ALLEGIANT BANCORP INC/MO/
Form 10-K
March 26, 2003

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002   COMMISSION FILE NO. 000-10849

ALLEGIANT BANCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MISSOURI	43-1262037
(State of Incorporation)	(IRS Employer Identification number)

ADDRESS OF PRINCIPAL EXECUTIVE OFFICES:
10401 CLAYTON ROAD, ST. LOUIS, MISSOURI 63131
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 314-692-8200

Securities registered pursuant to Section 12(b) of the Act:
Trust Preferred Securities, $10 liquidation value,
issued by Allegiant Capital Trust I
Name of exchange on which registered: American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Trust Preferred Securities, $25 liquidation value,
issued by Allegiant Capital Trust II; and
Common Stock, $0.01 par value

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, and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of June 28, 2002: Common Stock, $0.01 par value, $12,512,650

Number of shares outstanding of each of the registrant's classes of common stock, as of March 21, 2003:

Common Stock, $0.01 par value, 16,205,777 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

As provided herein, portions of the documents below are incorporated by reference:

DOCUMENT	PART OF FORM 10-K
Annual Report of the Registrant to its Shareholders for fiscal year ended December 31, 2002	Parts I and II
Registrant's Proxy Statement for its 2003 Annual Meeting of Shareholders	Parts II and III

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. Also, sometimes we refer to our principal bank subsidiary, Allegiant Bank as the "bank." When we refer to our branches in the St. Louis metropolitan area, we are excluding two branches that we plan to sell in connection with the anticipated sale of one of our two subsidiary banks, Bank of Ste. Genevieve, to First Banks, Inc.

PART I

ITEM 1. BUSINESS

GENERAL

We are the largest publicly-held bank holding company headquartered in the St. Louis metropolitan area. Our principal subsidiary, Allegiant Bank, offers full-service banking and personal trust services to individuals, businesses and municipalities in our market area. These services include commercial real estate, commercial business and consumer loans, checking, savings and time deposit accounts, wealth management and other fiduciary services, as well as other financial services, including mortgage banking, securities brokerage and insurance products. As of December 31, 2002, we reported, on a consolidated basis, total assets of $2.4 billion, loans of $1.7 billion and shareholders' equity of $167.2 million.

Our primary goal has been to expand our branch network in the St. Louis market while increasing our earnings per share. Since our inception in 1989, we have grown through a combination of internal growth and acquisitions. We have sought to maximize our internal growth opportunities by positioning Allegiant as one of the leading St. Louis community banks. From the beginning of 2000 to the end of 2002, we estimate that our deposits and loans, excluding those added through acquisitions, have grown at a compound annual rate of approximately 16.4% and 19.9%, respectively. Since the beginning of 1998, our diluted earnings per share have increased at a compound annual rate of 22.1%.

We have supplemented our internal growth with several acquisitions within our market area. Since 2000, we have completed a number of significant acquisitions, including: Equality Bancorp, Inc., a community-based thrift holding company with total assets of approximately $300.4 million, in November 2000; Southside Bancshares Corp., a community-based bank holding company with total assets of approximately $804.9 million, in September 2001; and five branches from Guardian Savings Bank with total deposits of $109.3 million, in December 2001. Additionally, in order to diversify our operations and sources of income, in October 2002, we acquired Investment Counselors, Incorporated, an investment advisory firm with approximately $331.9 million of assets under management.

Consistent with our focus on establishing and maintaining a strong presence in the most attractive areas in the St. Louis market, in September 2002, we entered into an exchange agreement to sell Bank of Ste. Genevieve, one of our two subsidiary banks, to First Banks, Inc. Bank of Ste. Genevieve operates two branches located outside of the St. Louis metropolitan area and has total assets of approximately $110.0 million. Under the exchange agreement, First Banks will acquire Bank of Ste. Genevieve in exchange for approximately 974,150 shares of our common stock held by First Banks. The terms of the exchange agreement include representations, warranties, covenants and closing conditions typical for transactions of this size and type. The net assets of Bank of Ste. Genevieve are approximately $17.9 million which approximates the value of consideration we expect to receive. As a result, we do not expect to recognize any gain or loss as a result of the transaction. First Banks currently holds approximately 7.4% of our outstanding common stock and will hold approximately 1.5% of our common stock upon completion of the exchange. In March 2003, First Banks received final bank regulatory approvals necessary to complete the exchange. We expect to complete the sale of Bank of Ste. Genevieve during the first half of 2003.

