SOUTHWEST BANCORP OF TEXAS INC
Form 10-Q
May 14, 2001

1

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-22007

SOUTHWEST BANCORPORATION OF TEXAS, INC.
(Exact Name of Registrant as Specified in its Charter)

TEXAS	76-0519693
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

4400 POST OAK PARKWAY
HOUSTON, TEXAS 77027
(Address of Principal Executive Offices, including zip code)

(713) 235-8800
(Registrant's telephone number, including area code)

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 [ ]

There were 32,839,950 shares of the Registrant's Common Stock outstanding as of the close of business on May 7, 2001.

2

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Report of Independent Accountants	2
Condensed Consolidated Balance Sheet as of March 31, 2001 and December 31, 2000 (unaudited)	3
Condensed Consolidated Statement of Income for the Three Months Ended March 31, 2001 and 2000 (unaudited)	4
Condensed Consolidated Statement of Changes in Shareholders' Equity for the Three Months Ended March 31, 2001 (unaudited)	5
Condensed Consolidated Statement of Cash Flows for the Three Months Ended March 31, 2001 and 2000 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	22
Item 2. Changes in Securities and Use of Proceeds	22
Item 3. Defaults upon Senior Securities	22
Item 4. Submission of Matters to a Vote of Security Holders	22
Item 5. Other Information	22
Item 6. Exhibits and Reports on Form 8-K	22
Signatures	23

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Southwest Bancorporation of Texas, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Southwest Bancorporation of Texas, Inc. and Subsidiaries (the "Company") as of March 31, 2001, the related condensed consolidated statements of income and of cash flows for the three-month periods ended March 31, 2001 and 2000 and the condensed consolidated statement of changes in shareholders' equity for the three-month period ended March 31, 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2000, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 23, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Houston, Texas
April 16, 2001

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

	MARCH 31, 2001	DECEMBER 31, 2000
ASSETS		
Cash and due from banks	$ 160,343	$ 331,965
Federal funds sold and other cash equivalents	72,517	79,341
Total cash and cash equivalents	232,860	411,306
Securities -- available for sale	797,086	848,164
Loans held for sale	66,452	85,939
Loans held for investment	2,511,341	2,425,498
Allowance for loan losses	(29,067)	(28,150)
Premises and equipment, net	55,866	52,462
Accrued interest receivable	24,977	27,334
Other assets	168,758	117,789
Total assets	$3,828,273	$3,940,342
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand -- noninterest-bearing	$ 827,502	$ 892,296
Demand -- interest-bearing	61,858	62,773

Money market accounts	1,289,858	1,154,808
Savings	80,649	76,715
Time, $100 and over	424,452	506,629
Other time	411,958	400,649
Total deposits	3,096,277	3,093,870
Securities sold under repurchase agreements	224,083	211,800
Other borrowings	155,647	305,961
Accrued interest payable	5,165	5,505
Other liabilities	25,785	23,883
Total liabilities	3,506,957	3,641,019
Minority interest in consolidated subsidiary	1,382	1,313
Commitments and contingencies		
Shareholders' equity:		
Common stock -- $1 par value, 75,000,000 shares authorized; 32,808,402 issued and 32,807,370 outstanding at March 31, 2001 and 32,705,909 issued and 32,704,877 outstanding at December 31, 2000	32,808	32,706
Additional paid-in capital	71,465	69,735
Retained earnings	211,235	198,720
Accumulated other comprehensive income (loss)	4,470	(3,107)
Treasury stock, at cost -- 1,032 shares	(44)	(44)
Total shareholders' equity	319,934	298,010
Total liabilities and shareholders' equity	$3,828,273	$3,940,342

The accompanying notes are an integral part of the condensed consolidated financial statements.

3

5

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Interest income:		
Loans	$55,977	$45,796
Securities	13,593	14,339
Federal funds sold and other	1,126	569
Total interest income	70,696	60,704
Interest expense on deposits and other borrowings	31,946	26,097
Net interest income	38,750	34,607
Provision for loan losses	1,750	1,561

Net interest income after provision for loan losses....	37,000	33,046
Noninterest income:		
Service charges on deposit accounts......................	5,684	4,993
Investment services......................................	1,693	1,388
Other fee income...	2,864	2,155
Other operating income...................................	3,206	1,889
Gain on sale of securities, net..........................	17	1
Total noninterest income.............................	13,464	10,426
Noninterest expenses:		
Salaries and employee benefits...........................	18,787	15,929
Occupancy expense..	4,987	4,175
Other operating expenses.................................	8,225	7,938
Total noninterest expenses...........................	31,999	28,042
Income before income taxes and minority interest.......	18,465	15,430
Provision for income taxes.................................	5,920	5,187
Income before minority interest......................	12,545	10,243
Minority interest..	30	43
Net income...	$12,515	$10,200
Earnings per common share		
Basic..	$ 0.38	$ 0.32
Diluted..	$ 0.37	$ 0.31

The accompanying notes are an integral part of the condensed consolidated financial statements.

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	COMMON STOCK		ADDITIONAL PAID-IN	RETAINED	ACCUMULAT OTHER COMPREHENS
	SHARES	DOLLARS	CAPITAL	EARNINGS	INCOME (LO
BALANCE, DECEMBER 31, 2000............	32,704,877	$32,706	$69,735	$198,720	$(3,107
Exercise of stock options...........	102,493	102	1,721		
Deferred compensation amortization...			9		
Comprehensive income:					
Net income for the three months ended March 31, 2001............				12,515	
Net change in unrealized appreciation on securities available for sale, net of					

deferred taxes of $(4,091).......					7,577
Total comprehensive income.........					
BALANCE, MARCH 31, 2001...............	32,807,370	$32,808	$71,465	$211,235	$ 4,470

The accompanying notes are an integral part of the condensed consolidated financial statements.

