

2004 ANNUAL REPORT

ONE

Out of Many

E PLURIBUS UNUM

★
INIB

THE INDEPENDENT BANKERSBANK

TO OUR SHAREHOLDERS AND CUSTOMERS



The Independent BankersBank

E pluribus unum. This Latin phrase, which appears on the coins we use every day, roughly translates to “*Out of many, one.*” It was selected by the first Great Seal committee in 1776, at the beginning of the American Revolution and originally referred to the integration of the 13 independent colonies into one united country. However, as we were looking back at both 2004 and the last several years, it also seemed to be a fitting description of TIB and our mission in the community banking industry.

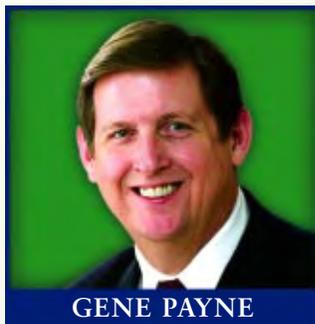
TIB has experienced phenomenal growth over the past several years. TIB provides more than 30 correspondent banking products and services, serving over 1,100 community banks in some 40 states, opening new offices in New Mexico, Louisiana, California and Oklahoma and growing the bank to more than \$1.3 billion in assets, with over 300 employees, just for starters. Yet, all of our products, service regions, offices, assets and employees are grounded in one singular purpose: serving as the best and most reliable correspondent partner to you, the community banker.

Yes, 2004 was another successful year for TIB and as you will see throughout this report, the numbers speak for themselves. However, we believe they are simply a byproduct of this mission stated above. Our success is merely a reflection of yours. Much of what you see in this report will focus on what we consider to truly be the most important achievements during the past 12 months—the numerous examples of competitive advantages, such as revenue sharing, generous pricing, loan participations and shareholder premiums that TIB provides you each and every day.

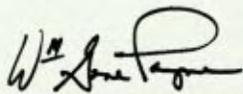
The theme chosen for this report can also be applied to the institutions we serve—each of which has played a vital role in TIB’s success. While all are unique in their own special way, our 1,100 customer banks and over 400 shareholder institutions have come together to create and sustain one exceptional bankers bank. In much the same way, the more than 8,000 community banks across America, while diverse in philosophy, culture and size, form a chorus that resonates as one great voice, speaking as the heart and soul of this country’s economic independence.

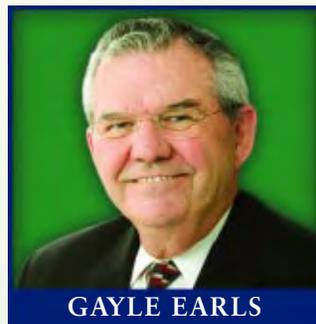
Whether you are a current or future shareholder, customer or friend, we invite you to look back with us at 2004. It is, indeed, a success story that could only have been written by “many” coming together as “one.”

E pluribus unum,

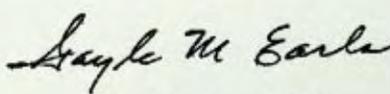


GENE PAYNE


Chairman of the Board

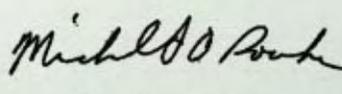


GAYLE EARLS


Vice Chairman/CEO



MICHAEL O'ROURKE


President/COO



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, 2004 and 2003, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independent Bankers Financial Corporation and Subsidiaries as of December 31, 2004 and 2003, and the 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

McGladrey & Pullen, LLP

Dallas, Texas

February 11, 2005

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2004 And 2003

(Dollar Amounts in Thousands, Except Per Share Amounts)

