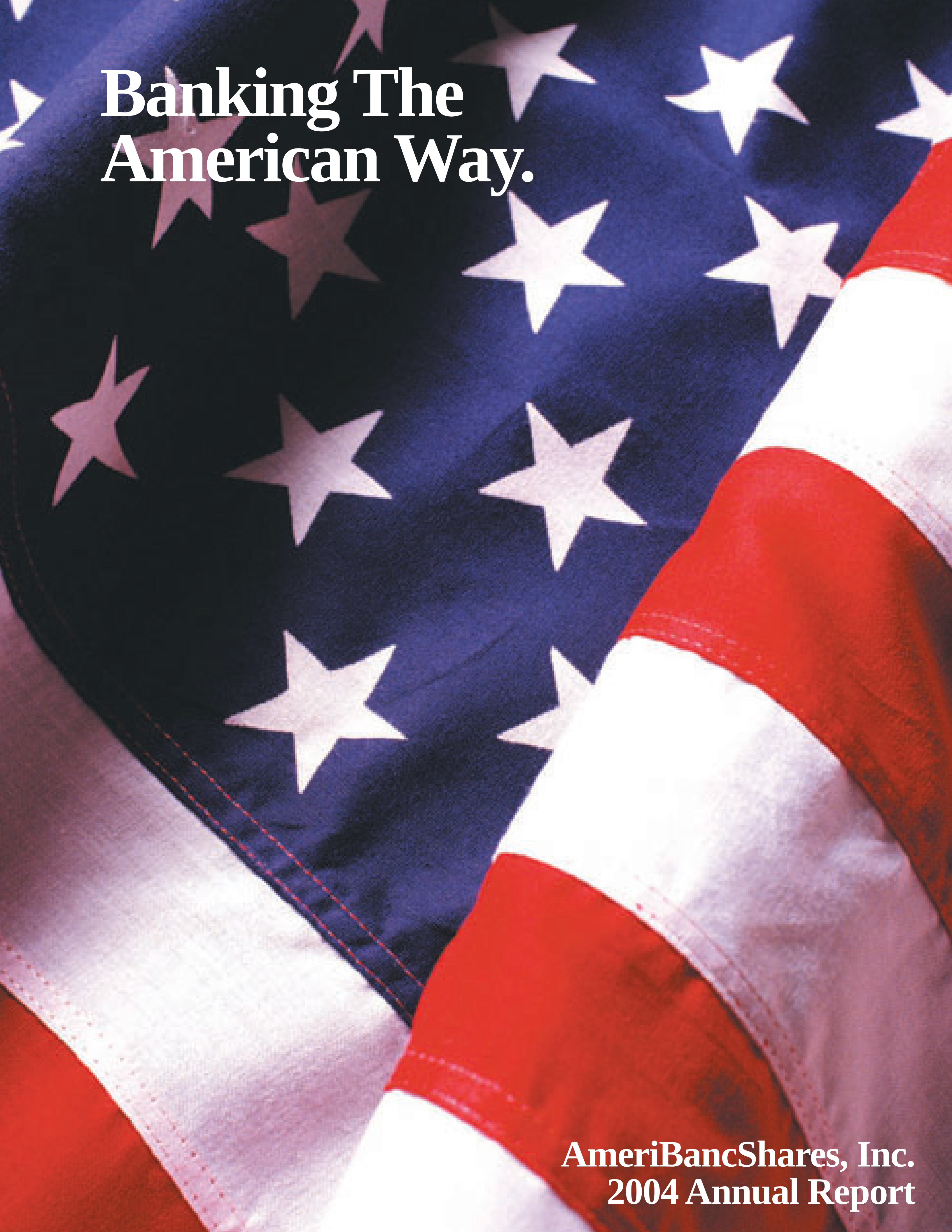
Banking The American Way.

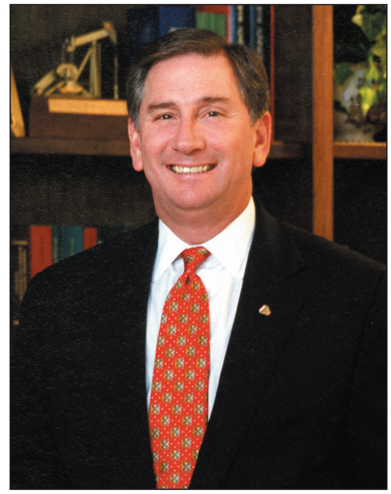


AmeriBancShares, Inc.
2004 Annual Report

I am pleased to present the financial results for AmeriBancShares, Inc., for the year ending 2004. And what a year it was! In fact, one could probably make a case that it was the best year in the Bank's history, and if not, certainly one of our most productive years to date.

To begin with, net income for the year was an all time high, eclipsing the previous record by nearly $112,000. In contrast to the past couple of years where our earnings were adversely affected by the decline in interest rates nationwide, the recent reversal in rates orchestrated by Alan Greenspan and the Federal Reserve certainly had a positive impact on American National Bank's bottomline in 2004. For the year, net interest income was up over $830,000, an improvement of nearly 11%. While interest income only improved slightly, interest expense was down $765,000, a decline of 20%, as a majority of our deposits repriced during the year at rates below where they were previously. Historically, in a down rate environment, our net interest margin will narrow. Conversely, when rates are on the rise as they are now, the margin improves. This is due to the fact that our floating rate loans adjust each time there is a prime rate change, while a majority of our deposits remain fixed until their maturity.

Non-interest income continues to represent a significant portion of the Bank's operating revenue as well. In fact, it accounted for more than 38% of total revenue for 2004, even though the total was down slightly from the previous year. This is by design, as management and the Board of Directors made the decision some time ago to focus on growing the Bank's fee income as a source of improving overall earnings. That it is the reason we opened a Mortgage Loan Department back in 1990, and why we formed a Trust Department five years later. Both endeavors have proved to be great decisions for the Bank, and ultimately, for our shareholders. This past year Trust fees totaled nearly $3 million, and fees from the sale of mortgage loans accounted for another $683,000. You will find very few banks in the entire country who generate as much fee income as a percentage of average assets as American National Bank.



John B. "Bo" Stahler
President and CEO

Our loan totals have also continued to rise, as we ended 2004 with slightly more than $180 million in net loans outstanding, a 7.4% increase from FYE 2003. Just as important as the growth in the loan totals, however, is the fact that loan losses were kept to a minimum. For the year, we charged off less than $89,000, and that total was offset by recoveries from prior charge-offs of nearly $57,000. Our entire loan staff, under the leadership of Executive Vice President Dwight Berry, continues to do a tremendous job of increasing the loans outstanding while at the same time maintaining excellent credit quality within the portfolio and minimizing the Bank's exposure to loss.

While we have experienced significant loan growth the past several years, such is not the case with our primary funding source, i.e., deposits. As a matter of fact, we have actually seen some shrinkage in our deposit totals of late. Fortunately, we have been able to supplement the loan growth not covered by internally generated deposits through borrowing advances from the Federal Home Loan Bank and the purchase of Fed Funds from several corresponding banks. Looking to the future, however, we must re-establish a balance between the growth in our loans and deposits. That is something most community banks struggle with, as the competition from the major money center banks is tough, and we are certainly not immune to the situation.

American National Bank's two operating subsidiaries, American National Leasing Company and Archer Title of Texas, Inc., are both showing good potential. The leasing company made approximately $140,000 for the year, and while the earnings at Archer Title were not that significant, the future for the title company is likewise promising. Management and the Board of Directors are so confident that the title business will continue to grow that a decision was made this past year to open a second office in Wichita County. Opening a title plant in Wichita Falls did, however, present somewhat of a logistics problem. In order to solve the facility needs, we purchased an office building directly north of the main bank. This acquisition, along with taking care of the needs of the title company, affords us some additional office space for future expansion. In the meantime, all but approximately 3,000 square feet is leased out, so there is minimal operating cost to the bank associated with the purchase of the building.