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Cash flows from operating activities:		
Net income...	$ 12,515	$ 10,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses.............................	1,750	1,561
Depreciation..	2,352	1,987
Realized gain on securities available for sale, net.....	(17)	(1)
Amortization..	608	456
Minority interest in net income of consolidated subsidiary..	30	43
Gain on sale of loans, net............................	(720)	(130)
Dividends on Federal Home Loan Bank stock..............	(505)	(232)
Origination of loans held for sale and mortgage servicing rights..................................	(2,793)	(24,001)
Proceeds from sales of loans..........................	22,273	11,374
Increase in accrued interest receivable and other assets...	(1,805)	(2,610)
Increase in accrued interest payable and other liabilities..	2,511	4,706
Other, net..	(275)	158
Net cash provided by operating activities..........	35,924	3,511
Cash flows from investing activities:		
Proceeds from maturity of securities available for sale...	35,695	1,000
Proceeds from maturity of securities held to maturity.....	--	2,875
Principal paydowns of mortgage-backed-securities available for sale..	38,984	22,242
Principal paydowns of mortgage-backed securities held to maturity..	--	2,319
Proceeds from sale of securities available for sale.......	--	135
Purchase of securities available for sale................	(11,380)	(38,374)
Purchase of securities held to maturity..................	--	(8,954)
Net increase in loans receivable.........................	(87,477)	(108,782)
Purchase of Bank-owned life insurance policies............	(50,000)	--

Purchase of premises and equipment	(5,878)	(3,346)
Proceeds from sale of premises and equipment	436	--
Net cash used in investing activities	(79,620)	(130,885)
Cash flows from financing activities:		
Net increase (decrease) in noninterest-bearing deposits	(64,794)	33,412
Net increase (decrease) in time deposits	(70,868)	11,107
Net increase in other interest-bearing deposits	138,069	84,675
Net increase (decrease) in securities sold under repurchase agreements	12,283	(1,662)
Net decrease in other short-term borrowings	(150,299)	(17,885)
Payments on long-term borrowings	(15)	(64)
Net proceeds from exercise of stock options	874	418
Purchase of treasury stock	--	(117)
Net cash provided by (used in) financing activities	(134,750)	109,884
Net decrease in cash and cash equivalents	(178,446)	(17,490)
Cash and cash equivalents at beginning of period	411,306	214,074
Cash and cash equivalents at end of period	$ 232,860	$ 196,584

The accompanying notes are an integral part of the condensed consolidated financial statements.

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Southwest Bancorporation of Texas, Inc. (the "Company") and its direct and indirect wholly-owned subsidiaries, Southwest Holding Delaware Inc. (the "Delaware Company") Southwest Bank of Texas National Association (the "Bank"), and Mitchell Mortgage Company, LLC ("Mitchell"). The consolidated financial statements also include the accounts of First National Bank of Bay City, a 58% owned subsidiary of the Delaware Company. In connection with the Company's merger with Citizens Bankers, Inc. ("Citizens") and acquisition of all of the assets and liabilities of Citizens Bankers Limited Partnership ("CBLP"), the historical financial data has been restated to include the accounts and operations of Citizens and CBLP for all periods presented. All material intercompany accounts and transactions have been eliminated. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the Company's consolidated financial position at March 31, 2001 and December 31, 2000, consolidated income for the three months ended March 31, 2001 and 2000, consolidated cash flows for the three months ended March 31, 2001 and 2000, and the consolidated changes in shareholders' equity for the three months ended March 31, 2001. Interim period results are not necessarily indicative of results of operations or cash flows for a full-year period.

These financial statements and the notes thereto should be read in conjunction with the Company's annual report on Form 10-K for the year ended

December 31, 2000.

PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information as of March 31, 2001 and for the three months then ended, because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

New Accounting Pronouncement

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, was issued by the Financial Accounting Standards Board to establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company adopted SFAS No. 133 on January 1, 2001. The impact of the adoption was not material to the Company's consolidated financial position, results of operations or cash flows as the Company does not engage in significant derivative activity.

SOUTHWEST BANCORPORATION OF TEXAS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

2. COMPREHENSIVE INCOME

Comprehensive income consists of the following:

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
Net income	$12,515	$10,200
Net change in unrealized appreciation (depreciation) on securities available for sale, net of tax	7,577	(5,469)
Total comprehensive income	$20,092	$ 4,731

3. EARNINGS PER COMMON SHARE:

Earnings per common share is computed as follows:

	THREE MONTHS ENDED MARCH 31, 2001	2000
Net income	$12,515	$10,200
Divided by average common shares and common share equivalents:		
Average common shares	32,775	32,087
Average common shares issuable under the stock option plan	1,366	1,027
Total average common shares and common share equivalents	34,141	33,114
Basic earnings per common share	$ 0.38	$ 0.32
Diluted earnings per common share	$ 0.37	$ 0.31

4. SUPPLEMENTAL NONCASH FINANCING ACTIVITIES:

During the three months ended March 31, 2001 and 2000, the Company reduced its federal income tax liability by approximately $949,000 and $539,000, respectively, and recorded a corresponding increase to additional paid-in capital representing the tax benefit related to the exercise of certain stock options.