ASSETS	2004	2003
Cash due from banks (Note 1)	\$ 118,808	\$ 87,737
Interest-bearing deposits	59	1,091
Federal funds sold and securities purchased under agreements to resell (Note 2)	157,833	256,824
Total cash equivalents	276,700	345,652
Interest-bearing time deposits	499	400
Securities available for sale (Note 2)	360,546	280,280
Loans held for sale	30,380	24,939
Loans, net (Note 3)	567,768	486,245
Premises and equipment, net (Note 4)	5,456	4,935
Other real estate owned, net (Note 5)	4,267	3,345
Mortgage servicing rights (Note 6)	15,103	11,985
Accrued interest receivable	6,211	5,608
Due from broker	2,223	3,384
Cash surrender value of life insurance	20,066	19,288
Other assets (Note 10)	29,998	20,009
Total assets	\$ 1,319,217	\$ 1,206,070
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 7):		
Noninterest-bearing	\$ 288,760	\$ 331,381
Interest-bearing	117,994	189,808
Total deposits	406,754	521,189
Federal funds purchased and securities sold under agreements to repurchase (Note 1)	703,804	588,505
Accrued interest payable and other liabilities	18,861	13,274
Other borrowings (Note 8)	100,000	167
Trust preferred securities (Note 9)	20,000	20,000
Total liabilities	1,249,419	1,143,135
Commitments and contingencies (Note 14)		
Shareholders' equity (Notes 16 and 17):		
Common stock, par value \$10 per share, 5,000,000 shares authorized, 1,028,857 and 996,288 shares issued and outstanding in 2004 and 2003	10,288	9,962
Capital surplus	17,096	14,847
Retained earnings	44,151	36,342
Accumulated other comprehensive income (loss)	(1,737)	1,784
Total shareholders' equity	69,798	62,935
Total liabilities and shareholders' equity	\$ 1,319,217	\$ 1,206,070

See Notes to Consolidated Financial Statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statement of Income

Year Ended December 31, 2004 And 2003

(Dollar Amounts in Thousands)

	2004	2003
Interest income:	\$ 31,963	\$ 31,619
Loans, including fees	10,058	8,459
Securities - taxable	4,300	2,441
Federal funds sold and repurchase agreements	59	82
Other		
Total interest income	<u>46,380</u>	<u>42,601</u>
Interest expense:		
Deposits	2,250	2,439
Federal funds purchased and repurchase agreements	9,199	6,290
Trust preferred securities and other borrowings	3,796	919
Total interest expense	<u>15,245</u>	<u>9,648</u>
Net interest income	31,135	32,953
Provision for loan losses (Note 7)	<u>6,436</u>	<u>4,420</u>
Net interest income after provision for loan losses	24,699	28,533
Noninterest income (Note 12)	<u>46,171</u>	<u>45,395</u>
Noninterest expense:		
Salaries and benefits	23,226	22,291
Occupancy	1,318	1,258
Furniture and equipment	961	910
Software maintenance	1,363	1,458
Credit card expenses	14,052	12,224
Item processing expense	2,115	3,535
Write-downs of investments and other real estate owned	650	1,007
Professional fees	899	588
Other operating expenses	14,396	15,097
Total noninterest expense	<u>58,980</u>	<u>58,368</u>
Income before income taxes	<u>11,890</u>	<u>15,560</u>
Federal income taxes (Note 10):		
Current expense	440	4,290
Deferred expense	2,406	66
	<u>2,846</u>	<u>4,356</u>
Net income	\$ 9,044	\$ 11,204

See Notes to Consolidated Financial Statements.

Independent Bankers Financial Corporation and Subsidiaries

Consolidated and Parent Company Only Statements of Changes in Shareholders' Equity

Years Ended December 31, 2004 And 2003

(Dollar Amounts in Thousands, Except Per Share Amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
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	-	-	-	-	<u>9,118</u>
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
Comprehensive income:					
Net income	-	-	9,044	-	9,044
Change in fair value of securities available for sale, net of reclassification adjustment of \$834 and tax effect of \$1,813	-	-	-	(3,521)	(3,521)
Total comprehensive income	-	-	-	-	<u>5,523</u>
Purchase and retirement of common stock (18,021 shares)	(180)	(705)	-	-	(885)
Sale of common stock (50,650 shares)	506	2,954	-	-	3,460
Common stock dividend declared (\$1.20 per share)	-	-	(1,235)	-	(1,235)
Balance at December 31, 2004	<u>\$ 10,288</u>	<u>\$ 17,096</u>	<u>\$ 44,151</u>	<u>\$ (1,737)</u>	<u>\$ 69,798</u>

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2004 And 2003

(Dollar Amounts in Thousands)

