AmeriBancShares, Inc.

2013 ANNUAL REPORT

American National Bank & Trust™

To our Shareholders and Customers,

When ships navigate difficult waters, the maritime phrase often heard from the captain is "Steady as she goes." In other words, keep the ship upright, don't take on excess water, and remain calm and steadfast. In the banking arena, we have certainly come to appreciate that phrase. Even though 2013 and the prior four years have provided ample difficult waters for the entire financial industry, I am pleased to announce that AmeriBancShares is "Steady as she goes" and is performing very well during these challenging times. Proven techniques to operate in uncertain times provide the means to be steady and safe but looking to the future and adapting to new opportunities is a must if you are to be competitive in today's changing financial environment.

Modern banking has been forced to change from traditional methods of simply taking deposits and using those funds to loan out at some rate higher than paid in order to make a profit. Skyrocketing costs to cover health care benefits, taxation, lower loan demand as a result of a continuing sluggish economy, and compliance with overly burdensome governmental regulations, have shrunk margins to the point that ancillary means of income must be identified and implemented for banks to be successful. As a result of strategic planning by the Board and management, it was recognized several years ago that rough water could lie ahead for our industry, and that is why we have evolved from a bank with only traditional banking products, to a greatly diversified bank. Today, our bank offers a

Dwight Berry, President & CEO

comprehensive array of services that include the following:

- Complete Line of Standard Banking Products
- Full Trust Operations
- Complete Mortgage Products
- Real Estate Title Services
- Personal Investment Services
- Equipment and Auto Leasing
- Competitive Consumer Lending
- Commercial Loan Opportunities
- Five (5) Branch Banks
- Safety Deposit Vaults and ATMs
- Enhanced On-line Banking Service
- Premier Travel and Club Opportunities

And, it is with pleasure that I can announce that as of January 1, 2014, we have broadened our horizon once again, entering into the insurance business through a new subsidiary, AmNat Insurance Services, Inc. Needless to say, it is highly unusual for a financial institution our size to offer such a wide array of financial services.

I am pleased to report that as of December 31, 2013, owners of AmeriBancShares benefited in numerous ways as several important benchmarks were achieved, being:

- A net profit of $4.495 million was earned at the holding company level, and
- A very respectable 1.04% return on assets was achieved, and
- Stockholder's equity increased 6.3% to $47.1 million, and
- Two $.25 per share dividends totaling $1.03 million were paid, and
- Bank Tier 1 capital reached a new high of 12.04%, and
- Bank Risk based capital climbed to 19.10%.

Capital levels represent the financial strength of banks and it is both comforting and exciting that AmeriBancShares capital levels compare very favorably with the industry.

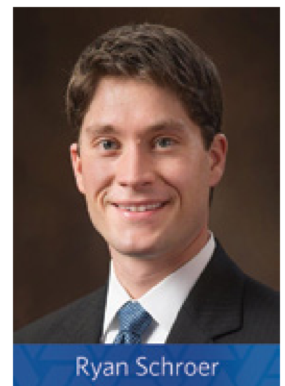
Nancy Bukowski, Kristin Morris, Scott Tucker

Our Trust Department is the largest trust facility in our market with approximately $1 billion in assets under management. Because of the significance of the trust operation, the name of the bank has been changed to American National Bank & Trust. In 2013, Senior Vice President J. Scott Tucker, CTFA, Vice President Kristin Morris, CTFA, and Administrative Assistant Nancy Bukowski, joined our trust staff that consists of over twenty highly skilled individuals with extensive experience in trust and investment services, and together, they welcome the opportunity to assist you in any way.

Bob Elmore

Retail banking is extremely important and we are very proud that Vice President Bob Elmore joined the bank this year in the installment lending department. Bob brings over thirty years of banking experience with him and is eager to assist with any consumer banking needs that customers may have.

Max Vordenbaum


Ryan Schroer

Board Governance continues to be sedulously progressive. Oil and gas lending is projected to be a growth area for us and we are proud to welcome Max Vordenbaum, a Registered Professional Engineer, to our Board of Directors. Further, with loan quality high and reserves elevated, consideration for future expansion is a priority, especially in the Dallas/Fort Worth area. Our Flower Mound branch is located in this dynamic metropolitan growth area and in 2013 we welcomed Vice President Ryan Schroer as he joined our commercial lending team there.

Due to circumstances beyond our control our downtown Wichita Falls branch was re-located

from its leased office space at the corner of 8th and Scott to the corner of 7th and Scott streets. We are committed to the Wichita Falls downtown market and thus, the purchase of this freestanding building cements our presence in this area.

J. Robert Scott

We mourn the loss of one of our long time Directors this year with the passing of J. Robert Scott. With Bob's extensive financial background in accounting and banking he was a tremendous resource for management decisions. He will certainly be missed.

Congratulations are bittersweet as Gail Natale, Vice President of Marketing, announced her retirement at the end of 2013. Gail has been very instrumental in the growth of the bank for the past twenty years. She always has a smile and a sparkle in her eyes. Her genuine attitude that no job was too big or too small as long as it helped to promote the bank in a positive manner was motivation to us all to strive to be the best we can be. We all wish her the best as she enjoys her retirement.

Gail Natale

We have a fantastic team of very talented individuals who are dedicated to performing their duties in a manner that will always provide polite and efficient service to our customers. You may be assured that integrity and honesty are not the goals for them, but the standard. We look forward to 2014 with all the many opportunities it has to offer. We pledge to remain, "Steady as she goes" while searching for growth opportunities, thus, maximizing your investment.

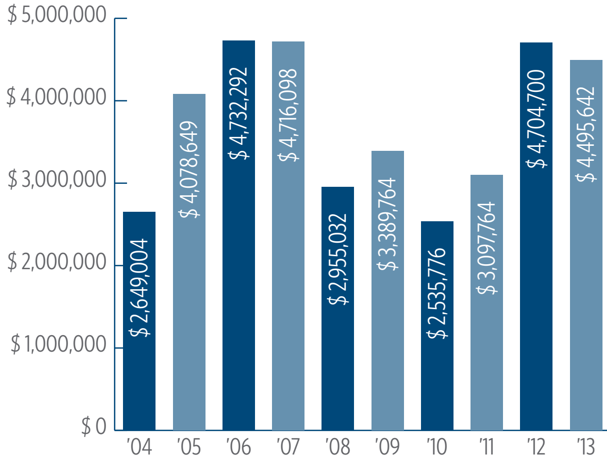
As always, thanks to you, our shareholder, for your investment in AmeriBancShares and your continued support.

Dwight Berry
President & CEO

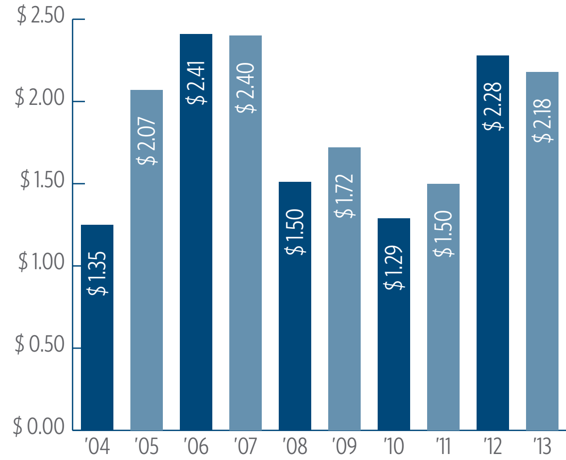
	YEAR ENDED DECEMBER 31, 2013	YEAR ENDED DECEMBER 31, 2012	% CHANGE
Demand Deposits	24,327,657	27,692,649	−12.2%
Total Deposits	363,161,670	397,132,392	−8.6%
Total Assets	427,929,500	463,478,243	−7.7%
Total Loans (net)	240,068,323	251,423,895	−4.5%
Reserve for Loan Losses	5,246,410	5,484,883	−4.4%
Return on Earning Assets	3.47%	3.92%	−0.5%
Cost of Funds	0.40%	0.53%	−0.1%
Average Net Spread	3.07%	3.39%	−0.3%
Growth in Capital	2,770,813	5,070,468	−45.4%
Total Capital Beginning	44,328,711	39,258,243	
Total Capital Ending	47,099,524	44,328,711	6.3%
Interest Income	14,683,714	16,899,342	−13.1%
Interest Expense	1,237,323	1,900,863	−34.9%
Net Interest Income	13,446,391	14,998,479	−10.4%
Non-Interest Income	10,135,962	10,070,914	0.7%
Non-Interest Expense	17,706,193	18,512,284	−4.4%
Profit Before Provision	5,876,160	6,557,109	−10.4%
(Credit to) Provision for Loan Losses	(382,000)	30,500	−1352.5%
Income Taxes	1,762,518	1,821,909	−3.3%
Net Income	4,495,642	4,704,700	−4.4%
Earnings Per Share	2.18	2.28	−4.4%
Dividends Paid	0.50	0.25	100.0%
Book Value	22.80	21.46	6.2%
Return on Average Assets	1.04	1.05	−1.0%
Return on Average Equity	9.88	11.15	−11.4%