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

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify such forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation: (a) the effects of future economic conditions on the Company and its customers; (b) governmental monetary and fiscal policies, as well as legislative and regulatory changes; (c) the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rates protection agreements, as well as interest rate risks; (d) the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in the Company's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet; and (e) the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities. All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

On December 29, 2000, the Company and Citizens completed their merger, which was accounted for as a pooling of interests. The merger agreement provided for the exchange of 249.443 shares of the Company's Common Stock for each share of Citizens Stock, resulting in the issuance of approximately 3.9 million shares of Company Common Stock on a fully diluted basis.

In a related transaction, the Company, CBLP and Baytown Land I, Ltd., the general partner of CBLP, entered into an agreement pursuant to which the Company acquired the assets and assumed the liabilities of CBLP. CBLP's primary assets and liabilities were the bank building located at 1300 Rollingbrook and the related debt to third parties. In connection with this agreement, the Company issued approximately 106,000 shares of the Company's Common Stock on a fully diluted basis. The financial data preceding the merger date has been restated to include the interests and operations of Citizens and CBLP.

Total assets at March 31, 2001 and December 31, 2000 were $3.83 billion and $3.94 billion, respectively. Gross loans were $2.58 billion at March 31, 2001 an increase of $66.4 million or 3% from 2.51 billion at December 31, 2000. Shareholders' equity was $319.9 million and $298.0 million at March 31, 2001 and December 31, 2000, respectively.

For the three months ended March 31, 2001, net income was $12.5 million ($0.37 per diluted share), compared to $10.2 million ($0.31 per diluted share) for the same period in 2000, an increase of 23%. Return on average assets and return on average common shareholders' equity for the three months ended March 31, 2001 was 1.32% and 16.63%, respectively.

9

11

RESULTS OF OPERATIONS

Interest Income

Interest income for the three months ended March 31, 2001 was $70.7 million, an increase of 10.0 million, or 16%, from the three months ended March 31, 2000. This increase is due to a $446.8 million increase in average earning assets to $3.47 billion for the three months ended March 31, 2001, a 15% increase from the same period last year.

Interest income on loans increased $10.2 million to $56.0 million for the three months ended March 31, 2001. This was due to a $476.0 million increase in average loans outstanding during the same period. The average yield on loans was 8.91% for the three months ended March 31, 2001, an increase of 2 basis points when compared to the same period in 2000. Interest income on securities decreased to $13.6 million, a $746,000 decrease from the three month period ended March 31, 2000. This decrease was attributable to a $69.9 million decrease in average securities outstanding, down 8% when compared to the three months ended March 31, 2000.

Interest Expense

Interest expense on deposits and other borrowings was $31.9 million for the three months ended March 31, 2001, compared to $26.1 million for the same period in 2000. The increase in interest expense was attributable to a $384.8 million increase in average interest-bearing liabilities for the three-month comparable period. The average rate on interest bearing liabilities was 4.81% for the three months ended March 31, 2001, an increase of 25 basis points rate when compared to the same period in 2000.

Net Interest Income

Net interest income for the three months ended March 31, 2001 was $38.8 million compared to $34.6 million for the same period in 2000, an increase of $4.1 million, or 12%. This increase is attributable primarily to a 15% growth in average earnings assets. This growth was partially offset by an 8 basis point decrease in the net interest margin.

During the first quarter of 2001, market interest rates declined due to actions of the Federal Reserve aimed at stimulating the national economy. This decline in interest rates has unfavorably impacted the Company's net interest margin. While additional reductions in interest rates may be expected, the Company believes that its ability to manage its interest rate sensitivity will minimize the potential adverse impact on net interest income for the year 2001. For the three months ended March 31, 2001, the net interest margin declined to 4.53% compared to 4.61% for the three months ended March 31, 2000. This decrease resulted from an increase in the cost of funds of 25 basis points from 4.56% for the three months ended March 31, 2000 to 4.81% for the three months ended March 31, 2001. This increase in the cost of funds was partially offset by an increase in the yield on earnings assets of 18 basis points, from 8.09% for the three months ended March 31, 2000 to 8.27% for the three months ended March 31, 2001.

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax equivalent adjustments were made and all average balances are daily average balances. Nonaccruing loans have been included in the table as loans carrying a zero yield.

	THREE MONTHS ENDED MARCH 31, 2001			THREE MONTHS EN MARCH 31, 200	
	AVERAGE OUTSTANDING BALANCE	INTEREST EARNED/ PAID	AVERAGE YIELD/ RATE	AVERAGE OUTSTANDING BALANCE	INTEREST EARNED/ PAID
			(DOLLARS IN THOUSANDS)		
ASSETS					
Interest-earning assets:					
Loans..............................	$2,548,076	$55,977	8.91%	$2,072,059	$45,796
Securities.........................	835,349	13,593	6.60	905,248	14,339
Federal funds sold and other........	82,075	1,126	5.56	41,354	569
Total interest-earning assets....	3,465,500	70,696	8.27%	3,018,661	60,704
Less allowance for loan losses........	(28,891)			(23,097)	

Total earning assets, net of allowance	3,436,609			2,995,564	
Nonearning assets	422,094			298,008	
Total assets	$3,858,703			$3,293,572	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Interest-bearing liabilities:					
Money market and savings deposits	$1,368,608	13,286	3.94%	$1,157,491	11,034
Certificates of deposits	896,244	13,237	5.99	704,348	9,323
Repurchase agreements and borrowed funds	424,196	5,423	5.18	442,368	5,740
Total interest-bearing liabilities	2,689,048	31,946	4.81%	2,304,207	26,097
Noninterest-bearing liabilities:					
Noninterest-bearing demand deposits	828,507			729,520	
Other liabilities	35,859			27,688	
Total liabilities	3,553,414			3,061,415	
Shareholders' equity	305,289			232,157	
Total liabilities and shareholders' equity	$3,858,703			$3,293,572	
Net interest income		$38,750			$34,607
Net interest spread			3.46%		
Net interest margin			4.53%		

The following table presents the dollar amount of changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities and distinguishes between the increase (decrease) related to outstanding balances, the volatility of interest rates and the change in number of days due to leap year. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated.