As you review the report, let me encourage you to pay particular attention to the two pages of financial highlights, since from a shareholder's perspective they provide an excellent overview of the Bank's performance for the year, and the positive impact on your investment. For example, the holding company's return on average assets (ROAA) of 1.07% represents a 24% increase over the previous year, and the return on average equity (ROAE) of 11.44% is an improvement of 20% from 2003. More importantly is the fact that the $2,649,004 in net income equates to $1.35 per share, a gain of 25% over last year, and the book value improved to $12.10 per share, an increase of 5.6%. <u>And, for the 18th year in a row, we raised the annual dividend</u>.

From an initial capitalization of $1 million in the fall of 1976 when we opened for business, the shareholder's equity of AmeriBancShares, Inc. has grown to nearly $24 million, and total footings are now approaching $250 million. In addition, the Trust Department has approximately $650 million in trust assets under management, making it by far the largest Trust operation in our area. There are so many individuals who have had a part in the Bank's success. The staff, past and present, should be congratulated for their ongoing efforts in growing American National Bank's reputation for service quality in the communities we serve. We have also been fortunate to have the support of a dedicated Board of Directors to provide guidance and oversight from our inception. While all deserve recognition, certainly the four individuals who have served as Chairman of the Board warrant special accolades. Roy H. Smith, our beloved first Chairman, played such a pivotal role in getting the Bank on sound footing during the early years. Roy was a wonderful person and loved American National Bank dearly. Sadly, Roy died in 1989, but his memory will be with us forever. David Andrews was our next Chairman, and like Roy, was a real asset to the organization. When Dave was forced to resign for health reasons, Curtis Smith, one of American National Bank's founding Directors, stepped in as Chairman from 1991–2003. We were fortunate to have had someone with Curtis's respect in the community, having run a successful nursery and landscape business for many years, plus someone who was actively involved in local government and charitable causes as well. As I indicated in my report last year, Curtis elected to retire in 2004 to allow himself more time to spend with his wife and their love of travel. While his experience, dedication, and leadership have been missed, we are pleased that Dr. George Ritchie, a retired orthodontist and member of our Board since 1979, agreed to assume the Chairmanship last April. In his short time as Chairman, George has done just a superb job of providing leadership for the Board, and we look forward to his continued service.

The future for American National Bank is so exciting. I am confident that 2005 will be another record setting year. We as an organization have much to be thankful for, but first and foremost, it is the trust and support of you our shareholders. For without you, there would be no American National Bank. So in conclusion, let me simply say a heartfelt thanks for entrusting us with your investment. I can assure you the future of your investment continues to look bright.

Bo Stahler

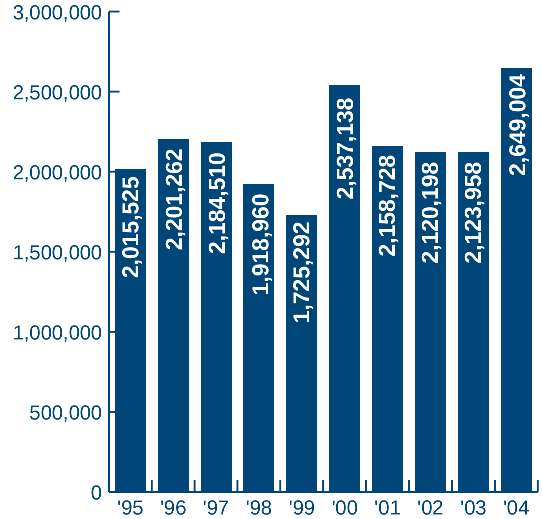
John B. "Bo" Stahler
President and CEO

	Year Ended December 31, 2004	2003	% Change	
Earnings				
Net Interest Income	8,500,227	7,667,902	+	10.9
Provision For Loan Losses	152,500	282,607	-	46.0
Non-Interest Income	6,968,883	7,071,303	-	1.4
Non-Interest Expense	11,626,165	11,448,428	+	1.6
Net Income	2,649,004	2,123,958	+	24.7
Share Data				
Net Income	1.35	1.08	+	25.0
Dividends Paid	.64	.60	+	6.7
Book Value	12.10	11.46	+	5.6
Returns				
Return on Average Assets	1.07	.86	+	24.4
Return on Average Equity	11.44	9.52	+	20.2
Financial Position at Year End				
Total Assets	248,505,453	249,300,932	-	0.3
Loans (Net)	180,098,476	167,667,608	+	7.4
Reserve for Loan Losses	2,084,570	1,964,190	+	6.1
Deposits	208,190,352	217,441,464	-	4.3
Equity	23,796,425	22,551,368	+	5.5

Year End Statistics

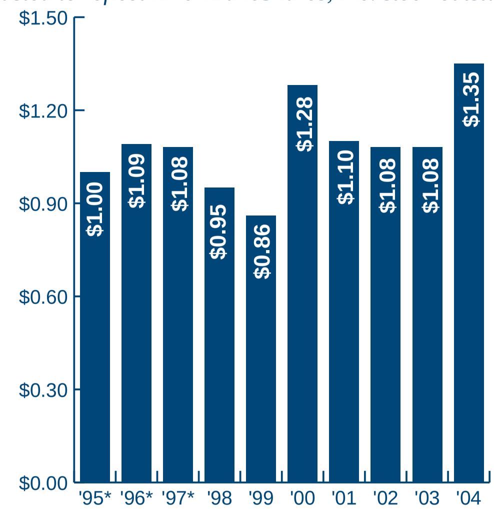
AmeriBancShares, Inc.

Consolidated Net Income

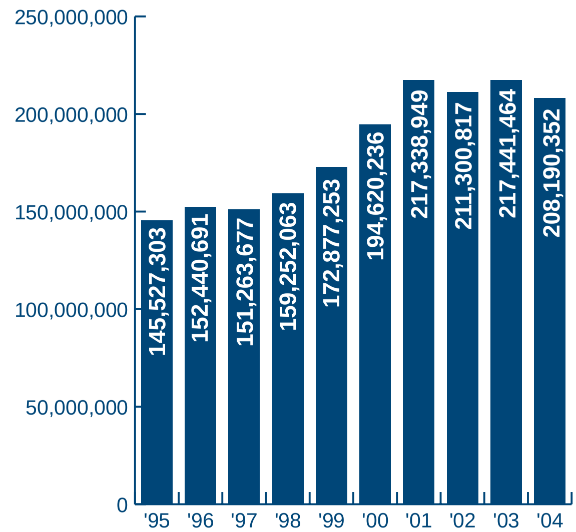


Earnings Per Share

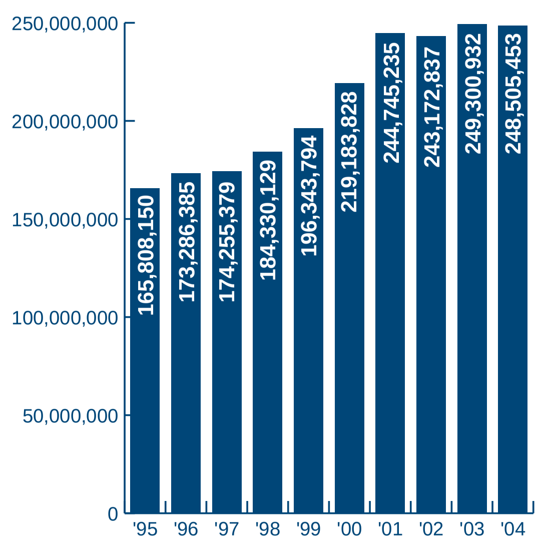
** adjusted to reflect AmeriBancShares, Inc. stock outstanding*



