $158,000 for the first nine months of 2004 and 2003, respectively, and $202,000 for the year ended December 31, 2003.

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 18 - 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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Net income	$ 7,843	$ 7,365	$ 9,768
Weighted average number of common shares used in Basic EPS	6,159,432	6,162,702	6,160,780
Effect of dilutive stock options	173,877	146,798	156,382
Weighted number of common shares and dilutive potential common stock used in Diluted EPS	6,333,309	6,309,500	6,317,162

NOTE 19 - 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, 2004	September 30, 2003
Financial Instruments Whose Contract Amounts Represent Credit Risk:		
Loan Commitments Including Unfunded Lines of Credit	$ 181,304	$ 147,313
Standby Letters of Credit	5,339	5,196

Loan commitments are agreements to lend to a customer as long as there is no customer violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Standby letters of credit are conditional commitments by the Corporation to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Since many of the loan commitments and letters of credit 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.

NOTE 20 - Concentrations of Credit Risk

The Bank makes 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 of Directors of the Bank. Additional loans in excess of these limits must have prior approval of the Bank s 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 21 - Litigation

The Corporation 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 22 - Stock Repurchase Plan

On April 20, 2004, the Board of Directors of the Corporation approved a stock repurchase plan. The plan authorized management to purchase up to 307,680 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, 2004, 20,500 shares were purchased by the Corporation pursuant to the stock repurchase plan through the open market.

NOTE 23 - Subsequent Event

On October 19, 2004, the Board of Directors of the Corporation approved a quarterly dividend of $.14 per share to be paid on November 15, 2004 to shareholders of record on November 1, 2004.

NOTE 24 - 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,			
	2004		2003	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets				
Cash and due from banks	$ 30,836	$ 30,836	$ 32,076	$ 32,076
Federal funds sold and Due From Time	19,467	19,467	724	724
Securities	219,264	219,264	210,048	210,048
Loans	689,906	686,988	517,994	520,121
Allowance for loan losses	(10,079)	(10,079)	(7,483)	(7,483)
Financial Liabilities				
Deposits	791,524	792,869	637,471	639,440
Short Term Borrowings	106,733	106,679	69,230	69,021
Off-balance Sheet Financial Instruments				
Loan commitments		181,304		147,313
Letters of credit		5,339		5,196

NOTE 25 - Comprehensive Income

The Corporation has adopted 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, 2004	Nine Months Ended September 30, 2003	Year Ended December 31, 2003
Net Income	$ 7,843	$ 7,365	$ 9,768
Other Comprehensive Income:			
Unrealized loss on securities available-for-sale, net of tax benefit	(17)	(1,705)	(2,173)
Comprehensive Income	$ 7,826	$ 5,660	$ 7,595

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

The following discussion should be read in conjunction with the consolidated financial statements, accompanying notes and selected financial data appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2003 and may contain certain forward-looking statements that are based on current management expectations. Generally, verbs in the future tense and the words believe, expect, anticipate, estimate, intends, opinion, potential and similar expressions identify forward-looking statements. Examples of this forward-looking information include, but are not limited to, the discussion of allowance for loan losses, continued loan growth and loan growth rates and liquidity. Our actual results could differ materially from those management expectations. Further information concerning our business, including additional risk factors and uncertainties that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q, are set forth below under the heading Factors That May Affect Future Results. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. The forward-looking statements contained herein speak only as of the date of this Quarterly Report on Form 10-Q and, except as may be required by applicable law and regulation, we do not undertake, and specifically disclaim any obligation to, publicly update or revise such statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Except as the context otherwise requires, references herein to the Corporation, we, or our refer to the business of Summit Bancshares, Inc. and its consolidated subsidiaries.

Overview

Our business has been conducted primarily through our wholly-owned subsidiaries, Summit Bank, National Association, (the Bank), Summit Delaware Financial Corporation, SIA Insurance Agency, Inc. (SIA) and Summit Bancshares, Inc. Statutory Trust I (SBI Trust). The Bank currently operates its branch offices in twelve locations in Tarrant County.

Our results of operations are primarily dependent on net interest income, which is the difference between the income earned on our loans and investment portfolios and our cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by our allowance for loan losses, investment activities, loan servicing fees and other fees. Our non-interest expense principally consists of compensation and benefits, occupancy and equipment expense, advertising costs, data processing expense and other expenses.

Net income for the third quarter of 2004 was $2,796,000, an increase of $321,000, or 13.0%, compared to $2,475,000 recorded for the third quarter of 2003. On a weighted average share basis, net income for the third quarter of 2004 was $0.44 per diluted share as compared to $0.39 per diluted share for the third quarter of 2003. Net income for the first nine months of 2004 was $7,843,000, an increase of $478,000, or 6.5%, compared to net income of $7,365,000 for the first nine months of 2003. On a weighted average share basis, net income for the first nine months of 2004 was $1.24 per diluted share compared to $1.17 per diluted share for the first nine months of 2003. The increase in earnings during the third quarter of 2004 and for the first nine months of 2004 was primarily due to an increase in net interest income (tax equivalent) of $1,955,000 for the third quarter of 2004 over the third quarter of 2003 and $4,216,000 for the first nine months of 2004 over the first nine months of 2003. The increase in net interest income for these periods was primarily due to the growth in average loans and the acquisition of ANB Financial Corporation and its wholly-owned subsidiary, Arlington National Bank (collectively ANB). Average loans for the third quarter of 2004, excluding the impact of the ANB acquisition, grew 22.6% compared to the third quarter of 2003. Including the ANB acquisition, average loans for the third quarter of 2004 were 34.7% more than average loans for the third quarter of 2003. Average loans for the first nine months ended September 30, 2004 were 28.1% higher than the average for loans for the first nine months ended September 30, 2003.