	THREE MONTHS ENDED MARCH 31,			
	2001 VS. 2000			
	INCREASE (DECREASE) DUE TO			
	VOLUME	RATE	DAYS	TOTAL
	(DOLLARS IN THOUSANDS)			
INTEREST-EARNING ASSETS:				
Loans	$10,557	$ 127	$(503)	$10,181

Securities	(1,030)	442	(158)	(746)
Federal funds sold and other	557	6	(6)	557
Total increase (decrease) in interest income	10,084	575	(667)	9,992
INTEREST-BEARING LIABILITIES:				
Money market and savings deposits	2,016	357	(121)	2,252
Certificates of deposits	2,535	1,481	(102)	3,914
Repurchase agreements and borrowed funds	(223)	(31)	(63)	(317)
Total increase (decrease) in interest expense	4,328	1,807	(286)	5,849
Increase (decrease) in net interest income	$ 5,756	$(1,232)	$(381)	$ 4,143

Provision for Loan Losses

The provision for loan losses was $1.8 million for the three months ended March 31, 2001, compared to $1.6 million for the three months ended March 31, 2000. Although no assurance can be given, management believes that the present allowance for loan losses is adequate considering loss experience, delinquency trends and current economic conditions. Management regularly reviews the Company's loan loss allowance as its loan portfolio grows and diversifies. (See -- Financial Condition -- Loan Review and Allowance for Loan Losses.)

Noninterest Income

Noninterest income for the three months ended March 31, 2001 was $13.5 million, an increase of $3.1 or 30%, from $10.4 million during the comparable period in 2000. The following table presents for the periods indicated the composition of noninterest income.

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(DOLLARS IN THOUSANDS)	
Service charges on deposit accounts	$ 5,684	$ 4,993
Investment services	1,693	1,388
Factoring fee income	1,144	872
Loan fee income	1,484	1,117
Bank-owned life insurance income	920	456
Letters of credit fee income	320	221
Gain on sale of securities, net	17	1
Other income	2,202	1,378
Total noninterest income	$13,464	$10,426

The largest component of noninterest income, service charges on deposit accounts, was up $691,000, or 14% from the prior period. This resulted from an increase in the number of deposit accounts serviced, which grew from 129,846 at March 31, 2000 to 144,749 at March 31, 2001. For the three months ended March 31, 2001, earnings on bank-owned life insurance grew to $920,000, an increase of $464,000 or 102% from $456,000 for the comparable period last year. This increase is attributable to the purchase of additional bank-owned life insurance early in the first quarter of 2001.

Additional areas of growth included investment services and factoring fee income. Factoring fee income is derived from the financing of accounts receivable. Gross accounts receivable purchased was $28.2 million at March 31, 2001, an increase of $9.4 million from $18.8 million at March 31, 2000. Investment services income grew to $1.7 million for the three months ended March 31, 2001, an increase of $305,000 or 22% from $1.4 million for the comparable period last year. This increase is attributable to the expanding international and foreign exchange departments, as well as the continued strategic focus by the Company to increase its competitive position in providing investment services.

Other noninterest income increased $824,000, or 60%, to $2.2 million for the three months ended March 31, 2001 compared to $1.4 million for the comparable period last year. This increase was primarily attributable to an increase in the gain on sales of loans to $720,000 for the three months ended March 31, 2001, an increase of $590,000, or 454%, from $130,000 for the comparable period last year. The principal balance of mortgage loans sold was $21.6 million during the three months ended March 31, 2001 compared to $11.2 million during the three months ended March 31, 2000.

Noninterest Expenses

For the three months ended March 31, 2001, noninterest expenses totaled $32.0 million, an increase of $4.0 million, or 14%, from $28.0 million during 2000. The increase in noninterest expenses was primarily due to salaries and employee benefits and occupancy expenses. The efficiency ratio improved to 61.30% for the three months ended March 31, 2001 from 62.27% for the comparable period in 2000.

Salaries and employee benefits for the three months ended March 31, 2001 was $18.8 million, an increase of $2.9 million, or 18%, from the three months ended March 31, 2000. This increase was due primarily to hiring of additional personnel required to accommodate the Company's growth. Total full-time employees were 1,382 and 1,196 at March 31, 2001 and 2000, respectively.

Occupancy expense increased $812,000, or 19%, to $5.0 million for the three months ended March 31, 2001. Major categories within occupancy expense are building lease expense, depreciation expense, and maintenance contract expense. Building lease expense increased to $1.5 million for the three months ended March 31, 2001 from $1.0 million for the comparable period last year, an increase of $476,000 or 46%. The Company continues to increase the rentable square feet of the Galleria corporate location to accommodate the increases in personnel. In addition, the Company leased 91,689 square feet for an operations center in downtown Houston late in the prior year. Depreciation expense increased $365,000, or 18%, to $2.4 million for the three months ended March 31, 2001. This increase was due primarily to depreciation on equipment provided to new employees and expenses related to technology upgrades throughout the Company. Maintenance contract expense for the three months ended March 31, 2001 was $624,000, a 17% or $91,000 increase from $533,000 for the same period last year. The Company has purchased maintenance contracts for major operating systems throughout the organization.