YEAR END STATISTICS

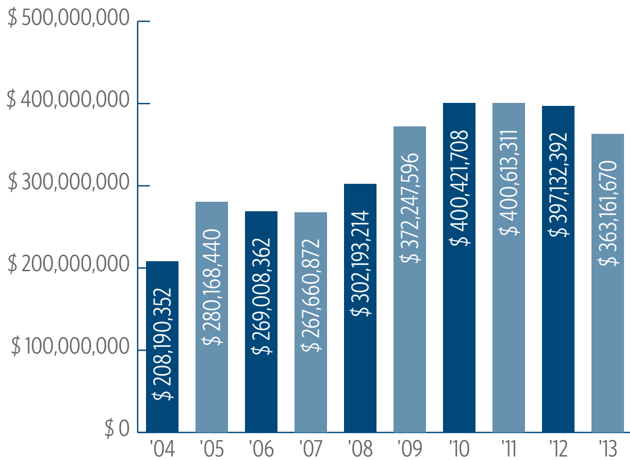
CONSOLIDATED NET INCOME



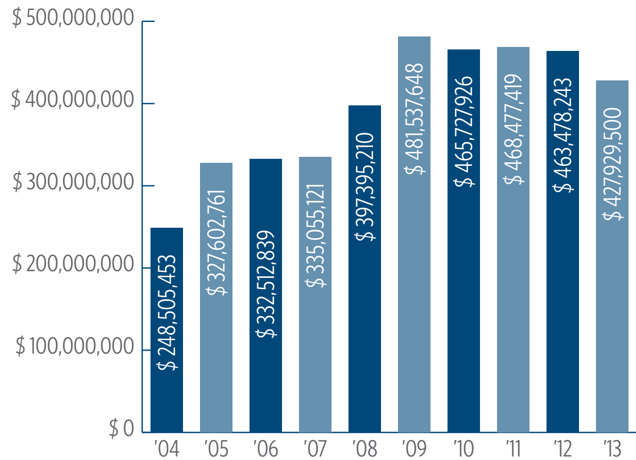
EARNINGS PER SHARE



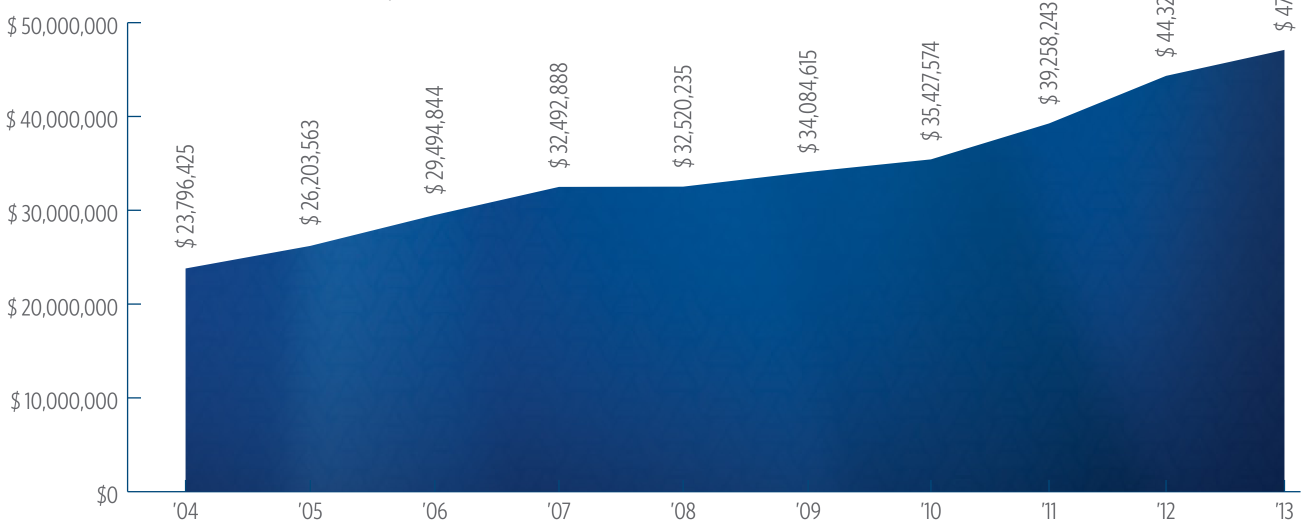
YEAR END DEPOSITS



YEAR END ASSETS



STOCKHOLDERS' EQUITY



The Board of Directors
AmeriBancShares, Inc. and Subsidiaries
Wichita Falls, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AmeriBancShares, Inc. and Subsidiaries (Company) which comprise the consolidated balance sheet as of December 31, 2013 and 2012 and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based upon 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in accordance 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 as a whole. The consolidating schedules presented following the Notes to Consolidated Financial Statements are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Payne & Smith, LLC

February 28, 2014

ASSETS	2013	2012
Cash and due from banks	$ 10,911,153	$ 21,566,899
Interest bearing deposits in banks	27,216,000	41,850,633
Total cash and equivalents	38,127,153	63,417,532
Securities available for sale	107,182,245	102,052,661
Securities to be held to maturity (approximate market value of $777,136 in 2013 and $806,212 in 2012)	775,000	800,000
Other securities (approximate market value of $725,450 in 2013 and $839,250 in 2012)	725,450	839,250
Total investments	108,682,695	103,691,911
Mortgage loans held for sale	1,968,498	3,378,704
Loans	246,794,075	258,233,010
Unearned discount	(1,479,342)	(1,324,232)
Allowance for loan losses	(5,246,410)	(5,484,883)
Net loans	240,068,323	251,423,895
Premises and equipment, net	15,354,397	15,282,802
Accrued interest receivable	1,299,476	1,564,331
Goodwill	4,219,975	4,219,975
Other assets	18,208,983	20,499,093
Total assets	$ 427,929,500	$ 463,478,243

LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 24,327,657	$ 27,692,649
Savings deposits	181,509,876	186,997,772
Money market and NOW accounts	76,876,199	85,534,339
Time certificates of deposit	80,447,938	96,907,632
Total deposits	363,161,670	397,132,392
Federal funds purchased	–	500,000
Repurchase agreements	3,234,134	4,291,565
Other borrowed funds	720,729	3,001,915
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	49,624	70,742
Other liabilities	6,446,819	6,935,918
Total liabilities	380,829,976	419,149,532
Stockholders' Equity		
Common Stock (par value $2.50; 5,000,000 shares authorized, 2,114,430 issued and 2,065,430 outstanding at 2013 and 2012)	5,286,075	5,286,075
Surplus	13,023,645	13,024,304
Undivided profits	29,995,945	26,533,018
Treasury stock at cost (49,000 shares)	(882,000)	(882,000)
Unearned KSOP stock	(651,314)	(868,485)
Accumulated other comprehensive income (loss):		
Net unrealized depreciation on derivatives used for cash flow hedges, net of tax ($0) in 2013 and ($20,303) in 2012	–	(39,412)
Net unrealized appreciation on securities available for sale, net of tax of $168,544 in 2013 and $656,927 in 2012	327,173	1,275,211
Total stockholders' equity	47,099,524	44,328,711
Total liabilities and stockholders' equity	$ 427,929,500	$ 463,478,243

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

	2013	2012
INTEREST INCOME:		
Interest and fees on loans	$ 12,732,100	$ 14,736,591
Interest on investment securities	1,797,040	2,011,150
Interest on interest bearing deposits in banks	154,574	151,601
Total interest income	14,683,714	16,899,342
INTEREST EXPENSE:		
Interest on deposits	993,030	1,335,488
Interest on federal funds purchased	54	37
Interest on repurchase agreements	3,616	4,104
Interest on other borrowed funds	33,745	160,523
Interest on Junior Subordinated Debentures	206,878	400,711
Total interest expense	1,237,323	1,900,863
Net interest income	13,446,391	14,998,479
(Credit to) provision for loan losses	(382,000)	30,500
Net interest income after (credit to) provision for loan losses	13,828,391	14,967,979
OTHER OPERATING INCOME:		
Service charges on deposit accounts	557,206	632,724
Trust fee income	4,173,335	4,007,218
Gain on sale of mortgage loans	1,728,720	2,341,200
Gain on sale of other real estate owned	553,768	–
(Loss) gain on sale of securities	(3,250)	48,619
Rent income	718,395	805,714
Other, net	2,396,310	2,235,439
Total other operating income	10,124,484	10,070,914
OTHER OPERATING EXPENSES:		
Salaries and employee benefits	10,213,495	10,499,096
Premises and equipment	2,093,115	2,179,460
Data processing expense	828,299	696,250
Other operating expenses	4,559,806	5,137,478
Total other operating expenses	17,694,715	18,512,284
Income before income taxes	6,258,160	6,526,609
Provision for income taxes	1,762,518	1,821,909
Net income	4,495,642	4,704,700
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in net unrealized gain/loss on securities available for sale, net of taxes of ($488,384) in 2013 and $275,401 in 2012	(951,288)	583,220
Less reclassification adjustment for losses (gains) on sales of securities available for sale	3,250	(48,619)
	(948,038)	534,601
Change in fair value of derivatives used for cash flow hedges, net of taxes of $20,304 in 2013 and $73,478 in 2012	39,412	142,633
Total other comprehensive (loss) income	(908,626)	677,234
Total comprehensive income	$ 3,587,016	$ 5,381,934
Net income per share of common stock	$ 2.18	$ 2.28

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

	Common Stock Number of Shares	Common Stock Amount	Surplus	Undivided Profits and Capital Reserves	Treasury Stock	Unearned KSOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance January 1, 2012	2,114,430	$ 5,286,075	$ 13,036,584	$ 22,344,676	($ 882,000)	($ 1,085,657)	$ 558,565	$ 39,258,243
Net income	–	–	–	4,704,700	–	–	–	4,704,700
Other comprehensive income	–	–	–	–	–	–	677,234	677,234
Unearned KSOP share released	–	–	(12,280)	–	–	217,172	–	204,892
Cash dividends, $.25 per common share	–	–	–	(516,358)	–	–	–	(516,358)
Balance December 31, 2012	2,114,430	5,286,075	13,024,304	26,533,018	(882,000)	(868,485)	1,235,799	44,328,711
Net income	–	–	–	4,495,642	–	–	–	4,495,642
Other comprehensive loss	–	–	–	–	–	–	(908,626)	(908,626)
Unearned KSOP share released	–	–	(659)	–	–	217,171	–	216,512
Cash dividends, $.50 per common share	–	–	–	(1,032,715)	–	–	–	(1,032,715)
Balance December 31, 2013	2,114,430	$ 5,286,075	$ 13,023,645	$ 29,995,945	($ 882,000)	($ 651,314)	$ 327,173	$ 47,099,524

