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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2002; or

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

For the Transition period from -------------- to --------------.

Commission File Number 0-11986

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

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

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

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

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

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

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

SUMMIT BANCSHARES, INC.

INDEX

PART I - FINANCIAL INFORMATION Page No.

Item 1. Financial Statements

Consolidated Balance Sheets at September 30, 2002 and 2001 and at December 31, 2001 4

Consolidated Statements of Income for the Nine Months Ended September 30, 2002 and 2001 and for the Year Ended December 31, 2001 5

Consolidated Statements of Income for the Three Months Ended September 30, 2002 and 2001 6

Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2002 and 2001 and for the Year Ended December 31, 2001 7

Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2002 and 2001 and for the Year Ended December 31, 2001 8

Notes to Consolidated Financial Statements for the Nine Months Ended September 30, 2002 and 2001 and for the Year Ended December 31, 2001 9-20

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months and Nine Months Ended September 30, 2002 and 2001 21-29

Item 3. Quantitative and Qualitative Disclosures About Market Risk 29

Item 4. Controls and Procedures 29

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Change in Securities

Item 3. Defaults Upon Senior Securities

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

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

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

The accompanying Notes should be read with these financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

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

The accompanying Notes should be read with these financial statements.

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

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

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

The accompanying Notes should be read with these financial statements.

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

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

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

The accompanying Notes should be read with these financial statements.

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

NOTE 1 - Summary of Significant Accounting Policies

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

Basis of Presentation and Principles of Consolidation

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

Use of Estimates

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

Cash and Due From Banks

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

Investment Securities

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

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

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

Loans and Allowance for Loan Losses

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

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

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

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

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

Premises and Equipment

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

Other Real Estate

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

Federal Income Taxes

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

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

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

Cash and Cash Equivalents

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

Reclassification

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

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

Earnings Per Common and Common Equivalent Share

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

Audited Financial Statements

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

NOTE 2 - Investment Securities

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

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

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

11

NOTE 2 - Investment Securities (cont'd.)

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

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

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

NOTE 3 - Loans and Allowance for Loan Losses

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

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

12

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

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

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

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

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

NOTE 4 - Premises and Equipment

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

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

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

NOTE 5 - Other Real Estate

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

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

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

13

NOTE 6 - Deposits

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

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

NOTE 7 - Short Term Borrowings

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

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

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

NOTE 8 - Notes Payable

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

NOTE 9 - Other Non-Interest Expense

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

	Nine Months Ended September 30,		Year Ended December 31,

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

NOTE 10 - Income Taxes

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

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

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

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

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

NOTE 10 - Income Taxes (cont'd.)

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

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

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

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

NOTE 11 - Related Party Transactions

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

NOTE 12 - Commitments and Contingent Liabilities

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

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

NOTE 13 - Stock Option Plans

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

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

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

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

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

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

NOTE 14 - Employee Benefit Plans

401(k) Plan

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

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

Management Security Plan

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

Employment Contracts

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

Other Post Retirement Benefits

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

NOTE 15 - Earnings per Share

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

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

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

NOTE 16 - Financial Instruments with Off-Balance Sheet Risk

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

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

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

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

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

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

NOTE 17 - Concentrations of Credit Risk

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

NOTE 18 - Litigation

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

NOTE 19 - Stock Repurchase Plan

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

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

NOTE 20 - Subsequent Event

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

NOTE 21 - Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

NOTE 22 - Comprehensive Income

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

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

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

Summary

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

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

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

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

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

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

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

21

Summary of Earning Assets and Interest-Bearing Liabilities

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

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

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

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

22

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

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

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

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

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

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

Net Interest Income

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

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

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

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

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

Allowance for Loan Losses and Non-Performing Assets

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

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

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

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

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

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

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

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

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

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

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

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

Non-Interest Income

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

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

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

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

Non-interest Expense

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

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

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

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

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

Interest Rate Sensitivity

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

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

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

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

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

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

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

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

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

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

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

Capital

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

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

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

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

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

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

Forward-Looking Statements

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

Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4 - Controls and Procedures

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 2. Change in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

11 Computation of Earnings Per Common Share

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

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

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

SIGNATURES

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

SUMMIT BANCSHARES, INC.
Registrant

Date: 11-01-02

By: /s/ Philip E. Norwood

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

Date: 11-01-02

By: /s/ Bob G. Scott

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

31

I, Philip E. Norwood, certify that:

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

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

3. Based on my knowledge, the financial statements, and othext-indent:48px;font-size:10pt;">Pur

In accordance with our corporate governance guidelines, if an incumbent trustee who is nominated for election to the Board fails to receive the required number of votes for re-election, the trustee is required to tender his or her resignation promptly following the Annual Meeting; in which case, within 90 days following certification of the shareholder vote, the compensation and nominating governance committee will determine whether to recommend that the Board accept the trustee’s resignation, and upon submission of the compensation and nominating governance committee’s recommendation to the Board, the Board will decide and act on the matter in its discretion. The compensation and nominating governance committee and the Board may consider any factors they deem relevant in deciding whether to recommend or accept a trustee’s resignation. In general, any trustee who tenders his or her resignation will not participate in the compensation and nominating governance committee recommendation or Board action regarding whether to accept the resignation offer. The Company will disclose promptly the Board’s decision regarding whether to accept or reject the trustee’s resignation offer and its rationale for such decision in a Current Report on Form 8-K.

Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any nominee will be unavailable to serve. If any nominee is unable or declines to serve as trustee at the time of the Annual Meeting, an event that the Company does not currently anticipate, proxies will be voted for any nominee designated by the Board to fill the vacancy. If elected at the Annual Meeting, each of the nominees would serve a one-year term until the 2019 Annual Meeting of Shareholders and until his or her successor is duly elected and qualified, or until his or her earlier death, resignation or removal. Unless otherwise instructed, the proxy holders will vote the proxies received by them “FOR” the nominees named above.

6

Information Regarding the Nominees

The following table sets forth certain information as of the Record Date concerning our nominees:

Name	Age	Position
John T. Thomas	51	President and Chief Executive Officer and Trustee
Tommy G. Thompson	76	Trustee, Non-Executive Chairman of the Board
Stanton D. Anderson	77	Trustee
Mark A. Baumgartner	62	Trustee
Albert C. Black, Jr.	58	Trustee
William A. Ebinger, M.D.	63	Trustee
Pamela J. Kessler	52	Trustee
Richard A. Weiss	71	Trustee

The following are biographical summaries of the experience of our nominees.

Name	Biographical Summary
John T. Thomas	Mr. Thomas is our President and Chief Executive Officer and serves on our Board and is a member of the finance and investment committee. Mr. Thomas has been an executive officer and trustee since our organization in April 2013. Mr. Thomas was the Executive Vice President-Medical Facilities Group for Welltower Inc. (NYSE: WELL, formerly known as Health Care REIT Inc.) from January 2009 to July 2012 where his group was responsible for growing total net investments for the company's medical facilities division, including hospitals, medical office buildings, and life science research facilities, from $2.3 billion in assets to approximately $5 billion. During that three and a half year time frame, Mr. Thomas' group expanded WELL's medical office building portfolio from 128 properties to 210 properties with rentable square feet growing from 5.6 million to 13 million and the percentage of medical office buildings affiliated with healthcare delivery systems growing from 62% to approximately 90%, while occupancy for the medical office buildings improved from 90% to almost 94% during this period. The medical facilities division's annualized net operating income increased from $131 million in 2008 to more than $350 million while Mr. Thomas led WELL's medical facilities division. From July 2012 to July 2013, Mr. Thomas was self-employed as a healthcare consultant and lawyer. Mr. Thomas has relationships with over 25 national operators and healthcare delivery systems with whom he has worked to develop and acquire healthcare facilities occupied by these healthcare delivery systems and operators. Prior to WELL, Mr. Thomas served as President, Chief Development Officer and Business Counsel of Cirrus Health from August 2005 to December 2008, where he led efforts to acquire and manage four hospitals and an endoscopy center, as well as efforts to develop other facilities. From October 2000 to July 2005, he served as Senior Vice President and General Counsel for Baylor Health Care System in Dallas, Texas. As General Counsel for Baylor Health Care System, he was responsible for legal and government affairs. Mr. Thomas has been recognized for his team's advocacy work on Texas H.B. 3 and Proposition 12, the 2003 Texas legislative and constitutional amendment efforts to increase patient access to physicians and care through reforms to Texas' medical malpractice laws. He was also co-founder and chairman of the Coalition for Affordable and Reliable Healthcare, a national coalition to reform medical malpractice laws through federal legislation. Mr. Thomas has testified before the Ways and Means Committee and Energy and Commerce Committee of the U.S. House of Representatives and a sub-committee of the U.S. Senate's Homeland Security Committee, all related to health care policy. From April 1997 to October 2000, he served as General Counsel and Secretary for Unity Health System, a five hospital division of the Sisters of Mercy Health System in St. Louis, MO, where he oversaw legal affairs for the healthcare delivery system and its operating subsidiaries. Mr. Thomas has served on the Board of Directors of Education Realty Trust, Inc. (NYSE: EDR) since September 2016 and is a member of its Compensation Committee and Investment Oversight Committee. He also serves on the Board of Trustees for the Jacksonville State University Foundation.

Mr. Thomas began his career as a tax lawyer at Milbank, Tweed, Hadley and McCoy in New York, NY in 1990, and was elected a partner at Sonnenschein, Nath and Rosenthal (now Dentons) in April 1997.
Mr. Thomas received his J.D. from Vanderbilt University Law School and his B.S. in Economics from Jacksonville State University, where he was a scholarship letterman on the football team and was a member of the Academic All-Conference Team. Mr. Thomas graduated with Distinction and Special Honors in Economics.