Income Taxes

Income tax expense includes the regular federal income tax at the statutory rate, plus the income tax component of the Texas franchise tax. The amount of federal income tax expense is influenced by the amount of taxable income, the amount of tax-exempt income, the amount of nondeductible interest expense, and the amount of other nondeductible expenses. Taxable income for the income tax component of the Texas franchise tax is the federal pre-tax income, plus certain officers' salaries, less interest income from federal securities. For the three months ended March 31, 2001, the provision for income taxes was $5.9 million, an increase of $733,000, or 14%, from the $5.2 million provided for in the same period in 2000.

FINANCIAL CONDITION

Loans Held for Investment

Loans held for investment were $2.51 billion at March 31, 2001, an increase of $86 million or 4% from $2.43 billion at December 31, 2000.

The following table summarizes the loan portfolio of the Company by type of loan as of March 31, 2001 and December 31, 2000:

	MARCH 31, 2001		DECEMBER 31, 2000	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(DOLLARS IN THOUSANDS)			
Commercial and industrial................	$ 997,237	39.71%	$ 954,912	39.37%
Real estate:				
Construction and land development......	679,639	27.06	641,128	26.43
1-4 family residential................	342,775	13.65	335,934	13.85
Commercial owner occupied.............	297,271	11.84	265,534	10.95
Farmland..............................	5,839	0.23	5,753	0.24
Other.................................	23,398	0.93	31,861	1.31
Consumer................................	165,182	6.58	190,376	7.85
Gross loans held for investment..........	$2,511,341	100.00%	$2,425,498	100.00%

The primary lending focus of the Company is on small- and medium-sized commercial, construction and land development, residential mortgage and consumer loans. The Company offers a variety of commercial lending products including term loans, lines of credit and equipment financing. A broad range of short- to medium-term commercial loans, both collateralized and uncollateralized, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisitions of real estate and improvements) and the purchase of equipment and machinery. The purpose of a particular loan generally determines its structure.

Generally, the Company's commercial loans are underwritten in the greater Houston metropolitan area on the basis of the borrower's ability to service such debt from cash flow. As a general practice, the Company takes as collateral a lien on any available real estate, equipment or other assets. Working capital loans are primarily collateralized by short-term assets whereas term loans are primarily collateralized by long-term assets.

A substantial portion of the Company's real estate loans consists of loans collateralized by real estate and other assets of commercial customers. Additionally, a portion of the Company's lending activity consists of the origination of single-family residential mortgage loans collateralized by owner-occupied properties located in the Company's primary market area. The Company offers a variety of mortgage loan products which generally are amortized over five to 30 years.

Loans collateralized by single-family residential real estate generally have been originated in amounts of no more than 90% of appraised value. The Company requires mortgage title insurance and hazard insurance in the amount of the loan. Although the contractual loan payment periods for single-family residential real estate loans are generally for a 15 to 30 year period, such loans often remain outstanding for significantly shorter periods than their contractual terms.

The Company originates and purchases residential and commercial mortgage loans to sell to investors with servicing rights retained. The Company also provides residential and commercial construction financing to builders and developers and acts as a broker in the origination of multi-family and commercial real estate loans.

Residential construction financing to builders generally has been originated in amounts of no more than 80% of appraised value. The Company requires a mortgage title binder and builder's risk insurance in the

amount of the loan. The contractual loan payment periods for residential construction loans are generally for a six to twelve month period.

Consumer loans made by the Company include automobile loans, recreational vehicle loans, boat loans, home improvement loans, personal loans (collateralized and uncollateralized) and deposit account collateralized loans. The terms of these loans typically range from 12 to 84 months and vary based upon the nature of collateral and size of loan.

The contractual maturity ranges of the commercial and industrial and real estate construction loan portfolio and the amount of such loans with fixed interest rates and floating interest rates in each maturity range as of March 31, 2001 are summarized in the following table:

	MARCH 31, 2001			
	ONE YEAR OR LESS	AFTER ONE THROUGH FIVE YEARS	AFTER FIVE YEARS	TOTAL
		(DOLLARS IN THOUSANDS)		
Commercial and industrial............	$ 652,913	$315,134	$29,190	$ 997,237
Real estate construction and land development.......................	402,734	254,677	22,228	679,639
Total...........................	$1,055,647	$569,811	$51,418	$1,676,876
Loans with a fixed interest rate......	$ 410,703	$155,771	$24,208	$ 590,682
Loans with a floating interest rate...	644,944	414,040	27,210	1,086,194
Total...........................	$1,055,647	$569,811	$51,418	$1,676,876

Loans Held for Sale

Loans held for sale of $66.5 million at March 31, 2001 decreased from $85.9 million at December 31, 2000 as a result of sales due to favorable market conditions. These loans are carried at the lower of cost or market and typically sold to investors within one year of origination.