	2004	2003
Cash flows from operating activities:		
Net income	\$ 9,044	\$ 11,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,351	2,971
Amortization of mortgage servicing rights	3,085	3,695
Provision for loan losses	6,436	4,420
Deferred taxes	2,406	66
Deferred compensation expense	1,381	1,131
Increase (decrease) in valuation allowance for mortgage servicing rights	(830)	1,087
Net gain on sale of securities available for sale	(834)	(181)
Write-downs of investments and other real estate owned	650	1,007
Net gain on sale of loans	(2,345)	(4,688)
Change in unrealized depreciation on derivative securities	(1,441)	(1,552)
Increase in cash surrender value of life insurance	(778)	(455)
Changes in operating assets and liabilities, net of effects of acquisition		
Loans held for sale	(3,542)	8,351
Accrued interest receivable	(603)	(843)
Other assets	(5,983)	(7,249)
Accrued interest payable and other liabilities	3,552	(4,222)
Net cash provided by operating activities	13,549	14,742
Cash flows from investing activities:		
Securities available for sale:		
Purchases	(220,346)	(122,200)
Proceeds from sales	61,460	46,354
Proceeds from maturities, calls and principal repayments	71,826	37,758
Purchases of mortgage servicing rights	(4,927)	(8,044)
Purchase of life insurance contracts	-	(12,000)
Net increase in loans	(87,959)	(18,041)
Purchases of premises and equipment	(1,255)	(1,030)
Acquisition of business, net of cash acquired (Note 13)	(3,476)	-
Net cash used in investing activities	(184,677)	(77,203)
Cash flows from financing activities:		
Net change in deposits	(114,435)	98,301
Net change in federal funds purchased and securities sold under agreements to repurchase	115,299	51,814
Net change in other borrowings	99,833	168
Repurchase and retirement of common stock	(885)	(545)
Net proceeds from issuance of common stock	3,460	2,052
Dividends paid	(1,096)	(976)
Net cash provided by financing activities	102,176	150,814
Net increase (decrease) in cash equivalents	(68,952)	88,353
Cash equivalents at beginning of year	345,652	257,299
Cash equivalents at end of year	\$ 276,700	\$ 345,652
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 14,970	\$ 9,695
Cash paid during the year for taxes	2,664	4,992
Real estate acquired in foreclosure or in settlement of loans	2,775	598

See Notes to Consolidated Financial Statements.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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., Bankers Bank Card Services Company 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 and balances 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 that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results would differ from these estimates. 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. At December 31, 2004 and 2003, no resell agreements were outstanding. 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 remains in the asset accounts. At December 31, 2004 and 2003, repurchase agreements outstanding were \$6,853 and \$5,688, respectively, and matured within 90 days.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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 of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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 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 accrued on the unpaid principal balance.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and discretionary components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. A discretionary component is maintained to cover uncertainties that could affect management's estimate of probable losses. The discretionary component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loans is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify such loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan, and are recorded as income when earned.

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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Federal Funds Transactions as Agent

The Corporation acts as an 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, 2004 and 2003, the Corporation was agent for total federal funds transactions of \$885,175 and \$800,761, 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 a 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.



Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Restrictions on Cash

The Corporation was required to have \$19,516 and \$23,630 of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at December 31, 2004 and 2003, 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.

New Accounting Pronouncements

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 (“SOP 03-3”), “Accounting for Certain Loans or Debt Securities Acquired in a Transfer.” SOP 03-3 addresses the accounting for differences between contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans or debt securities experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 will be effective for loans and debt securities acquired after December 31, 2004. Management does not expect the adoption of this statement to have a material impact on the Corporation’s consolidated financial statements.

On September 30, 2004, the FASB issued FASB Staff position (“FSP”) Emerging Issues Task Force (“EITF”) Issue No. 03-1 delaying the effective date of paragraphs 10-20 of EITF 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” which provides guidance for determining the meaning of “other-than-temporarily impaired” and its application to certain debt and equity securities within the scope of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Bank can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment which might mean maturity. The delay of the effective date of EITF 03-1 will be superceded concurrent with the final issuance of proposed FSP Issue 03-1-A. Proposed FSP Issue 03-1A is intended to provide implementation guidance with respect to all securities analyzed for impairment under paragraphs 10-20 of EITF 03-1. Management continues to closely monitor and evaluate how the provisions of EITF 03-1 and proposed FSP Issue 03-1-A will affect the Corporation.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities," ("FIN 46") which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. FASB deferred the effective date of FIN 46 to no later than the end of the first reporting period that ends after December 15, 2004. The Corporation will adopt FIN 46 as of January 1, 2005 which will result in the Corporation no longer consolidating its wholly owned subsidiary, IBFC Capital Trust I, rather recording it on the equity method. The Interpretation and the revision will have no material effect on the Corporation's consolidated financial statements.

