AmeriBancShares, Inc. 2005 Annual Report

Teamwork

Never in the 29 year history of American National Bank has teamwork been so evident and so effective.

Team Members Pictured On the Front Cover

Left to Right

John Kable
Downtown Wichita Falls Branch

Reanna Jones
Iowa Park Branch

Karen Hill
Mortgage Loans

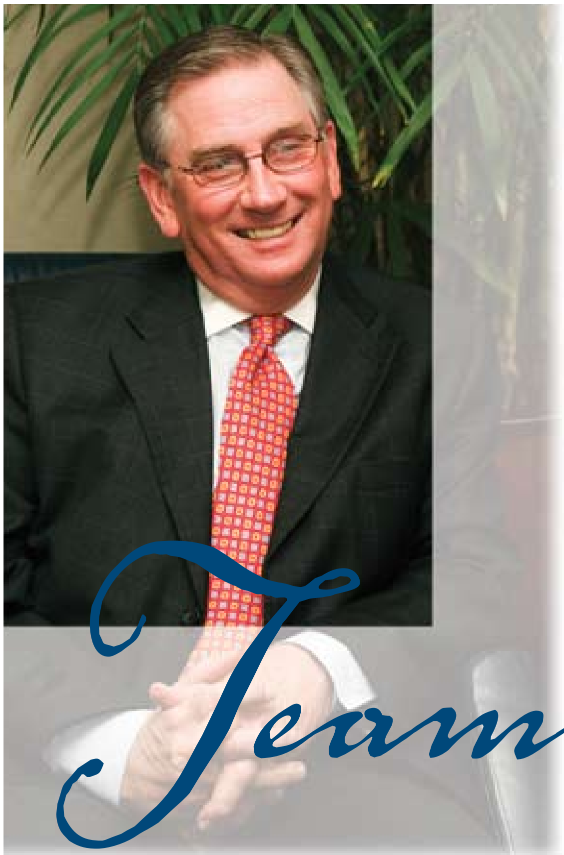
Mike Cuba
Leasing

Roy Olsen
Operations

Sara Fukasawa
Archer Title of Texas, Inc.

Dwight Berry
Commercial Loans

Amy Collier
Downtown Wichita Falls Branch



The theme of this year's Annual Report is **TEAMWORK**. Teamwork breeds success. Teamwork is necessary to maximize efficiency. And most importantly, teamwork is essential if we as an organization are to effectively serve the financial needs of our customers. The people pictured on the cover of the Report represent the various departments, branches and subsidiaries of the Bank, because the true success of our organization is the "one for all, all for one," team concept we maintain. While Commercial Lending, Mortgage Lending, Trust and Operations are the four major areas of the Bank, and certainly each plays a vital role in our success, it is the sum of the parts that truly makes everything gel. **Never in the 29 year existence of American National Bank has the team concept been so evident and so effective, as 2005 was the best year in our history.**

Deposit growth was excellent, up 34.6% at year-end in comparison with the 12/31/04 totals. The loan totals continue to increase, a positive trend for several years now. Both the Trust Department and the Mortgage Loan Department produced outstanding results, and the Bank's two operating subsidiaries, American National Leasing and Archer Title of Texas, are showing tremendous potential. Because of the combined efforts of all**, net income reached an all-time high, eclipsing last year's record total by 54%.** While I will touch on some of the highlights of the Bank's performance, let me encourage you to pay particular attention to the page entitled "Financial Highlights" in the Report, as in a summary form the information on that page addresses the many accomplishments of '05.

Net income reached an all-time high, eclipsing last year's record total by 54%.

In my President's Message to you last year, I indicated that one of the few areas of concern was the fact that for the past several years ANB's deposit growth had not kept pace with the growth in loans. That concern was rectified this past year as we acquired the local deposits of Guaranty Bank of Texas, which amounted to approximately

The American

$60 million in new money. The additional liquidity should take care of our funding needs for quite some time. To accomplish the acquisition, our parent company, AmeriBancShares, Inc., acquired approximately $7.2 million in trust preferred securities, which is basically a debt instrument that qualifies as capital for regulatory purposes. $5 million of the trust preferred was then transferred to the equity account of the Bank. The added capital will be beneficial in funding future growth.

Although the overall growth in the loan totals for 2005 was not as significant as the past several years, the $2.6 million increase in loan interest income certainly was impressive. The total represents an increase of 24% over 2004. Typically, in a rising rate environment which has been the case of late, ANB's earnings improve due to the fact that the make-up of our Balance Sheet is asset sensitive. By that I mean, we are able to reprice a significant portion of our loans, which are assets, each time the Federal Reserve adjusts rates, while on the liability side, deposits are slower to adjust since many are tied to a fixed maturity. Equally as important, the quality of the loan portfolio has remained excellent, as evidenced by the fact that loan losses for the year totaled less than $88 thousand, and that amount was offset by nearly $127 thousand in recoveries of loans previously charged-off. What a wonderful job our loan officers due in servicing the borrowing needs of the communities we serve, while at the same time protecting our shareholder's investment.

But it is the large amount of non-interest income the Bank generates that really sets us apart from most other financial institutions. **Approximately 32% of ANB's total revenue for the year was fee driven.** The Trust Department generated in excess of $3.3 million in fees, while the Mortgage Loan Department, in addition to contributing significantly to the interest income of the Bank, produced nearly $650 thousand in fees from the gain on sale of mortgage loans. Also, the $292 thousand in gross profit earned from the operating leases generated by American National Leasing Company, and the $549 thousand in title premiums earned by Archer Title of Texas, added to the overall profitability of the Bank.

The increase marks the 19th year in a row that American National Bank has raised the annual dividend.

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The combination of a significant increase in interest and fees on loans, interest earned on the investment portfolio, which more than doubled from the previous year, and the non interest income generated from Trust, Mortgage Loans, Leasing, and Archer Title, along with the fact that we were able to keep the growth in operating expenses to just over 4%, resulted in net income for the year of **$4,078,649.** The total is an increase of more than $1.4 million over 2004, and represents a **Return on Average Assets (ROAA) of 1.43%, and a Return on Average Equity (ROAE) of 16.25%.** From a shareholder's perspective, the holding company earned $2.07 per share, which allowed us to distribute $0.73 per share in dividends, a 14% increase from the previous year**. The increase marks the 19th year in a row that ANB has raised the annual dividend.**

Looking ahead to 2006, we are faced with a number of challenges. With all the competition from other financial institutions, the credit unions, and brokerage houses, aggressively soliciting the same deposits and loans as we are, it creates a significant challenge in pricing our loans and deposit instruments competitive to the market while at the same time maintaining the necessary interest margin. Fortunately, we have a "leg up" on the competition in that we derive so much of our revenue from fees. Nevertheless, it is imperative that we properly manage the interest margin to maximize profitability. At the same time, we must continue to look for ways to grow our customer base, which has become more difficult with the expanding competitive environment. It is also imperative that we create opportunities for advancement within the organization to attract and retain quality personnel. And most importantly, we have an obligation to you, our shareholders, to enhance the value of your investment.