Loan Review and Allowance for Loan Losses

The Company's loan review procedures include a Credit Quality Assurance Process that begins with approval of lending policies and underwriting guidelines by the Board of Directors, an independent loan review department staffed with OCC experienced personnel, low individual lending limits for officers, Senior Loan Committee approval for large credit relationships and quality loan documentation procedures. The Company also maintains a well developed monitoring process for credit extensions in excess of $100,000. The Company performs monthly and quarterly concentration analyses based on various factors such as industries, collateral types, business lines, large credit sizes, international investments and officer portfolio loads. The Company has established underwriting guidelines to be followed by its officers. The Company also monitors its delinquency levels for any negative or adverse trends. There can be no assurance, however, that the Company's loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Historically, the Houston metropolitan area has been affected by the state of the energy business, but since the mid 1980's the economic impact has been reduced by a combination of increased industry diversification and less reliance on debt to finance expansion. When energy prices fluctuate, it is the Company's practice to review and adjust underwriting standards with respect to companies affected by oil and gas price volatility, and to continuously monitor existing credit exposure to companies which are impacted by this price volatility.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Based on an evaluation of the loan portfolio, management presents a quarterly analysis of the allowance for loan losses to the Board of Directors, indicating any changes in the allowance since the last review and any

recommendations as to adjustments in the allowance. In making its evaluation, management considers, among other things, growth in the loan portfolio, the diversification by industry of the Company's commercial loan portfolio, the effect of changes in the local real estate market on collateral values, the results of recent regulatory examinations, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, the amount of charge-offs for the period, the amount of nonperforming loans and related collateral security and the evaluation of its loan portfolio by the loan review function. Charge-offs occur when loans are deemed to be uncollectible.

In order to determine the adequacy of the allowance for loan losses, management considers the risk classification or delinquency status of loans and other factors, such as collateral value, portfolio composition, trends in economic conditions and the financial strength of borrowers. Management establishes specific allowances for loans which management believes require reserves greater than those allocated according to their classification or delinquent status. The Company then charges to operations a provision for loan losses determined on an annualized basis to maintain the allowance for loan losses at an adequate level determined according to the foregoing methodology.

Management believes that the allowance for loan losses at March 31, 2001 is adequate to cover losses inherent in the portfolio as of such date. There can be no assurance, however, that the Company will not sustain losses in future periods, which could be greater than the size of the allowance at March 31, 2001.

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data:

	THREE MONTHS ENDED MARCH 31, 2001	YEAR ENDED DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
Allowance for loan losses, beginning balance................	$28,150	$22,436
Provision charged against operations.......................	1,750	7,053
Charge-offs..	(989)	(2,093)
Recoveries...	156	754
Allowance for loan losses, ending balance..................	$29,067	$28,150
Allowance to period-end loans..............................	1.16%	1.16%
Net charge-offs to average loans...........................	0.14%	0.06%
Allowance to period-end nonperforming loans................	397.20%	297.82%

The following table describes the allocation for loan losses among various categories of loans and certain other information for the dates indicated. Portions of the allowance for loan losses are allocated to cover the estimated losses inherent in particular risk categories of loans. The allocation of the allowance for loan losses is based upon the Company's loss experience over a period of years and is adjusted for subjective factors such as economic trends, performance trends, portfolio age and concentrations of credit. The allocation is made for

analytical purposes and is not necessarily indicative of the categories in which future loan losses may occur. The total allowance is available to absorb losses from any segment of loans.

	MARCH 31, 2001		DECEMBER 31, 2000	
	AMOUNT	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT	PERCENT O LOANS TO TOTAL LOA
	(DOLLARS IN THOUSANDS)			
Balance of allowance for loan losses applicable to:				
Commercial and industrial.........................	$12,427	39.71%	$12,219	39.37%
Real estate:				

Construction and land development	6,038	27.06	5,733	26.43
1-4 family residential	3,338	13.65	3,294	13.85
Commercial owner occupied	3,085	11.84	2,676	10.95
Farmland	40	0.23	40	0.24
Other	997	0.93	1,253	1.31
Consumer	3,142	6.58	2,935	7.85
Total allowance for loan losses	$29,067	100.00%	$28,150	100.00%

Nonperforming Assets and Impaired Loans

The Company generally places a loan on nonaccrual status and ceases accruing interest when loan payment performance is deemed unsatisfactory. All loans past due 90 days are placed on nonaccrual status, unless the loan is both well collateralized and in the process of collection. Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as doubt exists as to collection.

Nonperforming assets were $8.5 million at March 31, 2001 compared with $9.9 million at December 31, 2000. This resulted in a ratio of nonperforming assets to loans plus other real estate of 0.34% and 0.41% at March 31, 2001 and December 31, 2000, respectively. Nonaccrual loans, the largest component of nonperforming assets, were $6.3 million at March 31, 2001, a decrease of $2.0 million from $8.3 million at December 31, 2000. This decrease is primarily due to the reclassification of a $1.1 million loan secured by two houses and real estate. One of these houses was sold during the quarter and one is under contract at March 31, 2001. The real estate has been foreclosed and is classified as other real estate and foreclosed property.

The following table presents information regarding nonperforming assets as of the dates indicated:

	MARCH 31, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
Nonaccrual loans	$6,336	$8,345
Accruing loans 90 or more days past due	982	1,107
Other real estate and foreclosed property	1,222	454
Total non-performing assets	$8,540	$9,906
Nonperforming assets to total loans and other real estate	0.34%	0.41%

The Company regularly updates appraisals on loans collateralized by real estate, particularly those categorized as nonperforming loans and potential problem loans. In instances where updated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible writedowns or appropriate additions to the allowance for loan losses.

A loan is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The Company's impaired loans were approximately $8.8 million and $10.8 million at March 31, 2001 and December 31, 2000, respectively.