We have determined that Mr. Thomas should serve on our Board and as our Chief Executive Officer and President given his background, skills and extensive experience in the healthcare industry. As President and Chief Executive Officer of the Company, he is knowledgeable about all aspects of the Company's business and operations, and has considerable executive experience in the real estate industry.

Tommy G. Thompson	Governor Thompson was appointed to our Board in connection with our initial public offering ("IPO") in July 2013 and is the non-executive chairman of our Board and a member of the compensation and nominating governance committee and the finance and investment committee. Governor Thompson is the former United States Health and Human Services (HHS) Secretary, serving from 2001 to 2005, and a four-term Governor of Wisconsin. Following his term in public office, Governor Thompson built, and continues to build, on his efforts as HHS Secretary and Governor to develop innovative solutions to the healthcare challenges facing American families, businesses, communities, states and the nation as a whole. These efforts focus on improving the use of information technology in hospitals, clinics and doctors' offices; promoting healthier lifestyles; strengthening and modernizing Medicare and Medicaid; and expanding the use of medical diplomacy around the world. From 2005 until 2009, Governor Thompson served as a senior advisor at the consulting firm Deloitte & Touche USA LLP and was the founding independent chairman of the Deloitte Center for Health Solutions, which researches and develops solutions to some of our nation's most pressing healthcare and public health related challenges. From 2005 to early 2012, Governor Thompson served as a senior partner at the law firm of Akin Gump Strauss Hauer & Feld LLP. Governor Thompson served as Chairman of the Board of Trustees of Logistics Health, Inc. from January 2011 to May 2011, and served as President from February 2005 to January 2011. Governor Thompson currently serves on the Board of Directors of Tyme Technologies, Inc. (since 2018), Centene Corporation (since 2005), United Therapeutics Corporation (since 2010), and TherapeuticsMD, Inc. (since 2012). Governor Thompson was formerly a director of C.R. Bard, Inc., Cytori Therapeutics, Inc., Cancer Genetics, Inc., CareView Communications, Inc., AGA Medical Corporation, CNS Response, Inc., PURE Bioscience, Inc., SpectraScience, Inc., and VeriChip Corporation. Governor Thompson received his B.S. and J.D. from the University of Wisconsin-Madison. We have determined that Governor Thompson should serve on our Board because of his public company board experience, extensive knowledge of the evolving healthcare industry, and unique experience with physicians, healthcare decision makers, and business executives nationwide regarding healthcare policy and improvements within the industry.
Stanton D. Anderson	Mr. Anderson was appointed to our Board in connection with our IPO in July 2013 and is the Chairman of the audit committee and a member of the compensation and nominating governance committee. Mr. Anderson serves as Vice Chairman and Partner of Accretive Capital Partners LLC, a private equity firm. Mr. Anderson resigned as a partner from the law firm McDermott Will & Emery in February 2008. He has served as Senior Counsel to the President and CEO of the U.S. Chamber of Commerce (the "Chamber") since 1997. While a partner at McDermott Will & Emery, Mr. Anderson served as Executive Vice President and Chief Legal Officer of the Chamber. Mr. Anderson also oversaw the National Chamber Litigation Center, the public policy legal arm of the Chamber; the Institute for Legal Reform, a Chamber affiliate dedicated to restoring fairness, efficiency, and consistency to the U.S. civil justice system; and the Chamber's Office of General Counsel. Mr. Anderson has been involved in national political affairs since 1972 where he managed a number of Republican conventions and served as Counsel to the Reagan-Bush Campaign in 1980. Mr. Anderson has received a number of Presidential appointments, including the President's Advisory Committee on Trade Negotiations and the Presidential Commission on Personnel Interchange, and chaired the U.S. delegation to the United Nations Conference on New and Renewable Energy Resources in 1981. Mr. Anderson previously served on the Board of Directors of two public companies, CB Richard Ellis, a national real estate company where he chaired the audit committee

for a number of years, and Aegis Communications Group, where he chaired a number of board committees, including the audit committee. Mr. Anderson graduated from Westmont College, where he was a Small College All-American basketball player, and received his law degree from Willamette University where he was a member of the Law Review.

We have determined that Mr. Anderson should serve on our Board because of his significant financial and legal experience, prior service as a member of the board of directors of other public companies, and his familiarity with business policy.