Reclassifications

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

Note 2. 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, 2004:				
U.S. government agencies	\$ 223,488	\$ 126	\$ 2,085	\$ 221,529
Mortgage-backed securities	139,683	297	995	138,985
Other equity securities	7	25	-	32
	<u>\$ 363,178</u>	<u>\$ 448</u>	<u>\$ 3,080</u>	<u>\$ 360,546</u>
December 31, 2003:				
U.S. government agencies	\$ 176,311	\$ 2,768	\$ -	\$ 179,079
Mortgage-backed securities	101,259	507	599	101,167
Other equity securities	7	27	-	34
	<u>\$ 277,577</u>	<u>\$ 3,302</u>	<u>\$ 599</u>	<u>\$ 280,280</u>

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, 2004, 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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

There were approximately \$27,600 of mortgage-backed securities in an unrealized loss position for a period greater than one year as of December 31, 2004. The unrealized loss on these securities was approximately \$313 at December 31, 2004. For those securities with unrealized losses at December 31, 2004, 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 \$66,255 and \$6,601 at December 31, 2004 and 2003, 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, 2004, 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	\$ 55,091	\$ 55,169
Due from one year to five years	168,397	166,360
Mortgage-backed securities	139,683	138,985
Equity securities	7	32
	<u>\$ 363,178</u>	<u>\$ 360,546</u>

Sales of securities available for sale were as follows:

	2004	2003
Proceeds from sales	<u>\$ 61,460</u>	<u>\$ 46,354</u>
Gross realized gains	\$ 834	\$ 465
Gross realized losses	-	(284)
	<u>\$ 834</u>	<u>\$ 181</u>

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 3. Loans and Allowance For Loan Losses

Year-end loans consisted of the following:

	2004	2003
Bank stock loans	\$ 84,899	\$ 92,176
Real estate loans	240,674	204,238
Credit card and personal loans	90,176	79,918
Commercial loans	43,773	24,416
Agricultural loans	10,320	10,063
Leases, net of unearned income	4,753	14,833
Bank qualified municipal loans	89,595	55,393
Guaranteed student loans	12,705	12,956
	576,895	493,993
Allowance for loan losses	(9,127)	(7,748)
	<u>\$ 567,768</u>	<u>\$ 486,245</u>

As detailed in the table above, the Corporation has a diversified loan portfolio from customers primarily 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 \$4,856 and \$1,509 at December 31, 2004 and 2003, respectively. During 2004, \$4,581 of new loans were originated and repayments totaled \$1,234. 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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Activity in allowance for loan losses was as follows:

	2004	2003
Balance at beginning of year	\$ 7,748	\$ 6,625
Provision for losses charged to operations	6,436	4,420
Provision from acquired loan portfolios	298	-
Charge-offs	(5,745)	(3,607)
Recoveries	390	310
Balance at end of year	<u>\$ 9,127</u>	<u>\$ 7,748</u>

Impaired loans were as follows:

	2004	2003
Year-end impaired loans with a valuation allowance	\$ 9,046	\$ 3,451
Year-end impaired loans without a valuation allowance	-	-
	<u>\$ 9,046</u>	<u>\$ 3,451</u>
Valuation allowance related to impaired loans	<u>\$ 980</u>	<u>\$ 792</u>
Average investment in impaired loans during the year	<u>\$ 6,248</u>	<u>\$ 2,416</u>

No interest income was recognized on impaired loans in 2004 and 2003.

