ALLEGIANT BANCORP INC/MO/
Form 10-Q/A
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QA
AMENDMENT NO. 1

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

For the quarterly period ended MARCH 31, 2002

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)

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

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

Title of class	Number of shares outstanding as of May 1, 2002
Common stock, $0.01 par value	15,607,251

ALLEGIANT BANCORP, INC.
FORM 10-Q/A

Explanatory Note: This Form 10-Q/A presents restated quarterly condensed consolidated financial statements as of March 31, 2002 and for the quarter then ended, for Allegiant Bancorp, Inc. ("Allegiant").

In the third quarter of 2002, Allegiant adopted SFAS 147, Acquisition of Certain Financial Institutions. As permitted by the new accounting standard issued on October 1, 2002, we reclassified previously recorded intangible assets associated with branch acquisitions to goodwill. As required by SFAS 147, we restated previously reported 2002 six-month earnings to reflect the non-amortization of goodwill related to our branch acquisitions. For the three months ended March 31, 2002 the impact related to the implementation of SFAS 147 was to increase net income by $172,000 and diluted earnings per share by $0.01 per share.

At the same time, we also restated previously reported 2002 six-month earnings to recognize the impact of a $700,000 deferred loan fee which had not been accreted into income due to an accounting oversight during the three months ended March 31, 2002 and June 30, 2002 in accordance with SFAS 91, Accounting for Non-refundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. For the three months ended March 31, 2002, the impact for the loan fee correction was to increase net income by $145,000 and diluted earnings per share by $0.01 per share.

The matters relating to the restatement have a financial statement impact for the periods covered by this 10-Q/A as follows:

	Quarter Ended March 31, 2002	
	As Previously Reported	As Restated
	(In thousands, except per share data)	
Interest income...............	$30,000	$30,234
Other expenses................	10,865	10,693
Income before income taxes....	6,565	6,971
Provision for income tax......	1,934	2,023
Net Income................	$4,631	$4,948
Per share data:		
Earnings per share:		
Basic.....................	$0.30	$0.32
Diluted...................	0.30	0.32

The principal effects of the change on the accompanying financial statements are presented in the Notes to the condensed consolidated financial statements.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, Allegiant has amended and restated in its entirety each item of Allegiant's Form 10-Q for the quarterly period ended March 31, 2002, which has been affected by the restatement. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, or modify or update those disclosures in any way, except as required to reflect the effects of this restatement.

ALLEGIANT BANCORP, INC.
FORM 10-Q/A

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (AS RESTATED)

ALLEGIANT BANCORP, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited) (As restated)	December 31, 2001	Ma (Un
	(Dollars in thousands)		
ASSETS:			
Cash and due from banks..................................	$ 38,174	$ 56,992	$
Federal funds sold and other investments.................	9,952	14,642	
Investment securities:			
Available-for-sale (at estimated market value).........	429,965	439,038	
Held-to-maturity (estimated market value of $20,931, $24,532 and $4,930, respectively)...........	22,023	24,599	
Loans, net of allowance for loan losses of $17,530, $18,905 and $12,020, respectively.............	1,431,791	1,400,891	
Loans held for sale......................................	49,501	61,459	
Premises and equipment	47,553	47,941	
Accrued interest and other assets	72,292	68,506	
Cost in excess of fair value of net assets acquired.......	56,452	56,411	
Total assets..	$2,157,703	$2,170,479	$1,
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Deposits:			
Non interest-bearing..................................	$ 176,935	$ 201,216	$
Interest-bearing......................................	1,292,866	1,291,351	
Certificates of deposit over $100,000..................	165,511	195,048	
Total deposits...	1,635,312	1,687,615	
Short-term borrowings....................................	72,180	73,027	
Federal Home Loan Bank advances..........................	235,850	196,191	
Guaranteed preferred beneficial interests in subordinated debentures................................	57,250	57,250	
Accrued expenses and other liabilities....................	12,975	18,328	
Total liabilities..................................	2,013,567	2,032,411	1,