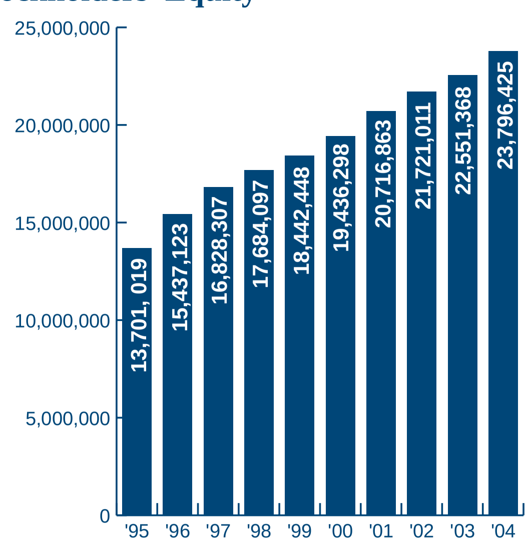
Year End Deposits



Year End Assets



Stockholders' Equity



To the Board of Directors and Stockholders
of AmeriBancShares, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of **AmeriBancShares, Inc. and Subsidiaries** as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits 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 **AmeriBancShares, Inc. 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules presented following the Notes to Consolidated Financial Statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Payne Falkner Smith & Jones

Payne Falkner Smith & Jones, P.C.

Wichita Falls, Texas
March 3, 2005

Consolidated Balance Sheets

December 31, 2004 and 2003

ASSETS	2004	2003
Cash and due from banks, noninterest bearing	$ 9,922,167	$ 13,174,015
Time deposits in banks	1,898,000	3,296,000
Federal funds sold	5,000,000	800,000
Total cash and cash equivalents	16,820,167	17,270,015
Securities available for sale	20,861,832	34,818,202
Securities to be held to maturity (approximate market value of $561,775 in 2004 and $840,636 in 2003)	557,958	821,975
Other securities (approximate market value of $966,050 in 2004 and $932,650 in 2003)	966,050	932,650
Total investment securities	22,385,840	36,572,827
Mortgage loans held for sale	892,327	992,818
Loans	182,532,394	169,887,668
Less: Unearned discount	(349,348)	(255,870)
Allowance for loan losses	(2,084,570)	(1,964,190)
Loans, net	180,098,476	167,667,608
Premises and equipment, net	13,231,070	12,834,750
Accrued interest receivable	1,227,671	1,155,404
Goodwill	4,175,375	4,155,760
Other assets	9,674,527	8,651,750
Total assets	$ 248,505,453	$ 249,300,932

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 52,716,903	$ 50,910,507
Savings deposits	7,615,212	7,176,430
Money market and NOW accounts	64,179,560	59,806,696
Time certificates of deposit	83,678,677	99,547,831
Total deposits	208,190,352	217,441,464
Federal funds purchased	1,650,000	2,450,000
Federal Home Loan Bank advances	10,795,533	3,286,851
Accrued interest payable	201,083	221,534
Other liabilities	3,872,060	3,349,715
Total liabilities	224,709,028	226,749,564
Commitments and contingencies		
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000 shares authorized, 2,016,000 issued and 1,967,000 outstanding)	5,040,000	5,040,000
Surplus	10,878,386	10,878,386
Undivided profits and capital reserves	8,800,661	7,410,537
Treasury stock at cost (49,000 shares)	(882,000)	(882,000)
Accumulated other comprehensive income (loss):		
Net unrealized appreciation (depreciation) on securities available for sale, net of tax of ($20,926) in 2004 and $53,805 in 2003	(40,622)	104,445
Total stockholders' equity	23,796,425	22,551,368
Total liabilities and stockholders' equity	$ 248,505,453	$ 249,300,932

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Income

For the Years Ended December 31, 2004 and 2003

	2004	2003
Interest income:		
Interest and fees on loans	$ 10,702,513	$ 10,493,586
Interest on investment securities	730,852	782,738
Interest on time deposits in banks	77,242	77,522
Interest on federal funds sold	39,953	129,502
Total interest income	11,550,560	11,483,348
Interest expense:		
Interest on deposits:		
Savings	30,724	32,722
Money market and NOW accounts	389,717	417,160
Time	2,453,177	3,173,194
Total interest on deposits	2,873,618	3,623,076
Interest on federal funds purchased	31,898	32,845
Interest on Federal Home Loan Bank advances	144,817	159,525
Total interest expense	3,050,333	3,815,446
Net interest income	8,500,227	7,667,902
Provision for loan losses	152,500	282,607
Net interest income after provision for loan losses	8,347,727	7,385,295
Other operating income:		
Service charges on deposit accounts	785,947	807,566
Trust fee income	2,976,400	2,934,752
Gain on sale of mortgage loans	683,156	1,067,602
Rent income	1,416,423	1,660,994
Net gain on sale of securities		10,340
Other, net	1,106,957	590,049
Total other operating income	6,968,883	7,071,303
Other operating expenses:		
Salaries and bonuses	4,305,730	4,069,490
Employee benefits	1,833,830	1,859,819
Premises and equipment	2,590,553	2,623,696
Advertising	233,770	211,294
Data processing expense	460,647	404,239
Printing, stationery and supplies	173,479	158,291
Professional fees	128,495	131,863
Other operating expenses	1,899,661	1,989,736
Total other operating expenses	11,626,165	11,448,428
Income before income taxes	3,690,445	3,008,170
Provision for income taxes	1,041,441	884,212
Net income	$ 2,649,004	$ 2,123,958
Net income per share of common stock	$ 1.35	$ 1.08

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Changes in Stockholders’ Equity

For the Years Ended December 31, 2004 and 2003

	Common Stock Number of Shares	Amount	Surplus	Undivided Profits and Capital Reserves	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders’ Equity
Balance, January 1, 2003	2,016,000	$ 5,040,000	$ 10,878,386	$ 6,466,779	($ 882,000)	$ 217,846	$ 21,721,011
Comprehensive income:							
Net income				2,123,958			2,123,958
Other comprehensive loss:							
Net change in unrealized appreciation on securities available for sale, net of taxes of ($58,419)						(113,401)	(113,401)
Total comprehensive income							2,010,557
Cash dividends, $.60 per common share				(1,180,200)			(1,180,200)
Balance, December 31, 2003	2,016,000	5,040,000	10,878,386	7,410,537	(882,000)	104,445	22,551,368
Comprehensive income:							
Net income				2,649,004			2,649,004
Other comprehensive loss:							
Net change in unrealized depreciation on securities available for sale, net of taxes of ($74,731)						(145,067)	(145,067)
Total comprehensive income							2,503,937
Cash dividends, $.64 per common share				(1,258,880)			(1,258,880)
Balance, December 31, 2004	2,016,000	$ 5,040,000	$ 10,878,386	$ 8,800,661	($ 882,000)	($ 40,622)	$ 23,796,425