As we celebrate our 30th anniversary the later part of this year, my 27th year as your CEO, I have never been more excited about the future of American National Bank. Without question, our "team" of professionals is the best, and we take very seriously the responsibility of not only protecting, but enhancing, your investment.

Bo Stahler

John B. "Bo" Stahler
President and CEO

Dwight L. Berry
Executive Vice- President
Commercial Loans

Roy T. Olsen
Senior Vice President
Operations

Commercial Loan Department

With the Federal Reserve increasing interest rates 8 times last year, 2005 proved to be a very good year for American National's commercial loan operation. Growth in the portfolio over the past several years has been at the controlled, conservative pace, and loses have remained at a minimum. The Bank has been in the same rate and competitive scenario as all other banks, however, the one variable that weighs heavily in the equation as to how successful and profitable a bank's loan operation performs is the people. We are extremely fortunate to have a seasoned lending staff that is second to none. Collectively, **our commercial loan officers have over 100 years of banking experience**. They are true leaders within the Bank as well as the communities in which we live. The support staff for the lending area is equally outstanding. Success does not come easily, but is does come, if you have the right people.

Operations

The operations team of American National Bank takes great pride in supporting both the internal and external customers of the bank with secure and accurate information through a high tech and high touch approach. For those customers preferring to use electronic banking to take care of their needs, we provide accurate and reliable technology driven services. For those customers desiring a more hands on approach, we take pride in the fact that we have a skilled staff of representatives ready and willing to offer personal banking. Real people, not an answering machine. And, we are committed to keeping the Bank's computer network secure and dependable in order to provide a safe platform to exchange and analyze information. Each member of the operations team supports the mission of providing secure, accurate information to all our customers.

W.O. (Bill) Franklin
Senior Vice President
Mortgage Loans

Mortgage Loan Department

In September of 1990, the Mortgage Loan Department was created with a staff of 4 employees, charged with the responsibility of providing fee income and a residential lending function for the Bank. Since then, the Department's earnings have increased from $99,000 in 1991 to $ 949,000 in 2005, and the staff has grown to 15 employees. Since inception, the Department has closed $757,225,327 in mortgage loans. In 2005 alone, **we closed nearly $77,000,000 in residential mortgages which generated $1,079,536 in fee income and an additional $1,622,853 in interest income.** Not only do we provide mortgage and interim construction financing for the communities we serve, we also create an excellent referral base for potential business for the other departments of the Bank. Our ongoing focus is to look for additional ways to provide additional fee income for the Bank and new product services for our customers.

Timothy G. Connolly
Senior Vice President
Trust and Investment Services

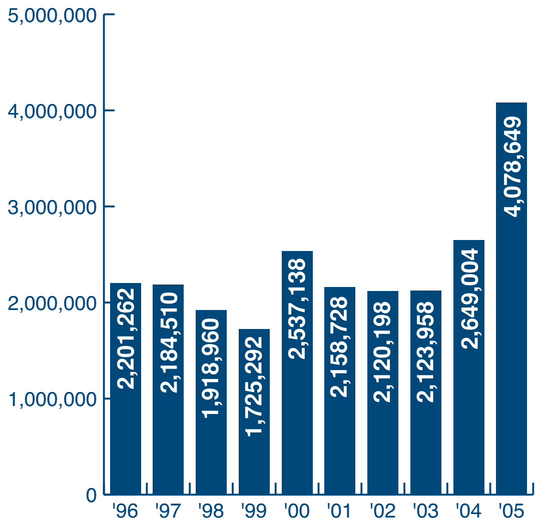
Trust & Investment Services Department

2005 was both a year of synergy and growth for the Trust Department of American National Bank. At year-end, the Department had in excess of $678,000,000 in assets under management, and for the first time in our 10 year history **the Department contributed over $1,000,000 in net income after tax to the Bank.** This 23% growth was due to our experienced investment professionals, solid investment results and a keen sense of responsibility to our external and internal clients.

Financial Highlights

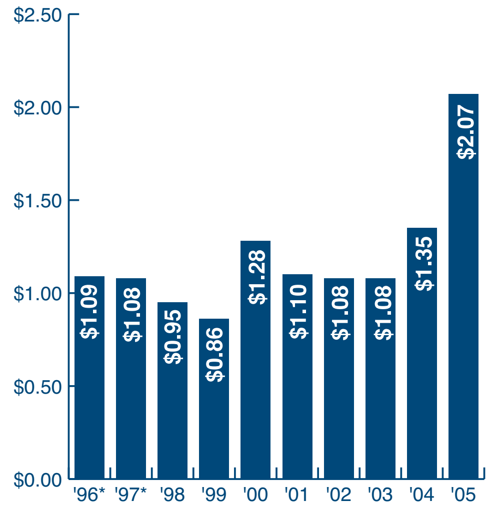
	Year Ended December 31, 2005	2004	% Change
Earnings			
Net Interest Income	10,880,725	8,500,227	+ 28.0
Provision For Loan Losses	190,000	152,500	+ 24.6
Non-Interest Income	7,276,849	6,968,883	+ 4.4
Non-Interest Expense	12,106,355	11,626,165	+ 4.1
Net Income	4,078,649	2,649,004	+ 54.0
Share Data			
Net Income	2.07	1.35	+ 53.3
Dividends Paid	.73	.64	+ 14.1
Book Value	13.32	12.10	+ 10.1
Returns			
Return on Average Assets	1.43	1.07	+ 33.6
Return on Average Equity	16.25	11.44	+ 42.0
Financial Position at Year End			
Total Assets	327,602,761	248,505,453	+ 31.8
Loans (Net)	183,485,377	180,098,476	+ 1.9
Reserve for Loan Losses	2,314,075	2,084,570	+ 11.0
Deposits	280,168,440	208,190,352	+ 34.6
Equity	26,203,563	23,796,425	+ 10.1