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,495,642	$ 4,704,700
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,482,669	1,592,446
(Credit to) provision for loan losses	(382,000)	30,500
Provision for other real estate owned losses	115,520	92,191
Provision for deferred taxes	9,955	6,106
(Gain) loss on sale of securities available for sale	3,250	(48,619)
Gain on sale of mortgage loans	(1,728,720)	(2,341,200)
(Gain) loss on sale of other real estate owned	(553,768)	104,450
Gain on sale of premises and equipment	(7,089)	(13,451)
Amortization of premium on investment securities	702,029	700,872
Accretion of discount on investment securities	(6,145)	(1,979)
Proceeds from sales of mortgage loans	81,599,720	108,074,626
Mortgage loans funded	(78,458,449)	(105,769,000)
(Increase) decrease in:		
Prepaid expenses	(98,280)	717,423
Accrued interest receivable	264,856	73,061
Income taxes receivable	108,563	167,358
Miscellaneous other assets	225,979	(438,615)
Increase (decrease) in:		
Accrued interest payable	(21,118)	(61,549)
Other taxes payable	425	25,003
Other accrued expenses	251,690	(239,377)
Net cash provided by operating activities	8,004,729	7,374,946
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturing securities available for sale	36,355,977	32,786,711
Proceeds from sale of securities available for sale	4,996,967	7,837,984
Proceeds from maturing securities held to maturity	25,000	
Proceeds from sale of other securities	115,000	436,600
Purchase of securities available for sale	(48,618,083)	(36,874,515)
Purchase of securities to be held to maturity	–	(800,000)
Purchase of other securities	(1,200)	(2,500)
Purchase of cash value life insurance	(442,243)	(546,435)
Net decrease in loans	11,677,317	5,651,687
Purchase of premises and equipment	(2,205,965)	(2,052,510)
Proceeds from sale of premises and equipment	664,788	807,779
Proceeds from sale of other real estate owned	2,762,874	1,934,945
Net cash provided by investing activities	5,330,432	9,179,746
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	(33,970,722)	(3,480,919)
Net decrease in federal funds purchased	(500,000)	–
Net decrease in repurchase agreements	(1,057,430)	(304,042)
Net decrease in other borrowed funds	(2,064,673)	(6,261,319)
Dividends paid	(1,032,715)	(516,358)
Net cash used in financing activities	(38,625,540)	(10,562,638)
Net (decrease) increase in cash and cash equivalents	(25,290,379)	5,992,054
Cash and cash equivalents at beginning of period	63,417,532	57,425,478
Cash and cash equivalents at end of period	$ 38,127,153	$ 63,417,532

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, Archer City 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, real estate title 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 & Trust, 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 & Trust. 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, 2013 and 2012.

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: Investment 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. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Fees associated with originating loans, to the extent they exceed the direct origination costs are generally deferred and recognized over the life of the loan as an adjustment of yield.

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 and are accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual.

A troubled debt restructured loan (TDR) is a loan which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms,

which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or reaging, extensions, deferrals, renewals, and rewrites. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for further impairment.

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses inherent in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies". The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for loan losses consists of three elements: (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends adjusted for general economic conditions and other qualitative risk factors both internal and external to the Company; and (iii) unallocated general valuation allowances.

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. Other real estate owned, in the amount of $2,043,552 and $4,310,268 at December 31, 2013 and 2012, respectively, is carried at the lower of fair value minus estimated selling costs or cost. 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.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no liability for tax penalties has been included in the consolidated financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2010.

GOODWILL: Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. At least annually or more frequently if circumstances dictate, management assesses qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that goodwill is impaired. If, after assessing the totality of events and circumstances, management concludes that it is not more likely than not that goodwill is impaired, then no further action is taken. If, however, management concludes otherwise, then the fair value of goodwill is determined and tested for impairment by comparing the fair value with the carrying amount in accordance with ASC Topic 350, *Intangibles-Goodwill and Other*.

DERIVATIVE FINANCIAL INSTRUMENTS: Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value.

Interest Rate Swap Agreements: For asset/liability management purposes, the Company uses interest rate swap agreements

to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notational amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company's variable rate debt to a fixed rate (cash flow hedge).

The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

For cash flow hedges, the net settlement (upon close-out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet specified hedging criteria would be recorded at fair value with changes in fair value recorded in income. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled, or classified as a trading activity.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

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 2012 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2013.

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.

COMPREHENSIVE INCOME: Comprehensive income includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale and the change in fair value of derivatives used for cash flow hedges.

FAIR VALUES OF FINANCIAL INSTRUMENTS: ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

SUBSEQUENT EVENTS: The Company has evaluated subsequent events and transactions for potential recognition or disclosure through February 28, 2014, the date these financial statements were available to be issued.

NOTE 2: INVESTMENT SECURITIES

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

	DECEMBER 31, 2013			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Securities Available For Sale				
United States Treasury securities	$ 20,144,680	$ –	$ –	$ 20,144,680
United States Agency securities	55,380,919	166,600	(642,319)	54,905,200
Municipal securities	22,545,646	1,051,938	(64,314)	23,533,270
Corporate bonds	5,132,400	38,000	0	5,170,400
Mortgage-backed securities	3,409,184	1,659	(55,847)	3,354,996
Equity securities	73,699	–	–	73,699
Totals	$ 106,686,528	$ 1,258,197	($ 762,480)	$ 107,182,245
Securities Held to Maturity				
Municipal securities	$ 775,000	$ 9,214	($ 7,078)	$ 777,136
Totals	$ 775,000	$ 9,214	($ 7,078)	$ 777,136
Other securities	$ 725,450	–	–	$ 725,450

	DECEMBER 31, 2012			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Securities Available For Sale				
United States Agency securities	$ 70,673,779	$ 565,800	($ 6,600)	$ 71,232,979
Municipal securities	19,680,363	1,272,110	(12,931)	20,939,542
Corporate bonds	5,280,224	71,651	(3,950)	5,347,925
Mortgage-backed securities	4,412,240	46,058	–	4,458,298
Equity securities	73,917	–	–	73,917
Totals	$ 100,120,523	$ 1,955,619	($ 23,481)	$ 102,052,661
Securities Held to Maturity				
Municipal securities	$ 800,000	$17,932	($11,720)	$ 806,212
Totals	$ 800,000	$17,932	($11,720)	$ 806,212
Other securities	$ 839,250	–	–	$ 839,250

Other securities consist of common stock in the Federal Reserve Bank, Federal Home Loan Bank, Independent Bankers Financial Corporation and an investment in a Special Purpose Entity (see Note 10).

The amortized cost and estimated market value of debt securities at December 31, 2013, 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	$ 3,739,903	$ 3,767,913	$ 50,000	$ 49,725
Due after one year through five years	81,556,926	81,259,558	225,000	220,168
Due after five years through ten years	8,828,445	8,843,933	400,000	403,924
Due after ten years	9,078,371	9,882,146	100,000	103,319
	103,203,645	103,753,550	775,000	777,136
Mortgage-backed securities	3,409,184	3,354,996	0	0
Equity securities	73,699	73,699	0	0
Totals	$ 106,686,528	$ 107,182,245	$ 775,000	$ 777,136

Proceeds from sales of available for sale securities for the years ended December 31, 2013 and 2012 were approximately

$4,996,967and $7,837,984, respectively. No gross gains were realized on sales of available for sale securities during 2013. Gross gains of $48,619 were realized on sales of available for sale securities during 2012. Gross losses of $3,250 were realized on sales of available for sale securities during 2013. No gross losses were realized on sales of available for sale securities during 2012.

Investment securities with a recorded value of approximately $78,913,650 and $74,585,460 at December 31, 2013 and 2012, 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, 2013 and 2012 are summarized as follows:

DECEMBER 31, 2013	LESS THAN 12 MONTHS		12 MONTHS OR MORE	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
SECURITIES AVAILABLE FOR SALE				
United States Agency securities	$ 34,445,150	($ 550,969)	$ 4,957,100	($ 91,350)
Municipal securities	4,722,775	(57,992)	906,994	(6,322)
Corporate bonds	3,315,938	(55,847)	–	–
	$ 42,483,863	($ 664,808)	$ 5,864,094	($ 97,672)
SECURITIES HELD TO MATURITY				
Municipal securities	$ 296,467	($ 3,533)	$ 196,455	($ 3,545)
	$ 296,467	($ 3,533)	$ 196,455	($ 3,545)

DECEMBER 31, 2012	LESS THAN 12 MONTHS		12 MONTHS OR MORE	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
SECURITIES AVAILABLE FOR SALE				
United States Agency securities	$ 4,993,400	($ 6,600)	$ –	$ –
Municipal securities	2,875,677	(12,931)	–	–
Corporate bonds	2,703,475	(3,950)	–	–
	$ 10,572,552	($ 23,481)	$ –	$ –
SECURITIES HELD TO MATURITY				
Municipal securities	$ 438,280	($ 11,720)	–	–
	$ 438,280	($ 11,720)	$ –	$ –

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, 2013 and 2012, 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 intent and 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, 2013	DECEMBER 31, 2012
Real estate		
1-4 family construction	$ 1,201,755	$ 1,493,944
Construction, land development and other land	7,702,363	6,177,698
Revolving 1-4 family residential	886,675	831,170
1-4 family residential	45,474,251	46,827,837
Multi-family residential	3,368,216	3,076,164
Nonfarm nonresidential - owner occupied	54,581,818	50,695,587
Nonfarm nonresidential - nonowner occupied	80,845,692	97,130,865
Farmland	3,424,158	4,361,565
Commercial and industrial	16,297,485	17,544,710
Consumer	11,976,293	13,555,884
All other loans	3,704,420	3,549,247
Lease financing receivable	17,306,739	12,954,280
Overdrafts	24,210	34,059
Total loans	$ 246,794,075	$ 258,233,010

At December 31, 2013 and 2012, the Company had total commercial real estate loans of $147,699,845 and $158,574,258, respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 18% and 15%, respectively, of total risk based capital at December 31, 2013 and 2012. The Company had non-owner occupied commercial real estate loans representing 175% and 217%, respectively, of total risk based capital at December 31, 2013 and 2012. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2013 and 2012 the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower, and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

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 $218,716,430 and $185,432,983 at December 31, 2013 and 2012, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $1,059,987 and $913,842 at December 31, 2013 and 2012, respectively.

Originated mortgage servicing rights capitalized at December 31, 2013 and 2012, are $1,721,924 and $1,498,580, respectively, and are included in other assets. The fair values of these rights were $2,105,146 and $1,617,161 at December 31, 2013 and 2012, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 11.46% and 11.56% for 2013 and 2012, respectively, and a weighted average prepayment speed of 5.621% and 11.291% for 2013 and 2012, respectively.