Mark A. Baumgartner	Mr. Baumgartner was appointed to our Board in connection with our IPO in July 2013 and is the Chairman of the finance and investment committee. Mr. Baumgartner is currently the Chief Investment & Risk Officer and a Senior Managing Director of The Ziegler Companies, Inc. (“Ziegler”) responsible for review of certain transactions underwritten by the firm for hospitals, senior living entities, churches, and charter schools, totaling approximately $3 billion annually. In addition, Mr. Baumgartner oversees Ziegler’s proprietary investments and general business risks. Prior to assuming the position of Chief Credit Officer in 2009, Mr. Baumgartner worked as an investment banker at Ziegler beginning in 1984. Over the next 25 years, he completed more than 150 public debt offerings in excess of $5 billion for hospital systems, clinics and senior living facilities across the country. During that time, Mr. Baumgartner’s investment banking activities have included mergers, acquisitions and financial advisory work as well as tax-exempt and taxable financings on a fixed variable or blended interest rate basis. Mr. Baumgartner has also had the opportunity to work on numerous strategic advisory transactions for healthcare providers involved in merging, acquiring or partnering with other healthcare entities. Mr. Baumgartner is a registered representative and registered principal. He earned a B.B.A. in finance from the University of Notre Dame. We have determined that Mr. Baumgartner should serve on our Board because of his healthcare industry expertise, financial expertise, and capital markets experience.
Albert C. Black, Jr.	Mr. Black was appointed to our Board in connection with our IPO in July 2013 and is the Chairman of the compensation and nominating governance committee. Mr. Black has been President and Chief Executive Officer of On-Target Supplies & Logistics, Ltd. (“On-Target”), a regional logistics management firm that provides outsourced services to a diverse set of Fortune 500 companies and large non-profit organizations since he founded the company in 1982. On-Target’s supply chain functions include product sourcing, procurement, transportation, warehousing, light manufacturing, web-based fulfillment, distribution and second market management. As President and Chief Executive Officer of On-Target, Mr. Black’s primary responsibility is to guide the growth and development of On-Target and its affiliate companies TreCo Investments and ReadyToWork®, a work force training and development company. Mr. Black’s professional and community experience over the years has included serving in leadership positions with several civic and educational institutions, including Baylor Scott and White Health, one of the leading healthcare delivery systems in the country with approximately $8 billion in combined assets and $6 billion in annual operating revenue. Baylor Health Care System and Scott and White merged in 2013. Mr. Black is a past Chairman of the Board of Trustees for Baylor Scott and White Health and current chairman of its Finance Committee. Mr. Black has served on the Baylor Scott and White Health Board of Trustees for over 20 years where he also serves as the inaugural chairman of the Charles A. Sammons Cancer Center Board. He is also a sponsoring trustee of the BHCS Diabetes Health and Wellness Institute. Mr. Black also has served as Dallas Regional Chamber Board Chairman, PrimeSource Board Chairman and the Dallas Housing Authority Board Chairman. Mr. Black’s college and university board experience includes St. Louis University Board of Trustees, Baylor University Regent, Texas Southern University Regent and Paul Quinn College Regent. Mr. Black graduated from the University of Texas at Dallas and earned an MBA from the School of Business at Southern Methodist University. We have determined that Mr. Black should serve on our Board because of his entrepreneurial start-up business experience, his experience as President and CEO of a company, and his important perspective serving as a long standing member of the board of trustees of a major healthcare delivery system as well as other civic and educational institutions.

9

William A. Ebinger, M.D.	Dr. Ebinger was appointed to our Board in connection with our IPO in July 2013 and is a member of the audit committee and the finance and investment committee. Dr. Ebinger has been a practicing internist since 2008 with Aurora Health Care, the largest healthcare delivery system in Wisconsin with 15 hospitals across the state, nearly 1,700 employed physicians and approximately $4 billion in annual revenue. Dr. Ebinger served as the President of the Medical Staff at the Aurora hospital in Grafton, Wisconsin known as the Aurora Medical Center Grafton from 2010 through 2013. Dr. Ebinger served as a medical director for the Ozaukee region of the Aurora Advanced Healthcare Division from 2012 through 2014. Dr. Ebinger also was a member of the board of directors for the Aurora Medical Group upon its formation and recently completed his term as President of the Aurora Greater Milwaukee North Market Management Committee. Prior to joining Aurora Health Care in 2008, Dr. Ebinger was a physician shareholder of Advanced Healthcare, the largest independent physician practice group in Southeastern Wisconsin with approximately 250 physicians and served on its board of directors for 12 years. In 2008, Dr. Ebinger helped Advance Healthcare arrange a strategic hospital affiliation with Aurora Health Care to create Aurora Advanced Health Care. Dr. Ebinger graduated from Cornell College and the medical school at the University of Chicago. Dr. Ebinger completed his postgraduate studies in Internal Medical at the University of Michigan and is a member of the American Board of Internal Medicine. We have determined that Dr. Ebinger should serve on our Board because of his unique perspective as a practicing physician and experience with the integration and affiliation of an independent physician practice group with a leading healthcare delivery system.
Pamela J. Kessler	Ms. Kessler was appointed to our Board in November 2017, effective on January 1, 2018. Ms. Kessler is Executive Vice President, Chief Financial Officer and Secretary of LTC Properties, Inc (NYSE: LTC). LTC, a position she has held since 2007. She has been with LTC as a member of the senior management team since 2000, when she joined as Vice President, Controller. Ms. Kessler oversees all aspects of finance, accounting, corporate reporting, tax and risk management, and is also responsible for LTC’s capital markets and key stakeholder engagement activities. She has over 25 years of real estate experience and has demonstrated expertise in developing, leading and executing capital markets and financial planning and analysis activities. LTC is a real estate investment trust that invests in senior housing and post-acute/skilled nursing properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. Prior to joining LTC, Ms. Kessler served as the Corporate Controller for a privately held commercial and multifamily real estate developer. She was also the Director of Financial Reporting for Irvine Apartment Communities, a publicly traded multifamily REIT, and Assistant Controller of the Inland Empire division of KB Home, one of the nation’s largest publicly traded homebuilders. She began her career as a certified public accountant in the real estate group at Ernst & Young LLP. Ms. Kessler graduated with honors earning her bachelor’s degree in economics from the University of California, Irvine where she was the Vice President of Student Services. We have determined that Ms. Kessler should serve on our Board because of her experience as CFO and Secretary of a publicly traded company, her REIT experience, and her financial knowledge and expertise.