Consolidated Net Income

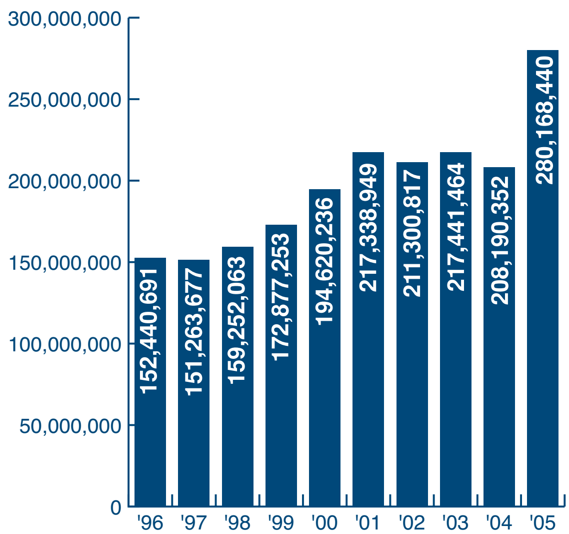


Earnings Per Share

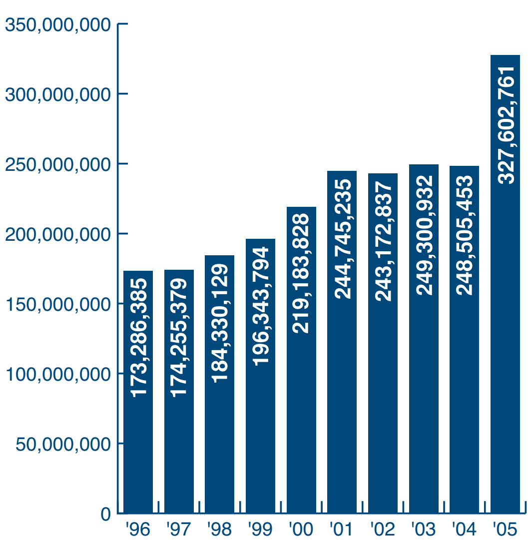
** adjusted to reflect AmeriBancShares, Inc. stock outstanding*



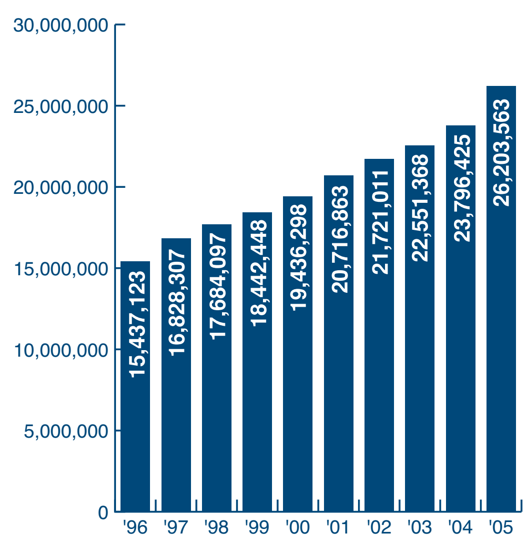
Year End Deposits



Year End Assets



Stockholders' Equity



Independent Auditor's Report

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, 2005 and 2004, 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, 2005 and 2004, 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
February 1, 2006

Consolidated Balance Sheets

December 31, 2005 and 2004

ASSETS	2005	2004
Cash and due from banks, noninterest bearing	$ 17,701,542	$ 9,922,167
Time deposits in banks	4,295,000	1,898,000
Federal funds sold	13,800,000	5,000,000
Total cash and cash equivalents	35,796,542	16,820,167
Securities available for sale	75,560,451	20,861,832
Securities to be held to maturity (approximate market value of $415,379 in 2005 and $561,775 in 2004)	413,052	557,958
Other securities (approximate market value of $808,650 in 2005 and $966,050 in 2004)	808,650	966,050
Total investment securities	76,782,153	22,385,840
Mortgage loans held for sale	1,259,354	892,327
Loans	186,186,036	182,532,394
Less: Unearned discount	(386,584)	(349,348)
Allowance for loan losses	(2,314,075)	(2,084,570)
Loans, net	183,485,377	180,098,476
Premises and equipment, net	12,557,504	13,231,070
Accrued interest receivable	1,802,723	1,227,671
Goodwill	4,219,475	4,175,375
Intangible assets	1,090,740	
Other assets	10,608,893	9,674,527
Total assets	$ 327,602,761	$ 248,505,453

LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004
Deposits:		
Demand deposits	$ 66,329,710	$ 52,716,903
Savings deposits	8,789,297	7,615,212
Money market and NOW accounts	84,513,653	64,179,560
Time certificates of deposit	120,535,780	83,678,677
Total deposits	280,168,440	208,190,352
Federal funds purchased	1,950,000	1,650,000
Federal Home Loan Bank advances	7,969,770	10,795,533
Other borrowed funds	7,217,000	
Accrued interest payable	301,362	201,083
Other liabilities	3,792,626	3,872,060
Total liabilities	301,399,198	224,709,028
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	11,443,400	8,800,661
Treasury stock at cost (49,000 shares)	(882,000)	(882,000)
Accumulated other comprehensive income (loss):		
Net unrealized depreciation on securities available for sale, net of tax of ($142,297) in 2005 and ($20,926) in 2004	(276,223)	(40,622)
Total stockholders' equity	26,203,563	23,796,425
Total liabilities and stockholders' equity	$ 327,602,761	$ 248,505,453

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

Consolidated Statements of Income

For the Years Ended December 31, 2005 and 2004

	2005	2004
Interest income:		
Interest and fees on loans	$ 13,269,263	$ 10,702,513
Interest on investment securities	1,582,945	730,852
Interest on time deposits in banks	94,572	77,242
Interest on federal funds sold	339,602	39,953
Total interest income	15,286,382	11,550,560
Interest expense:		
Interest on deposits:		
Savings	35,568	30,724
Money market and NOW accounts	565,301	389,717
Time	3,153,492	2,453,177
Total interest on deposits	3,754,361	2,873,618
Interest on federal funds purchased	79,782	31,898
Interest on Federal Home Loan Bank advances	378,665	144,817
Interest on other borrowed funds	192,849	
Total interest expense	4,405,657	3,050,333
Net interest income	10,880,725	8,500,227
Provision for loan losses	190,000	152,500
Net interest income after provision for loan losses	10,690,725	8,347,727
Other operating income:		
Service charges on deposit accounts	734,742	785,947
Trust fee income	3,321,398	2,976,400
Gain on sale of mortgage loans	648,614	683,156
Rent income	1,234,727	1,416,423
Other, net	1,337,368	1,106,957
Total other operating income	7,276,849	6,968,883
Other operating expenses:		
Salaries and bonuses	4,489,705	4,305,730
Employee benefits	1,987,527	1,833,830
Premises and equipment	2,438,669	2,590,553
Advertising	261,700	233,770
Data processing expense	508,477	460,647
Printing, stationery and supplies	205,585	173,479
Professional fees	131,277	128,495
Other operating expenses	2,083,415	1,899,661
Total other operating expenses	12,106,355	11,626,165
Income before income taxes	5,861,219	3,690,445
Provision for income taxes	1,782,570	1,041,441
Net income	$ 4,078,649	$ 2,649,004
Net income per share of common stock	$ 2.07	$ 1.35

