ALLEGIANT BANCORP INC/MO/
Form 10-Q
November 14, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2001

Commission file number 0-10849

ALLEGIANT BANCORP, INC.
(Exact name of registrant as specified in its charter)

MISSOURI	43-1262037
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2122 KRATKY ROAD
ST. LOUIS, MISSOURI 63114
(Address of principal executive offices)
(Zip Code)

(314) 692-8200
(Registrant's telephone number, including area code)

SOUTHSIDE BANCSHARES CORP.
(Former Name)

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. /X/ Yes / / No

Title of class	Number of shares outstanding as of November 1, 2001

Common stock, $0.01 par value	14,961,075

ALLEGIANT BANCORP, INC.
FORM 10-Q

On September 28, 2001, Allegiant Bancorp, Inc., a Missouri corporation ("Allegiant"), acquired Southside Bancshares Corp., a Missouri corporation ("Southside"). Under the Agreement and Plan of Merger, dated April 30, 2001, as amended July 31, 2001, by and between Allegiant and Southside (the "Merger Agreement"), the form of the transaction required Allegiant to merge with and into Southside. However, Allegiant was, in all practical respects, the entity surviving the Merger and immediately after the Merger, Southside changed its name to "Allegiant Bancorp, Inc." As such, for purposes of the financial information and other information set forth herein, Allegiant is treated as the acquiror of Southside and the entity surviving the merger.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALLEGIANT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2001 (Unaudited)	December 31, 2000
	(Dollars in thousands, except per	
ASSETS:		
Cash and due from banks	$ 59,783	$ 30,942
Federal funds sold and overnight investments	47,735	16,201
Investment securities:		
Available-for-sale (at estimated market value)	385,348	129,096
Held-to-maturity (estimated market value of $28,854, $5,207 and $5,232, respectively)	28,852	5,200
Loans, net of allowance for loan losses of $19,692, $11,433 and $10,013, respectively	1,410,755	802,538
Loans held for sale	14,000	88,983
Premises and equipment	42,408	18,487
Accrued interest and other assets	72,594	33,446
Cost in excess of fair value and net assets acquired	66,081	10,831
Total assets	$ 2,127,556	$ 1,135,724
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits:		
Non-interest bearing	$ 177,999	$ 86,012
Interest bearing	1,205,695	693,362
Certificates of deposit of $100,000 or more	178,303	78,710
Total deposits	1,561,997	858,084
Federal Home Loan Bank advances	288,123	143,596
Short-term borrowings	52,116	31,355
Long-term debt	-	-
Guaranteed preferred beneficial interests in subordinated debentures	57,250	17,250
Accrued expenses and other liabilities	21,917	7,633
Total liabilities	1,981,403	1,057,918
Shareholders' equity:		
Common Stock, $0.01 par value - authorized 20,000,000 shares; issued and outstanding 14,881,581 shares, 8,897,111 shares and 6,211,348 shares, respectively	154	94
Capital surplus	121,002	60,798
Retained earnings	22,903	16,195

Accumulated other comprehensive income (loss)..........	2,094	719
Treasury stock, at cost, 0 shares, 0 shares and 554,775 shares, respectively....................	-	-
Total shareholders' equity............................	146,153	77,806
Total liabilities and shareholders' equity...........	$ 2,127,556	$ 1,135,724

See Notes to Condensed Consolidated Financial Statements.

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ALLEGIANT BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Sep
	2001	2000	2001
	(In thousands, except share and per		
Interest income:			
Interest and fees on loans........................	$ 18,723	$ 17,265	$ 57,052
Investment securities.............................	2,920	1,008	7,784
Federal funds sold and overnight investments..........................	52	31	860
Total interest income...............................	21,695	18,304	65,696
Interest expense:			
Interest on deposits..............................	9,433	8,126	30,037
Interest on short-term borrowings.................	1,500	1,424	4,520
Interest on long-term debt........................	1,224	491	2,970
Interest on guaranteed preferred beneficial interests in subordinated debentures............	442	443	1,327
Total interest expense..............................	12,599	10,484	38,854
Net interest income.................................	9,096	7,820	26,842
Provision for loan losses...........................	2,000	735	3,700
Net interest income after provision for loan losses..................................	7,096	7,085	23,142
Other income:			
Service charges and other fees....................	986	807	2,932
Net gain on sale of securities....................	1,810	32	2,725
Other income......................................	1,408	747	4,672

