McGladrey & Pullen Certified Public Accountants

Independent Auditor's Report

To the Shareholders and Board of Directors; Independent Bankers Financial Corporation and Subsidiaries; Irving, Texas.

We have audited the accompanying consolidated balance sheets of Independent Bankers Financial Corporation and Subsidiaries (the Corporation) as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Independent Bankers Financial Corporation and Subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Dallas, Texas

February 6, 2004

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2003 and 2002
(Dollar amounts in thousands, except per share amounts)

	2003	2002
ASSETS		
Cash due from banks (Note 1)	$ 87,737	$ 118,033
Interest-bearing deposits	4,475	2,842
Federal funds sold and securities purchased under agreements to resell (Note 2)	256,824	136,424
Total cash equivalents	349,036	257,299
Interest-bearing time deposits	400	400
Securities available for sale (Note 3)	280,280	247,231
Loans held for sale	24,939	28,783
Loans, net (Note 4)	486,245	474,097
Premises and equipment, net (Note 5)	4,935	4,816
Other real estate owned, net (Note 6)	3,345	3,785
Mortgage servicing rights (Note 7)	11,985	7,638
Accrued interest receivable	5,608	4,765
Due from broker	3,384	2,780
Cash surrender value of life insurance	19,288	6,833
Other assets (Note 11)	16,625	11,455
Total assets	$ 1,206,070	$ 1,049,882
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 8):		
Noninterest-bearing	$ 331,381	$ 316,702
Interest-bearing	189,808	106,185
Total deposits	521,189	422,887
Federal funds purchased and securities sold under agreements to repurchase (Note 1)	588,505	536,691
Accrued interest payable and other liabilities	13,274	16,899
Other borrowings (Note 9)	167	–
Trust preferred securities (Note 10)	20,000	20,000
Total liabilities	1,143,135	996,477
Commitments and contingencies (Note 14)		
Shareholders' equity (Notes 16 and 17):		
Common stock, par value $10 per share, 5,000,000 shares authorized, 996,228 and 976,004 shares issued and outstanding in 2003 and 2002	9,962	9,760
Capital surplus	14,847	13,542
Retained earnings	36,342	26,233
Accumulated other comprehensive income	1,784	3,870
Total shareholders' equity	62,935	53,405
Total liabilities and shareholders' equity	$ 1,206,070	$ 1,049,882

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income
Years ended December 31, 2003 and 2002
(Dollar amounts in thousands)

	2003	2002
Interest income:		
Loans, including fees	$ 31,619	$ 28,911
Securities:		
Taxable	8,459	8,145
Federal funds sold and repurchase agreements	2,441	3,871
Other	82	54
Total interest income	42,601	40,981
Interest expense:		
Deposits	2,439	2,276
Federal funds purchased and repurchase agreements	6,290	8,881
Trust preferred securities and other borrowings	919	1,311
Total interest expense	9,648	12,468
Net interest income	32,953	28,513
Provision for loan losses (Note 4)	4,420	5,770
Net interest income after provision for loan losses	28,533	22,743
Noninterest income (Note 13)	45,395	40,876
Noninterest expense:		
Salaries and benefits	22,291	19,643
Occupancy	1,258	1,138
Furniture and equipment	910	1,062
Software maintenance	1,458	1,283
Credit card expenses	12,224	11,015
Item processing expense	3,535	3,910
Net loss on sales and write-downs of other real estate owned	1,007	904
Professional fees	588	942
General operating expenses	15,097	13,564
Total noninterest expense	58,368	53,461
Income before income taxes	15,560	10,158
Federal income taxes (Note 11):		
Current provision	4,290	3,482
Deferred expense (benefit)	66	(844)
	4,356	2,638
Net income	$ 11,204	$ 7,520

See Notes to Consolidated Financial Statements.

Consolidated and Parent Company Only Statements of Changes in Shareholders' Equity
Years ended December 31, 2003 and 2002
(Dollar amounts in thousands, except per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2002	$ 9,836	$ 13,071	$ 19,689	$ 823	$ 43,419
Comprehensive income:					
Net income	–	–	7,520	–	7,520
Change in fair value of securities available for sale, net of reclassification adjustment of $1,090 and tax effect of $1,570	–	–	–	3,047	3,047
Total comprehensive income	–	–	–	–	10,567
Purchase and retirement of common stock (32,446 shares)	(325)	(589)	–	–	(914)
Sale of common stock (24,895 shares)	249	1,060	–	–	1,309
Common stock dividend declared ($1.00 per share)	–	–	(976)	–	(976)
Balance at December 31, 2002	**9,760**	**13,542**	**26,233**	**3,870**	**53,405**
Comprehensive income:					
Net income	–	–	11,204	–	11,204
Change in fair value of securities available for sale, net of reclassification adjustment of $181 and tax effect of $1,075	–	–	–	(2,086)	(2,086)
Total comprehensive income	–	–	–	–	9,118
Purchase and retirement of common stock (12,059 shares)	(121)	(424)	–	–	(545)
Sale of common stock (32,283 shares)	323	1,729	–	–	2,052
Common stock dividend declared ($1.10 per share)	–	–	(1,095)	–	(1,095)
Balance at December 31, 2003	**$ 9,962**	**$ 14,847**	**$ 36,342**	**$ 1,784**	**$ 62,935**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Years ended December 31, 2003 and 2002
(Dollar amounts in thousands)