In order to improve the profitability of our banking operations, over the past several years we have reduced the number of residential mortgages that we hold in our portfolio and have increased the amount of higher yielding commercial loans. Since the beginning of 1998, and in part as a result of opportunities that resulted from the consolidation of the St. Louis banking market, we have hired 23 commercial lending professionals, including a senior credit officer, who average more than 15 years of commercial lending experience in the St. Louis metropolitan area. As these local loan officers have joined our banking team, we have benefited from their existing customer relationships, as well as their local banking expertise. In addition, we have implemented a company-wide cost control initiative intended to enhance efficiencies throughout our organization that we refer to as "Project 2004" and we consolidated our banking operations, other than those of Bank of Ste. Genevieve, into one primary subsidiary, Allegiant Bank, during 2002. These steps taken since the beginning of 1998 have improved our efficiency, return on average assets, return on average equity and earnings per share.

The St. Louis metropolitan area is the 18th largest metropolitan market in the United States with a population of approximately 2.5 million. The St. Louis area is home to 15 Fortune 1000 companies, including Anheuser-Busch Companies, Inc., Emerson Electric Co. and The May Department Stores Company. Over the past several years, a number of financial institutions in our market area have been acquired by larger regional or national out-of-town financial institutions. These acquisitions have included: Marshall & Ilsley Corporation's 2002 acquisition of Mississippi Valley Bancshares, Inc., Firstar Corporation's (now operating as U.S. Bancorp) 1999 acquisition of Mercantile Bancorporation Inc., Union Planters Corporation's 1998 acquisition of Magna Group, Inc. and NationsBank Corporation's (now operating as Bank of America Corporation) 1997 acquisition of Boatmen's Bancshares, Inc. We believe we have capitalized on opportunities created by this market consolidation and have built a strong, customer-friendly, community-focused banking franchise.

We focus on serving customers with banking needs that no longer can be adequately served by smaller local institutions but who still desire the personalized service that larger, out-of-state institutions do not effectively provide. Our community banking focus and streamlined management and decision-making procedures allow us to respond quickly to the needs of our individual and business customers and to tailor products and services to meet their needs.

We seek to effectively meet the convenience and needs of customers through our extensive branch network that provides our customers at least one branch located within a 20-minute drive from all principal sectors of the St. Louis metropolitan area. Our 37 branches and 59 ATMs throughout the St. Louis metropolitan area also serve to increase recognition of the Allegiant name. In addition, we have sought to further enhance our name recognition by serving as the official bank of the St. Louis Rams football team since July 2000.

FINANCIAL SUMMARY OF THE COMPANY

A consolidated financial summary of our company and subsidiaries, included on page 13 in our 2002 Annual Report to Shareholders, is incorporated herein by reference.

SUBSIDIARIES

The table setting forth the names and states of incorporation or organization, as the case may be, of our subsidiaries is included as Exhibit 21 hereto.

COMPETITION

We operate in a competitive environment. In the St. Louis metropolitan area, other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, investment advisers, financial planners and other financial intermediaries offer similar services. Many of these competitors have substantially greater resources and lending limits and may offer certain services that we do not currently provide. In addition, the extensive regulations that govern us and our banks may not apply to some of our non-bank competitors. Our profitability depends upon the ability of our banks to compete in our market area.

SUPERVISION AND REGULATION

As a bank holding company, we are primarily regulated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of

1956 (BHC Act). Under the BHC Act the Federal Reserve Board's prior approval is required if we propose to acquire all or substantially all of the assets of any bank, acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank, or merge or consolidate with any other bank holding company. The BHC Act also prohibits, with certain exceptions, us from acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any nonbanking company. Under the BHC Act, we may not engage in any business other than managing and controlling banks or furnishing certain specified services to subsidiaries and may not acquire voting control of nonbanking companies unless the Federal Reserve Board determines such businesses and services to be closely related to banking. When reviewing bank acquisition applications for approval, the Federal Reserve Board considers, among other things, each subsidiary bank's record in meeting the credit needs of the communities it serves in accordance with the Community Reinvestment Act of 1977, as amended (CRA).

We are required to file with the Federal Reserve Board various reports and such additional information as the Federal Reserve Board may require. Allegiant Bank is organized as a Missouri state trust company and Bank of Ste. Genevieve is organized as a Missouri state bank and both are subject to regulation, supervision and examination by the Division of Finance of the State of Missouri. Both banks are also subject to regulation by the Federal Deposit Insurance Corporation. In addition, there are numerous other federal and state laws and regulations which control the activities of us and our banking subsidiaries, including requirements and limitations relating to capital and reserve requirements, permissible investments and lines of business, transactions with affiliates, loan limits, mergers and acquisitions, issuance of securities, dividend payments, and extensions of credit. This regulatory framework is intended primarily for the protection of depositors and the preservation of the federal deposit insurance funds, and not for the protection of security holders. Statutory and regulatory controls increase a bank holding company's cost of doing business and limit the options of its management to employ assets and maximize income.