Richard A. Weiss	Mr. Weiss was appointed to our Board in connection with our IPO in July 2013 and is a member of the finance and investment committee and the audit committee. Mr. Weiss retired as a partner from the law firm Foley & Lardner LLP in June 2008 where he served as managing partner of the firm's Washington D.C. office and as a member of the firm's management committee. Mr. Weiss concentrated his law practice in health care finance, representing hospital systems, medical practice groups and investment banks. Mr. Weiss is a former member of the board of trustees and former board chair of Washington Hospital Center, the largest private hospital in Washington, D.C. Mr. Weiss is a member of the board of trustees and of the finance and audit committees of Aurora Health Care, the largest health care delivery system in Wisconsin, where he served two years as its board chairman. Mr. Weiss has also been a trustee of the Medical College of Wisconsin and board chairman of a private psychiatric hospital. In addition to his work in healthcare, Mr. Weiss worked in the sports industry where he represented the Washington Nationals in connection with its new baseball stadium in Washington, D.C., as well as the Green Bay Packers in the renovation of Lambeau Field, the Milwaukee Brewers in the development and financing of Miller Park, and Major League Baseball in the financing of ballparks in San Diego and Miami. Mr. Weiss graduated from the University of Wisconsin Law School (magna cum laude, 1971), where he was Order of the Coif and on the editorial board of the Wisconsin Law Review, and has a business degree from Northwestern University (B.S.B.A., with distinction, 1968). Mr. Weiss is a board member and audit committee chair of Great Lakes Higher Education Corporation, a retired member of The Economic Club of Washington D.C., a former board member and the general campaign chair for the United Way of the National Capital Area and a former member of the board of trustees and executive committee of the Greater Washington Board of Trade. We have determined that Mr. Weiss should serve on our Board because of his healthcare industry, legal and financial experience, and his experience in matters of compliance with legal and regulatory requirements.

See "Corporate Governance Matters" and "Trustee Compensation" for additional information regarding the Board.

The Board recommends a vote "FOR" the election of John T. Thomas, Tommy G. Thompson, Stanton D. Anderson, Mark A. Baumgartner, Albert C. Black, Jr., William A. Ebinger, M.D., Pamela J. Kessler and Richard A. Weiss as trustees.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Profile

We have structured our corporate governance in a manner we believe closely aligns our interests with those of our shareholders. Notable features of our corporate governance structure include the following:

- our Board is not staggered, with each of our trustees subject to re-election annually;
- of the eight persons who serve on our Board, seven of our trustees satisfy the listing standards for independence of the New York Stock Exchange (the "NYSE") and Rule 10A-3 under the Exchange Act;
- three of our trustees qualify as "audit committee financial experts" as defined by the SEC;
- we opted out of the business combination and control share acquisition statutes in the Maryland General Corporation Law;
- we do not have a shareholder rights plan; and
- each of the audit committee and the compensation and nominating governance committee is comprised solely of independent trustees.

Our trustees stay informed about our business by attending meetings of our Board and its committees and through supplemental reports and communications. Our non-management trustees meet regularly in executive sessions without the presence of our corporate officers.

Board Leadership Structure

Mr. Thomas currently serves as our President and Chief Executive Officer and Governor Thompson currently serves as the Non-Executive Chairman of the Board. Pursuant to the Company's bylaws, the Board may, but is not required to, designate a Chief Executive Officer. In the absence of such designation, the Chairman of the Board shall be the Chief Executive Officer of the Company. The Board has no policy with respect to the separation of the offices of Chairman of the Board and the Chief Executive Officer as the Board believes that it is in the best interests of the Company and its shareholders to make that determination from time to time based on the needs of the Company and the Board. The Board has determined that separating the roles of Chief Executive Officer and Chairman is currently in the Company's best interests and those of the Company's shareholders.