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

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2005 and 2004

	Common Stock Number of Shares	Amount	Surplus	Undivided Profits and Capital Reserves	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2004	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 appreciation 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
Comprehensive income:							
Net income				4,078,649			4,078,649
Other comprehensive loss:							
Net change in unrealized depreciation on securities available for sale, net of taxes of ($121,370)						(235,601)	(235,601)
Total comprehensive income							3,843,048
Cash dividends, $.73 per common share				(1,435,910)			(1,435,910)
Balance, December 31, 2005	2,016,000	$ 5,040,000	$ 10,878,386	$ 11,443,400	($ 882,000)	($ 276,223)	$ 26,203,563

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	$ 4,078,649	$ 2,649,004
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,523,978	1,726,819
Amortization of intangibles	49,223	1,800
Provision for loan losses	190,000	152,500
Provision for losses on other real estate owned		30,000
Benefit from deferred taxes	(354,587)	(45,563)
Loss on sale of available for sale securities		360
Gain on sale of mortgage loans	(648,614)	(683,156)
Gain on sale of other real estate owned	(14,403)	(83,537)
(Gain) loss on disposal of premises and equipment	8,502	(5,257)
Amortization of premium on investment securities	82,143	84,171
Accretion of discount on investment securities	(266,516)	(380)
Proceeds from sales of mortgage loans	42,649,978	42,988,320
Mortgage loans funded	(42,367,687)	(42,209,107)
(Increase) decrease in:		
Prepaid expenses	(14,614)	(108,412)
Accrued interest receivable	(573,473)	(72,266)
Income taxes receivable		31,278
Miscellaneous other assets	(269,979)	29,882
Increase (decrease) in:		
Accrued interest payable	(16,636)	(20,451)
Income taxes payable	(84,917)	92,753
Other taxes payable	24,162	9,737
Other accrued expenses	212,376	540,149
Net cash provided by operating activities	4,207,585	5,108,644
Cash flows from investing activities:		
Proceeds from maturities of securities available for sale	34,167,763	23,773,531
Proceeds from sale of securities available for sale	196,565	2,976,757
Proceeds from maturities of securities held to maturity	143,658	262,344
Proceeds from sale of other securities	387,000	
Purchase of securities available for sale	(89,234,299)	(13,096,195)
Purchase of other securities	(229,600)	(33,400)
Purchase of cash value life insurance	(623,089)	(749,691)
Purchase of title business		(420,000)
Proceeds from purchase of branch	55,454,334	
Purchase of trust assets	(44,100)	
Net increase in loans	(3,401,567)	(12,791,178)
Purchase of premises and equipment	(2,100,737)	(3,139,143)
Proceeds from sale of premises and equipment	1,542,830	915,693
Proceeds from sale of other real estate owned	84,325	544,100
Net cash used in investing activities	(3,656,917)	(1,757,182)
Cash flows from financing activities:		
Net increase (decrease) in deposits	15,170,380	(9,251,112)
Net increase (decrease) in federal funds purchased	300,000	(800,000)
Net increase (decrease) in Federal Home Loan Bank advances	(2,825,763)	7,508,682
Proceeds from other borrowed funds	7,217,000	
Dividends paid	(1,435,910)	(1,258,880)
Net cash provided by (used in) financing activities	18,425,707	(3,801,310)
Net increase (decrease) in cash and cash equivalents	18,976,375	(449,848)
Cash and cash equivalents at beginning of period	16,820,167	17,270,015
Cash and cash equivalents at end of period	$ 35,796,542	$ 16,820,167

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, 2005 and 2004.

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 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, is carried at the lower of fair value minus estimated selling costs

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

or cost. There was no other real estate owned as of December 31, 2005 or 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.

Intangible Assets

Intangible assets are reflected under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets,* which among other things, requires that intangible assets with a finite life be amortized over their estimated useful life. Intangible assets include core deposit intangibles acquired in acquisitions and are being amortized on a straight-line basis over ten years.

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 2004 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2005.

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, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$59,289,895	$ 7,856	($ 226,489)	$ 59,071,262
Obligations of states and political subdivisions	8,000,000	31,672	(230,502)	7,801,170
Corporate bonds	499,620		(1,020)	498,600
Mortgage-backed securities	6,356,670	8,804	(8,841)	6,356,633
Equity securities	1,832,786			1,832,786
Totals	$75,978,971	$ 48,332	($ 466,852)	$ 75,560,451
Securities to be Held to Maturity				
Obligations of states and political subdivisions	$ 119,762	$ 2,498	$	$ 122,260
Mortgage-backed securities	293,290	244	(415)	293,119
Totals	$ 413,052	$ 2,742	($ 415)	$ 415,379
Other securities	$ 808,650	$	$	$ 808,650

	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	996,377	35,761		1,032,138
Mortgage-backed securities	2,029,018	21,930	(7,965)	2,042,983
Totals	$20,923,380	$116,230	($ 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

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, 2005, 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.

Note 2
INVESTMENT SECURITIES (Continued)

	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	$ 24,505,322	$ 24,383,986	$	$
Due after one year through five years	37,189,193	36,996,386	119,762	122,260
Due after five years through ten years	6,095,000	5,990,660		
	67,789,515	67,371,032	119,762	122,260
Mortgage-backed securities	6,356,670	6,356,633	293,290	293,119
Equity securities	1,832,786	1,832,786		
Totals	$ 75,978,971	$ 75,560,451	$ 413,052	$ 415,379

Proceeds from sales of available for sale securities for the years ended December 31, 2005 and 2004 were approximately $196,565 and $2,976,757, respectively. No gross gains were realized on sales of available for sale securities during 2005 or 2004. No gross losses were realized on sales of available for sale securities during 2005. Gross losses of $360 were recognized on sales of available for sale securities during 2004. There were no sales of held to maturity securities during 2005 or 2004.