The largest component of impaired loans at March 31, 2001 and December 31, 2000 is a secured relationship which is expected to be a long term

workout. The balance outstanding to this borrower was $5.4 million and $5.5 million at March 31, 2001 and December 31, 2000, respectively. The average recorded investment in impaired loans during the three months ended March 31, 2001 and the year ended December 31, 2000 was $9.8 million and $9.3 million, respectively. The total required allowance for loan losses related to these loans was $875,000 and $1.0 million for each reported period, respectively. Interest income on impaired loans of $275,000 and $1.1 million was recognized for cash payments received during the three months ended March 31, 2001 and the year ended December 31, 2000, respectively.

Securities

At the date of purchase, the Company classifies 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 classified as held to maturity are stated at cost increased by accretion of discounts and reduced by amortization of premiums, both computed by the interest method 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. Securities 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, as a component of accumulated other comprehensive income (loss) until realized. Gains and losses on sales of securities are determined using the specific-identification method. The Company has classified all securities as available for sale at March 31, 2001 which allows the Company to manage its investment portfolio more effectively and to enhance the average yield on the portfolio.

The amortized cost and approximate fair value of securities classified as available for sale is as follows:

	MARCH 31, 2001			
		GROSS UNREALIZED		
	AMORTIZED COST	GAIN	LOSS	FA VAL
	(DOLLARS IN THOUSANDS)			
AVAILABLE FOR SALE:				
U.S. Government securities.....................	$121,383	$1,927	$ (114)	$123
Mortgage-backed securities.....................	602,108	7,227	(2,826)	606
Federal Reserve Bank stock.....................	3,949	--	--	3
Federal Home Loan Bank stock...................	18,477	--	--	18
Other securities...............................	44,261	709	(15)	44
TOTAL SECURITIES AVAILABLE FOR SALE........	$790,178	$9,863	$(2,955)	$797

	DECEMBER 31, 2000			
		GROSS UNREALIZED		
	AMORTIZED COST	GAIN	LOSS	FA VAL
	(DOLLARS IN THOUSANDS)			
AVAILABLE FOR SALE:				
U.S. Government securities.....................	$169,069	$1,080	$ (819)	$169
Mortgage-backed securities.....................	618,523	2,088	(7,395)	613
Federal Reserve Bank stock.....................	3,949	--	--	3
Federal Home Loan Bank stock...................	17,972	--	--	17
Other securities...............................	43,411	335	(49)	43
TOTAL SECURITIES AVAILABLE FOR SALE........	$852,924	$3,503	$(8,263)	$848

Securities totaled $797.1 million at March 31, 2001, a decrease of $51.1 million from $848.2 million at December 31, 2000. The yield on the securities portfolio for the three months ended March 31, 2001 was 6.60% while the yield was 6.37% for the three months ended March 31, 2000.

The Company has no mortgage-backed securities that have been issued by non-agency entities. Included in the Company's mortgage-backed securities at March 31, 2001 were agency issued collateral mortgage obligations with a book value of $253.5 million and a fair value of $255.5 million.

At March 31, 2001, $466.0 million of the mortgage-backed securities held by the Company had final maturities of more than 10 years. At March 31, 2001, approximately $100.4 million of the Company's mortgage-backed securities earned interest at floating rates and repriced within one year, and accordingly were less susceptible to declines in value should interest rates increase.

In connection with the Citizens merger, the Company transferred all of Citizens' held to maturity debt securities to the available for sale category in 2000. The amortized cost of these securities at the time of transfer was $55.8 million and the unrealized gain was $267,000 ($174,000 net of income taxes).

The following table summarizes the contractual maturity of investments (including securities, federal funds sold, and interest-bearing deposits) and their weighted average yields at March 31, 2001. The yield on the securities portfolio is based on average historical cost balances and does not give effect to changes in fair value that are reflected as a separate component of other comprehensive income.

	MARCH 31, 2001						
	WITHIN ONE YEAR		AFTER ONE YEAR BUT WITHIN FIVE YEARS		AFTER FIVE YEARS BUT WITHIN TEN YEARS		AFTE TEN YE
	AMORTIZED COST	YIELD	AMORTIZED COST	YIELD	AMORTIZED COST	YIELD	AMORTIZED COST

(DOLLARS IN THOUSANDS)

U.S. Government securities	$ 32,946	6.23%	$ 83,952	6.32%	$ 4,485	6.18%	$ --
Mortgage-backed securities	4,910	4.93	57,430	6.09	73,741	6.46	466,027
Federal Reserve Bank stock	3,949	6.00	--	--	--	--	--
Federal Home Loan Bank stock	18,477	6.60	--	--	--	--	--
Other securities	7,880	5.06	17,242	6.12	8,268	4.94	10,871
Federal funds sold	64,808	5.67	--	--	--	--	--
Interest-bearing deposits	7,709	6.52	--	--	--	--	--
Total investments	$140,679	5.92%	$158,624	6.21%	$86,494	6.30%	$476,898

Other Assets

Other assets were $168.8 million at March 31, 2001, an increase of $51.0 million from $117.8 million at December 31, 2000. This increase is attributable to the purchase of $50 million of additional bank-owned life insurance in the first quarter of 2001. Significant components within other assets at March 31, 2001 include the cash value of bank-owned life insurance of $79.1 million and accounts receivable purchased of $28.2 million.

Deposits

The Company offers a variety of deposit accounts having a wide range of interest rates and terms. The Company's deposits consist of demand, savings, NOW accounts, money market and time accounts. The Company relies primarily on customer service, advertising and comparative pricing policies to attract and retain these deposits. As of March 31, 2001, the Company had less than one percent of its deposits classified as brokered funds and does not anticipate any significant increase. Deposits provide the primary source of funding for the Company's lending and investment activities, and the interest paid for deposits must be managed carefully to control the level of interest expense.