Loans on which the accrual of interest has been discontinued totaled \$9,046 and \$3,451 at December 31, 2004 and 2003, respectively. Loans, contractually delinquent over ninety days, which continued to accrue interest totaled \$880 and \$1,091 at December 31, 2004 and 2003, respectively.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 4. Premises and Equipment

Year-end premises and equipment was as follows:

	2004	2003
Land	\$ 582	\$ 582
Building	4,818	4,316
Equipment	8,529	6,727
Leasehold and tenant improvements	207	159
	<u>14,136</u>	<u>11,784</u>
Less accumulated depreciation and amortization	<u>(8,680)</u>	<u>(6,849)</u>
	<u>\$ 5,456</u>	<u>\$ 4,935</u>

Note 5. Other Real Estate Owned

Year-end other real estate owned was as follows:

	2004	2003
Construction and land development property	\$ 180	\$ 192
Residential property	238	19
Commercial property	<u>3,849</u>	<u>3,134</u>
	<u>\$ 4,267</u>	<u>\$ 3,345</u>

Recovery of the carrying amount of other real estate owned is particularly susceptible to changes in market conditions in Texas.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 6. Mortgage Servicing Rights

Transactions affecting mortgage servicing rights were as follows:

	2004	2003
Balance at beginning of year	\$ 11,985	\$ 7,638
Purchased mortgage servicing rights	4,927	8,044
Originated mortgage serving rights	447	1,085
Amortization charged to operations	(3,085)	(3,695)
Change in valuation allowance	829	(1,087)
Balance at end of year	<u>\$ 15,103</u>	<u>\$ 11,985</u>

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgages serviced for others was \$1,209,711 and \$1,088,834 at December 31, 2004 and 2003, respectively. At such dates, the Corporation held borrowers' escrow balances related to these loans totaling \$5,011 and \$4,150, respectively.

The Corporation has purchased various 10-year treasury puts, calls and futures contracts with a fair value of \$641 at December 31, 2004. The contracts are designated as hedging instruments in a fair value hedge of the Corporation's mortgage servicing rights portfolio.

Note 7. Deposits

Year-end deposits consisted of the following:

	2004		2003	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand	\$ 291,024	71.2%	\$ 331,648	63.6%
NOW and money market accounts	8,023	2.0%	7,308	1.4%
Certificates of deposit:				
Less than \$100,000	176	-	52	-
\$100,000 and greater	109,795	26.8%	182,449	35.0%
	<u>\$ 409,018</u>	<u>100.0%</u>	<u>\$ 521,457</u>	<u>100.0%</u>

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Scheduled maturities of time deposits at December 31, 2004 were as follows:

	Amount
2005	\$ 109,873
2006	<u>98</u>
	<u>109,971</u>

Note 8. Other Borrowings

The other borrowing at December 31, 2004 represented two \$50,000 advances received by the Bank from the Federal Home Loan Bank (FHLB) on January 14, 2004 with interest at 2.54% and 3.04% and maturity dates on January 16, 2007 and January 14, 2008.

The Corporation has a revolving line of credit payable with a third party. During 2004 and 2003, the note had a maximum advanceable amount of \$15,000. The line of credit accrues interest at the Wall Street Journal prime interest rate, contains certain financial covenants and is secured by the stock of the Bank and IBFC. There was no balance outstanding at any time during 2004 or 2003.

Note 9. 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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 10. 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:

	2004	2003
Income tax expense computed at statutory rate	\$ 4,042	\$ 5,290
Increase in cash value of life insurance	(264)	(155)
Tax-exempt interest	(1,101)	(884)
Other	169	105
	<u>\$ 2,846</u>	<u>\$ 4,356</u>

Year-end deferred taxes were as follows:

	2004	2003
Deferred tax assets:		
Loans	\$ 2,870	\$ 2,712
Deferred compensation	1,559	1,223
Premises and equipment	-	196
Reserve for group medical insurance claims	285	246
Net unrealized losses on securities available for sale	894	-
Other real estate	707	684
	<u>6,315</u>	<u>5,061</u>
Total deferred tax assets		
Deferred tax liabilities:		
Net unrealized gains on securities available for sale	-	919
Premises and equipment	117	-
Mortgage servicing rights	4,588	2,012
FHLB dividends	123	82
Other	2	99
	<u>4,830</u>	<u>3,112</u>
Total deferred tax liabilities		
Net deferred tax asset	<u>\$ 1,485</u>	<u>\$ 1,949</u>

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 11. 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 \$654 and \$623 in 2004 and 2003, 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 was recorded both in 2004 and 2003. Deferred compensation payable totaled \$4,084 and \$3,493 at December 31, 2004 and 2003, respectively. The Corporation has purchased life insurance policies to fund future plan obligations. These policies had an aggregate cash surrender value of \$20,062 and \$19,288 at December 31, 2004 and 2003, 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:

	2004	2003
Phantom shares outstanding at beginning of year	58,934	41,805
Grants	11,554	17,403
Exercised	-	274
Expired or canceled	1,098	-
Phantom shares outstanding at end of year	69,390	58,934
Available for grant at end of year	38,610	49,066
Exercisable at end of year	44,957	30,529

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 \$1,273 and \$623 at December 31, 2004 and 2003, respectively. Compensation expense recognized under the Plan totaled \$650 in 2004 and \$400 in 2003.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 12. Noninterest Income

Noninterest income consisted of the following for the years ended December 31, 2004 and 2003:

	2004	2003
Credit card fees	\$ 22,792	\$ 19,699
Item processing fees	2,682	3,040
Net gain on derivative transactions	1,441	1,552
Mortgage loan servicing fees	3,051	2,535
Customer security transaction fees	2,258	3,122
Audit and loan review fees	2,296	1,675
Gain on sales of loans	2,346	4,688
Gain on sale of securities, net	834	181
Federal fund agency fees	992	1,316
Safekeeping fees	1,174	1,186
Other	6,305	6,270
	<u>\$ 46,171</u>	<u>\$ 45,264</u>

Note 13. Acquisition of Southeast Bankcard Association, Inc. (SEBA)

Effective December 31, 2004, the Bank purchased 100% of the outstanding shares of SEBA's common stock, the only stock currently outstanding for a total cash purchase price of approximately \$7,382. The acquisition of SEBA will significantly increase the Bank's card processing volumes, in turn creating economies that will allow the Bank to provide improved efficiencies, service levels and product offerings for customer banks across the country. The acquired entity will be known as "BankersBank Card Services Company".

The intangible asset is assigned to customer contracts renewed for five years just prior to acquisition. The asset will be amortized over 5 years.



Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Immediately following the acquisition, BankersBank Card Services Company condensed balance sheet was as follows:

Cash	\$	3,906
Intangible asset		2,741
Other assets		<u>1,250</u>
Total assets acquired		7,897
Other liabilities		<u>(515)</u>
Allocated purchase price	\$	<u><u>7,382</u></u>

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, 2004 and 2003, the amounts of these financial instruments were as follows:

	<u>2004</u>	<u>2003</u>
Commitments to extend credit	\$ 272,646	\$ 199,551
Standby letters of credit	4,671	2,176
Credit card lines	<u>397,510</u>	<u>390,012</u>
	<u>\$ 674,827</u>	<u>\$ 591,739</u>

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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, 2004 and 2003, 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 2010. The Corporation has renewal options for most of its operating leases. Rent expense for all operating leases totaled \$451 in 2004 and \$447 in 2003. 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 noncancelable operating leases as of December 31, 2004 are as follows:

2005	\$	548
2006		618
2007		561
2008		436
2009		372
2010		62
		<hr/>
	\$	2,597
		<hr/> <hr/>

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash equivalents	\$ 276,700	\$ 276,700	\$ 345,652	\$ 345,652
Interest-bearing time deposits	499	499	400	400
Securities	360,546	360,546	280,280	280,280
Loans held for sale	30,380	30,380	24,939	24,939
Loans, net (excludes leases)	563,015	565,282	471,412	517,275
Mortgage servicing rights	15,103	15,103	11,985	11,985
Accrued interest receivable	6,211	6,211	5,608	5,608
Due from broker	2,223	2,223	3,384	3,384
Financial liabilities:				
Deposits	406,754	406,729	521,189	523,347
Federal funds purchased and securities sold under agreements to repurchase	703,804	703,804	588,505	588,505
Other borrowings	100,000	94,607	167	167
Trust preferred securities	20,000	20,000	20,000	20,000
Derivatives	641	641	1,255	1,255
Accrued interest payable	394	394	120	120

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, 2004 or 2003.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

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 2004 and 2003, 4,092 and 3,713 shares of common stock were issued under the Plan with an average issue price of \$63.17 and \$54.72 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, 2004 and 2003, 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, 2004 and 2003, 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, 2004 that would change the Corporation's or the Bank's capital category.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