The accompanying Notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net income	$ 2,649,004	$ 2,123,958
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,726,819	1,849,772
Amortization of intangibles	1,800	
Provision for loan losses	152,500	282,607
Provision for losses on other real estate owned	30,000	66,000
Benefit from deferred taxes	(45,563)	(129,740)
(Gain) loss on sale of available for sale securities	360	(3,868)
Gain on sale of held to maturity securities		(6,472)
Gain on sale of mortgage loans	(683,156)	(1,067,603)
Gain on sale of other real estate owned	(83,537)	(28,302)
(Gain) loss on disposal of premises and equipment	(5,257)	19,996
Amortization of premium on investment securities	84,171	123,061
Accretion of discount on investment securities	(380)	(30,783)
Proceeds from sales of mortgage loans	42,988,320	64,601,523
Mortgage loans funded	(42,209,107)	(62,050,083)
(Increase) decrease in:		
Prepaid expenses	(108,412)	(14,996)
Accrued interest receivable	(72,266)	(39,569)
Income taxes receivable	31,278	28,493
Miscellaneous other assets	29,882	(174,155)
Increase (decrease) in:		
Accrued interest payable	(20,451)	(81,291)
Income taxes payable	92,753	
Other taxes payable	9,737	(3,301)
Other accrued expenses	540,149	263,051
Net cash provided by operating activities	5,108,644	5,728,298
Cash flows from investing activities:		
Proceeds from maturities of securities available for sale	23,773,531	48,583,522
Proceeds from sale of securities available for sale	2,976,757	562,854
Proceeds from maturities of securities held to maturity	262,344	529,199
Proceeds from sale of securities held to maturity		230,177
Purchase of securities available for sale	(13,096,195)	(57,458,799)
Purchase of other securities	(33,400)	(14,200)
Purchase of cash value life insurance	(749,691)	(644,312)
Purchase of title business	(420,000)	
Net (increase) decrease in loans	(12,791,178)	1,990,456
Purchase of premises and equipment	(3,139,143)	(1,891,895)
Proceeds from sale of premises and equipment	915,693	1,405,543
Proceeds from sale of other real estate owned	544,100	698,531
Net cash used in investing activities	(1,757,182)	(6,008,924)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(9,251,112)	6,140,648
Net increase (decrease) in federal funds purchased	(800,000)	110,000
Net increase (decrease) in Federal Home Loan Bank advances	7,508,682	(950,709)
Dividends paid	(1,258,880)	(1,180,200)
Net cash provided by (used in) financing activities	(3,801,310)	4,119,739
Net increase (decrease) in cash and cash equivalents	(449,848)	3,839,113
Cash and cash equivalents at beginning of period	17,270,015	13,430,902
Cash and cash equivalents at end of period	$ 16,820,167	$ 17,270,015
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 3,070,783	$ 3,896,737
Income taxes	938,545	959,706

The accompanying Notes are an integral part of these financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The accounting and reporting policies of **AmeriBancShares, Inc. and Subsidiaries** ("the Company") conform to generally accepted accounting principles and prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Nature of Operations

The Company provides a variety of financial services to individual and business customers through its locations in Wichita Falls, Iowa Park and Flower Mound, Texas. The Company's primary deposit products are demand deposits, savings deposits, and certificates of deposit, and the primary lending products are commercial, real estate mortgages, and installment loans. The Company also provides trust services and vehicle and equipment leasing services to individual and business customers through its locations in Wichita Falls, Texas and Flower Mound, Texas.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of AmeriBancShares, Inc. and its wholly-owned subsidiaries, ANB Realty Corp. and AmeriBancShares of Delaware, Inc. The financial statements also include American National Bank, which is a wholly-owned subsidiary of AmeriBancShares of Delaware, Inc. and American National Leasing Company and Archer Title of Texas, Inc., which are wholly owned subsidiaries of American National Bank. All significant intercompany transactions have been eliminated. The consolidated statements of income, changes in stockholders' equity, and cash flows include operations for the years ended December 31, 2004 and 2003.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the real estate industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Cash and Due From Banks

Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks.

Securities

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Debt and Equity Securities" (SFAS 115), securities are classified into three categories: held-to-maturity (HTM), available-for-sale (AFS) and trading.

Securities classified as held-to-maturity, which are those the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Company currently has no trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Mortgage Loans Held for Sale

The mortgage loans held for sale are stated at the lower of cost or market. Such mortgage loans are aggregated by type for the purpose of valuation. Allowances which are necessary to reflect a reduction of the portfolio to the lower of cost or market are charged against income in the current period.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by using the sum-of-the-months' digits method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance for loan losses is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Impaired loans are generally placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONT'D)

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 by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Other Real Estate Owned

Other real estate owned consists of real property acquired through foreclosure or deed in lieu of foreclosure. The Company has adopted Statement of Position 92-3 entitled "Accounting for Foreclosed Assets." In accordance with this statement, other real estate owned, in the amount of $363,732 at December 31, 2003, is carried at the lower of fair value minus estimated selling costs or cost. There was no other real estate owned as of December 31, 2004. When property is acquired, the asset is recorded at its fair value and an allowance for estimated selling costs is provided. The allowance for other real estate owned is adjusted for increases or declines in the fair value of the assets; however, the allowance may not be reduced below zero.

Premises and Equipment, and Depreciation

Premises and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed, while expenditures for significant renewals and betterments are capitalized. When property is disposed of, the cost of the property and the related accumulated depreciation are removed from the accounts. The Company has elected to provide for depreciation on the straight-line method for financial reporting purposes and accelerated method for tax purposes.

Income Taxes

The Company files a consolidated income tax return with its wholly-owned subsidiaries and their wholly-owned subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of accumulated depreciation and the allowance for loan losses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Goodwill

During 2002, the Company fully implemented the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* which eliminated the amortization of goodwill and required at a minimum the Company to perform an annual impairment test for goodwill. At December 31, 2004 and 2003, Management has determined that there has been no impairment of recorded goodwill.

Goodwill, net of accumulated amortization of $507,484, at both December 31, 2004 and 2003 is included in the accompanying consolidated financial statements.

Net Income Per Common Share

Net income per common share is based on the weighted average number of common shares outstanding during the period.

Reclassification

For comparability, certain amounts in the 2003 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2004.

Cash and Cash Equivalents

For purposes of recording cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Note 2 - INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in debt securities are as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$ 8,582,985	$ 571	($ 44,695)	$ 8,538,861
Obligations of states and political subdivisions	9,315,000	57,968	(125,118)	9,247,850
Corporate bonds	996,376	35,762		1,032,138
Mortgage-backed securities	2,029,018	21,930	(7,965)	2,042,983
Totals	$ 20,923,379	$ 116,231	($177,778)	$ 20,861,832
Securities to be Held to Maturity				
Obligations of states and political subdivisions	$ 119,649	$ 6,834	$	$ 126,483
Mortgage-backed securities	438,309	332	(3,349)	435,292
Totals	$ 557,958	$ 7,166	($ 3,349)	$ 561,775
Other securities	$ 966,050	$	$	$ 966,050

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Treasury securities	$ 7,499,700	$	$	$ 7,499,700
United States Agency securities	16,233,905		(11,945)	16,221,960
Obligations of states and political subdivisions	6,315,000	88,127	(37,587)	6,365,540
Corporate bonds	1,586,994	82,101		1,669,095
Mortgage-backed securities	3,024,353	44,641	(7,087)	3,061,907
Totals	$ 34,659,952	$ 214,869	($ 56,619)	$ 34,818,202
Securities to be Held to Maturity				
Obligations of states and political subdivisions	$ 119,569	$ 10,614	$	$ 130,183
Mortgage-backed securities	702,406	8,268	(221)	710,453
Totals	$ 821,975	$ 18,882	($ 221)	$ 840,636
Other securities	$ 932,650	$	$	$ 932,650

Note 2 - INVESTMENT SECURITIES (CONT'D)

Other securities consist of common stock in the Federal Reserve Bank, Federal Home Loan Bank and Independent Bankers Financial Corporation and are carried at fair value.