Role of the Board in Risk Oversight

One of the key functions of our Board is informed oversight of our risk management process. Our Board administers this oversight function directly, with support from its three standing committees, the audit committee, the compensation and nominating governance committee and the finance and investment committee, each of which addresses risks specific to its respective area of oversight. In particular, our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The audit committee also monitors compliance with legal and regulatory requirements, in addition to overseeing the performance of our internal audit function. Our compensation and nominating governance committee monitors the effectiveness of our corporate governance guidelines, including whether they are successful in preventing illegal or improper liability-creating conduct. Our compensation and nominating governance committee also assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking. Our finance and investment committee monitors our investments and financing activities, approves certain financial transactions including equity and debt financings, amendments to our credit facilities and other indebtedness, and from time to time approves specific investments in healthcare properties by the Company.

Board Meetings

The Board held twelve meetings during fiscal 2017. Each of our trustees attended at least 75% of the aggregate number of meetings held by the Board and of the committees on which such trustee served during fiscal 2017.

The non-management members of the Board also meet regularly in executive sessions without management present. Governor Thompson, the Non-Executive Chairman of the Board, serves as presiding trustee of these executive sessions.

Board Committees

Our Board has established three standing committees: an audit committee, a compensation and nominating governance committee and a finance and investment committee. The principal functions of each committee are described below. We comply with the listing requirements and other rules and regulations of the NYSE, as amended or modified from time to time, and each of the audit committee and the compensation and nominating governance committee is comprised exclusively of independent trustees. Additionally, our Board may from time to time establish certain other committees to facilitate the management of our company.

The audit committee and the compensation and nominating governance committee each operate under charters approved by our Board, which charters are available in the Investor Relations section of our website (www.docreit.com) under the tab “Governance Documents.”

Audit Committee

Our audit committee consists of Mr. Anderson, who serves as Chairman, Dr. Ebinger, Ms. Kessler and Mr. Weiss. The Board has determined that each member of the audit committee is “independent” based on the NYSE’s listing rules and that each member of the audit committee also satisfies the additional independence requirements of the SEC for members of audit committees. In addition, the Board has determined that each member of the audit committee is “financially literate” within the meaning of the listing standards of the NYSE and that each of Mr. Anderson, Ms. Kessler and Mr. Weiss is an “audit committee financial expert” as that term is defined by the applicable SEC regulations and the listing standards of the NYSE.

We have adopted an audit committee charter, which details the principal functions of the audit committee, including oversight related to:

- our accounting and financial reporting processes;

- the integrity of our consolidated financial statements and financial reporting process;

- our systems of disclosure controls and procedures and internal control over financial reporting;

- our compliance with financial, legal and regulatory requirements;

- the annual evaluation of the qualifications, independence and performance of our independent registered public accounting firm;

- the performance of our internal audit function; and

- our overall risk profile.

The audit committee is responsible for engaging an independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, including all audit and non-audit services, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls. The audit committee considers whether the independent registered public accounting firm is qualified and able to provide effective and efficient service, based on factors such as the independent registered public accounting firm's familiarity with the Company's industry, business, personnel, culture, accounting systems or risk profile; the appropriateness of fees charged; and whether the retention of the independent registered public accounting firm would enhance the Company's ability to manage or control risk or improve the quality of the audit. The audit committee meets with the independent registered public accounting firm at least quarterly, both together with management and separately, to review and discuss significant matters related to the audit and/or the quarterly reviews of financial statements. The audit committee also prepares the audit committee report required by SEC regulations to be included in our annual proxy statement.

The audit committee held four meetings during fiscal 2017. The report of the audit committee is included in this proxy statement.

Compensation and Nominating Governance Committee

The compensation and nominating governance committee consists of Messrs. Black and Anderson and Governor Thompson. Mr. Black is Chairman of the compensation and nominating governance committee. The Board has determined that each member of the compensation and nominating governance committee is “independent” based on the NYSE’s listing rules and also meets the NYSE’s additional requirements for membership on the compensation and nominating governance committee.

Our compensation and nominating governance committee charter details the principal compensation-related functions of the compensation and nominating governance committee, including:

- at least annually, review and approve the corporate goals and objectives relevant to our chief executive officer’s compensation, evaluate our chief executive officer’s performance in light of such goals and objectives as well as each current trustee and consider the results of such evaluation when determining whether or not to recommend the nomination of such trustee for an additional term;
- at least annually, review and approve all compensation for all officers, including our chief executive officer, and all other employees of the company or its subsidiaries who are executive vice president and above;
- periodically review and recommend to the Board the amount and composition of compensation for trustees;
- at least annually, review the compensation philosophy of the Company;
- review our executive compensation policies and plans;
- implement and administer our incentive compensation equity-based remuneration plans;
- review and discuss with management the Compensation Discussion and Analysis (“CD&A”) and determine whether to recommend to the Board that the CD&A be included in the annual proxy statement;
- produce a report of the compensation and nominating governance committee to be included in our annual proxy statement; and
- oversee any clawback policy relating to executive compensation.