A summary of the changes in servicing rights is as follows:

	2013	2012
Balance at beginning of year	$ 1,498,580	$ 1,136,605
Origination	495,623	615,962
Amortization	(272,279)	(253,987)
Impairments	–	–
Balance at end of year	$ 1,721,924	$ 1,498,580

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2013 and 2012, including mortgage loans held for resale less loans on nonaccrual, are as follows:

	2013	2012
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 18,600,803	$ 26,979,029
Over three months through twelve months	44,613,773	30,750,633
Over one year through five years	105,117,430	115,214,355
Over five years	45,722,144	47,099,353
Total fixed rate loans	$ 214,054,150	$ 220,043,370
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 19,101,194	$ 28,732,754
Annually or more frequently, but less frequently than quarterly	2,833,215	2,546,043
Every five years or more frequently, but less frequently than annually	4,511,241	5,357,838
Less frequently than every five years	177,873	180,519
Total variable rate loans	$ 26,623,523	$ 36,817,154

An analysis of the allowance for loan losses for the years ended December 31, 2013 and 2012 is as follows:

DECEMBER 31, 2013	BEGINNING BALANCE	PROVISION	CHARGE-OFFS	RECOVERIES	ENDING BALANCE
Real Estate					
1-4 family construction	$ 63,283	($ 42,860)	$ –	$ –	$ 20,423
Construction, land development and other land	337,195	(47,777)	–	–	289,418
Revolving 1-4 family residential	2,909	194	–	–	3,103
1-4 family residential	632,655	(177,349)	(34,655)	182,714	603,365
Multi-family residential	27,685	2,628	–	–	30,313
Nonfarm nonresidential - owner occupied	620,407	49,764	–	–	670,171
Nonfarm nonresidential - nonowner occupied	2,816,416	(701,833)	–	–	2,114,583
Farmland	26,169	(5,624)	–	–	20,545
Commercial and industrial	205,714	27,483	(4,816)	–	228,381
Consumer	59,956	10,477	(2,378)	4,766	72,821
All other loans	12,423	543	–	–	12,966
Lease financing receivable	41,793	87,411	(2,104)	–	127,100
Overdrafts	–	–	–	–	–
Unallocated	638,278	414,943	–	–	1,053,221
Balances for year ended December 31, 2013	$ 5,484,883	($ 382,000)	($ 43,953)	$ 187,480	$ 5,246,410

DECEMBER 31, 2012	BEGINNING BALANCE	PROVISION	CHARGE-OFFS	RECOVERIES	ENDING BALANCE
Real Estate					
1-4 family construction	$ 124,771	($ 78,456)	$ –	$ 16,968	$ 63,283
Construction, land development and other land	333,425	333,016	(329,246)	–	337,195
Revolving 1-4 family residential	2,791	118	–	–	2,909
1-4 family residential	658,771	18,710	(180,808)	135,982	632,655
Multi-family residential	24,750	2,935	–	–	27,685
Nonfarm nonresidential - owner occupied	547,293	73,114	–	–	620,407
Nonfarm nonresidential - nonowner occupied	3,101,130	(284,714)	–	–	2,816,416
Farmland	15,642	10,527	–	–	26,169
Commercial and industrial	230,519	(24,898)	(2,840)	2,933	205,714
Consumer	45,395	22,534	(10,436)	2,463	59,956
All other loans	25,305	(12,882)	–	–	12,423
Lease financing receivable	47,449	(6,535)	(549)	1,428	41,793
Overdrafts	–	–	–	–	–
Unallocated	661,247	(22,969)	–	–	638,278
Balances for year ended December 31, 2012	$ 5,818,488	$ 30,500	($ 523,879)	$ 159,774	$ 5,484,883

The allocation of a portion of the allowance for loan losses to one category does not preclude its availability to absorb losses in other categories.

Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2013 and 2012 follows:

DECEMBER 31, 2013	LOAN IMPAIRMENT EVALUATION			ALLL IMPAIRMENT ALLOCATIONS		
	INDIVIDUALLY	COLLECTIVELY	TOTAL LOANS	INDIVIDUALLY	COLLECTIVELY	TOTAL ALLL
Real Estate						
1-4 family construction	$ 54,880	$ 1,146,875	$ 1,201,755	$ –	$ 20,423	$ 20,423
Construction, land development and other land	382,030	7,320,333	7,702,363	28,443	260,975	289,418
Revolving 1-4 family	–	886,675	886,675	–	3,103	3,103
1-4 family residential	2,420,619	43,053,632	45,474,251	104,573	498,792	603,365
Multi-family residential	–	3,368,216	3,368,216	–	30,313	30,313
Nonfarm nonresidential - owner occupied	968,102	53,613,716	54,581,818	–	670,171	670,171
Nonfarm nonresidential - nonowner occupied	6,282,015	74,563,677	80,845,692	250,490	1,864,093	2,114,583
Farmland	–	3,424,158	3,424,158	–	20,545	20,545
Commercial and industrial	41,872	16,255,613	16,297,485	30,000	198,381	228,381
Consumer	5,177	11,971,116	11,976,293	–	72,821	72,821
All other loans	–	3,704,420	3,704,420	–	12,966	12,966
Lease financing receivable	–	17,306,739	17,306,739	–	127,100	127,100
Overdrafts	–	24,210	24,210	–	–	–
Unallocated	–	–	–	–	1,053,221	1,053,221
	$ 10,154,695	$ 236,639,380	$ 246,794,075	$ 413,506	$ 4,832,904	$ 5,246,410

DECEMBER 31, 2012	LOAN IMPAIRMENT EVALUATION			ALLL IMPAIRMENT ALLOCATIONS		
	INDIVIDUALLY	COLLECTIVELY	TOTAL LOANS	INDIVIDUALLY	COLLECTIVELY	TOTAL ALLL
Real Estate						
1-4 family construction	$ –	$ 1,493,944	$ 1,493,944	$ –	$ 63,283	$ 63,283
Construction, land development and other land	1,166,085	5,011,613	6,177,698	78,462	258,733	337,195
Revolving 1-4 family	–	831,170	831,170	–	2,909	2,909
1-4 family residential	1,377,083	45,450,754	46,827,837	–	632,655	632,655
Multi-family residential	–	3,076,164	3,076,164	–	27,685	27,685
Nonfarm nonresidential - owner occupied	1,063,011	49,632,576	50,695,587	–	620,407	620,407
Nonfarm nonresidential - nonowner occupied	3,695,930	93,434,935	97,130,865	480,542	2,335,874	2,816,416
Farmland	–	4,361,565	4,361,565	–	26,169	26,169
Commercial and industrial	62,672	17,482,038	17,544,710	30,000	175,714	205,714
Consumer	2,739	13,553,145	13,555,884	–	59,956	59,956
All other loans	–	3,549,247	3,549,247	–	12,423	12,423
Lease financing receivable	–	12,954,280	12,954,280	–	41,793	41,793
Overdrafts	–	34,059	34,059	–	–	–
Unallocated	–	–	–	–	638,278	638,278
	$ 7,367,520	$ 250,865,490	$ 258,233,010	$ 589,004	$ 4,895,879	$ 5,484,883

The Company's individual ALLL allocations are established for probable losses on specific loans. The Bank's collective ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics. The Company's unallocated portion of ALLL is determined based on general economic conditions and other qualitative risk factors both internal and external to the Company.

Past Due Loans

The following is a summary of past due and non-accrual loans at December 31, 2013 and 2012:

DECEMBER 31, 2013		PAST DUE 90 DAYS OR MORE		
	30-89 DAYS PAST DUE	STILL ACCRUING	NON-ACCRUAL	TOTAL PAST DUE
Real Estate				
1-4 family construction	$ –	$ –	$ 54,880	$ 54,880
Construction, land development and other land	–	–	382,030	382,030
Revolving 1-4 family	–	–	–	–
1-4 family residential	574,365	–	1,471,949	2,046,314
Multi-family residential	–	–	–	–
Nonfarm nonresidential - owner occupied	–	–	968,102	968,102
Nonfarm nonresidential - nonowner occupied	–	–	5,160,890	5,160,890
Farmland	–	–	–	–
Commercial and industrial	–	–	41,872	41,872
Consumer	761,436	–	5,177	766,613
All other loans	–	–	–	–
Lease financing receivable	1,113	–	–	1,113
Overdrafts	–	–	–	–
	$ 1,336,914	$ –	$ 8,084,900	$ 9,421,814

DECEMBER 31, 2012		PAST DUE 90 DAYS OR MORE		
	30-89 DAYS PAST DUE	STILL ACCRUING	NON-ACCRUAL	TOTAL PAST DUE
Real Estate				
1-4 family construction	$ –	$ –	$ –	$ –
Construction, land development and other land	–	–	1,029,600	1,029,600
Revolving 1-4 family	–	–	–	–
1-4 family residential	1,517,253	–	1,377,083	2,894,336
Multi-family residential	–	–	–	–
Nonfarm nonresidential - owner occupied	–	–	1,063,011	1,063,011
Nonfarm nonresidential - nonowner occupied	–	–	1,216,086	1,216,086
Farmland	–	–	–	–
Commercial and industrial	91,222	–	62,672	153,894
Consumer	856,356	–	2,739	859,095
All other loans	–	–	–	–
Lease financing receivable	1,555	–	–	1,555
Overdrafts	–	–	–	–
	$ 2,466,386	$ –	$ 4,751,191	$ 7,217,577

Impaired Loans

The following is a summary of information pertaining to impaired loans at December 31, 2013 and 2012 is as follows:

DECEMBER 31, 2013	IMPAIRED LOAN WITH A VALUATION ALLOWANCE			IMPAIRED LOAN WITHOUT A VALUATION ALLOWANCE		
	RECORDED INVESTMENT	UNPAID PRINCIPAL	RELATED ALLOWANCE	RECORDED INVESTMENT	UNPAID PRINCIPAL	RELATED ALLOWANCE
Real Estate						
1-4 family construction	$ –	$ –	$ –	$ 54,880	$ 54,880	$ –
Construction, land development and other land	118,443	118,443	28,443	263,587	263,587	–
Revolving 1-4 family	–	–	–	–	–	–
1-4 family residential	789,992	789,992	104,573	1,630,627	1,630,627	–
Multi-family residential	–	–	–	–	–	–
Nonfarm nonresidential - owner occupied	–	–	–	968,102	968,102	–
Nonfarm nonresidential - nonowner occupied	5,125,189	5,125,189	250,490	1,156,826	1,156,826	–
Farmland	–	–	–	–	–	–
Commercial and industrial	41,872	41,872	30,000	–	–	–
Consumer	–	–	–	5,177	5,177	–
All other loans	–	–	–	–	–	–
Lease financing receivable	–	–	–	–	–	–
Overdrafts	–	–	–	–	–	–
Balance at December 31, 2013	$ 6,075,496	$ 6,075,496	$ 413,506	$ 4,079,199	$ 4,079,199	$ –