	2003	2002
Cash flows from operating activities:		
Net income	$ 11,204	$ 7,520
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,971	1,141
Amortization of mortgage servicing rights	3,695	2,355
Provision for loan losses	4,420	5,770
Deferred taxes	66	(844)
Deferred compensation expense	1,131	933
Write-down of mortgage servicing rights	1,087	4,401
Net gain on sale of securities available for sale	(181)	(1,090)
Net loss on sales and write-downs of other real estate owned	1,007	904
Net gain on sale of loans	(4,688)	(4,681)
Net gain on derivative transactions	(1,552)	(4,907)
Net loss on sale of premises and equipment	–	11
Increase in cash surrender value of life insurance	(455)	(324)
Changes in operating assets and liabilities:		
Loans held for sale	8,351	44,710
Accrued interest receivable	(843)	107
Other assets	(3,865)	5,149
Accrued interest payable and other liabilities	(4,222)	6,886
Net cash provided by operating activities	18,126	68,041
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(122,200)	(101,041)
Proceeds from sales	46,354	55,145
Proceeds from maturities, calls and principal repayments	37,758	26,376
Purchases of mortgage servicing rights	(8,044)	(4,509)
Purchase of life insurance contracts	(12,000)	–
Net increase in loans	(18,041)	(59,501)
Purchases of interest-bearing time deposits	–	(100)
Purchases of premises and equipment	(1,030)	(482)
Proceeds from sales of other real estate owned	–	26
Net cash used in investing activities	(77,203)	(84,086)
Cash flows from financing activities:		
Net change in deposits	98,301	93,286
Net change in federal funds purchased and securities sold under agreements to repurchase	51,814	(68,706)
Net change in other short-term borrowings	168	(2,590)
Repayment of long-term FHLB advance	–	(10,000)
Payments on note payable	–	(1,500)
Repurchase and retirement of common stock	(545)	(913)
Net proceeds from issuance of common stock	2,052	1,309
Cash dividends paid on common stock	(976)	(866)
Net cash provided by financing activities	150,814	10,020
Net increase (decrease) in cash equivalents	91,737	(6,025)
Cash equivalents at beginning of year	257,299	263,324
Cash equivalents at end of year	$ 349,036	$ 257,299
Supplemental cash flow information:		
Cash paid during the year for interest	$ 8,804	$ 12,495
Cash paid during the year for taxes	4,742	3,850
Real estate acquired in foreclosure or in settlement of loans	598	4,498

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

The consolidated financial statements of Independent Bankers Financial Corporation and Subsidiaries (Corporation) have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Independent Bankers Financial Corporation (IBFC), IBFC Nevada Corporation, its banking subsidiary, TIB-The Independent BankersBank (Bank), and other nonbanking subsidiaries, including IBFC Capital Trust 1, ALX Consulting, Inc. and TIB Service Company. The Bank is an entity which is defined by statute as a "bankers' bank." The statute requires all of the shareholders of the Bank to be depository institutions or holding companies for depository institutions and that the Bank provide services only for depository institutions or at the request of depository institutions. In this context, the Bank provides various banking and banking – related services to financial institutions primarily in Texas, New Mexico, Oklahoma, Louisiana and California, many of which are shareholders of the Corporation.

All significant intercompany transactions between IBFC and its subsidiaries have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual future results could differ. The allowance for loan losses, allowance for mortgage servicing rights, fair values of financial instruments, and the status of contingencies are particularly subject to change.

Cash Flow Reporting

Cash equivalents include cash items, amounts due from banks, deposits with other financial institutions that have an initial maturity under 90 days when acquired by the Corporation, federal funds sold, and securities purchased under agreements to resell. Net cash flows are reported for loans, loans held for sale, deposit transactions and short-term borrowings.

Repurchase/Resell Agreements

The Corporation purchases certain securities under agreements to resell. The amounts advanced under these agreements represent short-term loans and are reflected as assets in the consolidated balance sheet. The securities underlying these agreements are book-entry securities. The Corporation also sells certain securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheet. The dollar amount of securities underlying the agreements remain in the asset accounts. At December 31, 2003 and 2002, repurchase agreements outstanding were $5,688 and $4,528, respectively, and matured within 90 days. No material amount of agreements was outstanding with any individual dealer.

Securities

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income. Management determines the appropriate classification of securities at the time of purchase.

Interest income includes amortization of purchase premiums and discounts. Gains and losses on sales are based on the amortized cost of the security sold. Securities are written down to fair value when a decline in fair value is not temporary.

Loans Held for Sale

The Corporation originates mortgage and student loans for portfolio investment or sale in the secondary market. During the period of origination, mortgage loans are designated as held either for sale or investment purposes. Mortgage and student loans held for sale are carried at the lower of cost or market value, determined on a net aggregate basis. Gains or losses recognized upon the sale of loans are determined on a specific identification basis.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for the allowance for loan losses.

Interest income is reported on the level-yield interest method. The Corporation determines a loan to be delinquent when payments have not been made according to contractual terms. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for known loan losses and risks inherent in the loan portfolio. Material estimates that are particularly susceptible to significant change in the near term are required in the determination of the allowance for loan losses. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors, including the performance of the Corporation's loan portfolio, the economy, changes in real estate values and interest rates and the view of the regulatory authorities toward loan classifications. In connection with the determination of the allowance for loan losses on real estate loans, management obtains independent appraisals for significant properties. In regard to the allowance for losses on bank stock loans or collateral, management estimates collateral values and expected future cash flows based on review of financial statements of the bank, site visits and analysis of guarantor financial statements, if applicable.

A loan is considered impaired when full payment of principal and interest under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, credit card and consumer loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

In addition to allocations made for specific loans, general reserve allocations are made after consideration of such factors as past loan loss experience, general prevailing economic conditions, the nature, composition and volume of the loan portfolio, or other qualitative factors based on management's judgment.

While portions of the allowance may be allocated for specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.

Premises and Equipment

Land is carried at cost. Building and improvements, and furniture and equipment are carried at cost, less accumulated depreciation computed principally by the straight-line method based on the estimated useful lives of the related properties.

Other Real Estate Owned

Other real estate acquired through or instead of loan foreclosure is initially recorded at fair value when acquired, establishing a new cost basis. Costs after acquisition are expensed. If the fair value of the property declines, a valuation allowance is recorded through expense. The valuation of other real estate owned is subjective in nature and may be adjusted in the future because of changes in economic conditions or review by regulatory examiners.

Mortgage Servicing Rights

At the time mortgage servicing rights are acquired, either through the purchase of mortgage servicing rights or origination of mortgage loans, the recorded value of the mortgage loans is allocated to the mortgage servicing rights and to the loans (without the mortgage servicing rights) based on their estimated relative fair values, provided there is a plan to sell or securitize the related loans. Mortgage servicing rights, net of valuation allowances, are amortized in proportion to, and over the period of, the estimated net servicing revenue of the underlying mortgages, which are collateralized by single-family properties.

Mortgage servicing rights are evaluated for impairment based on the fair value of those rights. The fair value of mortgage servicing rights is determined by discounting the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved. This method of valuation incorporates assumptions that market participants would use in their estimates of future servicing income and expense, including assumptions about prepayment, default and interest rates. For purposes of measuring impairment, the loans underlying the mortgage servicing rights are stratified on the basis of interest rate. The amount of impairment is the amount by which the mortgage servicing rights, net of accumulated amortization, exceed their fair value. Impairment, if any, is recognized through a valuation allowance.