Investment securities with a book value of approximately $37,256,083 and $12,785,256 at December 31, 2005 and 2004, 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, 2005 are summarized as follows:

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale				
United States Agency securities	$44,163,106	($ 226,489)	$	$
Mortgage-backed securities	6,125,713	(8,841)		
State and political obligations	7,134,497	(230,502)		
Corporate bonds	498,600	(1,020)		
	$57,921,916	($ 466,852)	$	$
Securities Held to Maturity				
Mortgage-backed securities	$ 191,409	($ 415)	$	$

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2005, certain securities have unrealized losses with aggregate depreciation from the Company's amortized cost basis. These unrealized losses are generally due to changes in interest rates. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan categories is as follows:

	December 31, 2005	December 31, 2004
Commercial and industrial	$ 36,978,759	$ 27,464,616
Real estate - other	103,189,620	104,683,210
Real estate - construction	29,707,697	33,302,886
Consumer - installment	16,277,968	16,971,981
Overdrafts	31,992	109,701
Total loans	$ 186,186,036	$ 182,532,394

The Company had no loans to borrowers engaged in similar activities which exceeded 5% of total assets at December 31, 2005 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 $44,603,033 and $42,793,582 at December 31, 2005 and 2004, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $220,414 and $171,388 at December 31, 2005 and 2004, 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, 2005 and 2004, are $354,485 and $334,833, respectively, and are included in other assets. The fair values of these rights were $460,571 and $411,546 at December 31, 2005 and 2004, respectively. The fair value of servicing rights was determined using discount rates ranging from 9.5% to 12% and prepayment speeds ranging from 9.50% to 30%, depending on the stratification of the specific right.

Impaired loans having carrying values of $30,536 and $1,756,955 at December 31, 2005 and 2004, respectively, have been recognized in conformity with SFAS 114 as amended by SFAS 118. The average recorded investment in impaired loans during 2005 and 2004 was $592,840 and $1,870,506, respectively. The total allowance for loan losses related to those loans was $6,997 and $16,898 on December 31, 2005 and 2004, respectively. No payments on these loans were recorded as interest income when received in 2005 or 2004. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired as of December 31, 2005 or 2004.

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2005 and 2004, including mortgage loans held for resale less loans on nonaccrual, are as follows:

	2005	2004
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 8,315,530	$ 7,999,590
Over three months through twelve months	19,581,785	14,884,508
Over one year through five years	37,053,243	38,690,620
Over five years	14,423,652	12,807,000
Total fixed rate loans	$ 79,374,210	$ 74,381,718
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 97,466,543	$ 98,478,407
Annually or more frequently, but less frequently than quarterly	4,121,127	4,127,872
Every five years or more frequently, but less frequently than annually	4,542,703	4,679,769
Less frequently than every five years	1,910,271	
Total variable rate loans	$ 108,040,644	$ 107,286,048

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

	2005	2004
Balance at beginning of year	$ 2,084,570	$ 1,964,190
Provision for loan losses	190,000	152,500
Loans charged off	(87,100)	(88,843)
Recoveries of loans previously charged off	126,605	56,723
Balance at end of year	$ 2,314,075	$ 2,084,570

The allowance for financial statement purposes exceeded the federal income tax allowance by $1,616,084 and $1,350,930 at December 31, 2005 and 2004, 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, 2005	December 31, 2004
Land		$ 1,568,081	$ 1,568,081
Premises	5-40 years	8,612,404	8,176,962
Furniture, fixtures and equipment	3-10 years	5,793,486	5,564,709
Land improvements	5-20 years	585,389	532,028
Lease equipment	3 - 5 years	3,924,644	5,717,761
		20,484,004	21,559,541
Less accumulated depreciation		7,926,500	8,328,471
Totals		$ 12,557,504	$ 13,231,070

Depreciation expense amounted to $1,523,978 and $1,726,819 in 2005 and 2004, respectively.

A portion of the banking premises which the Company occupies is leased to certain tenants under month-to-month and term leases. Rental income totaled approximately $49,840 and $19,463 for the years ended December 31, 2005 and 2004, respectively. Minimum future rentals to be received on noncancelable leases in effect at December 31, 2005 are as follows:

Year	Amount
2006	$ 7,261
Total minimum future rentals	$ 7,261

Note 5
GOODWILL

Goodwill in the amount of $4,219,475 and $4,175,375 at December 31, 2005 and 2004, respectively, is included in the accompanying consolidated financial statements. Goodwill of $44,100 was added in 2005 attributable to the Company's purchase of certain customer trust accounts from an independent commercial bank. In accordance with the Statement of Financial Accounting Standard No 142, *"Goodwill and Other Intangible Assets"* (SFAS 142), the Company performs an annual impairment test for goodwill. At December 31, 2005 and 2004 management has determined that there is no impairment of goodwill.

Prior to the adoption of SFAS 142, goodwill was amortized over its estimated useful life. Accordingly, the amounts reflected for goodwill in the accompanying financial statements have been reduced by the relating accumulated amortization of $507,484.

Note 6
INTANGIBLE ASSETS

Intangible assets consist of core deposit intangibles acquired in a branch acquisition and are being amortized using the straight-line method over a period of 10 years. Assigned costs and accumulated amortization at December 31, 2005 consisted of the following amounts:

Gross amount	$ 1,138,163
Accumulated amortization	(47,423)
	$ 1,090,740

Changes in the carrying amount of intangibles during 2005 are summarized as follows:

Net intangible at January 1	$
Net value allocated for Guaranty branch purchase	1,138,163
Amortization expense	(47,423)
Net intangible at December 31	$ 1,090,740

Note 7
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 $37,871,157 and $28,997,842 at December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, the scheduled maturities of certificates of deposit are as follows:

	December 31, 2005	December 31, 2004
Less than three months	$ 37,581,679	$ 27,215,010
Four to twelve months	44,122,936	29,983,854
One to five years	38,717,850	26,479,813
Five to ten years	113,315	
Totals	$ 120,535,780	$ 83,678,677

Note 8
FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank advances are 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 3.81% to 4.44%. The advances were used by the Company to fund fixed interest rate loans to its customers. As of December 31, 2005, aggregate annual scheduled repayments of Federal Home Loan Bank advances were as follows.