DECEMBER 31, 2012	IMPAIRED LOAN WITH A VALUATION ALLOWANCE			IMPAIRED LOAN WITHOUT A VALUATION ALLOWANCE		
	RECORDED INVESTMENT	UNPAID PRINCIPAL	RELATED ALLOWANCE	RECORDED INVESTMENT	UNPAID PRINCIPAL	RELATED ALLOWANCE
Real Estate						
1-4 family construction	$ –	$ –	$ –	$ –	$ –	$ –
Construction, land development and other land	136,485	136,485	78,462	1,029,600	1,029,600	–
1-4 family residential	–	–	–	1,377,083	1,377,083	–
Multi-family residential	–	–	–	–	–	–
Nonfarm nonresidential - owner occupied	–	–	–	1,063,011	1,063,011	–
Nonfarm nonresidential - nonowner occupied	3,695,930	3,695,930	480,542	–	–	–
Commercial and industrial	62,672	62,672	30,000	–	–	–
Consumer	–	–	–	2,739	2,739	–
All other loans	–	–	–	–	–	–
Lease financing receivable	–	–	–	–	–	–
Overdrafts	–	–	–	–	–	–
Balance at December 31, 2012	$ 3,895,087	$ 3,895,087	$ 589,004	$ 3,472,433	$ 3,472,433	$ –

Additional information pertaining to impaired loans is as follows:

	2013	2012
Average impaired loans	$ 8,130,765	$ 10,977,713
Interest income recognized on impaired loans	$ 351,793	$ 398,196
Additional interest income that would have been recognized if the loans had been on the accrual basis	$ 253,852	$ 252,042

Troubled Debt Restructuring

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. The restructuring of a loan is considered a troubled debt restructuring if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. During 2013 and 2012, the Company had TDR's totaling $2,937,108 and $3,440,789 respectively, a significant portion of which were on nonaccrual status. During the years ended December 31, 2013 and 2012, the Company had approximately $598,000 and $5,086,000 in loans modified as TDR's. These restructurings did not significantly impact the Company's determination of the allowance for loan losses. During the years ended December 31, 2013 and 2012, the Company had no significant TDR's that subsequently defaulted within twelve months following their modification.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $100,000 and non-homegeneous loans, such as commercial and commercial real estate loans. This analysis is performed on an ongoing basis. The Company uses the following definitions for risk ratings:

PASS: Loans classified as pass are loans with low to average risk.

SPECIAL MENTION: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

SUBSTANDARD: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

DOUBTFUL: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The risk category of loans by class of loans at December 31, 2013 and 2012 is as follows:

DECEMBER 31, 2013	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
Real Estate					
1-4 family construction	$ 1,146,875	$ –	$ 54,880	$ –	$ 1,201,755
Construction, land development and other land	7,320,333	–	382,030	–	7,702,363
Revolving 1-4 family	886,675	–	–	–	886,675
1-4 family residential	42,112,128	138,591	3,223,532	–	45,474,251
Multi-family residential	3,368,216	–	–	–	3,368,216
Nonfarm nonresidential - owner occupied	53,613,716	–	968,102	–	54,581,818
Nonfarm nonresidential - nonowner occupied	74,563,676	–	6,282,016	–	80,845,692
Farmland	3,424,158	–	–	–	3,424,158
Commercial and industrial	16,172,711	58,127	66,647	–	16,297,485
Consumer	11,942,310	–	33,983	–	11,976,293
All other loans	3,704,420	–	–	–	3,704,420
Lease financing receivable	17,306,739	–	–	–	17,306,739
Overdrafts	24,210	–	–	–	24,210
	$ 235,586,167	$ 196,718	$ 11,011,190	$ –	$ 246,794,075

DECEMBER 31, 2012	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
Real Estate					
1-4 family construction	$ 1,493,944	$ –	$ –	$ –	$ 1,493,944
Construction, land development and other land	4,798,766	212,847	1,166,085	–	6,177,698
Revolving 1-4 family	831,170	–	–	–	831,170
1-4 family residential	43,122,151	1,337,533	2,368,153	–	46,827,837
Multi-family residential	3,076,164	–	–	–	3,076,164
Nonfarm nonresidential - owner occupied	49,632,576	–	1,063,011	–	50,695,587
Nonfarm nonresidential - nonowner occupied	83,585,600	–	13,545,265	–	97,130,865
Farmland	4,361,565	–	–	–	4,361,565
Commercial and industrial	17,358,761	84,227	101,722	–	17,544,710
Consumer	13,542,363	–	13,521	–	13,555,884
All other loans	3,549,247	–	–	–	3,549,247
Lease financing receivable	12,954,280	–	–	–	12,954,280
Overdrafts	34,059	–	–	–	34,059
	$ 238,340,646	$ 1,634,607	$ 18,257,757	$ –	$ 258,233,010

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, 2013	DECEMBER 31, 2012
Land		$ 2,400,578	$ 2,370,579
Premises	5–40 years	11,562,275	11,153,532
Furniture, Fixtures & Equip	3–10 years	8,141,840	7,932,773
Land Improvements	5–20 years	473,731	463,355
Lease Equipment	3–5 years	3,950,384	3,723,664
		26,528,808	25,643,903
Less Accumulated Depreciation		11,174,411	10,361,101
Totals		$ 15,354,397	$ 15,282,802

Depreciation expense amounted to $1,482,669 and $1,592,446 in 2013 and 2012, respectively.

NOTE 5: GOODWILL

Goodwill in the amount of $4,219,975 at December 31, 2013 and 2012, is included in the accompanying consolidated financial statements. At December 31, 2013 and 2012 management has determined that it is not more likely than not that goodwill is impaired.

Prior to the year ended December 31, 2002, 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: 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 $24,302,171 and $35,638,108 at December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, the scheduled maturities of certificates of deposit are as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Less than three months	$ 17,534,441	$ 24,109,478
Four to twelve months	29,784,054	36,664,300
One to five years	33,129,443	36,130,372
Over five years	–	3,482
Totals	$ 80,447,938	$ 96,907,632

During 2006, the Company entered into a program in which certain eligible transaction deposits could be reclassed to savings deposits for regulatory reporting purposes and therefore reduce its reserve requirement with the Federal Reserve Bank. At December 31, 2013 the Company has reclassed $89,915,286 demand deposits and $73,551,034 NOW and Money Market deposits to savings deposits. At December 31, 2012 the Company has reclassed $95,746,727 demand deposits and $74,292,423 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program.

NOTE 7: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase amounted to $3,234,134 and $4,291,565 at December 31, 2013 and 2012, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of $3,300,502 at 2013 and $4,378,951 at 2012. The weighted average interest rate on these agreements was 0.10% and 0.10% at December 31, 2013 and 2012, respectively. The agreements of $3,234,134 at December 31, 2013 mature on January 2, 2014 and are renewed daily as necessary under normal operations.

NOTE 8: OTHER BORROWED FUNDS

Included in other borrowed funds at December 31, 2013 and 2012, respectively, are the following:

	2013	2012
Advances from the Federal Home Loan Bank	$ –	$ 2,064,673
KSOP note payable	720,729	937,242
	$ 720,729	$ 3,001,915

Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank amounted to $2,064,673 at December 31, 2012. These borrowings were collateralized by one-to-four family residences. The Federal Home Loan Bank advances had fixed rates ranging from 3.63% to 3.90%. The advances were used to fund fixed interest rate loans to customers and matured in 2013.

KSOP Note Payable

At December 31, 2013 and 2012, the Company's KSOP had a note payable in the amount of $720,729 and $937,242 respectively, with First National Bank of Chillicothe (a related party through a common director). The note was renewed on April 29, 2009 and currently bears interest at a rate of 5.50%. Seven annual payments of principal and interest in the amount of $267,496 are due beginning April 29, 2010. The note is secured by 45,000 shares of the Company's stock and matures on April 29, 2016.

NOTE 9: JUNIOR SUBORDINATED DEBENTURES

The junior subordinated debentures of $7,217,000 at December 31, 2013 and 2012 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, 2013 and 2012. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus 1.80% (2.04% at December 31, 2013 and 2.11% at December 31, 2012), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

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 Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, 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 is limited on the trust preferred securities which it can include in its Tier I capital.

NOTE 10: INCOME TAXES

The provision for income taxes consists of the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Current income tax expense		
Federal and state	$ 1,752,563	$ 1,815,803
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	(18,584)	(59,431)
Accounting for bad debt expense	130,596	113,425
Federal Home Loan Bank stock dividends	408	(122,267)
Deferred compensation benefits	(160,288)	(59,386)
Deferred loan fee income	(11,762)	22,195
Goodwill amortization	105,373	105,372
Write down of other real estate owned	(35,788)	6,198
Net deferred income tax expense	9,955	6,106
Total Income Tax Expense	$ 1,762,518	$ 1,821,909

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, 2013 and 2012, 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 $916,486 and $458,361 at December 31, 2013 and 2012 respectively, is included in other assets. The accumulated tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Deferred tax assets		
Excess of tax cost over financial cost for fixed assets	$ 130,099	$ 95,334
Allowance for loan losses	1,496,948	1,627,544
Deferred compensation benefits	1,911,624	1,751,336
Deferred loan fee income	48,541	36,779
Write down of other real estate owned	167,910	132,122
Net unrealized depreciation on derivatives used for cash flow hedges	–	20,303
Total deferred tax assets	3,755,122	3,663,418
Deferred tax liabilities		
Depreciation	(1,343,625)	(1,327,444)
Federal Home Loan Bank stock dividends	(54,499)	(54,091)
Amortization	(1,271,968)	(1,166,595)
Net unrealized appreciation on securities available for sale	(168,544)	(656,927)
Total deferred tax liabilities	(2,838,636)	(3,205,057)
Total net deferred tax asset	$ 916,486	$ 458,361

Federal income taxes currently receivable of $22,053 and $130,616 at December 31, 2013 and 2012, respectively, are included in other assets.