Our compensation and nominating governance committee charter details the principal governance-related functions of the compensation and nominating governance committee, including:

- identify and recommend to the full Board qualified candidates for election as trustees and recommend nominees for election as trustees at the annual meeting of shareholders;
- recommend candidates to fill any vacancies on the Board;
- in connection with the recommendation of candidates for election as trustees or to fill a vacancy on the Board, consider diversity in terms of perspective, background, experience, gender, race and ethnic or national origin;
- recommend to the Board nominees for each committee of the Board;

- develop and recommend to the Board corporate governance guidelines and implement and monitor such guidelines;
- review and make recommendations on matters involving the general operation of the Board, including board size and composition, and committee composition and structure;
- annually facilitate the assessment of the Board's performance as a whole and of the individual trustees, as required by applicable law, regulations and the NYSE corporate governance listing standards;
- oversee the evaluation of the Board and management;

- make recommendations to the Board regarding governance matters, including the Company’s organizational documents and committee charters;
- at least annually, consider and discuss with management the Company’s code of business conduct and ethics and the procedures in place to enforce the code of business conduct and ethics; and
- review and approve or ratify any transaction required to be disclosed under Item 404 of Regulation S-K in accordance with the Company’s related person transaction policy.

The compensation and nominating governance committee held five meetings during fiscal 2017.

Finance and Investment Committee

The function of the finance and investment committee is to review and approve the Company’s (i) capital structure and financing activities, and (ii) investments in healthcare properties. Messrs. Baumgartner, Thomas and Weiss, Dr. Ebinger and Governor Thompson serve as members of the finance and investment committee, with Mr. Baumgartner serving as the Chairman. Our Board has determined that, other than Mr. Thomas, each member of the finance and investment committee is “independent” under NYSE rules.

Our finance and investment committee operates pursuant to a written charter. Unless otherwise determined by the Board, the committee shares in the responsibility for consulting with management on, and approving on behalf of the Board, all strategies, plans, policies and actions relating to: (i) capital structure; (ii) equity and debt financings, including public and private securities offerings; and (iii) credit facilities and loans, hedging and other financing transactions subject to investment parameters established by the Board for the Company. From time to time, the committee will also review and approve or recommend to the full Board specific investments in healthcare properties by the Company.

The finance and investment committee held seven meetings during fiscal 2017.

Trustee Independence

Under the listing requirements and rules of the NYSE, independent trustees must comprise a majority of a listed company’s board of directors. The compensation and nominating governance committee recommended to the Board, and the Board determined, that of the eight persons who serve on our Board, the following seven trustees are “independent” based on the NYSE’s listing rules, Rule 10A-3 under the Exchange Act and the Company’s corporate governance guidelines: Messrs. Anderson, Black, Baumgartner and Weiss, Dr. Ebinger, Ms. Kessler and Governor Thompson.

The compensation and nominating governance committee recommended to the Board, and the Board determined, that each member of the audit committee is “independent” based on the NYSE’s listing rules and that each member of the audit committee also satisfies the additional independence requirements of SEC rules and regulations for members of audit committees.

The compensation and nominating governance committee recommended to the Board, and the Board determined, that each member of the compensation and nominating governance committee is “independent” based on the NYSE’s listing rules and also meets the NYSE’s additional independence requirements for membership on a compensation committee.

In making the independence determinations, our Board broadly considers all relevant facts and circumstances, including the current and prior relationships that each non-employee trustee has with us and the beneficial ownership of our common shares by each non-employee trustee. In assessing the independence of certain trustees, the Board considered immaterial, ordinary course and arm's-length rental payments received from two health care systems that are tenants at three of our properties. Based on the assessments, the Board affirmatively determined that none of the trustees had a relationship with our company or our management that, in the judgment of the Board, would impair the trustee's independence.

A copy of the Company's corporate governance guidelines is available in the Investor Relations section of our website (www.docreit.com) under the tab "Governance Documents."

Compensation Committee Interlocks and Insider Participation

The compensation and nominating governance committee is comprised of three non-employee, independent trustees: Messrs. Black and Anderson and Governor Thompson. No member of the compensation and nominating governance committee is or was formerly an officer or an employee of the Company or had any related person transaction required to be disclosed in which the Company was a participant during the last fiscal year. In addition, no executive officer of the Company serves on the compensation committee or board of directors of a company for which any of the Company's trustees serves as an executive officer.