Total other income	4,204	1,586	10,329
Other expenses:			
Salaries and employee benefits	3,940	2,696	11,439
Occupancy and furniture and equipment	1,022	807	3,062
Other operating expenses	2,147	2,291	6,091
Total other expenses	7,109	5,794	20,592
Income before income taxes	4,191	2,877	12,879
Provision for income taxes	1,294	1,173	4,617
Net income	$ 2,897	$ 1,704	$ 8,262
Per share data:			
Net income			
Basic	$ 0.32	$ 0.28	$ 0.93
Diluted	0.32	0.28	0.92
Weighted average common shares outstanding:			
Basic	8,955,753	6,105,124	8,910,966
Diluted	9,141,781	6,124,764	9,002,177

See Notes to Condensed Consolidated Financial Statements.

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ALLEGIANT BANCORP, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Shar E
				(In thousands)	
Balance December 31, 2000	$ 94	$ 60,798	$ 16,195	$ 719	$
Net income	-	-	8,262	-	
Change in net unrealized gains on available-for-sale securities	-	-	-	1,375	
Comprehensive income	-	-	-	-	
Issuance of common stock	2	1,907	-	-	
Merger related recapitalization	(1)	(921)	-	-	
Acquisition of Southside Bancshares, Corp.	59	59,218	-	-	
Dividends	-	-	(1,554)	-	

Balance September 30, 2001...........	$ 154	$ 121,002	$ 22,903	$ 2,094	$

Reclassification adjustments:	
Unrealized gains on available-for-sale securities....	$ 4,100
Less:	
Reclassification adjustment for gains realized included in net income........................	2,725
Net unrealized gains on available-for-sale securities....	$ 1,375

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ALLEGIANT BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2001	2000
	(In thousands)	
OPERATING ACTIVITIES:		
Net income..	$ 8,262	$ 4
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization............................	2,192	1
Provision for loan losses................................	3,700	2
Net gain on sale of fixed assets.........................	(41)	
Net realized gains on securities held-to-maturity..........	-	
Net realized gains on securities available-for-sale........	(2,724)	
Net gain on sale of mortgage loans.......................	(20)	
Other changes in assets and liabilities:		
Accrued interest receivable and other assets.............	(11,310)	
Accrued expenses and other liabilities..................	9,663	2
Cash provided by operating activities.................	9,722	11
INVESTING ACTIVITIES:		
Net cash received in acquisition of Equality Bancorp, Inc......	(922)	
Net cash received in acquisition of Southside Bancshares Corp..	(4,129)	
Proceeds from maturities of securities held-to-maturity.......	917	5
Proceeds from sales of securities held-to-maturity............	-	1
Purchase of investment securities held-to-maturity............	-	
Proceeds from maturities of securities available-for-sale......	46,160	3

Proceeds from sales of securities available-for-sale..........	60,480	13
Purchase of investment securities available-for-sale..........	(172,036)	(25
Loans made to customers, net of repayments....................	(155,779)	(126
Proceeds from sale of mortgage loans..........................	67,432	
Purchase of bank-owned life insurance.........................	(5,803)	(15
Additions to premises and equipment...........................	(2,476)	(1
Cash used in investing activities.....................	(166,156)	(144
FINANCING ACTIVITIES:		
Net increase in deposits......................................	94,771	109
Net increase in short-term borrowings.........................	46,354	26
Net increase of long-term debt................................	35,000	4
Repayment of long-term debt...................................	329	
Proceeds from issuance of guaranteed preferred beneficial interest in subordinated debentures...............	40,000	
Proceeds from issuance of common stock........................	1,909	1
Repurchase of common stock....................................	-	(1
Payment of dividends..	(1,554)	
Cash provided by financing activities.................	216,809	139
Net increase in cash and cash equivalents.....................	60,375	6
Cash and cash equivalents, beginning of period................	47,143	26
Cash and cash equivalents, end of period......................	$ 107,518	$ 33

See Notes to Condensed Consolidated Financial Statements.

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ALLEGIANT BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Allegiant Bancorp, Inc. and our subsidiaries. The terms "Allegiant," "company," "we" and "our" as used in this report refer to Allegiant Bancorp, Inc. and our subsidiaries as a consolidated entity, except where we state specifically that it means only the parent holding company. Also, sometimes we refer to Allegiant Bank, Bank of Ste. Genevieve, Bank of St. Charles County and State Bank of Jefferson County, our bank subsidiaries, as the "banks."