2006	$ 2,262,023
2007	1,415,672
2008	1,280,921
2009	1,332,212
2010	1,678,942
	$ 7,969,770

Note 9
OTHER BORROWED FUNDS

The junior subordinated debentures of $7,217,000 at December 31, 2005 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $7,000,000 in trust preferred securities and $217,000 in common stock (wholly-owned by the Company) at December 31, 2005. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus 1.80% (6.29125% at December 31, 2005), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

Note 9
OTHER BORROWED FUNDS (Continued)

The trust preferred securities are tax-advantaged issues that currently qualify as Tier I capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust preferred securities issued by the trust.

The Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company has included $7,000,000 of trust preferred securities in its Tier I capital computation at December 31, 2005.

Note 10
INCOME TAXES

The provision for income taxes consists of the following:

	December 31, 2005	December 31, 2004
Current income tax expense:		
Federal	$ 2,137,157	$ 1,087,004
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	(309,650)	(32,713)
Accounting for bad debt expense	(82,173)	(55,080)
Writedown of other real estate owned		42,500
Federal Home Loan Bank stock dividends	10,098	6,290
Deferred compensation benefits	(82,070)	(112,231)
Deferred loan fee income	3,175	(29)
Goodwill amortization	106,033	105,700
	(354,587)	(45,563)
Total income tax expense	$ 1,782,570	$ 1,041,441

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, 2005 and 2004, there are no unused net operating losses or tax credits available for carryover to future periods for either financial reporting or tax reporting purposes.

A net deferred federal income tax asset of $233,633 is included in other assets as of December 31, 2005. A net deferred federal income tax liability of $242,325 is included in other liabilities as of December 31, 2004. The accumulated tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

Note 10
INCOME TAXES (Continued)

	December 31, 2005	December 31, 2004
Deferred tax assets:		
Excess of tax cost over financial cost for fixed assets	$ 35,208	$ 206,416
Allowance for loan losses	549,469	467,296
Deferred compensation benefits	924,130	842,060
Deferred loan fee income	24,459	27,634
Net unrealized depreciation on securities available for sale	142,297	20,926
Total deferred tax assets	1,675,563	1,564,332
Deferred tax liabilities:		
Depreciation	(889,639)	(1,370,497)
Federal Home Loan Bank stock dividends	(128,724)	(118,626)
Amortization	(423,567)	(317,534)
Total deferred tax liabilities	(1,441,930)	(1,806,657)
Total net deferred tax asset (liability)	$ 233,633	($ 242,325)

Federal income taxes currently payable of $7,836 and $92,753 at December 31, 2005 and 2004, respectively, are included in other liabilities.

Note 11
EMPLOYEE BENEFITS

KSOP 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 2005 and 2004 was $408,976 and $277,444, respectively. Employee salary reduction contributions of $282,412 and $262,092 were made in 2005 and 2004, respectively.

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, 2005 and 2004, the Company's accrued liability under the agreements was $2,719,330 and $2,476,646, 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, 2005 and 2004, respectively, include $6,769,459 and $6,213,762 in cash value of these life insurance policies.

Note 12
RELATED-PARTY TRANSACTIONS

At December 31, 2005 and 2004, 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 $5,074,675 and $2,344,235, respectively. During 2005, $3,957,342 of new loans were originated and repayments totaled $1,226,902. 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 13
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, 2005 and 2004, are as follows:

	December 31, 2005	December 31, 2004
Commitments to extend credit	$ 40,592,078	$ 27,029,276
Standby letters of credit	3,518,498	2,787,698
Total	$ 44,110,576	$ 29,816,974

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 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 2005 or 2004.

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 14
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, 2005 the Company had due from banks and federal funds sold of approximately $23,392,567 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 15
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, 2005 and 2004, are as follows:

Note 15
FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	$ 21,996,542	$ 21,996,542	$ 11,820,167	$ 11,820,167
Federal funds sold	13,800,000	13,800,000	5,000,000	5,000,000
Investment securities	76,782,153	76,784,498	22,385,840	22,389,657
Mortgage loans held for sale	1,259,354	1,259,354	892,327	892,327
Loans, net of unearned discount	185,799,452	184,471,795	182,183,046	185,708,673
Less allowance for loan losses	(2,314,075)	(2,314,075)	(2,084,570)	(2,084,570)
Loans, net of allowance	183,485,377	182,157,720	180,098,476	183,624,103
Financial liabilities:				
Deposits	280,168,440	280,218,515	208,190,352	208,863,931
Federal funds purchased	1,950,000	1,950,000	1,650,000	1,650,000
Federal Home Loan Bank advances	7,969,770	7,972,000	10,795,533	10,767,000
Other borrowed funds	7,217,000	7,217,000		
Unrecognized financial instruments:				
Commitments to extend credit	0	0	0	0
Standby letters of credit	0	0	0	0

Note 16
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, 2005 that the Bank could declare without the approval of the Comptroller of the Currency amounted to approximately $5,084,881.

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, 2005 and 2004, that the Company and Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2005, 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, 2005:						
Total capital (to risk-weighted assets)						
Consolidated	$ 30,460,163	14.6%	≥$16,736,960	≥8.0%	≥$20,921,200	≥10.0%
American National Bank	$ 27,918,896	13.4%	≥$16,635,920	≥8.0%	≥$20,794,900	≥10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	28,136,088	13.5%	≥8,368,480	≥4.0%	≥12,552,720	≥6.0%
American National Bank	25,594,821	12.3%	≥8,317,960	≥4.0%	≥12,476,940	≥6.0%
Tier I capital (to average assets)						
Consolidated	28,136,088	8.8%	≥12,777,944	≥4.0%	≥15,972,430	≥5.0%
American National Bank	25,594,821	8.1%	≥12,666,160	≥4.0%	≥15,832,700	≥5.0%
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%

Note 17
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 18
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.

Note 19
ACQUISITION OF GUARANTY BANK'S WICHITA FALLS BRANCH

On August 5, 2005, the Company purchased, in accordance with the terms of a Branch Purchase and Assumption Agreement, certain assets and liabilities of the Wichita Falls branch of Guaranty Bank. The transaction has been accounted for in accordance with SFAS No. 141, *"Business Combinations."*

A summary of the recorded amounts of assets acquired and liabilities assumed by the Company is as follows (in thousands):

Assets	
Loans	$ 341,609
Other assets	1,787
Total tangible assets acquired, net of cash received	343,396
Net cash received	55,454,334
Total tangible assets acquired	55,797,730
Liabilities	
Deposits	56,807,708
Other Liabilities	128,185
Total liabilities assumed	56,935,893
Liabilities assumed in excess of total tangible assets acquired	$ 1,138,163

The excess of liabilities assumed over the tangible assets acquired was recorded as a core deposit intangible of approximately $1,138,163 as of August 5, 2005.