Based on an improving economy in our market area and the ANB acquisition, total loans at September 30, 2004 were $689.9 million, which represented an increase of $136.1 million, or 24.6%, over total loans at December 31, 2003 and an increase of $171.9 million, or 33.2% over total loans at September 30, 2003. Excluding the impact of the ANB acquisition, total loans at September 30, 2004 increased $114.3 million, or 22.1% from the prior year period. Although we do not expect to see loan growth rates from quarter to quarter to be as high as they have been the past few quarters, we do expect double digit loan growth for the full year of 2004. Total deposits at September 30, 2004 of $791.5 million increased $150.1 million, or 23.4% from December 31, 2003 and increased $154.0 million, or 24.2% from $637.5 million at September 30, 2003. Excluding the impact of the ANB acquisition, total deposits at September 30, 2004 grew $51.1 million, or 8.0% from the prior year period. Compared to the third quarter of 2003, we experienced growth in every category of deposits during the third quarter of 2004 with the largest growth coming in demand deposits and interest-bearing transaction accounts which increased $51.8 million and $37.3 million, respectively. Shareholders equity was $73.5 million at September 30, 2004, an increase of $5.5 million, or 8.1%, compared to shareholders equity of $68.0 million at September 30, 2003. See the Statement of Changes in Stockholders Equity on page 6 for a detail of the changes.

The following table shows selected performance ratios for the first six months of 2004 and 2003 that management believes to be key indicators of our performance:

	Nine Months Ended September 30,	
	2004	2003
Annualized Return on Average Assets (ROAA)	1.15%	1.36%
Annualized Return on Average Shareholders Equity (ROAE)	14.82	14.60
Shareholders Equity to Assets Average	7.81	9.32
Dividend Payout Ratio	33.01	31.81
Net Interest Margin (tax equivalent)	4.28	4.85
Efficiency Ratio	58.11	56.93

The return on average assets ratio is calculated by dividing net income by average total assets for the period. Management believes our return on average asset ratio of 1.15% for the first nine months of 2004 is comparable to the return on average assets of other financial institutions in our peer group, which was 1.24% for the first nine months of 2004. Our peer group is comprised of other publicly traded bank holding companies headquartered in Texas and was selected by our management.

The return on average shareholders equity ratio is calculated by dividing net income by average shareholders equity for the period. Management believes our return on average shareholders equity ratio of 14.82% for the first nine months of 2004 compares favorably to the return on average shareholders equity ratio of other financial institutions in our peer group, which was 14.26% for the first nine months of 2004.

The shareholders equity to assets ratio is calculated by dividing average shareholders equity by average total assets for the period. Management believes our average shareholders equity to average assets ratio of 7.81% for the first nine months of 2004 is comparable to the average shareholders equity to average asset ratio of other financial institutions in our peer group, which was 8.95% for the first nine months of 2004.

The dividend payout ratio is determined by dividing the total dividends paid by net income for the period. Our dividend payout ratio results in a yield-to-market price return equal to or greater than our peer group.

Net interest margin is calculated by dividing net interest income on a tax equivalent basis by average total earning assets. Management believes our net interest margin of 4.28% for the first nine months of 2004 compares favorably to the net interest margin ratio of other financial institutions in our peer group, which was 4.10% for the first nine months of 2004.

The efficiency ratio is calculated by dividing non-interest expenses by the sum of total non-interest income and net interest income for the period. The efficiency ratio provides a measure of the extent to which our revenues are absorbed by our non-interest expenses. Management believes our efficiency ratio of 58.11% for the first nine months of 2004 compares favorably to the average efficiency ratio of other financial institutions in our peer group, which was 61.31% for the first nine months of 2004.

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 2004 and 2003 (rates on tax equivalent basis):

	Three Months Ended September 30,					
	2004			2003		
	Average Balances	Interest	Average Yield/Rate	Average Balances	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Earning Assets:						
Federal Funds Sold & Due From Time	$ 16,849	$ 51	1.21%	$ 15,298	$ 37	0.97%
Investment Securities (Taxable)	211,298	1,939	3.65%	193,232	1,865	3.83%
Investment Securities (Tax-exempt)	7,533	113	5.98%	6,135	82	5.27%
Loans, Net of Unearned Discount[(1)]	678,915	10,297	6.03%	503,936	7,762	6.11%
Total Earning Assets	914,595	12,400	5.39%	718,601	9,746	5.38%
Non-interest Earning Assets:						
Cash and Due From Banks	31,213			26,189		
Other Assets	41,022			23,926		
Allowance for Loan Losses	(9,919)			(7,438)		
Total Assets	$ 976,911			$ 761,278		
Interest-Bearing Liabilities:						
Interest-Bearing Transaction Accounts and Money Market Funds	$ 253,642	672	1.05%	$ 207,787	566	1.08%
Savings	154,980	462	1.19%	120,124	380	1.26%
Certificates of Deposit under $100,000 and IRA s	71,360	394	2.20%	63,257	383	2.40%
Certificates of Deposit $100,000 or more	77,033	466	2.40%	60,842	394	2.57%
Other Time	314	2	2.29%	315	2	2.17%
Other Borrowings	118,083	537	1.81%	61,199	109	0.70%
Total Interest-Bearing Liabilities	675,412	2,533	1.49%	513,524	1,834	1.42%
Non-interest Bearing Liabilities:						
Demand Deposits	226,462			176,478		
Other Liabilities	3,999			3,003		
Shareholders Equity	71,038			68,273		
Total Liabilities and Shareholders Equity	$ 976,911			$ 761,278		
Net Interest Income and Margin (Tax-equivalent Basis)[(2)]		$ 9,867	4.29%		$ 7,912	4.37%