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 2013 and 2012 was $362,979 and $353,306, respectively. Employee salary reduction contributions of $398,689 and $381,875 were made in 2013 and 2012, 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, 2013 and 2012, the Company's accrued liability under the agreements was $5,615,905 and $5,144,469, 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, 2013 and 2012, respectively, include $10,272,974 and $9,908,151 in cash value of these life insurance policies.

NOTE 12: ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Financial Instruments

From time to time, the Company has stand alone derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's balance sheet as other assets

and other liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Risk Management Policies – Hedging Instruments
The primary focus of the Company's asset/liability management program is to monitor the sensitivity of the Company's net portfolio value and net income under varying interest rate scenarios to take steps to control its risks. On a quarterly basis, the Company simulates the net portfolio value and net income expected to be earned over a twelve-month period following the date of simulation. The simulation is based on a projection of market interest rates at varying levels and estimates the impact of such market rates on the levels of interest-earning assets and interest-bearing liabilities during the measurement period. Based upon the outcome of the simulation analysis, the Company considers the use of derivatives as a means of reducing the volatility of net portfolio value and projected net income within certain ranges of projected changes in interest rates. The Company evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates.

Interest Rate Risk Management – Cash Flow Hedging Instruments
The Company uses long-term variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management enters into interest rate swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments during the contract period.

At December 31, 2013 and 2012, the information pertaining to outstanding interest rate swap agreements used to hedge variable rate debt is as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Notional amount	$ –	$ 7,000,000
Weighted average pay rate	–	5.60%
Weighted average receive rate	–	2.11%
Weighted average maturity in years	–	.25
Unrealized loss relating to interest rate swaps	$ –	$ 59,716

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR +1.80%) in exchange for making payments at a fixed rate and matured in March 2013.

At December 31, 2012 the unrealized loss relating to interest rate swaps was recorded in other liabilities. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings. The net amount of other comprehensive income reclassified into interest expense during the year ended December 31, 2013 and 2012, was $59,752 and $238,342, respectively.

Risk management results for the year ended December 31, 2013 and 2012 related to the balance sheet hedging of long-term debt indicate that the hedges were 100 percent effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

NOTE 13: RELATED-PARTY TRANSACTIONS

At December 31, 2013 and 2012, 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 $17,634,684 and $13,541,147, respectively. During 2013, $8,369,411 of new loans were originated and repayments totaled $4,275,874. 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 14: 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, 2013 and 2012, are as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Commitments to extend credit	$ 36,395,295	$ 24,166,464
Standby letters of credit	3,039,519	3,565,953
Total	$ 39,434,814	$ 27,732,417

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 2013 or 2012.

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 15: 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.

At December 31, 2013 the Company had $4,750,644 in due from banks and federal funds sold in excess of federally insured amounts. At December 31, 2012 the Company had $20,173,000 in due from banks and federal funds sold in excess of federally insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

At December 31, 2013 and 2012, total deposits include $45,733,474 and $51,446,558, respectively, from four customers. The customers' deposits are under no contractual obligation to the Company other than the maturity durations for various time certificates of deposit.

NOTE 16: FAIR VALUE DISCLOSURES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of the Company's financial instruments were determined based on the fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair values. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy:

LEVEL I Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include only those that are highly liquid and are actively traded in over-the-counter markets.

LEVEL 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include U.S. government and agency mortgage-backed debt securities, corporate securities, and municipal bonds.

LEVEL 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the

assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption is unobservable. Level 3 financial instruments also include those for which the determination of fair values requires significant management judgment or estimation.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value at December 31, 2013 and 2012 are as follows:

DECEMBER 31, 2013	LEVEL 1	LEVEL 2	LEVEL 3
Available for sale securities (1)	$ –	$ 107,182,245	$ –
Impaired loans (2) (3)	–	–	5,661,990
Interest Rate Swap (1)	–	–	–

DECEMBER 31, 2012	LEVEL 1	LEVEL 2	LEVEL 3
Available for sale securities (1)	$ –	$ 102,052,661	$ –
Impaired loans (2) (3)	–	–	3,306,083
Interest Rate Swap (1)	–	(59,716)	–

(1) Available for sale securities and the interest rate swap are measured at fair value on a recurring basis, generally monthly.
(2) Impaired loans have been measured for impairment at the fair value of the loans collateral.
(3) Fair value of Impaired loans is measured on a nonrecurring basis.

The estimated fair values of the Company's financial instruments at December 31, 2013 and 2012, are as follows:

	DECEMBER 31, 2013		DECEMBER 31, 2012	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial Assets:				
Cash and cash equivalents	$ 38,127,153	$ 38,127,153	$ 63,417,532	$ 63,417,532
Investment securities	108,682,695	108,684,831	103,691,911	103,698,123
Mortgage loans held for sale	1,968,498	1,968,498	3,378,704	3,378,704
Loans, net of discount	245,314,733	239,557,000	256,908,778	258,424,000
Less allowance for loan losses	(5,246,410)	(5,246,410)	(5,484,883)	(5,484,883)
Loans, net of allowance	240,068,323	234,310,590	251,423,895	252,939,117
Accrued interest receivable	1,299,476	1,299,476	1,564,331	1,564,331
Financial Liabilities:				
Deposits	363,161,670	363,732,000	397,132,392	398,086,000
Federal funds purchased	–	–	500,000	500,000
Repurchase agreements	3,234,134	3,234,134	4,291,565	4,291,565
Other borrowed funds	720,729	720,729	3,001,915	3,012,000
Junior Subordinated Debentures	7,217,000	7,217,000	7,217,000	7,217,000
Accrued interest payable	49,624	49,624	70,742	70,742
On-Balance Sheet Derivative Financial Instruments:				
Interest rate swap agreements				
Assets	–	–	–	–
Liabilities	–	–	59,716	59,716
Off-Balance Sheet Credit Related Financial Instruments:				
Commitments to extend credit	–	–	–	–
Standby letters of credit	–	–	–	–

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.

Interest Rate Swap

The fair value of interest rate swaps are primarily based on quoted market prices of instruments with similar terms as those represented by the swap agreements.

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 Company has no non-financial assets or non-financial liabilities measured on a non-recurring basis. Certain non-financial assets measured at fair value include other real estate owned (upon initial acquisition and subsequent impairment). Other real estate owned, upon initial acquisition, is remeasured and reported at fair value through a charge-off to the allowance for loan losses and certain other real estate owned, subsequent to its initial recognition, is remeasured at fair value through a write-down included in other non-interest expense. The fair value of other real estate owned is estimated using Level 2 inputs based on observable market data.

The following table presents other real estate that was remeasured during 2013 and 2012 and reported at fair value:

	2013	2012
Other Real Estate Remeasured at Initial Acquisition:		
Carrying value prior to measurement	$ 60,252	$ 1,133,351
Charge-offs recognized in the allowance for loan losses	(34,655)	(345,428)
	$25,597	$ 787,923
Other Real Estate Remeasured Subsequent to Initial Acquisition:		
Carrying value prior to measurement	$ 1,383,165	$ 927,969
Write-downs included in other non-interest expense	(115,520)	(92,191)
	$ 1,267,645	$ 835,778

NOTE 17: REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency.

The Bank is 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 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 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 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, 2013 and 2012, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, 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. As of December 31, 2012 the Bank was categorized as adequately capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below, and not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by the OCC pursuant to section 8 of the FDI Act, the International Lending Supervision Act of 1983, or section 38 of the FDI Act, or any regulation thereunder, to meet and maintain a specific capital level for any capital measure. As discussed in Note 18, the Bank was under a written formal agreement at December 31, 2012 which required it to maintain specific capital levels for Tier 1 leverage capital at least equal to 8% of adjusted total assets and total risk based capital at least equal to 12% of risk weighted assets.

The 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, 2013:						
Total capital (to risk-weighted assets)						
American National Bank	$ 53,188,990	19.1%	≥ 22,273,986	≥ 8.0%	≥ 27,842,483	≥ 10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	$ 49,686,752	17.9%	≥ 11,136,993	≥ 4.0%	≥ 16,705,490	≥ 6.0%
Tier I capital (to average assets)						
American National Bank	$ 49,686,752	12.0%	≥ 16,503,813	≥ 4.0%	≥ 20,629,766	≥ 5.0%
As of December 31, 2012:						
Total capital (to risk-weighted assets)						
American National Bank	$ 49,798,969	17.0%	≥ 23,470,394	≥ 8.0%	≥ 29,337,993	≥ 10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	$ 46,109,156	15.7%	≥ 11,735,197	≥ 4.0%	≥ 17,602,796	≥ 6.0%
Tier I capital (to average assets)						
American National Bank	$ 46,109,156	10.5%	≥ 17,569,261	≥ 4.0%	≥ 21,961,576	≥ 5.0%

Beginning January 1, 2015, community banking organizations become subject to a new regulatory capital rule recently adopted by federal banking agencies (commonly referred to as Basel III). The new rule implements higher minimum capital requirements, includes a new common equity Tier I capital requirement, and establishes criteria that instruments must meet in order to be considered common equity Tier I capital, additional Tier I capital, or Tier II capital. Basel III adopts a more risk sensitive approach by addressing risk weighting and other risk issues affecting regulatory capital ratios. These changes are expected to increase the amount of capital required by banking organizations. Basel III includes a multi-year transition period from January 1, 2015 through December 31, 2019.

Management believes that, as of December 31, 2013, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital rules on a fully phased-in basis as if such requirements were currently in effect; however, final rules are subject to regulatory discretion and could result in the need for additional capital levels in the future.

NOTE 18: FORMAL AGREEMENT

On February 15, 2011, the Board of Directors of the Bank entered into a Formal Written Agreement (Agreement) with the Office of the Comptroller of the Currency (OCC). The terms of the Agreement require the Bank to operate at all times in compliance with the articles of the Agreement.