Long-Lived Assets

Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and the tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates or the date of enactment.

Federal Funds Transactions as Agent

The Corporation acts as agent for customer banks to sell and purchase federal funds. The Corporation acts as an intermediary for the receipt and disbursement of funds but is not otherwise obligated by the transactions. These transactions are not reflected in the Corporation's financial statements except for fees earned. At December 31, 2003 and 2002, the Corporation was agent for total federal funds sold transactions of $800,761 and $1,026,283, respectively, and total federal funds purchased transactions of $800,761 and $1,026,283, respectively.

Derivative Financial Instruments

The Corporation's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. All derivatives are recorded at fair value on the Corporation's balance sheet. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur. During the life of the hedge, the Corporation formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Corporation will discontinue hedge accounting prospectively.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or the value of assets and liabilities not considered financial instruments.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Dividend Restriction

Banking regulations require the maintenance of certain capital and net income levels that may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Regulatory capital requirements are more fully disclosed in a separate note.

Restrictions on Cash

The Corporation was required to have $23,630 and $18,455 of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2003 and 2002, respectively. Deposits with the Federal Reserve Bank do not earn interest.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income at the time of the charge. Changes in the fair value of derivatives used for cash flow hedges are reclassified to net income as the hedged item affects earnings.

New Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). SFAS 149 amends and clarifies accounting for derivative instruments and hedging activities under Statement 133. This statement is effective for contracts entered into or modified after June 30, 2003. The Corporation's adoption of this statement did not have a material impact on the Corporation's consolidated financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), an interpretation of Accounting Research Bulletin No. 51, establishes accounting guidance for consolidation of variable interest entities (VIE) that function to support the activities of the primary beneficiary. Prior to the implementation of FIN 46, VIEs were generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. The provisions of FIN 46 were effective immediately for all arrangements entered into after January 31, 2003. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) which clarified certain implementation issues and revised implementation dates for VIE's created before January 31, 2003. Under the new guidance, special effective date provisions apply to enterprises that have fully or partially applied FIN 46 prior to issuance of the revised Interpretation. Nonpublic enterprises should apply this interpretation immediately to variable interest entities created after December 31, 2003, but have until the beginning of the first period beginning after December 15, 2004, to apply it to all other VIEs in which they hold a variable interest. Implementation of this pronouncement is not expected to have a significant impact on the Corporation's consolidated financial statements.

In July 2003, the Board of Governors of the Federal Reserve System issued a supervisory letter instructing bank holding companies to continue to include trust preferred securities in Tier I capital for regulatory capital purposes until notice is given to the contrary. There can be no assurance that the regulators will continue to permit institutions to include trust preferred securities in Tier I capital for regulatory purposes.

The Emerging Issues Task Force (EITF) recently reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," which is effective for fiscal years ending after December 15, 2003. EITF 03-1 requires additional disclosures related to unrealized losses that are temporary. Investments classified as held to maturity and available for sale with unrealized losses that are temporary must be separated into (i) losses that have existed for less than 12 months and (ii) losses that have existed for more than 12 months. The Corporation has adopted the disclosure requirements as of December 31, 2003.

Reclassifications

Some items in prior financial statements have been reclassified to conform to the current presentation.

Note 2. Securities Purchased Under Agreements to Resell

At December 31, 2003 and 2002, there were no securities purchased under agreements to resell. Securities purchased under agreements to resell averaged $2,322 and $994 during 2003 and 2002, respectively. There were no such agreements outstanding at any month end during 2003 and 2002.

Note 3. Securities Available for Sale

Year-end securities available for sale consisted of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2003:				
U.S Government agencies	$ 176,311	$ 2,768	$ –	$ 179,079
Mortgage-backed securities	101,259	507	599	101,167
Equity securities	7	27	–	34
	$ 277,577	$ 3,302	$ 599	$ 280,280
December 31, 2002:				
U.S. Government agencies	$ 161,257	$ 4,801	$ –	$ 166,058
Mortgage-backed securities	80,104	1,041	–	81,145
Equity securities	6	22	–	28
	$ 241,367	$ 5,864	$ –	$ 247,231

Mortgage-backed securities are backed by pools of mortgages that are insured or guaranteed by the Federal Home Loan Mortgage Corporation ("FHLMC"), the Government National Mortgage Corporation ("GNMA") or the Federal National Mortgage Corporation ("FNMA").

At December 31, 2003, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity.

There were no individual securities in an unrealized loss position for a period greater than one year as of December 31, 2003. For those securities with unrealized losses at December 31, 2003, the losses are generally due to changes in interest rates and, as such, are considered by management to be temporary

Securities with estimated fair values of $6,601 and $14,686 at December 31, 2003 and 2002, respectively, were pledged to secure securities sold under agreements to repurchase or lines of credit as permitted by law.

The amortized cost and estimated fair value of securities available for sale at December 31, 2003, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities and equity securities are shown separately since they are not due at a single maturity date.

	Amortized Cost	Estimated Fair Value
Due in one year or less	90,226	91,486
Due from one year to five years	86,085	87,593
Mortgage-backed securities	101,259	101,167
Equity securities	7	34
	$ 277,577	$ 280,280

Sales of securities available for sale were as follows:

	2003	2002
Proceeds from sales	$ 46,354	$ 55,145
Gross realized gains	465	1,102
Gross realized losses	(284)	(12)
	$ 181	$ 1,090

Note 4. Loans and Allowance For Loan Losses

Year-end loans consisted of the following:

	2003	2002
Bank stock loans	$ 92,176	$ 94,718
Real estate loans	204,238	170,942
Credit card and personal loans	79,918	78,365
Commercial loans	24,416	58,888
Agricultural loans	10,063	12,357
Leases, net of unearned income	14,833	3,283
Bank qualified municipal loans	55,393	48,440
Guaranteed student loans	12,956	13,729
	493,993	480,722
Allowance for loan losses	(7,748)	(6,625)
	$ 486,245	$ 474,097

As detailed in the table above, the Corporation has a diversified loan portfolio from customers throughout the state of Texas and parts of New Mexico, Oklahoma, Louisiana and California. Accordingly, the ultimate collectibility of a substantial portion of the Corporation's loan portfolio is particularly susceptible to changes in market conditions in these states.