(1) Loan interest income includes various loan fees and loan volumes include loans on non-accrual. The loan fees include loan origination fees which are considered adjustments to interest income. These fees aggregated $390,000 and $319,000 for the quarter ended September 30, 2004 and 2003, respectively, and $1,248,000 for the year ended December 31, 2003. Related loan origination costs are not separately allocated

to loans, but are charged to non-interest expense. For the purpose of calculating loan yields, average loan balances include non-accrual loans with no related interest income.

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

The net interest margin was 4.29% for the third quarter of 2004, which represented a decrease of 8 basis points from the third quarter of 2003. This decrease in net interest margin reflected a 1 basis point increase in yield on earning assets from the third quarter of 2003 to the third quarter of 2004, which was offset by a 7 basis point increase in rates paid on interest-bearing liabilities from the third quarter of 2003 to the third quarter of 2004. The impact of the decrease in the net interest margin was offset by a 27.3% growth in earning assets resulting in the 24.7% increase in net interest income from the third quarter of 2003 to the third quarter of 2004. The growth in earning assets and a 41 basis point increase in the average prime lending rate from the third quarter of 2003 to the third quarter of 2004 were the catalyst behind the net interest income growth overcoming the drop in net interest margin. The increase in the average prime lending rate had a positive impact on only a portion of the earning assets as less than 45% of earning assets benefited immediately from the changes in market interest rates. The increase in rates paid on interest-bearing liabilities was primarily due to the increase in rates paid on the subordinated debentures and notes payable issued by the Corporation to fund the ANB acquisition. The rates paid on both of these borrowings are based on three month Libor rates which have been impacted considerably by the recent increase in short term market rates.

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 2004 and 2003 (rates on tax equivalent basis):

	Nine Months Ended September 30,					
	2004			2003		
	Average Balances	Interest	Average Yield/Rate	Average Balances	Interest	Average Yield/Rate
	(Dollars in Thousands)					
Earning Assets:						
Federal Funds Sold & Due From Time	$ 17,813	$ 139	1.04%	$ 9,476	$ 74	1.05%
Investment Securities (Taxable)	194,295	5,435	3.73%	173,216	5,175	3.99%
Investment Securities (Tax-exempt)	7,032	291	5.51%	5,415	224	5.53%
Loans, Net of Unearned Discount(1)	632,076	28,102	5.94%	493,361	23,139	6.27%
Total Earning Assets	851,216	33,967	5.33%	681,468	28,612	5.61%
Non-interest Earning Assets:						
Cash and Due From Banks	28,398			26,601		
Other Assets	33,314			22,428		
Allowance for Loan Losses	(9,077)			(7,274)		
Total Assets	$ 903,851			$ 723,223		
Interest-Bearing Liabilities:						
Interest-Bearing Transaction Accounts and Money Market Funds	$ 229,841	1,827	1.06%	$ 192,650	1,599	1.11%
Savings	143,237	1,255	1.17%	116,997	1,187	1.36%
Certificates of Deposit under $100,000 and IRA s	67,304	1,105	2.19%	63,095	1,210	2.56%
Certificates of Deposit $100,000 or more	70,636	1,281	2.42%	58,112	1,165	2.68%
Other Time	315	6	2.66%	315	5	2.21%
Other Borrowings	113,559	1,249	1.47%	52,741	418	1.06%
Total Interest-Bearing Liabilities	624,892	6,723	1.44%	483,910	5,584	1.54%
Non-interest Bearing Liabilities:						
Demand Deposits	204,638			168,968		
Other Liabilities	3,740			2,916		
Shareholders Equity	70,581			67,429		
Total Liabilities and Shareholders Equity	$ 903,851			$ 723,223		
Net Interest Income and Margin (Tax-equivalent Basis)(2)		$ 27,244	4.28%		$ 23,028	4.52%

(1) Loan interest income includes various loan fees and loan volumes include loans on non-accrual. The loan fees include loan origination fees which are considered adjustments to interest income. These fees aggregated $1,124,000 and $912,000 through September 30, 2004 and 2003, respectively, and $1,248,000 for the year ended December 31, 2003. Related loan origination costs are not separately allocated to loans, but are charged to non-interest expense. For the purpose of calculating loan yields, average loan balances include non-accrual loans with no related interest income.

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

The net interest margin for the nine months ended September 30, 2004 was 4.28%, which represented a decrease of 24 basis points from the 4.52% net interest margin earned for the nine months ended September 30, 2003. This decrease in net interest margin for the nine months ended September 30, 2004 reflected a 28 basis point decrease in yield on earning assets, which was partially offset by a 10 basis point decrease in rates paid on interest-bearing liabilities from the prior year period. The decrease in net interest margin also reflected less earned income from our investment in earning assets funded by our non-interest bearing fundings of demand deposits and shareholders equity.