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended

September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2000 and the consolidated financial statements and footnotes thereto included in the final joint proxy statement/prospectus on Form S-4 filed August 7, 2001.

Under the Merger Agreement, the form of the transaction required Allegiant to merge with and into Southside. However, Allegiant was, in all practical respects, the entity surviving the Merger and immediately after the Merger, Southside changed its name to "Allegiant Bancorp, Inc." As such, for purposes of the financial information and other information set forth herein, Allegiant is treated as the acquiror of Southside and the entity surviving the merger.

Comprehensive Income

During the third quarter of 2001 and 2000, total comprehensive income amounted to $2.9 million and $2.3 million, respectively. Year-to-date comprehensive income for the first nine months of 2001 and 2000 was $9.6 million and $5.5 million, respectively.

Acquisitions

In November 2000, we acquired Equality Bancorp, Inc. Equality Bancorp was the parent company of Equality Savings Bank, a Missouri state-chartered savings bank headquartered in St. Louis with seven locations, primarily in the Southern half of the greater St. Louis, Missouri metropolitan area. We exchanged approximately 2.7 million shares of our common stock for all

of the outstanding common stock of Equality Bancorp. At closing, Equality Bancorp reported total assets of $300 million.

On September 28, 2001, we acquired Southside Bancshares Corp. ("Southside"). Before the acquisition, Southside was a bank holding company with four subsidiary banks in and around St. Louis, Missouri, which at closing reported consolidated total assets of approximately $763 million. Under the terms of the agreement, one half of the Southside shares were converted into the right to receive cash in the amount of $14 per share and the other half into the right to receive 1.39 shares of Allegiant stock per share. Under the terms of the agreement, we exchanged a total of approximately 5.9 million shares of Allegiant common stock plus $59 million in cash for all of the outstanding common stock of Southside. The form of merger consideration receivable by the Southside shareholders was allocated by the exchange agent as outlined in the Merger Agreement. The issuance of Allegiant shares and cash to the former Southside Shareholders was completed on November 2, 2001. We financed the cash portion of the purchase price through the issuance of trust preferred securities and bank borrowings.

The merger with Southside has been accounted for in accordance with Statements of Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets, which are discussed under "Recently Issued Accounting Standards."

As previously reported, on August 22, 2001, we signed an agreement with Guardian Savings Bank, headquartered in Houston, Texas, to purchase Guardian's five branch offices in St. Louis County, Missouri. We will acquire the branch facilities and assume approximately $101.3 million in related deposit liabilities. We expect to close on this transaction in December 2001.

Derivative Financial Instruments

We use off-balance sheet derivatives as part of the overall asset and liability management process and to manage risk related to changes in interest rates. These financial derivatives consist of interest rate swaps.

As of January 1, 2001, we adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which was issued in September 1998, and its amendments, Statement 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 and Statement 138, Accounting for Derivative Instruments and Certain Hedging Activities issued in September 1999 and September 2000, respectively (collectively referred to as "Statement 133"). The adoption of Statement 133 applies to our derivative financial instruments which include four interest rate swap contracts. The interest rate swaps hedge certificate of deposits (CD's) and are matched with the CD's as to final maturity, interest payment dates and call features. The interest rate swaps are a floating pay-fixed instrument and as such, they convert the fixed rate payment on the CD's to a floating rate and thus hedge the fair value of the CD's from changes in interest rates.

Upon adoption of Statement 133, the cumulative effect of an accounting change in an amount equal to the accounting effects of the statement as of the beginning of the fiscal year was immaterial.

During the three-month and nine-month periods ended September 30, 2001, our Company recorded the effects of the ineffectiveness of all hedge transactions as part of the income statement line pertaining to each item. The after-tax effect of the changes was immaterial to our consolidated financial statements as of September 30, 2001 and for the period then ended.

Recently Issued Accounting Standards

Statement of Financial Accounting Standards No. 140 ("SFAS 140"), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, was issued September 2000 and provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities after March 31, 2001. Also, it is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after

December 15, 2000. Management has not yet quantified the effect, if any, of this new standard on the consolidated financial statements.