Shareholders' equity:			
Common Stock, $0.01 par value - authorized 20,000,000 shares; issued 15,541,085 shares, 15,209,566 shares and 8,843,449 shares, respectively..................	160	157	
Capital surplus.......................................	113,727	111,234	
Retained earnings.....................................	31,258	27,223	
Accumulated other comprehensive income (loss)..........	(1,009)	(546)	
Total shareholders' equity..........................	144,136	138,068	
Total liabilities and shareholders' equity..........	$2,157,703	$2,170,479	$1,

See Notes to Condensed Consolidated Financial Statements.

1

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

	Three Months Ended March 31,	
	2002	2001
	(As restated)	
	(In thousands, except share and per	
Interest income:		
Interest and fees on loans.................................	$ 25,107	$ 19,6
Investment securities......................................	5,071	2,3
Federal funds sold and overnight investments..............	56	4
Total interest income..	30,234	22,4
Interest expense:		
Deposits...	10,646	10,6
Short-term borrowings......................................	648	1,5
Federal Home Loan Bank advances............................	2,466	7
Guaranteed preferred beneficial interests in subordinated debentures..............................	1,372	4
Total interest expense.......................................	15,132	13,4
Net interest income..	15,102	9,0
Provision for loan losses....................................	1,500	8
Net interest income after provision for loan losses...........	13,602	8,1
Other income:		
Service charges on deposits................................	1,627	9
Net gain on sale of securities.............................	10	5
Other income...	2,425	1,2

Total other income	4,062	2,7
Other expenses:		
Salaries and employee benefits	5,604	3,5
Occupancy and furniture and equipment	1,628	1,0
Other operating expenses	3,461	1,8
Total other expenses	10,693	6,5
Income before income taxes	6,971	4,3
Provision for income taxes	2,023	1,8
Net income	$ 4,948	$ 2,5
Per share data:		
Earnings per share:		
Basic	$ 0.32	$ 0.
Diluted	0.32	0.
Weighted average common shares outstanding:		
Basic	15,380,960	8,824,6
Diluted	15,675,429	8,887,0

See Notes to Condensed Consolidated Financial Statements.

2

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

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss
			(In thousands)	
Balance December 31, 2001	$157	$111,234	$27,223	$ (546)
Net income	-	-	4,948	-
Change in net unrealized losses on available-for-sale securities	-	-	-	(463)
Comprehensive income	-	-	-	-
Issuance of common stock	3	2,493	-	-
Dividends	-	-	(913)	-
Balance March 31, 2002	$160	$113,727	$31,258	$(1,009)

Reclassification adjustments:

Unrealized losses on available-for-sale securities	$(453)
Less:	
Reclassification adjustment for gains realized included in net income	10
Net unrealized losses on available-for-sale securities	$(463)

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2002 (As restated)	Three Months Ended March 31, 2001
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 4,948	$ 2,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,052	707
Provision for loan losses	1,500	850
Net realized gains on securities available-for-sale	(10)	(531)
Net gain on sale of mortgage loans	-	(29)
Other changes in assets and liabilities:		
Accrued interest receivable and other assets	(2,904)	1,794
Accrued expenses and other liabilities	(5,353)	46
Cash provided by (used in) operating activities	(767)	5,398
INVESTING ACTIVITIES:		
Merger related recapitalization related to the acquisition of Equality Bancorp, Inc.	-	(917)
Adjustment to cash received in acquisition of branches	(312)	-
Proceeds from maturities of securities held-to-maturity	2,576	336
Proceeds from maturities of securities available-for-sale	42,928	21,338
Proceeds from sales of securities available-for-sale	112	3,618
Purchase of investment securities available-for-sale	(34,667)	(37,406)
Loans made to customers, net of repayments	(20,442)	(31,660)
Proceeds from sale of mortgage loans	-	68,550
Purchase of bank-owned life insurance	(664)	(218)
Additions to premises and equipment	(364)	(1,688)
Cash provided by (used in) investing activities	(10,833)	21,953

FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	(52,303)	35,422
Net increase (decrease) in short-term borrowings	39,147	(30,755)
Repayment of long-term debt	(335)	(63)
Proceeds from issuance of common stock	2,496	274
Payment of dividends	(913)	(490)
Cash provided by (used in) financing activities	(11,908)	4,388
Net increase (decrease) in cash and cash equivalents	(23,508)	31,739
Cash and cash equivalents, beginning of period	71,634	47,143
Cash and cash equivalents, end of period	$ 48,126	$ 78,882

See Notes to Condensed Consolidated Financial Statements.

ALLEGIANT BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (AS RESTATED)

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Allegiant Bancorp, Inc. and its subsidiaries. The terms "Allegiant," "company," "we," "our," and "corporation" as used in this report refer to Allegiant Bancorp, Inc. and its subsidiaries as a consolidated entity, except where it is made clear that it means only Allegiant Bancorp, Inc. 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 period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The balance sheet at December 31, 2001 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, 2001.

Comprehensive Income

During the first quarter of 2002 and 2001, total comprehensive income amounted to $4.5 million and $3.9 million, respectively.

Acquisitions

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 $804.9 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 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. We accounted for the acquisition under the purchase method and recorded goodwill and a core deposit intangible of $33.6 million and $11.0 million, respectively. The core deposit intangible is being amortized over an estimated useful life of 10 years and none of this amortization is expected to be deductible for tax purposes.

On December 12, 2001, we acquired five St. Louis County branches from Guardian Savings Bank ("Guardian") which is headquartered in Houston, Texas. In addition to the branch facilities, we assumed $109.3 million in related deposit liabilities. As a result of the Guardian branch acquisition, we recorded $2.2 million of goodwill. We believe the acquisition of Southside and the Guardian branches helped us to create a strategically, operationally and financially strong company that is positioned for further growth and will be able to compete effectively and offer personalized banking products and services in the St. Louis community.

Recently Issued Accounting Standards

SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, was issued in September 2000 and provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. SFAS No. 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.

Effective January 1, 2002, the Company adopted Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In accordance with this statement, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to impairment tests in accordance with the Statement. Other intangible assets will continue to 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 has 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.

Restatement

Allegiant's financial statements as of March 31, 2002 and for the quarter then ended, have been restated. The restatement reflects an increase in interest income and a decrease in amortization expense, a component of other expenses. Prior to the issuance of Allegiant's financial statements as of September 30, 2002 and for the three- and nine-month periods then ended, Allegiant restated the financial statements included in the Forms 10-Q for the quarters ended March 31, 2002 and June 30, 2002, as originally filed. The changes to the financial statements resulting from the restatement are described below.

Interest Income and Loans. In the third quarter of 2002, Allegiant recognized a $700,000 loan fee which had not been accreted into income due to an accounting oversight during the three months ended March 31, 2002 and June 30, 2002 in accordance with SFAS 91. As a result, previously recorded interest income was understated by $234,000 for the three-month period ended March 31, 2002. Loans, at March 31, 2002, were decreased by $466,000.

Amortization Expense and Goodwill. In the third quarter of 2002, Allegiant adopted SFAS 147, Acquisition of Certain Financial Institutions. As permitted by the new accounting standard issued on October 1, 2002, Allegiant reclassified previously recorded intangible assets associated with branch acquisitions to goodwill. As required by SFAS 147, previously recorded amortization expense was decreased by $172,000 for the three-month period ended March 31, 2002. Goodwill (cost in excess of fair value of net assets acquired) was increased by $172,000 at March 31, 2002.