In the event that our average loans continue to grow during the last quarter of 2004 and we are unable to fund any such growth solely through the generation of additional deposits, we may be required to obtain funding from secondary sources, such as the

Federal Home Loan Bank. Because of the composition of our balance sheet and our emphasis on commercial lending, we are market interest rate sensitive and expect to benefit from market interest rate increases, including the three separate 25 basis point increases in the prime lending rate effected by the Federal Reserve Board beginning in late June 2004, assuming deposit interest rates do not increase significantly faster than interest rates on earning assets.

Net Interest Income

Net interest income (tax equivalent) for the third quarter of 2004 was $9,867,000, which represented an increase of $1,955,000, or 24.7%, over the third quarter of 2003. In this same period, tax equivalent interest income increased $2,654,000, or 27.2%, while interest expense increased $699,000, or 38.1%, compared to the third quarter of 2003. The net increases in net interest income resulted from the 27.3% growth in average earning assets for the third quarter of 2004 compared to the third quarter of 2003 and the 41 basis point increase in the average prime lending rate for the third quarter of 2004 compared to the same period in the prior year.

Net interest income (tax equivalent) for the first nine months of 2004 was $27,244,000, which represented an increase of $4,216,000, or 18.3%, over the first nine months of 2003. In this same period, tax equivalent interest income increased $5,355,000, or 18.7%, while interest expense increased $1,139,000, or 20.4%, compared to the first nine months of 2003. The net increases in net interest income resulted from the 24.9% growth in average earning assets for the first nine months of 2004 compared to the first nine months of 2003, which offset a 4 basis point decrease in the average prime lending rate for the first nine months of 2004 compared to the first nine months of 2003.

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, 2004 and 2003:

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

	3rd Qtr. 2004 vs. 3rd Qtr. 2003 Increase (Decrease) Due to Changes in:			Nine Months 2004 vs. Nine Months 2003 Increase (Decrease) Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest Earning Assets:						
Federal Funds Sold	$ 4	$ 10	$ 14	$ 65	$ -0-	$ 65
Investment Securities (Taxable)	172	(98)	74	618	(358)	260
Investment Securities (Tax-exempt)	18	13	31	68	(1)	67
Loans, Net of Unearned Discount	2,688	(153)	2,535	6,512	(1,549)	4,963
Total Interest Income	2,882	(228)	2,654	7,263	(1,908)	5,355
Interest-Bearing Liabilities:						
Deposits	382	(111)	271	894	(586)	308
Other Borrowings	227	201	428	661	170	831
Total Interest Expense	609	90	699	1,555	(416)	1,139
Net Interest Income	$ 2,273	$ (318)	$ 1,955	$ 5,708	$ (1,492)	$ 4,216

Non-Interest Income

Non-interest income for the third quarter of 2004 was $2,141,000, which represented an increase of $558,000, or 35.2%, over the third quarter of 2003. Non-interest income for the first nine months of 2004 was $5,431,000, which represented and increase of $903,000, or 19.9%, compared to the first nine months of 2003. 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,

	2004	2003	% Change	2004	2003	% Change
Service Charges on Deposit Accounts	$ 1,180	$ 914	29.1%	$ 3,164	$ 2,562	23.5%
Gain on Sale of Securities	32	89	(64.0)	32	101	(68.3)
Gain on Sale of Student Loans	176	-0-	100.0	176	-0-	100.0
Non-recurring Income	37	4	825.0	204	46	343.5
Other Non-interest Income	716	576	24.3	1,855	1,819	2.0
Total Non-interest Income	$ 2,141	$ 1,583	35.2%	$ 5,431	$ 4,528	19.9%

The increase in service charges on deposit accounts during the third quarter of 2004 and for the first nine months of 2004 resulted primarily from growth in insufficient funds charges which have increased 37.2% and 33.8% from the third quarter of 2003 and the first nine months of 2003, respectively. This increase in insufficient funds charges is due to a growing number of free checking accounts which offer overdraft protection and a pricing change that occurred during the second quarter of 2004. Included in the total deposit charges for the third quarter of 2004 and the nine months ended September 30, 2004 was $213,000 and $333,000, respectively, added as a result of the ANB acquisition.

The non-recurring income for the first nine months of 2004 resulted from the gain of $167,000 on the sale of an asset previously carried in Other Assets during the first quarter of 2004 and a gain of $37,000 on the partial sale of land carried in Premises and Equipment during the third quarter of 2004 that was previously held for future branch expansion.

The increase in other non-interest income for the third quarter of 2004 and the first nine months of 2004, as compared to the same periods last year, was primarily due to increases in ATM income, insurance sales and trust income. Insurance sales, which began in the third quarter of 2003 through the formation of SIA, totaled $50,000 for the nine months ended September 30, 2004. Revenues from trust services, a product previously offered by ANB and now by the Corporation, totaled $79,000 in the third quarter of 2004 and $114,000 for the nine months ended September 30, 2004. These increases have been partially offset by declines in mortgage brokerage/origination fees, investment services fees and letter of credit fees for the nine months ended September 30, 2004. Although mortgage brokerage/origination fees were up $12,000 in the third quarter of 2004 compared to the third quarter of 2003, these fees for the nine months ended September 30, 2004 are still $130,000 below the level of fees generated in 2003 when the lower rate environment generated a large amount of mortgage refinances. Investment services fees were $34,000 lower in the third quarter of 2004 versus the similar quarter of 2003 and are $73,000 lower for the nine months ended September 30, 2004 than the previous year and. Letter of credit fees were $7,000 and $75,000 for the quarter ended and nine months ended September 30, 2004, respectively, than in the similar periods of 2003.