In 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to impairments tests in accordance with the Statements. Other intangible assets will continue to be amortized over their estimated useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in pre tax net income of $948,000 ($0.06 per share) per year which represents the annual amount of goodwill from previous acquisitions that was being amortized. The intangible assets from the Southside acquisition included $45.5 million in goodwill that will not be amortized and $10.5 million in core deposit intangible assets that will be amortized over their estimated useful lives. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of those tests will be on the future consolidated earnings and financial position of the Company. If for any future period we determine that there have been impairment in the carrying value of our goodwill balances, we will record a charge to our earnings, which could have a material adverse effect on our net income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Allegiant and our subsidiaries. These forward-looking statements involve certain risks and uncertainties. For example, by accepting deposits at fixed rates, at different times and for different terms, and lending funds at fixed rates for fixed periods, we accept the risk that the cost of funds may rise and interest on loans and investment securities may be at a fixed rate. Similarly, the cost of funds may fall, but we may have committed by virtue of the term of a deposit to pay what becomes an above-market rate. Investments may decline in value in a rising interest rate environment. Loans have the risk that the borrower will not repay all funds in a timely manner, as well as the risk of total loss. Collateral may or may not have the value attributed to it. The loan loss reserve, while believed adequate, may prove inadequate if one or more large borrowers, or numerous smaller borrowers, or a combination of both, experience financial difficulty for individual, national or international reasons. Because the business of banking is highly regulated, decisions of governmental authorities, such as the rate of deposit insurance, can have a major effect on operating results. All of these uncertainties, as well as others, are present in a banking operation and we caution shareholders that management's view of the future on which it prices our products, evaluates collateral, sets loan reserves and estimates costs of operation and regulation may prove to be other than anticipated.

The profitability of our operations depends on our net interest income, provision for loan losses, non-interest income and non-interest expense. Net interest income is the difference between the income we receive on our loan and investment portfolios and our cost of funds, which consists of interest paid on deposits and borrowings. The provision for loan losses reflects the cost of credit risk in our loan portfolio. Non-interest income consists primarily of service charges on deposit accounts and fees for ancillary banking services and, to a lesser extent, revenues generated from our mortgage banking, securities brokerage, insurance brokerage and trust operations. Non-interest expense includes salaries and employee benefits as well as occupancy, data processing, marketing, professional fees, insurance and other expenses. Under recently adopted accounting rules, we will be required to periodically evaluate the carrying value of our goodwill balances to determine whether the value has been impaired. If we determine that there has been an impairment, we recognize a charge to our earnings, which could be material.

Our net interest income depends on the amounts and yields of interest earning assets compared to the amounts and rates on interest bearing liabilities. Net interest income is sensitive to changes in market rates of interest and our asset/liability management procedures in managing those changes. The provision for loan losses is dependent on increases in the loan portfolio, management's assessment of the collectibility of the loan portfolio and loss experience, as well as economic and market factors.

OVERVIEW

We are a bank holding company headquartered in St. Louis, Missouri. Our bank subsidiaries, Allegiant Bank, Bank of Ste. Genevieve, Bank of St. Charles County and State Bank of Jefferson County, offer full-service banking and personal trust services to individuals, commercial business and municipalities in the St. Louis metropolitan area. Our services include commercial, real estate and installment loans, checking, savings and time deposit accounts, personal trust and other fiduciary services and other financial services such as securities

brokerage, insurance and safe deposit boxes. As of September 30, 2001, we reported, on a consolidated basis, total assets of $2.1 billion, loans of $1.4 billion, deposits of $1.6 billion and shareholders' equity of $146.2 million.

Since our inception in 1989, we have grown rapidly through a combination of internal growth and acquisitions of other financial institutions. Our internal growth has been achieved by positioning Allegiant as one of the leading St. Louis community banking operations. We have supplemented our growth by acquiring 10 branch locations in our community from three different thrifts, with the primary goals of expanding our branch network in the St. Louis market and increasing our earnings per share. We have also acquired a mortgage company and an asset management firm. In December 1998, we sold four branches located in more rural markets in northeast Missouri, in order to focus our operations exclusively in the St. Louis metropolitan area. In November 2000, we acquired Equality Bancorp, Inc. a community-based thrift holding company with seven branches in the St. Louis area and total assets of approximately $300.4 million. While this transaction significantly improved our market coverage, the consolidation of the branch networks also allowed us to increase our average deposits per branch, which we believe to be key to improving efficiency. As a continuation of our acquisition strategy, we acquired Southside Bancshares Corp., another community-based bank holding company serving the St. Louis area, with total assets at September 28, 2001 of approximately $763.0 million. In addition, we have agreed to acquire five branch facilities in the St. Louis area from Guardian Savings Bank and assume approximately $101.3 million in related deposit liabilities.