The Corporation's officers, directors and their associates, including companies and firms of which they are officers or in which they and/or their families have an ownership interest, are customers of the Corporation. Loans to officers, directors and their associates totaled $1,509 and $3,287 at December 31, 2003 and 2002, respectively. During 2003, $8,535 of new loans were originated and repayments totaled $10,313. These loans were made on substantially the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility.

Activity in allowance for loan losses was as follows:

	2003	2002
Balance at beginning of year	$ 6,625	$ 5,105
Provision for losses charged to operations	4,420	5,770
Charge-offs	(3,607)	(4,502)
Recoveries	310	252
Balance at end of year	$ 7,748	$ 6,625

Impaired loans were as follows:

	2003	2002
Year-end impaired loans with a valuation allowance	$ 3,451	$ 1,380
Year-end impaired loans without a valuation allowance	–	–
	$ 3,451	$ 1,380
Valuation allowance related to impaired loans	$ 792	$ 383
Average investment in impaired loans during the year	$ 2,416	$ 3,473

No interest income was recognized on impaired loans in 2003 and 2002.

Loans on which the accrual of interest has been discontinued totaled $3,451 and $1,380 at December 31, 2003 and 2002, respectively. Loans, contractually delinquent over ninety days, which continued to accrue interest totaled $1,091 and $1,031 at December 31, 2003 and 2002, respectively.

Note 5. Premises and Equipment

Year-end premises and equipment was as follows:

	2003	2002
Land	$ 582	$ 582
Building	4,316	4,004
Equipment	6,727	6,057
Leasehold and tenant improvements	159	133
	11,784	10,776
Less accumulated depreciation and amortization	(6,849)	(5,960)
	$ 4,935	$ 4,816

Note 6. Other Real Estate Owned

Year-end other real estate owned was as follows:

	2003	2002
Construction and land development property	$ 192	$ 192
Residential property	19	38
Commercial property	3,134	4,430
	3,345	4,660
Less: valuation allowance	–	(875)
	$ 3,345	$ 3,785

Recovery of the carrying amount of other real estate owned is particularly susceptible to changes in market conditions in Texas, New Mexico, Oklahoma, Louisiana and California.

Note 7. Mortgage Servicing Rights

Transactions affecting mortgage servicing rights were as follows:

	2003	2002
Balance at beginning of year	$ 7,638	$ 8,786
Purchased mortgage servicing rights	8,044	4,509
Originated mortgage serving rights	1,085	1,099
Amortization charged to operations	(3,695)	(2,355)
Change in valuation allowance	(1,087)	(4,401)
Balance at end of year	$ 11,985	$ 7,638

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgages serviced for others was $1,088,834 and $813,619 at December 31, 2003 and 2002, respectively. At such dates, the Corporation held borrowers' escrow balances related to these loans totaling $4,150 and $2,224, respectively.

The Corporation has purchased various 10-year treasury puts, calls and futures contracts with a fair value of $1,255 at December 31, 2003. The contracts are designated as hedging instruments in a fair value hedge of the Corporation's mortgage servicing rights portfolio.

Note 8. Deposits

Year-end deposits consisted of the following:

	2003		2002	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand	$ 331,380	63.6%	$ 316,702	74.9%
NOW and money market accounts	7,308	1.4%	6,015	1.4%
Certificates of deposit:				
Less than $100,000	52	0.0%	237	0.1%
$100,000 and greater	182,449	35.0%	99,933	23.6%
	$ 521,189	100.0%	$ 422,887	100.0%

Scheduled maturities of time deposits at December 31, 2003 were as follows:

Years Ending	Amount
2004	$ 173,201
2005	9,300
	$ 182,501

Note 9. Other Borrowings

The other borrowings at December 31, 2003 represented loans sold with recourse totaling $167. There were no other borrowings at December 31, 2002.

The Corporation has a revolving line of credit payable with a third party. During 2003 and 2002, the note had a maximum advanceable amount of $15,000 and $9,550, respectively. The highest amount advanced on this line during 2003 and 2002 was $0 and $1,500, respectively. The line of credit accrues interest at the Wall Street Journal prime interest rate, contains certain financial convenants and is secured by the stock of the Bank and IBFC. There was no balance outstanding at December 31, 2003 or 2002.

Note 10. Trust Preferred Securities

On January 31, 2001, IBFC, through a private placement, issued $20,000 (2,000,000 shares with a liquidation amount of $10 per security) of Floating Rate (prime plus 0.25%) Cumulative Trust Preferred Securities through a newly formed, wholly-owned subsidiary, IBFC Capital Trust 1 (the Trust). IBFC made a required equity contribution of $620 to form the Trust. The Trust invested the total proceeds from the equity contribution and the securities sale in Floating Rate Junior Subordinated Debentures (the Debentures) issued by IBFC. The net proceeds from the sale of the Debentures was used to repay a portion of IBFC's debt and for general corporate purposes, including capital investments in the Bank. The Trust's obligations under the Trust Preferred Securities are fully and unconditionally guaranteed by IBFC.

With certain exceptions, the amount of the principal and any accrued and unpaid interest on the Debentures are subordinated in right of payment to the prior payment in full of all senior and subordinated indebtedness of IBFC. Interest on the Debentures is payable quarterly at prime plus 0.25%, commencing March 31, 2001. The interest is deferrable on a cumulative basis for up to 20 consecutive quarters. No principal payments are due until maturity on January 31, 2031.

On or after December 28, 2005 and prior to maturity, the Debentures are redeemable, in whole or in part, at the option of IBFC. In the event the Debentures are redeemed, a like amount of Trust Preferred Securities will be redeemed at the redemption price of $10 per share, plus accrued interest to the date of redemption.