The Corporation's and the Bank's actual capital amounts 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, 2004:						
Total capital to risk weighted assets:						
Consolidated	\$ 96,243	11.7%	\$ 45,774	8.0%	N/A	N/A
Bank only	94,434	11.5%	65,610	8.0%	\$ 82,012	10.0%
Tier I capital to risk weighted assets:						
Consolidated	87,105	10.6%	32,887	4.0%	N/A	N/A
Bank only	85,296	10.4%	32,805	4.0%	\$ 49,207	6.0%
Tier I capital to average assets:						
Consolidated	87,105	6.1%	57,285	4.0%	N/A	N/A
Bank only	85,296	6.0%	57,235	4.0%	\$ 71,544	5.0%
December 31, 2003:						
Total capital to risk weighted assets:						
Consolidated	\$ 87,604	12.6%	\$ 55,636	8.0%	N/A	N/A
Bank only	86,595	12.5%	55,572	8.0%	\$ 69,466	10.0%
Tier I capital to risk weighted assets:						
Consolidated	79,793	11.5%	27,818	4.0%	N/A	N/A
Bank only	78,836	11.4%	27,786	4.0%	\$ 41,678	6.0%
Tier I capital to average assets:						
Consolidated	79,793	6.7%	47,833	4.0%	N/A	N/A
Bank only	78,836	6.6%	47,811	4.0%	\$ 59,764	5.0%

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 18. Parent Company Only Financial Statements

Balance Sheets

ASSETS	December 31,	
	2004	2003
Cash due from subsidiary bank	\$ 2,264	\$ 269
Investment in subsidiaries	88,643	83,231
Other assets	2,027	1,844
Total assets	\$ 92,934	\$ 85,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	\$ 1,235	\$ 1,096
Long-term obligations to subsidiary	20,620	20,620
Other liabilities	1,282	693
Total liabilities	23,137	22,409
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, par value \$10 per share, 5,000,000 shares authorized; 1,028,857 and 996,228 shares issued and outstanding in 2004 and 2003	10,288	9,962
Capital surplus	17,096	14,847
Retained earnings	44,150	36,342
Accumulated other comprehensive income (loss)	(1,737)	1,784
Total shareholders' equity	69,797	62,935
Total liabilities and shareholders' equity	\$ 92,934	\$ 85,344

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 18. Parent Company Only Financial Statements (Continued)

Statements of Income

	Year Ended December 31,	
	2004	2003
Dividend income	\$ 980	\$ 1,400
Interest income	29	27
Interest expense	(967)	(902)
	42	525
Gain on sale of investment	-	126
Other income	-	6
Write down of investment	(650)	-
Other expenses	(715)	(425)
Income before income taxes and equity in undistributed income of subsidiaries	(1,323)	232
Federal income taxes:		
Current benefit	784	307
Deferred benefit		90
	784	397
Income before equity in undistributed income of subsidiaries	(539)	629
Equity in undistributed income of subsidiaries	9,583	10,575
Net income	\$ 9,044	\$ 11,204

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar Amounts in Thousands, Except Per Share Amounts)

Note 18. Parent Company Only Financial Statements (Continued)

Statements of Cash Flows

	Year Ended December 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 9,044	\$ 11,204
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed income of subsidiaries	(9,583)	(10,575)
Write down of investment	650	-
Deferred taxes	-	(90)
Deferred compensation expense	650	400
Gain on sale of investment	-	(126)
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(183)	(546)
Accrued interest payable and other liabilities	(62)	(855)
Net cash provided by (used in) operating activities	516	(588)
Cash flows from investing activities:		
Proceeds from sale of investment	-	240
Purchase of new investment	-	(650)
Net cash used in investing activities	-	(410)
Cash flows from financing activities:		
Purchase and retirement of common stock	(885)	(545)
Net proceeds from issuance of common stock	3,460	2,052
Payments on note payable	-	-
Cash dividends paid on common stock	(1,096)	(976)
Net cash provided by financing activities	1,479	531
Net increase (decrease) in cash equivalents	1,995	(467)
Cash equivalents at beginning of year	269	736
Cash equivalents at end of year	\$ 2,264	\$ 269
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 967	\$ 902
Cash paid during the year for taxes	2,664	4,742