Since the beginning of 1998, we have focused on improving the profitability of our banking operations. As a result, we have reduced the amount of one- to four-family mortgages we hold in our loan portfolio and have increased our amount of higher yielding commercial loans. We have hired approximately 22 banking professionals averaging more than 10 years of experience in the St. Louis metropolitan area to help grow our commercial loans and deposits. We have concentrated our focus exclusively on opportunities in the higher-growth St. Louis metropolitan area and, accordingly, have opened new branches, acquired Equality and Southside and have entered into an agreement to purchase Guardian's five branch offices in St. Louis County, Missouri. We also have implemented company-wide cost-control efforts to enhance efficiencies at our entire operations. These steps taken since the beginning of 1998 have improved our efficiency, return on average assets, return of average equity and earnings per share.

Our primary financial objectives are to continue to grow our loan portfolio while maintaining high asset quality, expand our core deposit base to provide a cost-effective and stable source of funding our loan portfolio and increase non-interest income while maintaining strong expense controls. We have sought to maintain high asset quality while managing growth both internally and by acquisition.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2001 was $2.9 million, a 71% increase over the $1.7 million earned for the third quarter of 2000. Basic and diluted earnings per share increased 14% to $0.32 for the third quarter of 2001 compared to $0.28 for the third quarter of 2000. The annualized return on average assets for the third quarter of 2001 was 0.94% compared to 0.81% reported for the third quarter of 2000. The return on average equity on an annualized basis was 13% for both the third quarter of 2001 and the third quarter of 2000.

Net income for the nine-month period ended September 30, 2001 was $8.3 million, a 69% increase over the $4.9 million earned for the nine-month period ended September 30, 2000. Basic earnings per share increased 15% to $0.93 from $0.81, and diluted earnings per share increased 15% to $0.92 from $0.80 in the respective nine-month periods. The annualized return on average assets was 0.94% and the annualized return on average equity was 13% for the nine months ended September 30, 2001. This compares to, on an annualized basis, a return on average assets of 0.82% and a return on average equity of 13% for the corresponding period in 2000.

We have utilized the purchase method of accounting to reflect our business combinations. The purchase method results in the recording of goodwill that is amortized as a non-cash charge included in operating expenses. Goodwill amortization included as an operating expense totaled $237,000 and $712,000, respectively, for both of the three- and nine-month periods ended September 30, 2001 and 2000. Cash net income, which adjusts earnings to exclude goodwill amortization, was $3.1 million and $9.0 million, respectively, for the three and nine months ended September 30, 2001, and $1.9 million and $5.6 million, respectively, for the three and nine months ended September 30, 2000, respectively. Diluted cash earnings per share increased 6% to $0.34 in the third quarter of 2001 from $0.32 in the third quarter of 2000. Diluted cash earnings per share increased 9% to $1.00 for the nine months ended September 30, 2001 from $0.92 in the 2000 period. Under recently adopted accounting rules, we will be required to periodically evaluate the carrying value of our goodwill balances to determine whether the value has been impaired. If we determine that there has been an impairment, we will recognize a charge to our earnings, which could be material.

Total assets at September 30, 2001 increased to $2.1 billion from $1.1 billion at December 31, 2000 as a result of the Southside acquisition and continued internal growth. Loans increased $616 million and investment securities increased $280 million. Deposit balances increased $704 million during the first nine months of 2001.

Net Interest Income. Net interest income for the three months ended September 30, 2001 was $9.1 million, a 17% increase compared to $7.8 million reported for the third quarter of 2000. This $1.3 million increase was attributable to an increase of $361.0 million in average earning assets partially offset by an 176 basis point decrease in the yield on earning assets. The $3.4 million increase in interest income was partially offset by a $2.1 million increase in interest expense. The increase in interest expense was the result of a $330.6 million increase in average interest bearing liabilities offset by a decrease of 104 basis points in the average interest rate paid between the periods.

Net interest margin for the third quarter of 2001 decreased 81 basis points compared to the third quarter of 2000. The earning assets yield decreased 176 basis points and the overall interest rate paid on interest bearing deposits decreased 104 basis points. Accordingly, the net interest spread decreased 72 basis points in the third quarter of 2001 compared to the third quarter of 2000.