The amortized cost and estimated market value of debt securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities to be Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 3,814,850	$ 3,820,923	$	$
Due after one year through five years	10,459,511	10,391,253	119,649	126,483
Due after five years through ten years	3,975,000	3,961,673		
More than ten years	645,000	645,000		
	18,894,361	18,818,849	119,649	126,483
Mortgage-backed securities	2,029,018	2,042,983	438,309	435,292
Totals	$ 20,923,379	$ 20,861,832	$ 557,958	$ 561,775

Proceeds from sales of available for sale securities for the years ended December 31, 2004 and 2003 were approximately $2,976,757 and $562,854, respectively. Gross gains of approximately $5,673 were realized on sales of available for sale securities during 2003. Gross losses of $360 and $1,805 were recognized on sales of available for sale securities during 2004 and 2003 respectively. During 2003, as provided by SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company sold certain securities held to maturity that had been substantially collected. Proceeds from these sales of held to maturity securities were approximately $230,177 during 2003. Gross gains of approximately $6,472 were realized on sales of held to maturity securities during 2003. No losses were recognized on those sales. There were no sales of held to maturity securities during 2004.

Investment securities with a book value of approximately $12,785,256 and $17,706,976 at December 31, 2004 and 2003, respectively, were pledged to secure deposits and for other purposes as required by law.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2004 are summarized as follows:

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale				
US Government Agency Obligations	$ 6,538,847	($ 44,695)	$	$
Mortgage-backed securities			964,915	(7,965)
State and political obligations	3,566,084	(98,916)	2,308,781	(26,202)
	$ 10,104,931	($ 143,611)	$ 3,273,696	($ 34,167)
Securities Held to Maturity				
Mortgage-backed securities	$ 193,121	($ 2,622)	$ 41,221	($ 727)

For all of the above investment securities, the unrealized losses are generally due to changes in interest rates and, as such, are considered to be temporary, by the Bank.

Note 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan categories is as follows:

	December 31,	
	2004	2003
Commercial and industrial	$ 27,464,616	$ 28,608,693
Real estate - other	104,683,210	104,612,052
Real estate - construction	33,302,886	20,508,395
Consumer - installment	16,971,981	16,117,898
Overdrafts	109,701	40,630
Total loans	$ 182,532,394	$ 169,887,668

The Company had no loans to borrowers engaged in similar activities which exceeded 5% of total assets at December 31, 2004 other than as disclosed above.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was $42,793,582 and $33,729,342 at December 31, 2004 and 2003, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $171,388 and $133,375 at December 31, 2004 and 2003, respectively.

The Company accounts for mortgage servicing rights under SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* Originated mortgage servicing rights capitalized at December 31, 2004 and 2003, are $334,833 and $263,911, respectively, and are included in other assets. The fair values of these rights were $411,546 and $328,187 at December 31, 2004 and 2003, respectively. The fair value of servicing rights was determined using discount rates ranging from 9.5% to 12% and prepayment speeds ranging from 12.25% to 30%, depending on the stratification of the specific right.

Impaired loans having carrying values of 1,756,955 and $2,099,741 at December 31, 2004 and 2003, respectively, have been recognized in conformity with SFAS 114 as amended by SFAS 118. The average recorded investment in impaired loans during 2004 and 2003 was $1,870,506 and $2,335,250, respectively. The total allowance for loan losses related to those loans was $16,898 and $63,500 on December 31, 2004 and 2003, respectively. No payments on these loans were recorded as interest income when received in 2004 or 2003. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired as of December 31, 2004 or 2003.

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2004 and 2003, including mortgage loans held for resale less loans on nonaccrual, are as follows:

	2004	2003
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 7,999,590	$ 6,236,755
Over three months through twelve months	14,884,508	16,471,289
Over one year through five years	38,690,620	38,298,189
Over five years	12,807,000	8,536,255
Total fixed rate loans	$ 74,381,718	$ 69,542,488

Note 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (CONT'D)

	2004	2003
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 98,478,407	$ 90,746,564
Annually or more frequently, but less frequently than quarterly	4,127,872	4,343,312
Every five years or more frequently, but less frequently than annually	4,679,769	4,148,381
Total variable rate loans	$ 107,286,048	$ 99,238,257

A summary of the changes in allowance for loan losses is as follows:

	2004	2003
Balance at beginning of year	$ 1,964,190	$ 1,691,421
Provision for loan losses	152,500	282,607
Loans charged off	(88,843)	(117,852)
Recoveries of loans previously charged off	56,723	108,014
Balance at end of year	$ 2,084,570	$ 1,964,190

The allowance for financial statement purposes exceeded the federal income tax allowance by $1,350,930 and $1,212,400 at December 31, 2004 and 2003, respectively.

Note 4 - PREMISES AND EQUIPMENT

A summary of premises, equipment and land improvements and related accumulated depreciation is as follows:

	Estimated Useful Lives	December 31, 2004	December 31, 2003
Land		$ 1,568,081	$ 1,442,498
Premises	5-40 years	8,176,962	7,301,237
Furniture, fixtures and equipment	3-10 years	5,564,709	4,958,097
Land improvements	5-20 years	532,028	532,028
Lease equipment	3 - 5 years	5,717,761	6,400,889
		21,559,541	20,634,749
Less accumulated depreciation		8,328,471	7,799,999
Totals		$ 13,231,070	$ 12,834,750

Depreciation expense amounted to $1,726,819 and $1,849,772 in 2004 and 2003, respectively.

A portion of the banking premises acquired in 2004 which the Company occupies is leased to certain tenants under month-to-month and term leases. Rental income totaled approximately $19,463 for the year ended December 31, 2004. Minimum future rentals to be received on noncancelable leases in effect at December 31, 2004 are as follows:

Year	Amount
2005	$ 21,920
2006	3,000
Total minimum future rentals	$ 24,920

Premises of $8,176,962 at December 31, 2004 includes $40,201 in construction costs related to an expansion of the Company's title company facility. Estimated additional costs of the expansion to be completed during 2005 total $80,000.

Note 5 - DEPOSITS

Included in time deposits are certificates of deposit in amounts of $100,000 or more. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was $28,997,842 and $33,899,135 at December 31, 2004 and 2003, respectively.

At December 31, 2004 and 2003, the scheduled maturities of certificates of deposit are as follows:

	December 31, 2004	December 31, 2003
Less than three months	$ 27,215,010	$ 35,358,939
Four to twelve months	29,983,854	28,328,549
One to five years	26,479,813	35,860,343
Totals	$ 83,678,677	$ 99,547,831

Note 6 - OTHER BORROWED FUNDS

Federal funds purchased are generally purchased on a daily basis. Other borrowed funds consist of Federal Home Loan Bank advances, secured by customer loans and mortgage-backed securities collateralized by one-to-four family residences. The Federal Home Loan Bank advances have fixed interest rates ranging from 2.39% to 4.19%. The advances were used by the Company to fund fixed interest rate loans to its customers. As of December 31, 2004, aggregate annual scheduled repayments of Federal Home Loan Bank advances were as follows.

2005	$ 5,380,578
2006	2,036,043
2007	1,179,451
2008	1,033,997
2009	1,074,098
2010	91,366
	$ 10,795,533

Note 7 - INCOME TAXES

The provision for income taxes consists of the following:

	December 31, 2004	December 31, 2003
Current income tax expense:		
Federal	$ 1,087,004	$ 1,013,952
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	(32,713)	(37,805)
Accounting for bad debt expense	(55,080)	(73,571)
Writedown of other real estate owned	42,500	(15,640)
Federal Home Loan Bank stock dividends	6,290	4,828
Deferred compensation benefits	(112,231)	(115,246)
Deferred loan fee income	(29)	1,994
Goodwill amortization	105,700	105,700
	(45,563)	(129,740)
Total income tax expense	$ 1,041,441	$ 884,212

Note 7 - INCOME TAXES (CONT'D)

The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes is primarily attributable to investments in tax-exempt securities, tax-exempt increases in cash surrender value of life insurance, and certain other transactions.