Under Federal Reserve policy, we are expected to act as a source of financial strength to each of our bank subsidiaries and to commit resources to support each of our bank subsidiaries in circumstances when it might not otherwise do so. The Federal Reserve Board may prohibit the payment of dividends by bank holding companies if their actions constitute unsafe or unsound practices. The payment of dividends by the bank subsidiaries may also be affected by factors such as the maintenance of adequate capital. At December 31, 2002, all of our subsidiary banks were "well-capitalized" under regulatory capital adequacy standards.

These laws and regulations are under constant review by various agencies and legislatures, and are subject to frequent change. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (GLB Act) contained major changes in laws that previously kept the banking industry largely separate from the securities and insurance industries. The GLB Act authorized the creation of a new kind of financial institution, known as a "financial holding company" and a new kind of bank subsidiary called a "financial subsidiary", which may engage in a broader range of investment banking, insurance agency, brokerage, and underwriting activities. The GLB Act also included privacy provisions that limit banks' abilities to disclose non-public information about customers to non-affiliated entities. Banking organizations are not required to become financial holding companies, but instead may continue to operate as bank holding companies, providing the same services they were authorized to provide prior to the enactment of the GLB Act.

In addition to its regulatory powers, the Federal Reserve impacts the conditions under which we operate by its influence over the national supply of bank credit. The Federal Reserve Board employs open market operations in U.S. Government securities, changes in the discount rate on bank borrowings, changes in the federal funds rate on overnight inter-bank borrowings, and changes in reserve requirements on bank deposits in implementing its monetary policy objectives. These instruments are used in varying combinations to influence the overall level of the interest rates charged on loans and paid for deposits, the price of the dollar in foreign exchange markets and the level of inflation. The monetary policies of the Federal Reserve have had a significant effect on the operating results of financial institutions in the past, most notably the strong decrease in interest rates which occurred in 2001 and the low rate environment in 2002. In view of changing conditions in the national economy and in the money markets, as well as the effect of credit policies of monetary and fiscal authorities, no prediction can be made as to possible future changes in interest rates, deposit levels or loan demand, or their effect on our financial performance.

This summary of the material elements of this regulatory framework does not describe all applicable statutes, regulations and regulatory policies, nor does it restate all of the requirements of the statutes, regulations and regulatory policies that are described. You should review the applicable statutes, regulations and regulatory policies. Any changes in applicable law, regulations or regulatory policies may have a material effect on our business.

EMPLOYEES

As of December 31, 2002, we had approximately 548 full-time equivalent employees. None of our employees are subject to a collective bargaining agreement. We consider our relationship with our employees and those of our subsidiary banks to be good.

WEB SITE ADDRESS

A copy of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, filed since November 15, 2002, are available, free of charge, on the Internet on our website www.allegiantbank.com. All required reports are made available as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. The reference to our website does not constitute incorporation by reference of the information contained in the website and should not be considered part of this document.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

- the results of our efforts to implement our business strategy, including Project 2004;

- adverse changes in the bank's loan portfolio and the resulting credit risk-related losses and expenses;
- our ability to manage our growth, including the successful expansion of the customer support, administrative infrastructure and internal management systems necessary to manage that growth;
- our ability to attract core deposits;
- adverse changes in the economy of our market area that could increase credit-related losses and expenses;
- adverse changes in real estate market conditions that could negatively affect credit risk;
- the consequences of continued bank acquisitions and mergers in our market area, resulting in fewer but much larger and financially stronger competitors, which could increase competition for financial services to our detriment;
- fluctuations in interest rates and market prices, which could negatively affect net interest margins, asset valuations and expense expectations;
- changes in regulatory requirements of federal and state agencies applicable to bank holding companies and our present and future bank subsidiaries;
- changes in accounting principles;
- general economic conditions;
- our ability to complete the disposition of Bank of Ste. Genevieve to First Banks, Inc. on the terms that we expect, including without limitation, any adjustment to purchase price based on the net equity of Bank of Ste. Genevieve on the date of disposition; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events discussed in any forward-looking statements in this report might not occur.

STATISTICAL DISCLOSURES

The following statistical disclosures, except as noted, are included in our 2002 Annual Report to Shareholders, and are incorporated herein by reference.

ANNUAL REPORT

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