Non-interest Expense

Non-interest expenses include all expenses other than interest expense, the 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,		
	2004	2003	% Change	2004	2003	% Change
Salaries & Employee Benefits	$ 4,029	$ 3,336	20.8%	$ 11,169	$ 9,332	19.7%
Occupancy Expense Net	570	571	(0.2)	1,560	1,260	23.8
Furniture and Equipment Expense	610	493	23.7	1,670	1,368	22.1
Other Real Estate and Foreclosed Asset Expense Net	23	28	(17.9)	38	15	153.3
Core Deposit Amortization	82	-0-	100.0	137	-0-	100.0
Other Expenses:						
Business Development	221	146	51.4	641	594	7.9
Insurance Other	74	61	21.3	208	184	13.0
Legal & Professional Fees	395	173	128.3	793	503	57.7
Item Processing	272	175	55.4	653	532	22.7
Taxes Other	7	19	(63.2)	40	46	(13.0)
Postage & Courier	98	95	3.2	315	274	15.0
Printing & Supplies	120	109	10.1	303	315	(3.8)
Regulatory Fees & Assessments	81	62	30.6	224	186	20.4
Other Operating Expenses	527	388	35.8	1,238	1,090	13.6
Total Other Expenses	1,795	1,228	46.2	4,415	3,724	18.6
Total Non-interest Expense	$ 7,109	$ 5,656	25.7%	$ 18,989	$ 15,699	21.0%

Total non-interest expense increased 25.7% in the third quarter of 2004 over the third quarter of 2003, reflecting increases in salaries and benefits, equipment, business development, legal and professional, item processing and other operating expenses. As a percent of average assets, non-interest expenses were 2.89% in the third quarter of 2004 (annualized) and 2.95% in the same period of 2003. The efficiency ratio (non-interest expenses divided by total non-interest income plus net interest income) was 59.23% for the third quarter of 2004 compared to 59.57% for the third quarter of 2003. The efficiency ratio for the third quarter of 2004 was higher compared to the Corporation s historical efficiency ratio due to the cost of new facilities and costs associated with the operating expenses of ANB.

The increase in salaries and benefits during the third quarter of 2004 compared to the prior year period was due to salary merit raises, additions to staff, the cost of employee insurance, training expenses and costs associated with ANB personnel. The increase in personnel expenses in the third quarter of 2004 excluding ANB personnel was 5.5%.

The increase in equipment expense and item processing expense are primarily associated with the ANB acquisition and the Euless branch opened during the second quarter of 2004. Costs associated with ANB created nearly 80% of the increase in equipment expenses when comparing the third quarter of 2004 to the prior year period and created virtually all of the increase in item processing expense between the third quarters of the two years.

Business development expenses increased in the third quarter of 2004 compared to the prior year period due to increases in advertising costs, charitable contributions and due to costs associated with ANB.

Legal and professional expenses increased in the third quarter of 2004 compared to the prior year period due to expenses incurred in relation to compliance with the Sarbanes-Oxley Act of 2002 and other corporate governance initiatives.

Other expenses increased in the third quarter of 2004 compared to 2003 and for the nine months ended September 30, 2004 compared to the prior year due to ANB expenses which added $108,000 for the quarter and $180,000 as of September 30,2004.

Allowance for Loan Losses and Non-Performing Assets

The Corporation s allowance for loan losses was $10,079,000, or 1.46% of total loans, as of September 30, 2004 compared to $7,483,000, or 1.45% of total loans, as of September 30, 2003. For the nine months ended September 30, 2004 and 2003, net charge-offs (recoveries) were .07% and (.04)% of total loans, respectively, not annualized.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Balance, Beginning of Period	$ 9,844	$ 7,412	$ 7,784	$ 6,706
Balance Acquired in the Arlington National Bank Acquisition	-0-	-0-	1,254	-0-
Provisions, Charged to Income	495	46	1,500	586
Loans Charged-Off	(415)	(24)	(748)	(376)
Recoveries of Loans Previously Charged-Off	155	49	289	567
Net Loans (Charged-Off) Recovered	(260)	25	(459)	191
Balance, End of Period	$ 10,079	$ 7,483	$ 10,079	$ 7,483

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

	September 30, 2004	**June 30, 2004**	**March 31, 2004**	**December 31, 2003**	**September 30, 2003**
Non-Accrual Loans	$ 2,545	$ 2,832	$ 2,405	$ 2,351	$ 1,514
Renegotiated Loans	-0-	-0-	-0-	-0-	-0-
Other Real Estate Owned and Other Foreclosed Assets	4	369	7	-0-	-0-
Total Non-Performing Assets	$ 2,549	$ 3,201	$ 2,412	$ 2,351	$ 1,514
As a Percent of:					
Total Assets	0.25%	0.33%	0.28%	0.30%	0.19%
Total Loans and Other Real Estate/ Foreclosed Assets	0.37%	0.48%	0.41%	0.42%	0.29%
Loans Past Due 90 days or More and Still Accruing	$ 2,300	$ 111	$ -0-	$ 55	$ -0-

At September 30, 2004, the ratio of non-accrual loans to total loans was .37% and non-performing assets represented .37% of loans and other real estate owned/foreclosed assets at the same date.