Trustee Nominees

The compensation and nominating governance committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new trustees as well as the composition of the Board as a whole. This assessment includes an analysis of trustees' qualifications under the categorical standards for independence listed above, as well as consideration of diversity, age, skills and experience in the context of the Board's needs. Nominees for trusteeship are selected by the compensation and nominating governance committee in accordance with the policies and principles in its charter and the corporate governance guidelines. The compensation and nominating governance committee considers trustee candidates recommended by its members and other Board members, as well as by management and shareholders. In addition, the compensation and nominating governance committee may engage the assistance of a professional search firm. All potential trustee candidates are reviewed by the compensation and nominating governance committee in consultation with the Chairman and the Chief Executive Officer. The compensation and nominating governance committee decides whether to recommend one or more candidates to the Board for nomination.

The compensation and nominating governance committee may consider the following criteria, among others it deems appropriate, in recommending candidates for election to the Board: (i) personal and professional integrity, ethics and values; (ii) experience in corporate management, such as serving as an officer or former officer of a publicly held company; (iii) experience in the Company's industry; (iv) experience with relevant social policy concerns; (v) experience as a board member of another publicly held company; (vi) ability and willingness to commit adequate time to the Board and its committee matters; (vii) the fit of the individual's skills with those of the other members of the Board and potential members of the Board in the building of a board that is effective, collegial and responsive to the needs of the Company; (viii) academic expertise in an area of the Company's operations; and (ix) practical and mature business judgment. In addition to the criteria set forth above, the compensation and nominating governance committee considers diversity for trustee nominees in terms of perspective, background, experience, gender, race and ethnic or national origin. The compensation and nominating governance committee endeavors to include women and minority candidates in each pool of candidates from which new trustee nominees are chosen.

Trustee Nomination Procedure

Our bylaws provide that, with respect to an annual meeting of shareholders, nominations of individuals for election to our Board at an annual meeting and the proposal of other business to be considered by shareholders may be made only (i) pursuant to our notice of the meeting, (ii) by or at the direction of our Board or (iii) by a shareholder of record both at the time of giving of notice and at the time of the annual meeting, who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

Our bylaws require the shareholder to provide notice in writing to the Secretary containing the information required by our bylaws not earlier than the 150th day nor later than 5:00 p.m., Eastern Standard Time, on the 120th day prior to the first anniversary of the date our proxy statement is released to our shareholders (as used in Rule 14a-8(e) promulgated under the Exchange Act, as interpreted by the SEC from time to time) for the preceding year’s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year’s annual meeting, in order for notice by the shareholder to be timely, such notice must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Standard Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a shareholder’s notice as described above.

With respect to special meetings of shareholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our Board at a special meeting may be made only by or at the direction of our Board or, provided that our Board has determined that trustees will be elected at such meeting, by a shareholder who has complied with the advance notice provisions set forth in our bylaws. Such shareholder may nominate one or more individuals, as the case may be, for election as a trustee if the shareholder's notice containing the information required by our bylaws is delivered to the Secretary not earlier than the 120th day prior to such special meeting and not later than 5:00 p.m., Eastern Standard Time, on the later of (i) the 90th day prior to such special meeting or (ii) the tenth day following the day on which public announcement is first made of the date of the special meeting and the proposed nominees of our Board to be elected at the meeting.

Our corporate governance guidelines provide further procedures by which shareholders may recommend nominees to our Board. Our corporate governance guidelines provide in relevant part as follows:

- Shareholders may contact the compensation and nominating governance committee by mail to recommend a nominee for our Board. Correspondence should be addressed to the compensation and nominating governance committee and should be sent by mail to Physicians Realty Trust, Board c/o the Office of the Secretary, 309 N. Water Street, Suite 500, Milwaukee, WI 53202.

- The Secretary shall promptly forward to members of the compensation and nominating governance committee any recommendations so received.

- The compensation and nominating governance committee shall give appropriate consideration to candidates for trusteeship nominated by shareholders in accordance with the Company's bylaws, and shall evaluate such candidates in the same manner as other candidates identified by the compensation and nominating governance committee.

- The compensation and nominating governance committee, through the Secretary, will endeavor to acknowledge its receipt of any timely recommendation received and notify the shareholder of the actions taken with respect to such candidate.

Code of Business Conduct and Ethics

Our Board has established a code of business conduct and ethics that applies to our officers, trustees and employees, including our Chief Executive Officer, Chief Financial Officer and other senior officers. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

- compliance with laws, rules and regulations;

- prompt internal reporting of violations of the code to appropriate persons identified in the code; and

- accountability for adherence to the code of business conduct and ethics.

Any waiver of the code of business conduct and ethics for our executive officers or trustees must be approved by a majority of our independent trustees, and any such waiver will be promptly disclosed as required by law or NYSE regulations.

A copy of the code of business conduct and ethics is available in the Investor Relations section of our website (www.docreit.com) under the tab "Governance Documents."

Corporate Governance Guidelines

Our Board has established corporate governance gui