TIB OFFICERS

Gayle Earls
Michael O'Rourke

Vice Chairman/CEO
President/COO

Correspondent Lending

R. Kevin Drew
David Temple
Chris Badger
Jim Batson
Danny Bishop
Mark Greene
Bart Griffith
Kevin Hodges
Gary Owens
Barry Renfroe
Ray Vadalma
Sarah Davies
JoAnn Davis
Gale Fossatti
Linda Greenlee
Barry Musgrove
Rex Wood
Margie Angell
Jennifer Crymes
Bobbie Hudson
Rick Jamieson
Katie Ryan
Jonathan Ernst
Ryan McCreedy
Joy Smith

Exec. Vice President/CLO
Sr. Vice President/CCO
Sr. Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Assistant Vice President
Banking Officer
Banking Officer
Banking Officer

Sales & Marketing

Greg Todd
J.D. Aragon
Kenny Dunaway
Michael Johnson
Jack Kleinecke
Deborah Nelson
Debra Croxdale
Laney Freeman
Gary Cook
Gary Gleason
Frank Meissner
Bob Reichert
Allowee Stinnett
Jim Whitworth

Sr. Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Assistant Vice President
Assistant Vice President
Sr. Marketing Rep
Sr. Marketing Rep

Card Services

T. Patrick Gray
Greg Hughes
Homer Northen
Brian Balbinot
Ginger Childers
Scott Kelley
Beverly Texada
Mike Vessels
Alan Abney
David Bird
Jorja Morgan
Thomas Sipp
Tommy Wagner
Mike Dugas
Kim Hunt
Brandon Moore
Darlene Pence
Jon Schryvers
Lacey Stevenson

Executive Vice President
Sr. Vice President
Sr. Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Assistant Vice President
Banking Officer
Banking Officer
Banking Officer
Banking Officer
Banking Officer

BankersBank Card Services (BBCS)

Peter Landreville
Ed Montealegre
Greg Clayton
Carolyn Leach
Theresa O'Connell
Angela Sims
Karen Whitlock

Vice President
Vice President
Assistant Vice President

TIB Capital Markets

David Linaburg
Don Gearhart
Bruce Taylor
Todd Wentz
Jerry Wiley
Eric Allen
Elaine Burgess
Diane Francis
Henry Harris
Linda James
Jayson Jinks
Stephen Bridges
Sharon Cormier
Waleed Obeid
Greg Meadows
Chuck Phelan
Barbara Carney

Executive Vice President
Sr. Vice President
Sr. Vice President
Sr. Vice President
Sr. Vice President
Assistant Vice President
Banking Officer
Banking Officer
ALX-Dir./Bank Services
ALX-Managing Officer
ALX-Banking Officer

Investment Operations

Chad Golden
Carrie Stewart
Sue Ritter
Linda Osuji

Vice President
Vice President
Assistant Vice President
Banking Officer

TIB Mortgage Company

David Linaburg
Mary Buck
Elena Carraway
Randy Bryant
Debra Crawford
Nancy Francis
John Sanders

Executive Vice President
Vice President
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President

Electronic Bank/Item Processing

Don Briscoe
Gary McLemore
Michele Arvo
Bob Connelly
Lori Palmgren
Brad Adams
Iselda Gay
Ramon Gonzales

Vice President
Vice President
Assistant Vice President
Assistant Vice President
Assistant Vice President
Banking Officer
Banking Officer
Banking Officer

TIB Service Company

Tom Atkinson
Cynthia Pollock
Susan Smith
Rebecca Andrews
Ann Derrick
Debra Hackerson
Melisa Manjeot
Steve Roberts
Keri Harper
Trudy Routh

Executive Vice President
Sr. Vice President
Sr. Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Assistant Vice President
Banking Officer

Internal Audit

Jon Farrell
Kyle Garner
Dick Hendrickson

Vice President
Vice President
Vice President

Accounting

Curtis Harvey
Terri Bacot

Executive Vice President
Vice President

Information Services

Lyle Walden
Drew Allbright
Tony Mueller
Si Tarighi
Scott Davis
Lee Nocon

Sr. Vice President
Vice President
Assistant Vice President
Assistant Vice President
Banking Officer
Banking Officer

Human Resources/Training

Pat Blackshear
Tina Jourdan
Penni Livingston
Kitty Pochler

Sr. Vice President
Vice President
Banking Officer
Banking Officer