Note 11. Federal Income Taxes

Actual income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax accounting income as follows:

	2003	2002
Income tax expense computed at statutory rate	$ 5,290	$ 3,454
Increase in cash value of life insurance	(155)	(110)
Tax-exempt interest	(884)	(818)
Other	105	112
Actual income tax expense	$ 4,356	$ 2,638

Year-end deferred taxes were as follows:

	2003	2002
Deferred tax assets:		
Loans	$ 2,712	$ 2,226
Deferred compensation	1,302	987
Premises and equipment	196	103
Reserve for group medical insurance claims	246	306
Other real estate	684	298
Total deferred tax assets	5,140	3,920
Deferred tax liabilities:		
Net unrealized gains on securities available for sale	919	1,994
Mortgage servicing rights	2,012	733
FHLB dividends	82	54
Other	88	109
Total deferred tax liabilities	3,101	2,890
Net deferred tax asset	$ 2,039	$ 1,030

Note 12. Employee Benefits

The Corporation maintains a savings plan for its employees. Employees are eligible to participate after completion of six months of service. Maximum employer and employee contributions to the plan are limited to $30 or 25% of an employee's gross earnings, whichever is less. The Corporation may make contributions in an amount necessary to match up to a maximum of 5% of the employee's annual compensation. The Corporation's contributions were $623 and $519 in 2003 and 2002, respectively.

The Corporation has nonqualified deferred compensation plans which provide death and retirement benefits to certain officers. Benefits under the plans are payable over a 15 year period following death or retirement. Deferred compensation expense of $731 and $733 was recorded in 2003 and 2002, respectively. Deferred compensation payable totaled $3,493 and $2,902 at December 31, 2003 and 2002, respectively. The Corporation has purchased life insurance policies to fund future plan obligations. These policies had an aggregate cash surrender value of $19,288 and $6,833 at December 31, 2003 and 2002, respectively.

During 2001, the Corporation adopted a Phantom Stock Ownership and Long-Term Incentive Plan under which eligible employees may be granted phantom shares from an initial pool of 108,000 shares. Holders of the phantom shares have no rights as a shareholder of the Corporation, but may redeem vested, non-expired phantom shares held for cash in an amount equal to the increase in the book value of the Corporation's common stock subsequent to their grant date.

Information regarding phantom shares is as follows:

	2003	2002
Phantom shares outstanding at beginning of year	41,805	20,464
Grants	17,403	21,341
Exercised	274	–
Expired or canceled	–	–
Phantom shares outstanding at end of year	59,482	41,805
Available for grant at end of year	48,518	66,195
Exercisable at end of year	26,057	15,792

Compensation expense related to phantom shares is accrued over the vesting period of the award; however, the ultimate measurement of the aggregate compensation is based on the value of the award on the date of exercise. Accrued compensation payable under the Plan totaled $623 and $227 at December 31, 2003 and 2002, respectively. Compensation expense recognized under the Plan totaled $400 in 2003 and $200 in 2002.

Note 13. Noninterest Income

Noninterest income consisted of the following for the years ended December 31, 2003 and 2002:

	2003	2002
Credit card fees	$ 19,699	$ 17,371
Item processing fees	3,040	3,133
Net gain on derivative transactions	1,552	4,907
Mortgage loan servicing fees	2,535	1,909
Customer security transactions	3,122	2,666
Audit and loan review fees	1,675	1,526
Gain on sales of loans	4,688	4,681
Gain on sales of securities	181	1,090
Federal fund agency fees	1,316	1,346
Safekeeping fees	1,186	927
Other	6,401	1,320
	$ 45,395	$ 40,876

Note 14. Commitments and Contingencies

Financial Instruments With Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, credit card line commitments and standby letters of credit and involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, credit card line commitments and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2003 and 2002, the amounts of these financial instruments were as follows:

	2003	2002
Commitments to extend credit	$ 199,551	$ 280,880
Standby letters of credit	2,176	5,442
Credit card lines	390,012	443,723
	$ 591,739	$ 730,045

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The

amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on managements' credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, single and multi-family residences, property and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. The Corporation's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on managements' credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, single and multi-family residences, property and equipment and income-producing commercial properties. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Corporation would be required to fund the commitment. The maximum potential amount of future payments the Corporation could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Corporation would be entitled to seek recovery from the customer. As of December 31, 2003 and 2002, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

Credit card commitments are unsecured.

Lease Commitments

The Corporation leases certain office facilities and office equipment under operating leases that expire at various dates through 2007. The Corporation has renewal options for most of its operating leases. Rent expense for all operating leases totaled $447 in 2003 and $360 in 2002. Total rents paid under escalating lease agreements are expensed over the life of the lease on a straight-line basis. The rental payments on operating leases are based on a minimum rental plus a percentage of operating costs, some of which are restricted as to the maximum annual increase.

Future minimum lease payments under all noncancellable operating leases as of December 31, 2003 are as follows:

Year:	Amount
2004	$ 415
2005	375
2006	122
2007	28
	$ 940

Contingencies

Various other contingent liabilities are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

Note 15. Fair Value of Financial Instruments

The estimated fair value approximates carrying value for financial instruments except those described below:

Securities and Derivatives: Fair values for securities and derivatives are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

Loans Held for Sale: Fair values are based on quoted market prices of similar loans sold on the secondary market.

Loans: The fair value of fixed-rate loans and variable-rate loans which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. Credit card receivables were valued based on the estimated premium to book value the Corporation would expect to obtain for a sale of the entire portfolio given its size, terms and other characteristics. For the purposes of this disclosure, leases are not considered financial instruments and are excluded from the table below.

Deposits: The fair value of fixed-rate deposit liabilities with defined maturities is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities.

Other Borrowings: The fair value of fixed rate borrowings is estimated based on the present value of expected cash flows using current interest rates for similar financial instruments.

Off-Balance-Sheet Instruments: The fair values of these items are not material and are therefore not included on the following schedule.

	2003		2002	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash equivalents	$ 349,036	$ 349,036	$ 257,299	$ 259,299
Interest-bearing time deposits	400	400	400	400
Securities	280,280	280,280	247,231	247,231
Loans held for sale	24,939	24,939	28,783	28,783
Loans, net (excludes leases)	471,412	517,274	470,814	472,388
Mortgage servicing rights	11,985	11,985	7,638	7,638
Accrued interest receivable	5,608	5,608	4,765	4,765
Due from broker	3,384	3,384	2,780	2,780
Financial liabilities:				
Deposits	521,189	523,347	422,888	422,950
Federal funds purchased and securities sold under agreements to repurchase	588,505	588,505	536,691	536,691
Other borrowings	167	167	–	–
Trust preferred securities	20,000	20,000	20,000	20,000
Derivatives	1,255	1,255	714	714
Accrued interest payable	120	120	167	167

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular financial

instrument. These estimates are subjective in nature and require considerable judgment to interpret market data. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of the respective balance sheet date. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Note 16. Shareholders' Equity

The Corporation has 1,000,000 authorized shares of $1 par value convertible preferred stock (Series B, C and D) with a liquidation value of $20 per share. No shares were outstanding at December 31, 2003 or 2002.