The Company's ratio of average demand deposits to average total deposits for the periods ended March 31, 2001 and December 31, 2000 was 28.77% and 29.50%, respectively.

The average daily balances and weighted average rates paid on deposits for the three months ended March 31, 2001 and the year ended December 31, 2000, are presented below:

	MARCH 31, 2001		DECEMBER 31, 20
	AMOUNT	RATE	AMOUNT
	(DOLLARS IN THOUSANDS)		
NOW accounts	$ 61,373	0.93%	$ 58,093
Regular savings	76,577	2.20	74,380

Premium Yield	828,028	4.80	659,979
Money market savings	402,630	2.96	425,414
CD's less than $100,000	311,391	5.75	289,183
CD's $100,000 and over	466,460	6.21	464,470
IRA's, QRP's and other	118,393	5.73	75,394
Total interest-bearing deposits	2,264,852	4.75%	$2,046,913
Noninterest-bearing deposits	828,507		774,111
Total deposits	$3,093,359		$2,821,024

The following table sets forth the maturity of the Company's time deposits that are $100,000 or greater as of the dates indicated:

	MARCH 31, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
3 months or less	$213,476	$265,232
Between 3 months and 6 months	79,662	124,144
Between 6 months and 1 year	80,184	61,774
Over 1 year	51,130	55,479
Total time deposits $100,000 and over	$424,452	$506,629

Borrowings

Securities sold under repurchase agreements and other borrowings, consisting of federal funds purchased treasury, tax and loan deposits and other bank borrowings, generally represent borrowings with maturities ranging from one to thirty days. Information relating to these borrowings is summarized as follows:

	MARCH 31, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
Securities sold under repurchase agreements:		
Average	$238,016	$209,816
Period-end	224,083	211,800
Maximum month-end balance during period	246,189	241,834
Interest rate:		
Average	4.69%	4.69%
Period-end	4.71%	4.89%
Other borrowings:		
Average	$186,180	$205,213
Period-end	155,647	305,961
Maximum month-end balance during period	376,509	380,121
Interest rate:		
Average	5.82%	6.39%
Period-end	5.45%	6.83%

Securities sold under repurchase agreements are maintained in safekeeping by correspondent banks.

Liquidity and Capital Resources

Liquidity involves the Company's ability to raise funds to support asset growth or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate the Company on an ongoing basis. For the three months ended March 31, 2001, the Company's liquidity needs have primarily been met by growth in core deposits. The cash and federal funds sold position, supplemented by amortizing securities and loan portfolios, have generally created an adequate liquidity position.

The Company's risk-based capital ratios including Leverage Capital, Tier I Risk-Based Capital and the Total Risk-Based Capital Ratio were 8.22%, 10.31% and 11.27%, respectively, at March 31, 2001.

Other Matters

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, was issued by the Financial Accounting Standards Board to establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. The Company adopted SFAS No. 133 on January 1, 2001. The impact of the adoption was not material to the Company's consolidated financial position, results of operations or cash flows as the Company does not engage in significant derivative activity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURERS ABOUT MARKET RISK

There have been no material changes since December 31, 2000. See the Company's Annual Report on Form 10-K, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition -- Interest Rate Sensitivity and Liquidity."

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a.) Exhibits:

3.1 Articles of Incorporation of the Company, Restated as of May 1, 2001 (incorporated by reference to Exhibit 4.1 to the Company's Form S-8 Registration Statement No. 333-60190).

3.2 Bylaws of the Company, Restated as of December 31, 1996 (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 Registration Statement No. 333-16509).

+10.1 Non-Employee Director Stock Plan (incorporated by reference to Exhibit 4.3 to the Company's Form S-8 Registration Statement No. 333-60190).

+10.2 Form of Stock Conversion Election Form under Non-Employee Director Stock Plan (incorporated by reference to Exhibit 4.4 to the Company's Form S-8 Registration Statement No. 333-60190).

+10.3 Restricted Stock Plan (incorporated by reference to Appendix B to the Company's Proxy Statement dated March 16, 2001 for its 2001 Annual Meeting of Shareholders).

+10.4 Form of Restricted Stock Agreement under the Restricted Stock Plan (incorporated by reference to Exhibit 4.6 to the Company's Form S-8 Registration Statement No. 333-60190).

+10.5 Employment Agreement between the Company and John H. Echols (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 2, 2001).

*15.1 Awareness Letter of PricewaterhouseCoopers LLP.

b.) Reports on Form 8-K:

Two reports on Form 8-K were filed by the Company during the three months ended March 31, 2001:

i.) A Current Report on Form 8-K dated December 29, 2000 was filed on January 2, 2001; Item 2 and Item 7(c).

ii.) A Current Report on Form 8-K dated January 18, 2001 was filed on January 19, 2001; Item 7(c).

----

* Filed herewith

+ Management contract.

22

24

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DAT
/s/ PAUL B. MURPHY, JR. PAUL B. MURPHY, JR.	Director, President and Chief Executive Officer (Principal Executive Officer)	May
/s/ DAVID C. FARRIES DAVID C. FARRIES	Executive Vice President, Treasurer and Secretary (Principal Financial Officer)	May
/s/ R. JOHN McWHORTER R. JOHN MCWHORTER	Senior Vice President and Controller (Principal Accounting Officer)	May

23

25

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
15.1	Awareness Letter of PricewaterhouseCoopers LLP.

24