As of September 30, 2004, non-accrual loans were comprised of $1,561,000 in commercial loans, $718,000 in real estate mortgage loans, $129,000 in interim construction loans and $137,000 in consumer loans. The $2.3 million loan reported above as 90 days past due and still accruing was collected shortly after the end of the third quarter of 2004 with no loss to the Corporation.

As of September 30, 2004, there was no Other Real Estate. The Corporation has $4,000 in Other Foreclosed Assets, reported in Other Assets on the Balance Sheet, which represents a motor vehicle. This asset is in process of liquidation, however the process could take several months. The cost of liquidation will be recorded as a current period expense.

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

	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 30, 2003
Non-Performing Loans	$ 2,545	$ 2,832	$ 2,405	$ 2,351	$ 1,514
Criticized Loans	40,289	34,218	26,888	27,737	31,933
Allowance for Loan Losses	10,079	9,844	8,320	7,784	7,483
Allowance for Loan Losses as a Percent of:					
Non-Performing Loans	396%	348%	346%	331%	494%
Criticized Loans	25%	29%	31%	28%	23%

Loans are graded on a system similar to that used by the banking industry regulators. The first level of criticized loans is Other Assets Especially Mentioned (OAEM). These loans are fundamentally sound but have potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the Bank s credit position at some future date. The second level is Substandard, which are loans inadequately protected by current sound net worth, paying capacity or pledged collateral of the borrower. The last level of criticized loans, before they are charged off, is Doubtful. Doubtful loans are considered to have inherent weaknesses because collection or liquidation in full is highly questionable. In addition to the above grading system, the Corporation maintains a separate watch list which further aids the Corporation in monitoring loan quality. Watch list loans show warning elements where the present status portrays one or more deficiencies that require attention in the short run or where pertinent ratios of the account have weakened to a point where more frequent monitoring is warranted.

Criticized loans at September 30, 2004, loans classified as OAEM, Substandard or Doubtful as noted above, have increased when compared to September 30, 2003. The majority of the increase from the prior year can be attributed to criticized loans within the ANB portfolio. The remainder of the increase is due to enhanced classification procedures and the employment of a Chief Credit Officer in the third quarter of 2001 who is responsible for monitoring loan quality by ensuring that the quality is sustained, that individual loans perform as agreed and that the Bank receives an appropriate return for the risk in the portfolio. This aggressiveness in recognizing any weakness in our borrowers is the primary reason for the increase in criticized loans from June 30, 2004 to September 30, 2004. The Corporation remains diligent in its efforts to identify any loan that might reflect weakness of the borrower as soon as possible. Management is not aware of any potential loan problems that have not been disclosed to which serious doubts exist as to the ability of the borrower to substantially comply with the present repayment terms and the Corporation does not anticipate any significant losses from these downgraded credits.

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, 2004 and may not be reflective of positions in subsequent periods (dollars in thousands):

	Matures or Reprices within:			Total Rate Sensitive One Year or Less	Repriced After 1 Year or Non-interest Sensitive	Total
	30 Days or Less	31-180 Days	181 to One Year			
Earning Assets:						
Loans	$ 352,465	$ 58,882	$ 52,079	$ 463,426	$ 226,480	$ 689,906
Investment Securities	10,503	12,853	17,986	41,342	177,922	219,264
Federal Funds Sold and Due From Time	19,467	-0-	-0-	19,467	-0-	19,467
Total Earning Assets	382,435	71,735	70,065	524,235	404,402	928,637
Interest Bearing Liabilities:						
Interest-Bearing Transaction Accounts and Savings	405,810	-0-	-0-	405,810	-0-	405,810
Certificate of Deposits under $100,000 and IRA s	5,110	18,895	17,066	41,071	31,391	72,462
Certificates of Deposits $100,000 or more	6,657	22,135	11,253	40,045	40,621	80,666
Other Borrowings	56,733	15,000	25,000	96,733	24,622	121,355
Total Interest Bearing Liabilities	474,310	56,030	53,319	583,659	96,634	680,293
Interest Sensitivity GAP	$ (91,875)	$ 15,705	$ 16,746	$ (59,424)	$ 307,768	$ 248,344
Cumulative GAP	$ (91,875)	$ (76,170)	$ (59,424)			
Cumulative GAP to Total Earning Assets	(9.89)%	(8.20)%	(6.40)%			
Cumulative GAP to Total Assets	(9.28)%	(7.69)%	(6.00)%			

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 (6.00%) was reversed to a positive 28.43% beta adjusted GAP position. Management feels that the beta adjusted GAP risk technique more accurately reflects the Corporation s GAP position.

Capital

At September 30, 2004, shareholders equity totaled $73.5 million, compared to shareholders equity at December 31, 2003 of $68.7 million and $68.0 million at September 30, 2003. This reflected an increase in retained earnings less the change in unrealized gain/loss on available for sale securities and the payment of dividends. During the third quarter of 2004, we did not repurchase any shares of Common Stock. Our ability to repurchase shares of Common Stock is subject to various banking laws, regulations and policies as well as rules and regulations of the Securities and Exchange Commission. Our board of directors has authorized the repurchase of up to 5% of our outstanding Common Stock over the twelve-month period beginning April 20, 2004.