The Corporation maintains a Dividend Reinvestment and Share Purchase Plan whereby shareholders may elect to: (1) reinvest common stock dividends in the common stock of the Corporation, and (2) make optional cash payments to purchase additional common stock of the Corporation. The purchase price of common shares issued under the Plan is the book value of the stock as of the month ended immediately preceding the reinvestment date. During 2003 and 2002, 3,713 and 3,462 shares of common stock were issued under the Plan with an average issue price of $54.72 and $44.15 per share, respectively.

Note 17. Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices must be met. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulations to ensure capital adequacy require the maintaining of minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined).

As of December 31, 2003 and 2002, the Bank met the level of capital necessary to be categorized as "well capitalized" under prompt corrective action regulations. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. As of December 31, 2003 and 2002, the Corporation met all capital requirements under the regulatory framework specified by the Federal Reserve Board. Management is not aware of any conditions subsequent to December 31, 2003 that would change the Corporation's or the Banks' capital category.

The Corporation's and the Bank's actual capital amounts (in thousands) and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2003:						
Total capital to risk-weighted assets:						
Consolidated	$ 87,604	12.60%	$ 55,636	8.00%	$ N/A	N/A%
Bank only	86,595	12.47	55,572	8.00	69,466	10.00
Tier I capital to risk-weighted assets:						
Consolidated	79,793	11.47	27,818	4.00	N/A	N/A
Bank only	78,836	11.35	27,786	4.00	41,678	6.00
Tier I capital to average assets:						
Consolidated	79,793	6.67	47,833	4.00	N/A	N/A
Bank only	78,836	6.60	47,811	4.00	59,764	5.00
December 31, 2002:						
Total capital to risk-weighted assets:						
Consolidated	$ 75,374	11.69%	$ 51,579	8.00%	$ N/A	N/A%
Bank only	75,406	11.70	51,542	8.00	64,428	10.00
Tier I capital to risk-weighted assets:						
Consolidated	64,985	10.08	25,790	4.00	N/A	N/A
Bank only	68,771	10.67	25,771	4.00	38,657	6.00
Tier I capital to average assets:						
Consolidated	64,985	6.06	42,894	4.00	N/A	N/A
Bank only	68,771	6.41	42,905	4.00	53,631	5.00

Note 18. Parent Company Only Financial Statements

Balance Sheets
December 31, 2003 and 2002

	2003	2002
ASSETS		
Cash due from subsidiary bank	$ 269	$ 736
Investment in subsidiaries	83,231	74,201
Other assets	1,844	1,297
Total assets	$ 85,344	$ 76,234
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 1,096	$ 976
Long-term obligations to subsidiary	20,620	20,620
Other liabilities	693	1,233
Total liabilities	22,409	22,829
Commitments and contingencies		
Shareholders' equity:		
Common stock, par value $10 per share, 5,000,000 shares authorized, issued and outstanding: 996,228 shares in 2003 and 976,004 shares in 2002	9,962	9,760
Capital surplus	14,847	13,542
Retained earnings	36,342	26,233
Accumulated other comprehensive income	1,784	3,870
Total shareholders' equity	62,935	53,405
Total liabilities and shareholders' equity	$ 85,344	$ 76,234

Note 18. Parent Company Only Financial Statements (continued)

Statements of Income
Years ended December 31, 2003 and 2002

	2003	2002
Dividend income	$ 1,400	$ 2,458
Interest income	27	–
Interest expense	(902)	(977)
	525	1,481
Gain on sale of investment	126	–
Other income	6	–
Loss on sale of securities available for sale	–	(71)
Other expenses	(425)	(215)
Income before income taxes and equity in undistributed income of subsidiaries	232	1,195
Federal income taxes:		
Current benefit	307	230
Deferred benefit	90	235
	397	465
Income before equity in undistributed income of subsidiaries	629	1,660
Equity in undistributed income of subsidiaries	10,575	5,860
Net income	$ 11,204	$ 7,520

Note 18. Parent Company Only Financial Statements (continued)

Statements of Cash Flow
Years Ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Net income	$ 11,204	$ 7,520
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in undistributed income of subsidiaries	(10,575)	(5,860)
Deferred taxes	(90)	(235)
Deferred compensation expense	400	200
Gain on sale of investment	(126)	–
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(546)	71
Accrued interest payable and other liabilities	(855)	125
Net cash (used in) provided by operating activities	(588)	1,821
Cash flows from investing activities:		
Proceeds from sale of investment	240	50
Purchase of new investment	(650)	–
Net cash (used in) provided by investing activities	(410)	50
Cash flows from financing activities:		
Repurchase and retirement of common stock	(545)	(913)
Net proceeds from issuance of common stock	2,052	1,309
Payments on note payable	–	(1,500)
Cash dividends paid on common stock	(976)	(866)
Net cash provided by (used in) financing activities	531	(1,970)
Net decrease in cash equivalents	(467)	(99)
Cash equivalents at beginning of year	736	835
Cash equivalents at end of year	$ 269	$ 736
Supplemental cash flow information:		
Cash paid during the year for interest	$ 902	$ 1,007
Cash paid during the year for taxes	4,742	3,850

TIB – The Independent BankersBank and Subsidiaries

FINANCIAL STATEMENT

Consolidated Balance Sheets
December 31, 2003 and 2002
(Dollar amounts in thousands, except per share amounts)

	2003	2002
ASSETS		
Cash due from banks	$ 87,737	$ 118,033
Interest-bearing deposits	4,475	2,842
Federal funds sold and securities purchased under agreements to resell	256,824	136,424
Total cash equivalents	349,036	257,299
Interest-bearing time deposits	400	400
Securities available for sale	280,280	247,231
Loans held for sale	24,939	28,783
Loans, net	486,245	474,097
Premises and equipment, net	4,935	4,816
Other real estate owned, net	3,345	3,785
Mortgage servicing rights	11,985	7,638
Accrued interest receivable	5,608	4,765
Due from broker	3,384	2,780
Cash surrender value of life insurance	19,288	6,833
Other assets	15,495	10,526
Total assets	$ 1,204,940	$ 1,048,953
LIABILITIES AND SHAREHOLDER'S EQUITY		
Deposits:		
Noninterest-bearing	$ 331,648	$ 317,437
Interest-bearing	189,809	106,185
Total deposits	521,457	423,622
Federal funds purchased and securities sold under agreements to repurchase	588,505	536,691
Accrued interest payable and other liabilities	12,885	15,203
Other borrowings	167	–
Total liabilities	1,123,014	975,516
Commitments and contingencies		
Shareholder's equity:		
Common stock, par value $10 per share, 700,000 shares authorized, issued and outstanding	7,000	7,000
Capital surplus	53,000	43,500
Retained earnings	20,142	19,067
Accumulated other comprehensive income	1,784	3,870
Total shareholder's equity	81,926	73,437
Total liabilities and shareholder's equity	$ 1,204,940	$ 1,048,953