As of December 31, 2004 and 2003, there are no unused net operating losses or tax credits available for carryover to future periods for either financial reporting or tax reporting purposes.

Net deferred federal income tax liabilities of $242,326 and $362,619 are included in other liabilities as of December 31, 2004 and 2003, respectively. The accumulated tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

	December 31, 2004	December 31, 2003
Deferred tax assets:		
Excess of tax cost over financial cost for fixed assets	$ 206,416	$ 67,283
Allowance for loan losses	467,296	412,216
Writedowns of other real estate owned		42,500
Deferred compensation benefits	842,060	729,830
Deferred loan fee income	27,634	27,604
Net unrealized depreciation on securities available for sale	20,926	
Total deferred tax assets	1,564,332	1,279,433
Deferred tax liabilities:		
Depreciation	(1,370,497)	(1,264,077)
Federal Home Loan Bank stock dividends	(118,626)	(112,336)
Amortization	(317,534)	(211,834)
Net unrealized appreciation on securities available for sale		(53,805)
Total deferred tax liablilities	(1,806,657)	(1,642,052)
Total net deferred tax assets (liabilities)	($ 242,325)	($ 362,619)

Federal income taxes currently payable of $92,753 at December 31, 2004 are included in other liabilities.

Federal income taxes currently receivable of $31,278 at December 31, 2003 are included in other assets.

The Company was not liable for state income taxes in 2004 or 2003.

Note 8 - PENSION PLAN

The Company maintains a leveraged employee stock ownership 401(k) plan ("KSOP"). The KSOP periodically borrows from unrelated lenders to acquire stock for future allocation to KSOP participants. The KSOP provides for voluntary employee salary reduction contributions, voluntary employee after-tax contributions, discretionary employer salary reduction matching contributions, and additional discretionary employer contributions which the Company uses to pay interest on KSOP debt and KSOP debt principal reductions as the Company desires to release unallocated KSOP shares to the KSOP participants.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares. KSOP expense for 2004 and 2003 was $277,444 and $175,454, respectively. Employee salary reduction contributions of $262,092 and $251,338 were made in 2004 and 2003, respectively.

Note 9 - DEFERRED COMPENSATION PLANS

The Company maintains individually designed supplemental income plan agreements ("agreements") with certain designated employees and directors. The agreements provide a deferred compensation benefit payable at retirement or death.

The liability under the agreements is recorded based upon the present value of the deferred compensation benefits. At December 31, 2004 and 2003, the Company's accrued liability under the agreements was $2,476,646 and $2,182,557, respectively.

In connection with the funding of the agreements, the Company has purchased life insurance policies that it believes will fund the benefits payable pursuant to the agreements. The Company is owner and beneficiary of the life insurance policies. Other assets at December 31, 2004 and 2003, respectively, include $6,213,762 and $5,531,684 in cash value of these life insurance policies.

Note 10 - RELATED-PARTY TRANSACTIONS

At December 31, 2004 and 2003, certain officers and directors, and companies in which they have a 10 percent or more beneficial ownership, were indebted to the Company in the aggregate amount of approximately $2,344,235 and $4,729,447, respectively. During 2004, $927,187 of new loans were originated and repayments totaled $3,312,399. All such loans were made in the ordinary course of business. All loans included in such transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of loss or present other unfavorable features.

Note 11 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities at December 31, 2004 and 2003, are as follows:

	December 31, 2004	December 31, 2003
Commitments to extend credit	$ 27,029,276	$ 27,354,413
Standby letters of credit	2,787,698	2,566,698
Total	$ 29,816,974	$ 29,921,111

Commitments to extend credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and

Note 11 - COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

income-producing commercial properties. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company has not incurred any significant losses on its commitments in either 2004 or 2003.

The Company is a party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

Note 12 - CONCENTRATIONS OF CREDIT

Substantially all of the Company's loans, commitments, credit card arrangements and standby letters of credit have been granted to customers in the Company's market area. Most customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Company occasionally maintains deposits and federal funds sold in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. At December 31, 2004 the Company had due from banks and federal funds sold of approximately $8,700,000 which represent concentrations of credit in excess of federally insured amounts.The risk is managed by maintaining all deposits in high quality financial institutions.

Note 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as disclosed herein. The values are for disclosure purposes only and have not affected the carrying values of the assets and liabilities on the balance sheet.

Cash and Short-Term Investments

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For debt securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loan Receivables

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other Borrowed Funds

The fair value of federal funds purchased is the amount payable upon demand at the reporting date. The fair value of the Federal Home Loan Bank advance is estimated by discounting the future cash flows using the current rates at which similar advances would be made to banks with similar credit ratings for the same remaining maturities.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between the current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The estimated fair values of the Company's financial instruments at December 31, 2004 and 2003, are as follows:

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	$ 11,820,167	$ 11,820,167	$ 16,470,015	$16,470,015
Federal funds sold	5,000,000	5,000,000	800,000	800,000
Investment securities	22,385,840	22,389,657	36,572,827	36,591,488
Mortgage loans held for sale	892,327	892,327	992,818	992,818
Loans, net of unearned discount	182,183,046	185,708,673	169,631,798	176,408,854
Less allowance for loan losses	(2,084,570)	(2,084,570)	(1,964,190)	(1,964,190)
Loans, net of allowance	180,098,476	183,624,103	167,667,608	174,444,664
Financial liabilities:				
Deposits	208,190,352	208,863,931	217,441,464	219,605,180
Federal funds purchased	1,650,000	1,650,000	2,450,000	2,450,000
Federal Home Loan Bank advances	10,795,533	10,767,000	3,286,851	3,446,000
Unrecognized financial instruments:				
Commitments to extend credit	0	0	0	0
Standby letters of credit	0	0	0	0

Note 14 - REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the lesser of the current and prior two years' undistributed earnings or the amount by which total capital exceeds the minimum allowable capital. The dividends, as of December 31, 2004 that the Bank could declare without the approval of the Comptroller of the Currency amounted to approximately $3,317,934.

Note 14 - REGULATORY MATTERS (CONT'D)

The Company and Bank are subject to various regulatory capital requirements administered by the federal 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank'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 regulation to ensure capital adequacy require the Company and Bank to maintain 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). Management believes, as of December 31, 2004 and 2003, that the Company and Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004:						
Total capital (to risk-weighted assets)						
Consolidated	$ 21,712,759	11.2%	≥ $ 15,472,080	≥ 8.0%	≥ $ 19,340,100	≥ 10.0%
American National Bank	$ 21,053,654	10.9%	≥ $15,419,760	≥ 8.0%	≥ $19,274,700	≥ 10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	19,628,189	10.2%	≥ 7,736,040	≥4.0%	≥ 11,604,060	≥ 6.0%
American National Bank	18,969,084	9.8%	≥ 7,709,880	≥ 4.0%	≥ 11,564,820	≥ 6.0%
Tier I capital (to average assets)						
Consolidated	19,628,189	8.3%	≥ 9,515,862	≥ 4.0%	≥ 11,894,827	≥ 5.0%
American National Bank	18,969,084	8.0%	≥ 9,489,415	≥ 4.0%	≥ 11,861,768	≥ 5.0%
As of December 31, 2003:						
Total capital (to risk-weighted assets)						
Consolidated	$ 20,228,961	11.1%	≥ $ 14,611,680	≥ 8.0%	≥ $ 18,264,600	≥ 10.0%
American National Bank	$ 19,545,932	10.7%	≥ $ 14,559,520	≥ 8.0%	≥ $ 18,199,400	≥ 10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	18,264,771	10.0%	≥ 7,305,840	≥ 4.0%	≥ 10,958,760	≥ 6.0%
American National Bank	17,593,213	9.7%	≥ 7,279,760	≥ 4.0%	≥ 10,919,640	≥ 6.0%
Tier I capital (to average assets)						
Consolidated	18,264,771	7.4%	≥ 9,930,985	≥ 4.0%	≥ 12,413,731	≥ 5.0%
American National Bank	17,593,213	7.4%	≥ 9,486,983	≥ 4.0%	≥ 11,858,728	≥ 5.0%