The Corporation and the Bank are subject to capital adequacy guidelines established by the Federal Reserve Board and other regulatory authorities. The table below illustrates the Bank s and our compliance with the capital adequacy guidelines as of September 30, 2004 and 2003 (dollars in thousands):

	September 30, 2004		September 30, 2003	
	The Consolidated Corporation	Summit Bank, N.A.	The Consolidated Corporation	Summit Bank, N.A.
Total Assets	$ 990,406	$ 989,950	$ 777,558	$ 777,523
Risk Weighted Assets	743,942	743,488	562,020	561,991
Equity Capital (Tier 1)	74,325	76,236	66,856	65,886
Qualifying Allowance for Loan Losses	9,309	9,303	7,031	7,030
Total Capital	83,634	85,539	73,887	72,916
Leverage Ratio	7.69%	7.81%	8.78%	8.67%
Risk Capital Ratio:				
Tier I Capital	9.99%	10.25%	11.90%	11.72%
Total Capital	11.24	11.51	13.15	12.97

As of September 30, 2004, the Bank exceeded the risk-based capital and leverage requirements set by regulatory authorities and satisfied the criteria for classification as a well capitalized institution under the rules of the Federal Deposit Insurance Corporation Improvement Act of 1991.

Liquidity

Our primary internal sources of liquidity consist of the federal funds that we sell and our portfolio of marketable investment securities, particularly those with shorter maturities. Federal funds sold and investment securities maturing within 30 days represented $30.0 million, or 3.0%, of total assets as of September 30, 2004. Additionally, our ability to sell loan participations, purchase federal funds and obtain advances from the Federal Home Loan Bank serve as secondary sources of liquidity. The Bank has approved federal funds lines at other banks.

Our liquidity is enhanced by the fact that 89.8% of our total deposits at September 30, 2004 were core deposits. For this purpose, core deposits are defined as total deposits less public funds and certificates of deposit greater than $100,000. Our loan to deposit ratio averaged 86.6% for the three month period ended September 30, 2004 and 88.3% for the nine month period ended September 30,2004.

In the event that our average loans continue to grow during the last quarter of 2004 and we are unable to fund any such growth solely through the generation of additional deposits, we may be required to obtain funding from secondary sources, including purchasing federal funds, obtaining advances from the Federal Home Loan Bank or other secondary sources. In such event, our business, results of operations and financial condition could be somewhat negatively impacted.

Our income, which provides funds for the payment of dividends to our shareholders and for other corporate purposes, is derived from our investment in the Bank.

On May 3, 2004, the Corporation formed SBI Trust and SBI Trust subsequently issued $12.0 million of floating rate (three month LIBOR plus a margin of 2.65%) Capital Securities (the Trust Capital Securities). Concurrent with the issuance of the Trust Capital Securities, SBI Trust issued trust common securities to the Corporation in the aggregate liquidation value of $372,000. The proceeds of the issuance of the Trust Capital Securities and trust common securities were invested in the Corporation s Floating Rate Junior Subordinated Deferrable Debentures (the Deferrable Debentures), which mature on July 7, 2034 and have a call feature that permits the Corporation to redeem any or all of the securities after July 7, 2009. The interest rate on the Deferrable Debentures at September 30, 2004 was 4.25%. The Deferrable Debentures, which are the only asset of SBI Trust, are subordinated and junior in right of payment to all present and future senior indebtedness (as defined in the Indenture date May 3, 2004) of the Corporation.

On September 15,2004, we obtained a line of credit from a bank under which we may borrow $10,000,000 at a floating rate (three month LIBOR plus a margin of 2.00%). The line of credit is secured by stock of the Bank and matures on September 15, 2005, whereupon, if balances are outstanding, the line converts to a term note having a five year term. The Corporation will not pay a fee for any unused portion of this line. At September 30, 2004, $2,250,000 had been borrowed under the line. The rate on this line at September 30, 2004 was 3.61%. The purpose of the line was to provide an additional liquidity source and the current amount outstanding was used to help fund the acquisition of ANB.

Off-Balance-Sheet Arrangements, Commitments, Guaranteed and Contractual Obligations

Except as set forth herein, there have been no material changes in our contractual obligations as set forth in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Off-Balance-Sheet Arrangements, Commitments, Guarantees and Contractual Obligations in our Annual Report on Form 10-K for the year ended December 31, 2003.

The Corporation has available a line of credit with the FHLB of Dallas which allows it to borrow on a collateralized basis at a fixed term. The borrowings are collateralized by a blanket floating lien on all first mortgage loans, the FHLB capital stock owned by the Corporation and any funds on deposit with FHLB. At September 30, 2004, the Corporation had $70.0 million of borrowings outstanding under the line of credit at a rate of 1.80%, $20.0 million of which matures in 2004, $40.0 million of which matures in 2005 and the last $10.0 million of which matures in April 2006. Through September 30, 2004, the Corporation had average borrowings on this line of $71.4 million. Borrowings at December 31, 2003 totaled $50.0 million. The increase in borrowings was required to fund earnings asset growth.

At September 30, 2004, outstanding documentary and standby letters of credit totaled $5,339,000 and commitments to extend credit totaled $181,304,000. Documentary and standby letters of credit and commitments to extend credit totaled $6,234,000 and $145,777,000 at December 31, 2003. The commitments have increased in conjunction with the overall loan growth of the Corporation and the acquisition of ANB.