Consolidated Statements of Income
Years ended December 31, 2003 and 2002
(Dollar amounts in thousands)

	2003	2002
Interest income:		
Loans, including fees	$ 31,619	$ 28,911
Securities – taxable	8,459	8,145
Federal funds sold and repurchase agreements	2,441	3,871
Other	55	54
Total interest income	42,574	40,981
Interest expense:		
Deposits	2,439	2,276
Federal funds purchased and repurchase agreements	6,290	8,881
Other borrowings	17	334
Total interest expense	8,746	11,491
Net interest income	33,828	29,490
Provision for loan losses	4,420	5,770
Net interest income after provision for loan losses	29,408	23,720
Noninterest income	45,264	41,053
Noninterest expense:		
Salaries and benefits	22,291	19,643
Occupancy	1,258	1,138
Furniture and equipment	910	1,062
Software maintenance	1,458	1,283
Credit card expenses	12,224	11,015
Item processing expense	3,535	3,910
Net loss on sales and write-downs of other real estate owned	1,007	904
Professional fees	570	942
General operating expenses	14,691	13,349
Total noninterest expense	57,944	53,246
Income before income taxes	16,728	11,527
Federal income taxes:		
Current provision	4,597	4,182
Deferred expense (benefit)	156	(1,079)
	4,753	3,103
Net income	$ 11,975	$ 8,424

2003 Year in Review

Officers

Gayle M. Earls	President/CEO

Correspondent Lending

R. Kevin Drew	Executive Vice President/CLO
David Temple	Sr. Vice President/CCO
Chris Badger	Sr. Vice President
Jim Batson	Sr. Vice President
Danny Bishop	Sr. Vice President
Mark Greene	Sr. Vice President
Bart Griffith	Sr. Vice President
Kevin Hodges	Sr. Vice President
Gary Owens	Sr. Vice President
Barry Renfroe	Sr. Vice President
Ray Vadalma	Sr. Vice President
Jo Ann Davis	Vice President
Linda Greenlee	Vice President
Barry Musgrove	Vice President
Rex Wood	Vice President
Margie Angell	Assistant Vice President
Katie Ryan	Assistant Vice President
Jennifer Crymes	Banking Officer
Rick Jamieson	Banking Officer
Ryan Mecredy	Banking Officer
Joy Smith	Banking Officer

Sales & Marketing

Greg Todd	Sr. Vice President
J.D. Aragon	Vice President
Kenny Dunaway	Vice President
Michael Johnson	Vice President
Jack Kleinecke	Vice President
Debra Croxdale	Assistant Vice President
Laney Freeman	Assistant Vice President
Scott Kelley	Assistant Vice President
Debbie Nelson	Assistant Vice President
Mark Webb	Assistant Vice President
Gary Cook	Sr. Marketing Rep
Gary Gleason	Sr. Marketing Rep
Frank Meissner	Sr. Marketing Rep
Bob Reichert	Sr. Marketing Rep
Allowee Stinnett	Sr. Marketing Rep
Jim Whitworth	Sr. Marketing Rep

Card Services

T. Patrick Gray	Executive Vice President
Homer Northen	Sr. Vice President
Brian Balbinot	Vice President
Ginger Childers	Vice President
Greg Hughes	Vice President
Beverly Texada	Vice President
Alan Abney	Assistant Vice President
David Bird	Assistant Vice President
Jorja Morgan	Assistant Vice President
Thomas Sipp	Assistant Vice President
Mike Vessels	Assistant Vice President
Tommy Wagner	Assistant Vice President
Mike Dugas	Banking Officer
Lacey Goggans	Banking Officer
Kim Hunt	Banking Officer
Brandon Moore	Banking Officer
Darlene Pence	Banking Officer
Jon Schryvers	Banking Officer

TIB Capital Markets

Michael O'Rourke	President
David Linaburg	Sr. Vice President/COO
Don Gearhart	Sr. Vice President
Bruce Taylor	Sr. Vice President
Kaighan Watts	Sr. Vice President
Todd Wentz	Sr. Vice President
Jerry Wiley	Sr. Vice President
Eric Allen	Vice President
Elaine Burgess	Vice President
Ann Burner	Vice President
Diane Francis	Vice President
Henry Harris	Vice President
Linda James	Vice President
Jayson Jinks	Vice President

Maurice Kerins	Vice President
Stephen Bridges,	Assistant Vice President
Sharon Cormier	Banking Officer
Waleed Obeid	Banking Officer
Chuck Phelan	ALX-Managing Officer
Greg Meadows	ALX-Dir. of Banking Svcs.
Barbara Carney	ALX-Banking Officer

Investment Operations

Chad Golden	Vice President
Carrie Stewart	Vice President
Sue Ritter	Assistant Vice President
Linda Osuji	Banking Officer

TIB Mortgage Company

David Linaberg	Sr. Vice President
Mary Buck	Vice President
Elena Carraway	Vice President
Randy Bryant	Assistant Vice President
Debra Crawford	Assistant Vice President
Nancy Francis	Assistant Vice President
John Sanders	Assistant Vice President

Electronic Banking/ Item Processing

Don Briscoe	Vice President
Gary McLemore	Vice President
Michele Arvo	Assistant Vice President
Bob Connelly	Assistant Vice President
Lori Palmgren	Assistant Vice President
Brad Adams	Banking Officer
Tracy Elias	Banking Officer
Iselda Gay	Banking Officer
Ramon Gonzales	Banking Officer