As a result, the financial statements as of March 31, 2002 and for the quarter then ended and related disclosures included in this quarterly report, have been restated to reflect the restatement of interest income and amortization expense. The effect of restatement on the quarter ended March 31, 2002, is shown in the table below:

	Quarter Ended March 31, 2002
	(In thousands)
Net income, as previously reported..............	$ 4,631
Impact of restatement for:	

Interest income understatement................	145
Amortization expense..........................	172
Net income, as restated.........................	$ 4,948

As a result of the foregoing accounting adjustments, Allegiant's consolidated financial statements have been restated from the amounts previously reported as of March 31, 2002 and for the quarter then ended. The principal effects of these adjustments on the accompanying financial statements are set forth below:

Condensed Consolidated Statements of Income - Restatements

	Quarter Ended March 31, 2002	
	As Previously Reported	As Restated
	(In thousands, except per share data)	
Interest income....................	$ 30,000	$ 30,234
Other expenses.....................	10,865	10,693
Income before income taxes.........	6,565	6,971
Provision for income tax...........	1,934	2,023
Net Income....................	$ 4,631	$ 4,948
Per share data:		
Earnings per share:		
Basic.........................	$ 0.30	$ 0.32
Diluted.......................	0.30	0.32

Condensed Consolidated Balance Sheets - Restatements

	As of March 31, 2002	
	As Previously Reported	As Restated
	(Dollars in thousands)	
Cost in excess of fair value of net assets acquired..............	$ 56,280	$ 56,452
Loans.............................	1,432,257	1,431,791
Total assets.......................	2,157,997	2,158,169
Retained earnings..................	30,941	31,258
Total shareholders' equity.........	143,819	144,136

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (AS RESTATED)

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 loss 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 values of our goodwill balances to determine whether the values have been impaired. If we determine that there has been an impairment, we will 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

9

brokerage, insurance and safe deposit boxes. As of March 31, 2002, we reported, on a consolidated basis, total assets of $2.2 billion, loans of $1.4 billion, deposits of $1.6 billion and shareholders' equity of $144.1 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 31 branch locations in our community from four different thrifts and another banking organization. Our primary goals have been to expand our branch network in the St. Louis market while 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. As a continuation of our acquisition and growth strategies, in September 2001, we acquired Southside Bancshares Corp., another community-based bank holding company serving the St. Louis area, with total assets of approximately $804.9 million. In addition, on December 12, 2001, we acquired five St. Louis branch facilities from Guardian Savings Bank and assumed approximately $109.3 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 more than 20 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 also implemented company-wide cost-control efforts to enhance efficiencies throughout our 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 March 31, 2002 was $4.98 million, a 93% increase over the $2.56 million earned for the first quarter of 2001. Basic earnings per share were $0.32 for the first quarter of 2002 compared to $0.29 for the first quarter of 2001. Diluted earnings per share increased 10.3% to $0.32 for the first quarter of 2002 compared to $0.29 for the first quarter of 2001. The annualized return on average assets for the first quarter of 2002 was 0.92%, compared to the 0.91% annualized return on average assets reported for the first quarter of 2001. The return on average equity on an annualized basis was 14.0% for the first quarter of 2002 compared to 12.8% for the first quarter of 2001.

As a result of newly effective accounting pronouncements, we have discontinued the amortization of goodwill in 2002 and will periodically determine whether the carrying value of our goodwill is impaired. As required by these pronouncements, we continue to amoritze core deposit premiums and other identifiable intangibles as a noncash charge that increases our operating expenses. Intangible asset amortization included as an operating expense totaled $271,000 and $237,000 for the three-month periods ended March 31, 2002 and 2001, respectively. Cash net income, which adjusts earnings to exclude amortization, was $5.2 million and $2.8 million for the quarters ended March 31, 2002 and 2001, respectively. Basic cash earnings per share increased to $0.33 in the first quarter of 2002 compared to $0.32 in the first quarter of 2001. Diluted cash earnings per share increased to $0.32 in the recently completed quarter compared to $0.31 in the 2001 period.