Compliance Committee: Within ten days of the date of the Agreement, the Board shall appoint a Compliance Committee of at least five directors. The Compliance Committee with be responsible for monitoring and coordinating the Bank's adherence to the provisions of the Agreement.

Capital Plan and Higher Minimums: The Agreement stipulates the Bank maintain capital levels of (1) Tier 1 leverage capital at least equal to eight percent of adjusted total assets and (2) total risk based capital at least equal to twelve percent of risk-weighted assets. Additionally, within sixty days, the Board shall develop, implement, and thereafter ensure the Bank's adherence to a three year capital program.

Loan Portfolio Management: The Board shall within sixty days develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed.

Problem Loan Identification and Management: The Board shall within sixty days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases. Additionally, the Board shall ensure the Bank is accurately analyzing and categorizing its problem loans and leases. The Board shall establish an on-going loan review system to review the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits.

Commercial Real Estate Concentration Risk Management: Within sixty days, the Board shall review, revise, and thereafter ensure Bank adherence to a written commercial real estate (CRE) concentration risk management program. The program shall be effective in reducing and managing concentrations of CRE credit.

Allowance for Loan and Lease Losses: The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. Additionally, the Allowance review shall further ensure that the methodology for calculating the Allowance is consistent with Generally Accepted Accounting Principles.

Strategic Plan: Within ninety days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The plan shall establish objectives for the Bank's overall risk profile, earnings, performance, growth, liability structure, and capital adequacy.

Bank Secrecy Act: Within sixty days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to provide for compliancy with the Bank Secrecy Act. Additionally, within sixty days, the Board shall develop and implement a written program of policies and procedures to provide for the Bank's monitoring of all types of transactions.

Violations of Law: The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the March 31, 2010 examination. Quarterly progress reports shall include the date and manner in which each correction has been effected during the reporting period. Additionally, within thirty days, the Board shall implement procedures to ensure prevention of future violations of laws and regulations.

Effective March 20, 2013, the OCC determined that the Bank was in compliance with the above Articles and terminated the Agreement.

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, 2013 and 2012 is presented as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
Cash Transactions:		
Interest expense paid	$ 1,258,441	$ 1,962,412
Federal income taxes paid	$ 1,653,955	$ 1,595,704
Noncash Transactions:		
Net change in fair value of derivatives used for cash flow hedges	$ 59,715	$ 216,110
Net unrealized appreciation on securities available for sale	($ 1,436,421)	$ 810,001

ASSETS	AMERICAN NATIONAL LEASING CO.	ARCHER TITLE OF TEXAS	AMERICAN NATIONAL BANK & TRUST
Cash and due from banks	$ 220,782	$ 211,316	$ 10,908,124
Interest bearing deposits in banks	–	–	27,216,000
Total cash and equivalents	220,782	211,316	38,124,124
Securities available for sale	–	–	107,108,546
Securities to be held to maturity	–	–	775,000
Other securities	–	–	3,049,001
Total investments	–	–	110,932,547
Mortgage loans held for sale	–	–	1,968,498
Loans	17,306,739	–	244,549,617
Unearned discount	(1,479,342)	–	–
Allowance for loan losses	(118,211)	–	(5,128,199)
Net loans	15,709,186	–	239,421,418
Premises and equipment, net	3,035,104	1,111,375	11,207,918
Accrued interest receivable	–	–	3,285,960
Goodwill	–	20,115	4,199,860
Other assets	65,801	4,026	17,200,617
Total assets	$ 19,030,873	$ 1,346,832	$ 426,340,942

LIABILITIES AND STOCKHOLDERS' EQUITY			
Demand deposits	$ –	$ –	$ 25,104,213
Savings deposits	–	–	181,509,876
Money market and NOW accounts	–	–	76,876,199
Time certificates of deposit	–	–	80,447,938
Total deposits	–	–	363,938,226
Federal funds purchased	–	–	–
Repurchase agreements	–	–	3,234,134
Other borrowed funds	14,747,280	315,001	–
Junior subordinated debentures	–	–	–
Accrued interest payable	1,865,666	120,818	49,624
Other liabilities	769,375	19,014	4,712,865
Total liabilities	17,382,321	454,833	371,934,849
Stockholders' Equity			
Common Stock	1,000	1,000	1,680,000
Surplus	–	–	7,090,826
Undivided profits	1,647,552	890,999	45,308,094
Treasury stock	–	–	–
Unearned KSOP stock	–	–	–
Net unrealized appreciation on derivatives used for cash flow hedges	–	–	–
Net unrealized appreciation on securities available for sale	–	–	327,173
Total stockholders' equity	1,648,552	891,999	54,406,093
Total liabilities and stockholders' equity	$ 19,030,873	$ 1,346,832	$ 426,340,942

AMERIBANCSHARES OF DELAWARE, INC.	ANB REALTY CORP.	AMERIBANCSHARES INC.	RECLASSIFICATION AND ELIMINATION ENTRIES	CONSOLIDATED
$ 3,029	$ 1,000	$ 343,458	($ 776,556)	$ 10,911,153
–	–	–	–	27,216,000
3,029	1,000	343,458	(776,556)	38,127,153
–	–	73,699	–	107,182,245
–	–	–	–	775,000
54,406,093	–	54,627,122	(111,356,766)	725,450
54,406,093	–	54,700,821	(111,356,766)	108,682,695
–	–	–	–	1,968,498
–	–	–	(15,062,281)	246,794,075
–	–	–	–	(1,479,342)
–	–	–	–	(5,246,410)
–	–	–	(15,062,281)	240,068,323
–	–	–	–	15,354,397
–	–	–	(1,986,484)	1,299,476
–	–	–	–	4,219,975
–	–	–	938,539	18,208,983
$ 54,409,122	$ 1,000	$ 55,044,279	($ 128,243,548)	$ 427,929,500
$ –	$ –	$ –	($ 776,556)	$ 24,327,657
–	–	–	–	181,509,876
–	–	–	–	76,876,199
–	–	–	–	80,447,938
–	–	–	(776,556)	363,161,670
–	–	–	–	–
–	–	–	–	3,234,134
–	–	720,729	(15,062,281)	720,729
–	–	7,217,000		7,217,000
–	–	–	(1,986,484)	49,624
–	–	7,026	938,539	6,446,819
–	–	7,944,755	(16,886,782)	380,829,976
7,500	1,000	5,286,075	(1,690,500)	5,286,075
20,910,885	256,373	13,023,645	(28,258,084)	13,023,645
33,163,564	(256,373)	29,995,945	(80,753,836)	29,995,945
–	–	(882,000)	–	(882,000)
–	–	(651,314)	–	(651,314)
–	–	–	–	–
327,173	–	327,173	(654,346)	327,173
54,409,122	1,000	47,099,524	(111,356,766)	47,099,524
$ 54,409,122	$ 1,000	$ 55,044,279	($ 128,243,548)	$ 427,929,500

	AMERICAN NATIONAL LEASING CO.	ARCHER TITLE OF TEXAS	AMERICAN NATIONAL BANK & TRUST
INTEREST INCOME:			
Interest and fees on loans	$ 525,279	$ –	$ 12,259,507
Interest on investment securities	–	–	1,796,997
Interest on interest bearing deposits in banks	–	–	154,574
Total Interest Income	525,279	–	14,211,078
INTEREST EXPENSE:			
Interest on deposits	–	–	993,030
Interest on federal funds purchased	–	–	54
Interest on repurchase agreements	–	–	3,616
Interest on other borrowed funds	51,377	1,309	33,745
Interest on Junior Subordinated Debentures	–	–	–
Total interest expense	51,377	1,309	1,030,445
Net interest income	473,902	(1,309)	13,180,633
(Credit to) provision for loan losses	18,000	–	(400,000)
Net interest income after (credit to) provision for loan losses	455,902	(1,309)	13,580,633
OTHER OPERATING INCOME			
Service charges on deposit accounts	–	–	557,206
Trust fee income	–	–	4,173,556
Gain on sale of mortgage loans	–	–	1,728,720
Gain on sale of other real estate owned	–	–	553,768
(Loss) gain on sale of securities	–	–	(3,250)
Rent income	718,395	–	–
Earnings from subsidiary	–	–	288,290
Other, net	28,648	869,179	1,564,483
Total other operating income	747,043	869,179	8,862,773
OTHER OPERATING EXPENSES:			
Salaries and employee benefits	305,404	494,363	9,413,728
Premises and equipment	18,301	97,514	2,043,300
Data processing expense	–	–	828,299
Other operating expenses	620,313	280,560	3,658,407
Total other operating expenses	944,018	872,437	15,943,734
Income before income taxes	258,927	(4,567)	6,499,672
Provision for income taxes	(29,585)	(4,345)	1,867,026
Net income	288,512	(222)	4,632,646
OTHER COMPREHENSIVE INCOME (LOSS):			
Change in net unrealized gain (loss) on securities available for sale, net of taxes of ($488,384)	–	–	(951,288)
Less reclassification adjustment for loss on sales of securities available for sale	–	–	3,250
			(948,038)
Change in fair value of derivatives used for cash flow hedges, net of taxes of $20,304	–	–	–
Total other comprehensive (loss) income	–	–	(948,038)
Total comprehensive (loss) income	$ 288,512	($ 222)	$ 3,684,608

AMERIBANCSHARES OF DELAWARE, INC.	ANB REALTY CORP.	AMERIBANCSHARES INC.	RECLASSIFICATION AND ELIMINATION ENTRIES	CONSOLIDATED
$ –	$ –	$ –	($ 52,686)	$ 12,732,100
–	–	43	–	1,797,040
–	–	–	–	154,574
–	–	–	(52,686)	14,683,714
–	–	–	–	993,030
–	–	–	–	54
–	–	–	–	3,616
–	–	–	(52,686)	33,745
–	–	206,878	–	206,878
–	–	206,878	(52,686)	1,237,323
–	–	(206,835)	–	13,446,391
–	–		–	(382,000)
–	–	(206,835)	–	13,828,391
–	–	–	–	557,206
–	–	–	(221)	4,173,335
–	–	–	–	1,728,720
–	–	–	–	553,768
–	–	–	–	(3,250)
–	–	–	–	718,395
4,632,646	–	4,632,299	(9,553,235)	–
	–	–	(66,000)	2,396,310
4,632,646	–	4,632,299	(9,619,456)	10,124,484
–	–	–	–	10,213,495
–	–	–	(66,000)	2,093,115
	–	–	–	828,299
526	–	221	(221)	4,559,806
526	–	221	(66,221)	17,694,715
4,632,120	–	4,425,243	(9,553,235)	6,258,160
(179)	–	(70,399)	–	1,762,518
4,632,299	–	4,495,642	(9,553,235)	4,495,642
(951,288)	–	(951,288)	1,902,576	(951,288)
3,250	–	3,250	(6,500)	3,250
(948,038)	–	(948,038)	1,896,076	(948,038)
–	–	39,412	–	39,412
(948,038)	–	(908,626)	1,896,076	(908,626)
$ 3,684,261	$ –	$ 3,587,016	($ 7,657,159)	$ 3,587,016