TIB Service Company

Tom Atkinson	Executive Vice President
Cynthia Pollock	Sr. Vice President
Susan Smith	Sr. Vice President
Rebecca Andrews	Vice President
Ann Derrick	Vice President
Tony Gibson	Vice President
Debra Hackerson	Vice President
Melisa Manjeot	Vice President
Steve Roberts	Vice President
Keri Harper	Banking Officer
Luanne Reilly	Banking Officer
Trudy Routh	Banking Officer

Internal Audit

Jon Farrell	Vice President
Kyle Garner	Vice President
Dick Hendrikson	Vice President
Tony Mueller	Assistant Vice President

Accounting

Curtis Harvey	Executive Vice President/CFO
Terri Bacot	Vice President
Glenda Vicari	Assistant Vice President

Information Services

Lyle Walden	Sr. Vice President
Drew Allbright	Vice President
Si Tarighi	Assistant Vice President
Scott Davis	Banking Officer
Kevin Hunter	Banking Officer
Lee Nocon	Banking Officer

Human Resources/Training

Pat Blackshear	Sr. Vice President
Tina Jourdan	Vice President
Penni Livingston	Banking Officer
Kitty Poehler	Banking Officer

2003 Year in Review

Advisory Councils

Mr. Scott Allred
First Bank
Azle, TX

Mr. David Barnard
National Bank of Gatesville
Gatesville, TX

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Sun Bank
Sunray, TX

Mr. L. F. (Alec) Bridges, III
Alliance Bank
Sulphur Springs, TX

Mr. Downey Bridgewater
Sterling Bank
Houston, TX

Mr. Dewey Bryant
Southwest Bank
Odessa, TX

Mr. Steve Burrage
FirstBank
Antlers, OK

Mr. John Burson
Valley Bank
Roswell, NM

Mr. Kent Carruthers
The Citizens Bank of Clovis
Clovis, NM

Mr. Kenneth Carson, Jr.
The Bank of Belen
Belen, NM

Mr. John R. Childers
San Angelo, TX

Mr. B. Windol Cook
Texas National Bank
Jacksonville, TX

Mr. Pete Cook
First National Bank
Alamogordo, NM

Mr. J. Raymond David
PointBank, N. A.
Pilot Point, TX

Mr. Sam Dawson
Southside Bank
Tyler, TX

Mr. Matthew T. Doyle
Texas First Bank
Texas City, TX

Mr. Robert B. Dunkin
First Community Bank
San Benito, TX

Mr. Bill Ellis
First Security Bank
Flower Mound, TX

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Citizens State Bank
Somerville, TX

Mr. James Florence
Planter & Merchants Bank
Hearne, TX

Mr. Jim Fox
First-Nichols National Bank
Kenedy, TX

Mr. Elwood Freeman
The Lamesa National Bank
Lamesa, TX

Mr. David Gaddis
First Victoria National Bank
Victoria, TX

Mr. John Gilliam
First National Bank of
Bosque County
Valley Mills, TX

Mr. Vidal Gonzales, II
Jourdanton State Bank
San Antonio, TX

Mr. D. Kenneth Greer
First National Bank
Mount Vernon, TX

Mr. Justin Harper
Citizens Bank
Las Cruces, NM

Mr. William H. Harrison Jr.
First National Bank of Eagle Lake
Eagle Lake, TX

Mr. C. T. (Tommy) Head
Mills County State Bank
Goldthwaite, TX

Mr. Scott Heitkamp
ValueBank Texas
Corpus Christi, TX

Mr. Mike Helm
Extraco Bank
Harker Heights, TX

Mr. Joe M. Henkel
Kleberg First National Bank
Kingsville, TX

Mr. Pat Hickman
First State Bank
Happy, TX

Mr. Embry Hines
First State Bank
Chico, TX

Mr. Jeb B. Hughes
Community National Bank
Midland, TX

Mr. Monte R. Hulse
First National Bank of
Central Texas
Waco, TX

Mr. Kenneth E. Irwin
Gruver State Bank
Gruver, TX

Mr. Warren Jamieson
Bonham State Bank
Bonham, TX

Mr. Larry Kilgore
Southwest Bank
Fort Worth, TX

Mr. Frank B. Kimmell
Heritage National Bank
Granbury, TX

Mr. Joe Kim King
Brady National Bank
Brady, TX

Mr. Rodney Kroll
Texas First State Bank
Waco, TX

Mr. Dennis Kutach
First State Bank
Yoakum, TX

Mr. Phil Lane
First National Bank
Fabens, TX

Mr. Walker Lea, III
First State Bank
Mount Calm, TX

Mr. Ronald C. Lemon
Dickinson, TX

Mr. Dennis Lutz
High Desert State Bank
Albuquerque, NM

Mr. Robert E. Marling
Woodforest National Bank
Houston, TX

Mr. Mike Mauldin
Hereford State Bank
Hereford, TX

Mr. W. F. (Woody) McCasland
Kingsland, TX

Mr. Tom McDade
Houston, TX

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Citizens National Bank
Henderson, TX

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Gainesville, TX

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Bank of Texas
Austin, TX

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First Bank-Farmersville
Farmersville, TX

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Gateway National Bank
Dallas, TX

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First State Bank of Clute
Clute, TX

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Jefferson State Bank
San Antonio, TX

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Guaranty National Bank
Gainesville, TX

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Gulf Coast Bank
Winnie, TX

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Longview Bank and Trust
Longview, TX

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Guaranty Bank
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International Bank
Raton, NM

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Big Spring, TX

Mr. John Slocomb
First National Bank of Livingston
Livingston, TX

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Citizens National Bank
Hillsboro, TX

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Lea County State Bank
Hobbs, NM

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Deming, NM

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Mr. Don Stricklin
State Bank
La Grange, TX

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Corsicana National Bank
Corsicana, TX

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Waggoner National Bank
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Richland State Bank
Rayville, LA

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Guaranty Bank
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Community Bank
Smithville, TX

Mr. Howard Manning
Dallas, TX

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Graham, TX

Mr. Wrey Montgomery
First National Bank
Sonora, TX

Mr. Angel Reyes
Centinel Bank
Taos, NM

Mr. Craig Sanders
Amarillo National Bank
Amarillo, TX

Mr. Randy Sutton
First State Bank
Temple, TX

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Shamrock Bank
Coalgate, OK

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Citizens National Bank
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Bank of the West
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Mr. Harold Johnson
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Brookshire, TX

Mr. James Law
Alliance Bank
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