Interest expense on deposits increased $1.3 million due to a $242.7 million increase in average interest bearing deposits, offset by a decrease in the rate paid on deposits from 5.60% in the third quarter of 2000 to 4.56% for the comparable quarter in 2001. The increase in interest expense on deposits consisted primarily of a $1.1 million increase in interest expense on certificates of deposit. The average balance of our certificate of deposit liability increased by $136.7 million from the third quarter of 2001 to the third quarter of 2000. We have continued to build our deposit base while maintaining our focus on personal service. The growth in average

balance of certificates of deposit was the result of special promotions of these products during 2000 and these higher cost deposits began to be repriced in the third quarter of 2001.

Interest expense on other interest bearing liabilities increased $0.8 million in the third quarter of 2001 compared to the third quarter of

2000. Average short- and long-term borrowings also increased $87.8 million in the third quarter of 2001 compared to the third quarter of the prior year. The average rate on short-term borrowings decreased 138 basis points, while the rate paid on long-term borrowings in the third quarter of 2001 decreased 52 basis points compared to the third quarter of 2000.

Net interest income for the nine months ended September 30, 2001 was $26.8 million, a 19% increase compared to the $22.5 million reported for the corresponding period in 2000. This $4.3 million increase was attributable to an increase of $338.5 million in average earning assets and a 101 basis point decrease in the yield on earning assets. The $14.8 million increase in interest income was partially offset by a $10.4 million increase in interest expense. The increase in interest expense was the result of a $309.6 million increase in average interest bearing liabilities and partially offset by a decrease of 33 basis points in the average interest rate paid. The growth in income was primarily attributable to the acquisition of Equality in November 2000, as well as internally generated growth.

Net interest margin for the first nine months of 2001 decreased 71 basis points compared to the corresponding period in 2000. The earning assets yield decreased 101 basis points primarily due to the effect of a decrease in the yield on floating interest rate loans. The overall interest rate paid on interest bearing deposits decreased 29 basis points primarily due to the lower deposit rates being paid on deposits in 2001. Accordingly, the net interest spread decreased 68 basis points comparing the first nine months of 2001 to the first nine months of 2000.

The following table sets forth the condensed average balance sheets for the periods reported. Also shown is the average yield on each category of interest earning assets and the average rate paid on interest bearing liabilities for each of the periods reported.

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY AND INTEREST R

	Three Months Ended September 30,			
	2001			
	Average Balance	Int. Earned/ Paid	Yield/ Rate	Average Balance
	(Dollars in thousands)			
Assets:				
Interest earning assets:				
Loans (1)................................	$ 945,153	$ 18,723	7.86%	$ 721,734
Taxable investment securities............	191,222	2,836	5.88	57,342
Non-taxable investment securities (2).....	5,963	84	5.59	5,263
Federal funds sold and overnight investments...........................	5,427	52	3.80	2,416
Total interest earning assets........	1,147,765	21,695	7.50	786,755

Non-interest earning assets:				
Cash and due from banks..................	24,495			16,339
Premises and equipment...................	19,432			9,885
Other assets.............................	51,044			39,918
Allowance for loan losses................	(12,216)			(9,805)
Total assets........................	$ 1,230,520			$ 843,092
Liabilities and shareholders' equity:				
Interest bearing liabilities:				
Money market and NOW accounts............	$ 231,976	$ 1,821	3.11%	$ 172,822
Savings deposits.........................	59,367	502	3.35	12,466
Certificates of deposit..................	370,879	4,927	5.27	303,191
Certificates of deposit over $100,000.....	112,037	1,398	4.95	65,136
IRA certificates.........................	46,133	785	6.75	24,034
Total interest bearing deposits......	820,392	9,433	4.56	577,649
Federal funds purchased, repurchase agreements and other short-term borrowings............................	127,510	1,500	4.67	93,653
Other borrowings.........................	83,529	1,224	5.81	30,860
Guaranteed preferred beneficial interests in subordinated debentures...	18,554	442	9.45	17,250
Total interest bearing liabilities...	1,049,985	12,599	4.76	719,412
Non-interest bearing liabilities and equity:				
Demand deposits..........................	86,214			67,222
Other liabilities........................	6,664			5,423
Shareholders' equity.....................	87,657			51,035
Total liabilities and shareholders' equity............................	$ 1,230,520			$ 843,092
Net interest income.....................		$ 9,096		
Net interest spread........................			2.74%	
Net interest margin........................			3.14	