Total assets at March 31, 2002 were $2.16 billion and reflected an 89% increase from March 31, 2001. Total loans increased to $1.4 billion and total deposits increased to $1.6 billion at March 31, 2002.

Net Interest Income. Net interest income for the three months ended March 31, 2002 was $15.1 million, a 67% increase compared to the $9.0 million reported for the first quarter of 2001. This $6.1 million increase was attributable to an increase of $912 million in average earning assets primarily from our September 2001 acquisition of Southside Bancshares Corp. The $7.8 million increase in interest income was partially offset by a $1.7 million increase in interest expense. The increase in interest expense was the result of an $865 million increase in average interest-bearing liabilities partially offset by a decrease of 233 basis points in the average interest rate paid between the periods.

Net interest margin for the first quarter of 2002 decreased 37 basis points compared to the first quarter of 2001. The earning assets yield decreased 246 basis points while the overall interest rate paid on interest-bearing liabilities decreased 233 basis points. The net interest spread decreased 13 basis points comparing the first quarter 2002 to the first quarter 2001. The decreases in the net interest margin and spread were the result of the sharp drop in general interest rates in the beginning of 2001 and the yields on assets decreasing more rapidly than the interest rates on liabilities.

Interest expense on deposits decreased $40,000 due to a $700 million increase in average interest-bearing deposits that was offset by a decrease in the rate paid on deposits from 5.52% in the first quarter of 2001 to 2.91% for the comparable period in 2002. The growth in our deposit base was primarily the result of the Southside acquisition.

Interest expense on other interest-bearing liabilities increased $1.7 million in the first quarter of 2002 compared to the first quarter of 2001. Average short- and long-term borrowings also increased $165.7 million in the first three months of 2002 compared to the year earlier quarter. The average rate on short-term borrowings decreased 288 basis points while the rate paid on long-term borrowings decreased 121 basis points in the first quarter of 2002 compared to the first quarter of 2001.

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

	Three Months Ended March 31,			
	2002			2
	Average Balance	Int. Earned/ Paid	Yield/ Rate	Average Balance
Assets			(Dollars in thousands)	
Interest-earning assets:				
Loans (1) (3)	$1,480,520	$25,107	6.88%	$ 872,191
Taxable investment securities	427,296	4,703	4.46	134,709
Non-taxable investment securities (2)	35,780	368	4.17	5,541
Federal funds sold and other investments	14,528	56	1.56	33,218
Total interest-earning assets	1,958,124	30,234	6.26	1,045,659
Non interest-earning assets:				
Cash and due from banks	41,763			30,509
Premises and equipment	48,107			19,358
Other assets	126,014			42,728
Allowance for loan losses	(18,709)			(11,604)
Total assets	$2,155,299			$1,126,650
Liabilities and shareholders' equity				
Interest-bearing liabilities:				
Money market/NOW accounts	$ 417,694	$ 1,693	1.64%	$ 207,110
Savings deposits	203,563	1,518	3.02	27,653

Certificates of deposit	594,610	4,636	3.16	424,700
Certificates of deposit over $100,000	181,972	1,704	3.80	80,132
IRA certificates	87,242	1,095	5.09	45,984
Total interest-bearing deposits	1,485,081	10,646	2.91	785,579
Federal funds purchased, repurchase agreements and other short-term borrowings	86,578	648	3.04	107,653
Other borrowings	195,437	2,466	5.12	48,669
Guaranteed preferred beneficial interests in subordinated debentures	57,250	1,372	9.72	17,250
Total interest-bearing liabilities	1,824,346	15,132	3.36	959,151
Non interest-bearing liabilities and equity:				
Demand deposits	171,624			79,540
Other liabilities	17,479			8,052
Shareholders' equity	141,850			79,907
Total liabilities and shareholders' equity	$2,155,299			$1,126,650
Net interest income		$14,868		
Net interest spread			2.90%	
Net interest margin			3.13	