Related Party Transactions

The Bank has made transactions in the ordinary course of business with certain of its and the Corporation s 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 and all loans are current as to principal and interest payments. Total loans outstanding to such parties amounted to approximately $10,599,000 at September 30, 2004, $9,389,000 at December 31, 2003 and $10,560,000 at September 30, 2003.

Subsequent Events

On October 19, 2004, the Board of Directors of the Corporation approved a quarterly dividend of $.14 per share to be paid on November 15, 2004 to shareholders of record on November 1, 2004.

Critical Accounting Policies

Our accounting policies are fundamental to understanding management s discussion and analysis of results of operations and financial condition. We have identified our policy with respect to allowance for loan losses as critical because it requires management to make particularly difficult, subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. There have been no material changes in our application of accounting policies since December 31, 2003. We, in consultation with our Audit Committee of the Board of Directors, have reviewed and approved this critical accounting policy, which is further described under the captions Loan and Allowance for Loan Losses in Note 1 (Summary of Significant Accounting Policies) to the Financial Statements.

These evaluations are inherently subjective because, even though they are based on objective data, it is management s interpretation of that data that determines the amount of the appropriate allowance. Therefore, from time to time (but at least quarterly), management reviews the actual performance and write-off history of the loan portfolio and compares that to previously determined allowance coverage percentages. In this manner, management evaluates the impact the previously mentioned variables may have had on the loan portfolio to determine which changes, if any, should be made to the assumptions and analyses. Recent analysis has indicated that projections of estimated losses inherent in the loan portfolio has approximated actual write-off experience during the current economic environment.

Actual results could differ materially from estimates as a result of changes in economic or market conditions and other factors. Changes in our evaluations and the assumptions underlying these evaluations could result in a material change in the allowance. While we believe that the allowance for loan losses has been established and maintained at levels adequate to reflect the risks inherent in the loan portfolio, future increases may be necessary if economic or market conditions and other factors differ substantially from the conditions that existed at the time of the initial determination.

Factors That May Affect Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements concerning the business, results of operations and financial condition of us and our subsidiaries. The forward-looking statements are based upon management s current expectations and assumptions about future events. Such expectations and assumptions have been expressed in good faith, and management believes that there is a reasonable basis for them.

A number of risks and uncertainties could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. These risks and uncertainties include, without limitation:

Changes in, or the effects of, competition for our products and services;

Our ability to effectively manage interest rate risk and other market, credit and operation risks;

Our ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by our customers and potential customers;

The costs and effects of litigation involving us and of unexpected or adverse outcomes in such litigation;

Our ability to successfully integrate, and to achieve anticipated cost savings and revenue enhancements with respect to, the ANB acquisition and any other businesses and operations that we may acquire in the future;

Our ability to attract and retain key employees;

Changes in general local, regional and international economic conditions;

Changes in, or the effects of, trade, monetary and fiscal policies, laws and regulations, including interest rate policies, of the Federal Reserve Board and other regulatory authorities;

Changes in accounting policies and practices, as may be adopted by regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board;

Changes in consumer and business spending, borrowing and saving habits;

Changes in laws, regulations and policies applicable to us; and

Political instability and acts of war or terrorism.

Item 3 Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in market risks faced by the Corporation since December 31, 2003. For more information regarding quantitative and qualitative disclosures about market risk, please refer to the Corporation s Annual Report on Form 10-K as of and for the year ended December 31, 2003, and in particular, Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity and Liquidity.

Item 4 Controls and Procedures

The Corporation s management, including the Corporation s principal executive officer and principal financial officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the Corporation s fiscal quarter ended September 30, 2004. Based on that evaluation, the Corporation s principal executive officer and principal financial officer have concluded that the Corporation s disclosure controls and procedures were effective as of the end of the Corporation s fiscal quarter ended September 30, 2004.

There were no changes in the Corporation s internal control over financial reporting that occurred during the Corporation s fiscal quarter ended September 30, 2004 that have materially affected, or are likely to materially affect, the Corporation s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Change in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Exhibits

4(a) Junior Subordinated Debt Securities Indenture Agreement dated May 3, 2004

4(b) Junior Subordinated Debt Securities Due 2034

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10	Fifth Amendment to Loan Agreement dated September 15, 2004 between the Corporation and Frost National Bank
11	Computation of Earnings Per Common Share
31.1	Certification of Principal Executive Officer of Summit Bancshares, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer of Summit Bancshares, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Principal Executive Officer of Summit Bancshares, Inc. pursuant to Section 1350, Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer of Summit Bancshares, Inc. pursuant to Section 1350, Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Current Reports of Form 8-K:

The Corporation furnished a Current Report on Form 8-K under Items 2.02, 7.01 and 9.01 on October 12, 2004 relating to its issuance of a press release announcing its earnings for the third quarter of 2004

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: 10-25-04	By:	/s/ PHILIP E. NORWOOD
		Philip E. Norwood, Chairman & President and Chief Executive Officer
Date: 10-25-04	By:	/s/ BOB G. SCOTT
		Bob G. Scott, Executive Vice President and Chief Operating Officer (Chief Financial Officer)

EXHIBIT INDEX

Exhibit	Description
4A	Indenture Dated as of May 3, 2004
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