Note 20
STATEMENT OF CASH FLOWS

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2005 and 2004 is presented as follows (in thousands):

	December 31, 2005	December 31, 2004
Cash transactions:		
Interest expense paid	$ 4,305,378	$ 3,070,783
Federal income taxes paid	$ 2,222,073	$ 938,545
Noncash transactions:		
Net unrealized depreciation on securities available for sale	($ 356,971)	($ 219,798)
Purchase of branch (more fully discussed in Note 19):		
Recorded amounts of tangible assets acquired, net of cash and cash equivalents	$ 343,396	$
Net cash received	55,454,334	
Total tangible assets acquired	55,797,730	
Liabilities assumed by the Company	56,935,893	
Liabilities assumed in excess of tangible assets acquired	$ 1,138,163	$

Consolidating Balance Sheet

AmeriBancShares, Inc. and Subsidiaries, December 31, 2005

ASSETS	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash and due from banks, noninterest bearing	$ 373,757	$ 80,720	$ 17,699,086
Time deposits in banks			4,295,000
Federal funds sold			13,800,000
Total cash and cash equivalents	373,757	80,720	35,794,086
Securities available for sale			73,727,665
Securities to be held to maturity			413,052
Other securities			808,650
Total investment securities			74,949,367
Mortgage loans held for sale			1,259,354
Loans	2,555,934		187,418,326
Less: Unearned discount	(386,561)		(23)
Allowance for loan losses	(103,308)		(2,210,767)
Loans, net	2,066,065		185,207,536
Premises and equipment, net	2,577,857	484,808	8,854,811
Accrued interest receivable			3,203,640
Goodwill		19,615	4,199,860
Intangible assets			1,090,740
Other assets	113,867	401,275	10,061,531
Total assets	$ 5,131,546	$ 986,418	$ 324,620,925
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand deposits	$	$	$ 66,831,194
Savings deposits			8,789,297
Money market and NOW accounts			84,513,653
Time certificates of deposit			120,535,780
Total deposits			280,669,924
Federal funds purchased			1,950,000
Federal Home Loan Bank advances			7,969,770
Other borrowed funds	2,949,780	838,444	
Accrued interest payable	1,366,779	18,541	323,040
Other liabilities	491,247	20,142	3,043,929
Total liabilities	4,807,806	877,127	293,956,663
Stockholders' equity:			
Common stock	1,000	1,000	1,680,000
Surplus			7,090,826
Undivided profits and capital reserves	322,740	108,291	22,169,659
Treasury stock at cost			
Accumulated other comprehensive loss:			
Net unrealized depreciation on securities available for sale			(276,223)
Total stockholders' equity	323,740	109,291	30,664,262
Total liabilities and stockholders' equity	$ 5,131,546	$ 986,418	$ 324,620,925

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 2,456	$ 484	$ 46,523	($ 501,484)	$ 17,701,542
				4,295,000
				13,800,000
2,456	484	46,523	(501,484)	35,796,542
		1,832,786		75,560,451
				413,052
30,664,262		31,307,244	(61,971,506)	808,650
30,664,262		33,140,030	(61,971,506)	76,782,153
				1,259,354
			(3,788,224)	186,186,036
				(386,584)
				(2,314,075)
			(3,788,224)	183,485,377
	640,028			12,557,504
		6,081	(1,406,998)	1,802,723
				4,219,475
				1,090,740
10,005	12,152	227,929	(217,866)	10,608,893
$ 30,676,723	$ 652,664	$ 33,420,563	($ 67,886,078)	$ 327,602,761

$	$	$	($ 501,484)	$ 66,329,710
				8,789,297
				84,513,653
				120,535,780
			(501,484)	280,168,440
				1,950,000
				7,969,770
		7,217,000	(3,788,224)	7,217,000
			(1,406,998)	301,362
	22,143		215,165	3,792,626
	22,143	7,217,000	(5,481,541)	301,399,198
7,500	1,000	5,040,000	(1,690,500)	5,040,000
20,910,885	866,159	10,878,386	(28,867,870)	10,878,386
10,034,561	(236,638)	11,443,400	(32,398,613)	11,443,400
		(882,000)		(882,000)
(276,223)		(276,223)	552,446	(276,223)
30,676,723	630,521	26,203,563	(62,404,537)	26,203,563
$ 30,676,723	$ 652,664	$ 33,420,563	($ 67,886,078)	$ 327,602,761

Consolidating Statement of Income

AmeriBancShares, Inc. and Subsidiaries, December 31, 2005

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Interest income:			
Interest and fees on loans	$ 194,164	$	$ 13,275,189
Interest on investment securities			1,547,513
Interest on time deposits in banks			94,572
Interest on federal funds sold			339,602
Total interest income	194,164		15,256,876
Interest expense:			
Interest on deposits:			
Savings			35,568
Money market and NOW accounts			565,301
Time			3,153,492
Total interest on deposits			3,754,361
Interest on federal funds purchased			79,782
Interest on Federal Home Loan Bank advances			378,665
Interest on other borrowed funds	65,829	17,797	
Total interest expense	65,829	17,797	4,212,808
Net interest income	128,335	(17,797)	11,044,068
Provision for loan losses	(20,000)		210,000
Net interest income after provision for loan losses	148,335	(17,797)	10,834,068
Other operating income:			
Service charges on deposit accounts			734,742
Trust fee income			3,321,398
Gain on sale of mortgage loans			648,614
Rent income			
Earnings from subsidiary			211,396
Other, net	1,195,252	683,987	670,132
Total other operating income	1,195,252	683,987	5,586,282
Other operating expenses:			
Salaries and bonuses	150,335	214,370	4,125,000
Employee benefits	28,448	45,996	1,913,083
Premises and equipment	16,142	74,773	1,510,662
Advertising	3,408	15,114	243,178
Data processing expense			508,477
Printing, stationery and supplies	2,183	18,237	185,165
Professional fees			131,035
Other operating expenses	916,285	186,463	1,880,123
Total other operating expenses	1,116,801	554,953	10,496,723
Income before income taxes	226,786	111,237	5,923,627
Provision for income taxes	89,897	36,730	1,720,215
Net income	$ 136,889	$ 74,507	$ 4,203,412

	AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
	$	$	$	($ 200,090)	$ 13,269,263
			35,432		1,582,945
					94,572
					339,602
			35,432	(200,090)	15,286,382
					35,568
					565,301
					3,153,492
					3,754,361
					79,782
					378,665
			192,849	(83,626)	192,849
			192,849	(83,626)	4,405,657
			(157,417)	(116,464)	10,880,725
					190,000
			(157,417)	(116,464)	10,690,725
					734,742
					3,321,398
					648,614
				1,234,727	1,234,727
	4,203,412		4,183,577	(8,598,385)	
				(1,212,003)	1,337,368
	4,203,412		4,183,577	(8,575,661)	7,276,849
					4,489,705
					1,987,527
		22,143		814,949	2,438,669
					261,700
					508,477
					205,585
			242		131,277
	7,910		1,323	(908,689)	2,083,415
	7,910	22,143	1,565	(93,740)	12,106,355
	4,195,502	(22,143)	4,024,595	(8,598,385)	5,861,219
	(2,689)	(7,529)	(54,054)		1,782,570
	$ 4,198,191	($ 14,614)	$ 4,078,649	($ 8,598,385)	$ 4,078,649

Consolidating Statement of Cash Flows

AmeriBancShares, Inc. and Subsidiaries, December 31, 2005

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash flows from operating activities:			
Net income (loss)	$ 136,889	$ 74,507	$ 4,203,412
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation	861,425	19,972	642,581
Amortization of intangibles		1,800	47,423
Provision for loan losses	(20,000)		210,000
Provision for (benefit from) deferred taxes	(306,075)	881	(49,393)
Gain on sale of mortgage loans			(648,614)
Gain on sale of other real estate owned			(14,403)
Loss on disposal of premises and equipment	5,240		3,262
Amortization of premium on investment securities			82,143
Accretion of discount on investment securities			(266,516)
Proceeds from sales of mortgage loans			42,649,978
Mortgage loans funded			(42,367,687)
Unconsolidated earnings from subsidiaries			(211,396)
(Increase) decrease in:			
Prepaid expenses	4,647	(52,274)	33,013
Accrued interest receivable			(636,937)
Income taxes receivable		(6,931)	
Miscellaneous other assets	(64,715)	57,738	(46,002)
Increase (decrease) in:			
Accrued interest payable	65,829	9,354	(22,274)
Income taxes payable	1,784	(14,510)	(42,617)
Other taxes payable			24,162
Other accrued expenses	(55,108)	21,740	245,819
Net cash provided by (used in) operating activities	629,916	112,277	3,835,954
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale			34,167,763
Proceeds from sales of securities available for sale			
Proceeds from maturities of securities held to maturity			143,658
Proceeds from other securities			387,000
Purchase of securities available for sale			(87,204,948)
Purchase of other securities			(229,600)
Purchase of cash value life insurance			(623,089)
Proceeds from purchase of branch			55,454,334
Purchase of trust assets			(44,100)
Cash paid to subsidiaries			
Dividends received from subsidiaries			
Net increase in loans	(102,405)		(2,692,605)
Purchase of premises and equipment	(1,115,720)	(112,998)	(872,019)
Proceeds from sale of premises and equipment	1,542,380		450
Proceeds from sale of other real estate owned			84,325
Net cash provided by (used in) investing activities	324,255	(112,998)	(1,428,831)
Cash flows from financing activities:			
Net increase (decrease) in deposits			15,543,795
Net increase in federal funds purchased			300,000
Net decrease in Federal Home Loan Bank advances			(2,825,763)
Net increase (decrease) in other borrowed funds	(660,000)	53,443	
Capital contributions			5,000,000
Dividends paid			(1,440,870)
Net cash provided by (used in) financing activities	(660,000)	53,443	16,577,162
Net increase (decrease) in cash and cash equivalents	294,171	52,722	18,984,285
Cash and cash equivalents at beginning of period	79,586	27,998	16,809,801
Cash and cash equivalents at end of period	$ 373,757	$ 80,720	$ 35,794,086

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 4,198,191	($ 14,614)	$ 4,078,649	($ 8,598,385)	$ 4,078,649
				1,523,978
				49,223
				190,000
				(354,587)
				(648,614)
				(14,403)
				8,502
				82,143
				(266,516)
				42,649,978
				(42,367,687)
(4,203,412)		(4,183,577)	8,598,385	
				(14,614)
		(6,081)	69,545	(573,473)
(2,689)	(7,529)	(10,929)	28,078	
		(217,000)		(269,979)
			(69,545)	(16,636)
		(1,496)	(28,078)	(84,917)
				24,162
	(75)			212,376
(7,910)	(22,218)	(340,434)		$ 4,207,585
				34,167,763
		196,565		196,565
				143,658
				387,000
		(2,029,351)		(89,234,299)
				(229,600)
				(623,089)
				55,454,334
				(44,100)
(5,000,000)		(5,015,000)	10,015,000	
1,440,870		1,440,870	(2,881,740)	
			(606,557)	(3,401,567)
				(2,100,737)
				1,542,830
				84,325
(3,559,130)		(5,406,916)	6,526,703	(3,656,917)
			(373,415)	15,170,380
				300,000
				(2,825,763)
		7,217,000	606,557	7,217,000
5,000,000	15,000		(10,015,000)	
(1,440,870)		(1,435,910)	2,881,740	(1,435,910)
3,559,130	15,000	5,781,090	(6,900,118)	18,425,707
(7,910)	(7,218)	33,740	(373,415)	18,976,375
10,366	7,702	12,783	(128,069)	16,820,167
$ 2,456	$ 484	$ 46,523	($ 501,484)	$ 35,796,542

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Of American National Bank

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Donna Stell
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Damon Whatley
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Flower Mound Mortgage Loan Department
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Vice President

American National Leasing Company, *Flower Mound*
E.B. Cloud
Leasing Agent

Archer Title of Texas
Judy McLemore
Vice President/Manager

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Don Whatley*
Ben D. Woody

**Advisory Director*

Team Members Pictured On the Back Cover
Left to Right

Kevin Goldstein
Trust & Investment Services

Tim Connolly
Trust & Investment Services

Delores Scarber
Operations

Jeff Schultz
Trust & Investment Services

Bill Franklin
Mortgage Loans

Sara Knight
Flower Mound Branch

Gloria Garcia
New Accounts

Blake Andrews
Operations

AmeriBancShares, Inc.

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