	AMERICAN NATIONAL LEASING CO.	ARCHER TITLE OF TEXAS	AMERICAN NATIONAL BANK & TRUST
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 288,512	($ 222)	$ 4,632,646
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	574,222	28,392	880,055
(Credit to) provision for loan losses	18,000	–	(400,000)
Provision for other real estate owned losses	–	–	115,520
Provision for (benefit from) deferred taxes	20,455	(1,365)	(9,135)
(Gain) loss on sale of securities available for sale	–	–	3,250
(Gain) loss on sale of mortgage loans	–	–	(1,728,720)
(Gain) loss on sale of other real estate owned	–	–	(553,768)
(Gain) loss on sale of premises & equipment	(7,535)	–	446
Amortization of premium on investment securities	–	–	702,029
Accretion of discount on investment securities	–	–	(6,145)
Proceeds from sales of mortgage loans	–	–	81,599,720
Mortgage loans funded	–	–	(78,458,449)
Unconsolidated earnings from subsidiary	–	–	(288,290)
(Increase) decrease in:			
Prepaid expenses	(9,874)	5,976	(94,382)
Accrued interest receivable	–	–	210,880
Income taxes receivable	–	–	109,474
Miscellaneous other assets	(1,278)	(150)	227,407
Increase (decrease) in:			
Accrued interest payable	51,377	1,309	(21,118)
Other taxes payable	–	–	15,191
Other accrued expenses	(113,195)	(8,686)	373,571
Net cash provided by (used in) operating activities	820,684	25,254	7,310,182
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturing securities available for sale	–	–	36,355,977
Proceeds from sale of securities available for sale	–	–	4,996,750
Proceeds from maturing securities held to maturity	–	–	25,000
Proceeds from sale of other securities	–	–	115,000
Purchase of securities available for sale	–	–	(48,618,083)
Purchase of other securities	–	–	(1,200)
Purchase of cash value life insurance	–	–	(442,243)
Dividends received from subsidiaries	–	–	
Net (increase) decrease in loans	(4,199,453)	–	11,551,770
Purchase of premises and equipment	(1,435,088)	(4,208)	(766,669)
Proceeds from sale of premises and equipment	664,488	–	300
Proceeds from sale of other real estate owned	–	–	2,762,874
Net cash provided by (used in) investing activities	(4,970,053)	(4,208)	5,979,476
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net decrease in deposits	–	–	(33,804,872)
Net decrease in federal funds purchased	–	–	(500,000)
Net decrease in repurchase agreements	–	–	(1,057,430)
Net increase (decrease) in other borrowed funds	4,325,000	–	(2,064,673)
Dividends paid	–	–	(1,032,715)
Net cash provided by (used in) financing activities	4,325,000	–	(38,459,690)
Net (decrease) increase in cash and cash equivalents	175,631	21,046	(25,170,032)
Cash and cash equivalents at beginning of period	45,151	190,270	63,294,156
Cash and cash equivalents at end of period	$ 220,782	$ 211,316	$ 38,124,124

AMERIBANCSHARES OF DELAWARE, INC.	ANB REALTY CORP.	AMERIBANCSHARES INC.	RECLASSIFICATION AND ELIMINATION ENTRIES	CONSOLIDATED
$ 4,632,299	$ –	$ 4,495,642	($ 9,553,235)	$ 4,495,642
–	–	–	–	1,482,669
–	–	–	–	(382,000)
–	–	–	–	115,520
–	–	–	–	9,955
–	–	–	–	3,250
–	–	–	–	(1,728,720)
–	–	–	–	(553,768)
–	–	–	–	(7,089)
–	–	–	–	702,029
–	–	–	–	(6,145)
–	–	–	–	81,599,720
–	–	–	–	(78,458,449)
(4,632,646)	–	(4,632,299)	9,553,235	–
–	–	–	–	(98,280)
		1,290	52,686	264,856
–	–	(911)	–	108,563
–	–	–	–	225,979
–	–	–	(52,686)	(21,118)
–	–	(14,766)	–	425
–	–	–	–	251,690
(347)	–	(151,044)	–	8,004,729
–	–	–	–	36,355,977
–	–	217	–	4,996,967
–	–	–	–	25,000
–	–	–	–	115,000
–	–	–	–	(48,618,083)
–	–	–	–	(1,200)
–	–	–	–	(442,243)
1,032,715	–	1,032,715	(2,065,430)	–
–	–	–	4,325,000	11,677,317
–	–	–	–	(2,205,965)
–	–	–	–	664,788
–	–	–	–	2,762,874
1,032,715	–	1,032,932	2,259,570	5,330,432
–	–	–	(165,850)	(33,970,722)
–	–	–	–	(500,000)
–	–	–	–	(1,057,430)
–	–	–	(4,325,000)	(2,064,673)
(1,032,715)	–	(1,032,715)	2,065,430	(1,032,715)
(1,032,715)	–	(1,032,715)	(2,425,420)	(38,625,540)
(347)	–	(150,827)	(165,850)	(25,290,379)
3,376	1,000	494,285	(610,706)	63,417,532
$ 3,029	$ 1,000	$ 343,458	($ 776,556)	$ 38,127,153

OFFICERS

ADMINISTRATION

Dwight L. Berry
President and CEO

Magan Catney
Administrative Officer

LOAN DEPARTMENT

John W. Kable
Executive Vice President / Loans

Don Whatley
Executive Vice President / Loans

Bob Elmore
Vice President / Loans

Linda Musgrave
Vice President / Loans

Lacey Slack
Vice President / Credit Officer

Doris McGregor Steinberger
Vice President / Loan Operations

Damon Whatley
Vice President / Loans

Adam Whitmire
Vice President / Loans

Peggy Carr
Banking Officer

Rhona Kelton
Banking Officer

Judy Mitchell
Banking Officer

Toni Neal
Banking Officer

Vera Simons
Banking Officer

OPERATIONS / SUPPORT PERSONNEL

Blake Andrews
Executive Vice President / CFO

Roy T. Olsen
Executive Vice President / Cashier / Human Resources

Nancy Vannucci
Senior Vice President / Internal Auditor

Klint M. Ostermann
Vice President / Operations

Kenneth L. Haney
Assistant Vice President / Calling Officer

Candace Stroud
Assistant Vice President / Teller Services

Karen Baker
Banking Officer

Amber Flores
Compliance Officer

Gloria Garcia
Banking Officer

Jessica Mitchell
BSA Officer

Delores Scarber
Banking Officer / Data Processing

Andrew Walmer
Information Technology Officer

TRUST AND INVESTMENT SERVICES

Timothy G. Connolly, CTFA
Executive Vice President / Senior Trust Officer

Randy R. Martin, JD
Senior Vice President / Trust Officer

Jeffrey S. Schultz, CFA, CTFA
Senior Vice President / Chief Investment Officer

J. Scott Tucker, CTFA
Senior Vice President / Trust & Investments

Linda Wilson
Senior Vice President / Trust Officer

Janice Adams
Vice President / Brokerage Services

Michael W. Boyle, CFIRS
Vice President / Trust Compliance Officer

Kristin Morris, CTFA
Vice President / Trust & Investment Services

Kevin O'Connell
Vice President / Trust Officer

Kelly J. Smith, CTFA
Vice President / Trust Officer

Paula Walmer
Vice President / Operations Manager

Carol Cox
Trust Officer

MORTGAGE LOAN DIVISION ELMWOOD OFFICE

W.O. "Bill" Franklin
Executive Vice President / Mortgage Lending

J. Bradley Davidson
Vice President / Mortgage Lending

Donna Vaughn
Vice President / Mortgage Lending

Natalie Eubanks
Assistant Vice President

John R. Johnston
Assistant Vice President

Chris Rogers
Assistant Vice President

Rebecca Lammers
Banking Officer

PLATINUM CIRCLE

Donna Adams
Administrative Officer / Coordinator

AMERICAN NATIONAL LEASING COMPANY

Mike Cuba
President

DOWNTOWN OFFICE

Marva Pieratt
Assistant Vice President / Branch Manager

Amy Collier
Banking Officer

IOWA PARK OFFICE

Roy T. Olsen
Executive Vice President / Branch Manager

ARCHER CITY OFFICE

Amos Deerinwater
Branch Manager

FLOWER MOUND OFFICE

Sam Wilson
President

Joe D. Willard
Senior Vice President / Loans

Ryan Schroer
Vice President / Loans

Sara Knight
Banking Officer

Rosie Torrence
Banking Officer

FLOWER MOUND MORTGAGE LOAN DIVISION

Carolyn Moore
Vice President / Mortgage Loans

FLOWER MOUND TRUST AND INVESTMENT SERVICES

Darrin Salge, CFP
Vice President / Trust Officer

ARCHER TITLE OF TEXAS, INC.

W.O. "Bill" Franklin
President

Jean Taylor
Vice President / Manager

DIRECTORS

Dr. George Ritchie
Chairman of the Board

Dwight L. Berry
President and CEO

Hank Anderson
Blake Andrews*
Kenny Bryant
Timothy G. Connolly*
W.O. Franklin*
Juliana Hanes
Tommy Isbell
John W. Kable*
Milburn Nutt
Ty Thacker
Mark Tucker
Max Vordenbaum
Don Whatley*
Sam Wilson*
Ben D. Woody

*Advisory Director

AmeriBancShares, Inc.
P.O. Box 4477 • Wichita Falls, TX 76308-0477

www.amnat.com