Note 15 - MULTI-TIERED BANK HOLDING COMPANY STRUCTURE

On February 19, 1997, an application was filed with the Federal Reserve Bank to authorize the formation of a multi-tiered bank holding company structure consisting of a Texas based parent company, AmeriBancShares, Inc. and a Delaware based intermediate holding company, AmeriBancShares of Delaware, Inc. Upon receipt of proper authorization of the holding company structure from the Federal Reserve Bank, the stock of American National Bank ("the Bank") was transferred to AmeriBancShares of Delaware, Inc. with the stockholders of the Bank receiving three shares of AmeriBancShares, Inc. common stock in exchange for each share of Bank common stock. The transfer was effective May 1, 1997 and was accomplished by the formation of a new bank subsidiary by AmeriBancShares of Delaware, Inc., with an initial capitalization of $240,000. The new bank subsidiary was merged with the Bank and the surviving entity retained the name of the Bank. On May 1, 1997, AmeriBancShares, Inc. formed an additional subsidiary, ANB Realty Corp., to acquire and develop real estate in Flower Mound, Texas.

Note 16 - ARCHER TITLE OF TEXAS, INC.

In January 2004, the Company created an operating subsidiary, Archer Title of Texas, Inc. (the Title Company), for the purpose of conducting title insurance policy operations. In January 2004, the Title Company acquired the title plant and equipment of Archer Title, Inc. for $420,000. The transaction has been accounted for in accordance with *SFAS No. 141, Business Combinations.* The market value of the tangible assets acquired was $400,315. The purchase price in excess of the tangible assets acquired amounted to $19,615 and has been included in goodwill in the accompanying financial statements.

The Title Company is a wholly-owned subsidiary of the Bank and its assets and liabilities, results of operations, changes in stockholder's equity and cash flows have been consolidated with the activity of the Company. All significant intercompany transactions have been eliminated.

Consolidating Balance Sheet

AmeriBancShares, Inc. and Subsidiaries, December 31, 2004

ASSETS	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash and due from banks, noninterest bearing	$ 79,586	$ 27,998	$ 9,911,801
Time deposits in banks			1,898,000
Federal funds sold			5,000,000
Total cash and cash equivalents	79,586	27,998	16,809,801
Securities available for sale			20,861,832
Securities to be held to maturity			557,958
Other securities			966,050
Total investment securities			22,385,840
Mortgage loans held for sale			892,327
Loans	2,408,282		184,518,892
Less: Unearned discount	(345,501)		(3,847)
Allowance for loan losses	(23,471)		(2,061,099)
Loans, net	2,039,310		182,453,946
Premises and equipment, net	3,570,175	391,782	8,629,085
Accrued interest receivable			2,565,124
Goodwill		19,615	4,155,760
Other assets	260,940	408,538	9,213,851
Total assets	$ 5,950,011	$ 847,933	$ 247,105,734

LIABILITIES AND STOCKHOLDERS' EQUITY	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Deposits:			
Demand deposits	$	$	$ 52,844,972
Savings deposits			7,615,212
Money market and NOW accounts			64,179,560
Time certificates of deposit			83,678,677
Total deposits			208,318,421
Federal funds purchased			1,650,000
Notes payable	3,609,780	785,000	
Federal Home Loan Bank advances			10,795,533
Accrued interest payable	1,300,950	9,187	228,399
Other liabilities	852,430	18,961	2,976,060
Total liabilities	5,763,160	813,148	223,968,413
Stockholders' equity:			
Common stock	1,000	1,000	1,680,000
Surplus			2,090,826
Undivided profits and capital reserves	185,851	33,785	19,407,117
Treasury stock at cost			
Accumulated other comprehensive loss:			
Net unrealized depreciation on securities available for sale			(40,622)
Total stockholders' equity	186,851	34,785	23,137,321
Total liabilities and stockholders' equity	$ 5,950,011	$ 847,933	$ 247,105,734

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 10,366	$ 7,702	$ 12,783	($ 128,069)	$ 9,922,167
				1,898,000
				5,000,000
10,366	7,702	12,783	(128,069)	16,820,167
				20,861,832
				557,958
23,137,321		23,785,139	(46,922,460)	966,050
23,137,321		23,785,139	(46,922,460)	22,385,840
				892,327
			(4,394,780)	182,532,394
				(349,348)
				(2,084,570)
			(4,394,780)	180,098,476
	640,028			13,231,070
			(1,337,453)	1,227,671
				4,175,375
7,316	4,623		(220,741)	9,674,527
$ 23,155,003	$ 652,353	$ 23,797,922	($ 53,003,503)	$ 248,505,453

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$	$	$	($ 128,069)	$ 52,716,903
				7,615,212
				64,179,560
				83,678,677
			(128,069)	208,190,352
				1,650,000
			(4,394,780)	
				10,795,533
			(1,337,453)	201,083
	22,217	1,497	895	3,872,060
	22,217	1,497	(5,859,407)	224,709,028
7,500	1,000	5,040,000	(1,690,500)	5,040,000
15,910,885	851,159	10,878,386	(18,852,870)	10,878,386
7,277,240	(222,023)	8,800,661	(26,681,970)	8,800,661
		(882,000)		(882,000)
(40,622)		(40,622)	81,244	(40,622)
23,155,003	630,136	23,796,425	(47,144,096)	23,796,425
$ 23,155,003	$ 652,353	$ 23,797,922	($ 53,003,503)	$ 248,505,453

Consolidating Statement of Income

AmeriBancShares, Inc. and Subsidiaries, December 31, 2004

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Interest income:			
Interest and fees on loans	$ 169,454	$	$ 10,713,121
Interest on investment securities			730,852
Interest on time deposits in banks			77,242
Interest on federal funds sold			39,953
Total interest income	169,454		11,561,168
Interest expense:			
Interest on deposits:			
Savings			30,724
Money market and NOW accounts			389,717
Time			2,453,177
Total interest on deposits			2,873,618
Interest on federal funds purchased			31,898
Interest on Federal Home Loan Bank advances			144,817
Interest on notes payable	75,145	9,187	
Total interest expense	75,145	9,187	3,050,333
Net interest income	94,309	(9,187)	8,510,835
Provision for loan losses	2,500		150,000
Net interest income after provision for loan losses	91,809	(9,187)	8,360,835
Other operating income:			
Service charges on deposit accounts			785,947
Trust fee income			2,976,400
Gain on sale of mortgage loans			683,156
Rent income	1,416,423		
Earnings from subsidiary			173,793
Other, net	39,311	341,040	675,707
Total other operating income	1,455,734	341,040	5,295,003
Other operating expenses:			
Salaries and bonuses	160,336	142,514	4,002,880
Employee benefits	33,688	8,685	1,791,457
Premises and equipment	1,051,442	22,839	1,506,054
Advertising	2,447	6,195	225,128
Data processing expense			460,647
Printing, stationery and supplies	776	10,763	161,940
Professional fees		406	128,089
Other operating expenses	86,588	89,262	1,748,474
Total other operating expenses	1,335,277	280,664	10,024,669
Income before income taxes	212,266	51,189	3,631,169
Provision for income taxes	72,258	17,404	962,110
Net income	$ 140,008	$ 33,785	$ 2,669,059

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$	$	$	($ 180,062)	$ 10,702,513
				730,852
				77,242
				39,953
			(180,062)	11,550,560
				30,724
				389,717
				2,453,177
				2,873,618
				31,898
				144,817
			(84,332)	
			(84,332)	3,050,333
				8,500,227
				152,500
				8,347,727
				785,947
				2,976,400
				683,156
				1,416,423
2,669,059		2,649,091	(5,491,943)	
			50,899	1,106,957
2,669,059		2,649,091	(5,441,044)	6,968,883
				4,305,730
				1,833,830
	22,218		(12,000)	2,590,553
				233,770
				460,647
				173,479
				128,495
7,912	125	131	(32,831)	1,899,661
7,912	22,343	131	(44,831)	11,626,165
2,661,147	(22,343)	2,648,960	(5,491,943)	3,690,445
(2,690)	(7,597)	(44)		1,041,441
$ 2,663,837	($ 14,746)	$ 2,649,004	($ 5,491,943)	$ 2,649,004

Consolidating Statement of Cash Flows

AmeriBancShares, Inc. and Subsidiaries, December 31, 2004

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash flows from operating activities:			
Net income (loss)	$ 140,008	$ 33,785	$ 2,669,059
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation	1,034,780	3,164	688,875
Amortization of intangibles		1,800	
Provision for loan losses	2,500		150,000
Provision for losses on other real estate owned			30,000
Provision for (benefit from) deferred taxes	(23,365)	2,894	(25,092)
Loss on sale of available for sale securities			360
Gain on sale of mortgage loans			(683,156)
Gain on sale of other real estate owned			(83,537)
Gain on disposal of premises and equipment	(3,316)		(1,941)
Amortization of premium on investment securities			84,171
Accretion of discount on investment securities			(380)
Proceeds from sales of mortgage loans			42,988,320
Mortgage loans funded			(42,209,107)
Unconsolidated earnings from subsidiaries			(173,793)
(Increase) decrease in:			
Prepaid expenses	8,070		(116,482)
Accrued interest receivable			(154,777)
Income taxes receivable			26,516
Miscellaneous other assets	11,911		17,971
Increase (decrease) in:			
Accrued interest payable	75,145	9,187	(22,272)
Income taxes payable	9,650	14,510	75,852
Other taxes payable			9,737
Other accrued expenses	41,843	1,557	496,681
Net cash provided by (used in) operating activities	1,297,226	66,897	3,767,005
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale			23,773,531
Proceeds from sales of securities available for sale			2,976,757
Proceeds from maturities of securities held to maturity			262,344
Purchase of securities available for sale			(13,096,195)
Purchase of other securities			(33,400)
Purchase of cash value life insurance			(749,691)
Purchase of title business		(420,000)	
Cash paid to subsidiaries			(1,000)
Dividends received from subsidiaries			
Net increase in loans	(552,318)		(12,656,935)
Purchase of premises and equipment	(1,492,726)	(404,899)	(1,241,518)
Proceeds from sale of premises and equipment	913,752		1,941
Proceeds from sale of other real estate owned			544,100
Net cash provided by (used in) investing activities	(1,131,292)	(824,899)	(220,066)
Cash flows from financing activities:			
Net increase (decrease) in deposits			(9,438,863)
Net decrease in federal funds purchased			(800,000)
Net increase in Federal Home Loan Bank advances			7,508,682
Net increase (decrease) in other borrowed funds	(366,925)	785,000	
Capital contributions		1,000	
Dividends paid			(1,266,480)
Net cash provided by (used in) financing activities	(366,925)	786,000	(3,996,661)
Net increase (decrease) in cash and cash equivalents	(200,991)	27,998	(449,722)
Cash and cash equivalents at beginning of period	280,577		17,259,523
Cash and cash equivalents at end of period	$ 79,586	$ 27,998	$ 16,809,801

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 2,663,837	($ 14,746)	$ 2,649,004	($ 5,491,943)	$ 2,649,004
				1,726,819
				1,800
				152,500
				30,000
				(45,563)
				360
				(683,156)
				(83,537)
				(5,257)
				84,171
				(380)
				42,988,320
				(42,209,107)
(2,669,059)		(2,649,091)	5,491,943	
				(108,412)
			82,511	(72,266)
(2,504)	(9)		7,275	31,278
				29,882
			(82,511)	(20,451)
		16	(7,275)	92,753
				9,737
	68			540,149
(7,726)	(14,687)	(71)		5,108,644
				23,773,531
				2,976,757
				262,344
				(13,096,195)
				(33,400)
				(749,691)
				(420,000)
		(8,500)	9,500	
1,266,480		1,258,880	(2,525,360)	
			418,075	(12,791,178)
				(3,139,143)
				915,693
				544,100
1,266,480		1,250,380	(2,097,785)	(1,757,182)
			187,751	(9,251,112)
				(800,000)
				7,508,682
			(418,075)	
	8,500		(9,500)	
(1,258,880)		(1,258,880)	2,525,360	(1,258,880)
(1,258,880)	8,500	(1,258,880)	2,285,536	(3,801,310)
(126)	(6,187)	(8,571)	187,751	(449,848)
10,492	13,889	21,354	(315,820)	17,270,015
$ 10,366	$ 7,702	$ 12,783	($ 128,069)	$ 16,820,167

Officers and Directors
Of American National Bank

OFFICERS

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President and CEO

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Executive Vice President

Don Whatley
Senior Vice President

Doris McGregor Steinberger
Vice President/Compliance Officer

Linda Musgrave
Assistant Vice President/Loans

Vicki Nason
Assistant Vice President/Credit and Collateral

Peggy Carr
Banking Officer

Vera Simons
Banking Officer

Donna Stell
Banking Officer

Trust and Investment Services

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Senior Vice President / Senior Trust Officer

Michael W. Boyle
Vice President/Trust Compliance Officer

Kevin Goldstein
Vice President/Trust Officer/Security Sales

Randy R. Martin
Vice President/Trust Officer

Linda Wilson
Vice President/Trust Officer

Kelly J. Smith
Vice President/Trust Officer

Jeffrey S. Schultz
Vice President/Trust Investment Officer

J. Bradley Davidson
Assistant Vice President/Human Resources

Paula Walmer
Assistant Vice President/Operations Manager

Mortgage Loan Department

W.O. Franklin
Senior Vice President

Donna Vaughn
Vice President

Kathy Roberts
Assistant Vice President

Maggie Johnson
Funding Officer

John Johnston
Banking Officer

American National Leasing Company

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Vice President/Manager

James H. Wright
Assistant Vice President

Operations/Support Personnel

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Roy T. Olsen
Senior Vice President/Cashier

Nancy Vannucci
Senior Vice President/Internal Auditor

Blake Andrews
Vice President/Controller

Kenneth L. Haney
Assistant Vice President/Calling Officer

Downtown Office

Johnny Clark
Senior Vice President/Manager

John W. Kable
Senior Vice President/Loans

Gail Natale
Marketing Director

Marva Pieratt
Banking Officer

Flower Mound Office

Sam Wilson
Senior Vice President/Manager

Kristin Feeback
Loan Officer

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Vice President/Trust Officer

Flower Mound Mortgage Loan Department

Spencer Murphy
Assistant Vice President

McKinney Mortgage Loan Production Office

Gary Eberhart
Assistant Vice President

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Vice President/Manager

Reanna Jones
Banking Officer

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Chairman of the Board

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President and CEO

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**Advisory Director*

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