Independent Bankers Financial Corporation and Subsidiaries

Auditor's Report and Consolidated Financial Statements
December 31, 2013 and 2012

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Contents

Independent Auditor's Report 1

Consolidated Financial Statements

Balance Sheets 3

Statements of Income 4

Statements of Comprehensive Income 6

Statements of Shareholders' Equity 7

Statements of Cash Flows 8

Notes to Financial Statements 10

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Independent Auditor's Report

Board of Directors
Independent Bankers Financial Corporation
and Subsidiaries
Irving, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Independent Bankers Financial Corporation and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditor's 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. 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.

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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 Independent Bankers Financial Corporation and Subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2012 consolidated financial statements were audited by other auditors and their report thereon, dated March 18, 2013, expressed an unmodified opinion.

Report on Other Legal and Regulatory Requirements

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, TIB-The Independent BankersBank's (the Bank's) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 7, 2014, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

BKD, LLP

Houston, Texas
March 7, 2014

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Balance Sheets

December 31, 2013 and 2012

(Dollars in Thousands)

Assets

	2013	2012
Cash and due from banks	$ 19,017	$ 38,862
Interest-bearing demand deposits in banks	747,579	1,031,134
Federal funds sold and securities purchased under agreements to resell	121,899	74,685
Cash and cash equivalents	888,495	1,144,681
Available-for-sale securities	524,370	669,696
Loans held for sale	21,356	67,532
Loans, net of allowance for loan losses of $17,070 and $16,958 at 2013 and 2012, respectively	625,911	584,440
Premises and equipment, net of accumulated depreciation of $16,247 and $14,848 at 2013 and 2012, respectively	20,137	20,407
Federal Reserve and Federal Home Loan Bank stock	3,526	7,598
Foreclosed assets held for sale, net	708	2,735
Interest receivable	4,563	5,860
Deferred income taxes	11,493	7,356
Mortgage servicing rights	14,407	8,866
Cash surrender value of life insurance	43,557	42,296
Goodwill	1,000	1,000
Core deposits and other intangibles	4,131	5,084
Other	23,536	22,061
Total assets	$ 2,187,190	$ 2,589,612

Liabilities and Shareholders' Equity

	2013	2012
Liabilities		
Deposits:		
Demand	$ 558,240	$ 722,488
Interest-bearing	1,137,575	1,159,877
Total deposits	1,695,815	1,882,365
Short-term borrowings	210,432	325,836
Federal Home Loan Bank advances	-	100,000
Junior subordinated debentures	30,928	30,928
Derivatives	10,669	17,300
Interest payable and other liabilities	23,529	24,092
Total liabilities	1,971,373	2,380,521
Shareholders' Equity		
Preferred stock, $1 par value, liquidation value $1,000 per share, 1,000,000 shares authorized:		
Series A fixed rate preferred stock - issued and outstanding, 30,230 shares in 2013 and 2012	30	30
Series A floating rate preferred stock - issued and outstanding, 9,775 shares in 2013 and 2012	10	10
Common stock, $10 par value; 5,000,000 shares authorized, 1,186,444 and 1,168,158 shares issued and outstanding in 2013 and 2012, respectively	11,864	11,681
Preferred surplus	39,965	39,965
Additional paid-in capital	34,054	31,424
Retained earnings	141,611	127,137
Accumulated other comprehensive loss	(11,717)	(1,156)
Total shareholders' equity	215,817	209,091
Total liabilities and shareholders' equity	$ 2,187,190	$ 2,589,612

Independent Bankers Financial Corporation
and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Interest Income		
Loans, including fees, taxable	$ 23,449	$ 23,595
Loans, including fees, tax exempt	5,082	6,276
Securities, taxable	11,402	13,803
Federal funds sold and securities purchased under agreements to resell	542	423
Deposits with financial institutions	2,354	3,401
Other	179	197
Total interest income	43,008	47,695
Interest Expense		
Deposits	8,574	8,464
Short-term borrowings	3,559	3,644
Junior subordinated debentures and other borrowings	2,039	6,099
Total interest expense	14,172	18,207
Net Interest Income	28,836	29,488
Provision for Loan Losses	1,750	2,962
Net Interest Income After Provision for Loan Losses	27,086	26,526
Noninterest Income		
Credit card fees	64,464	65,308
Safekeeping fees	3,427	3,379
Mortgage servicing fees	3,680	4,093
Customer security transaction fees	6,068	11,246
Audit and loan review fees	1,627	1,607
Gain on sale of loans	6,998	10,522
Gain on sale of securities	2,723	1,036
Gain on non-hedging derivative transactions	-	598
Gain on sale of foreclosed assets held for sale	961	155
Other	15,498	12,647
Total noninterest income	105,446	110,591

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Income (Continued)

Years Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Noninterest Expense		
Salaries and employee benefits	$ 37,147	$ 37,347
Premises, furniture and equipment	4,135	3,068
Telephone	1,592	1,336
Software	2,515	2,515
Credit card	41,444	44,006
Mortgage operations	3,654	4,579
Decrease in fair value of mortgage servicing rights	-	4,252
Loss on non-hedging derivative transactions	1,109	-
Item processing	932	823
Intangible amortization	963	953
Professional fees	2,747	2,353
Other	9,799	8,359
Total noninterest expense	106,037	109,591
Income Before Income Tax	26,495	27,526
Provision for Income Taxes	7,324	7,430
Net Income	$ 19,171	$ 20,096

Independent Bankers Financial Corporation
and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Net Income	$ 19,171	$ 20,096
Other Comprehensive Income		
Change in fair value of interest rate swap derivatives	7,141	4,414
Net tax effect	(2,499)	(1,545)
Fair value of interest rate swap derivatives, net	4,642	2,869
Unrealized gains (losses) on available-for-sale securities	(26,112)	1,333
Net tax effect	9,139	(467)
Unrealized gains (losses) on available-for-sale securities, net	(16,973)	866
Reclassification adjustment for net gain on sale of securities	2,723	1,036
Net tax effect	(953)	(362)
Reclassification adjustment for net gain on sale of securities, net	1,770	674
Total other comprehensive income (loss)	(10,561)	4,409
Comprehensive Income	$ 8,610	$ 24,505

Independent Bankers Financial Corporation
and Subsidiaries
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2013 and 2012
(Dollars in Thousands)

	Preferred Stock	Common Stock	Preferred Surplus	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2012	$ 40	$ 11,572	$ 39,965	$ 30,024	$ 111,588	$ (5,565)	$ 187,624
Net income	-	-	-	-	20,096	-	20,096
Other comprehensive income	-	-	-	-	-	4,409	4,409
Purchase and retirement of common stock (385 shares)	-	(4)	-	(46)	-	-	(50)
Sale of common stock (11,366 shares)	-	113	-	1,446	-	-	1,559
Preferred stock dividends	-	-	-	-	(2,211)	-	(2,211)
Common stock dividends declared ($2.00 per share)	-	-	-	-	(2,336)	-	(2,336)
Balance, December 31, 2012	40	11,681	39,965	31,424	127,137	(1,156)	209,091
Net income	-	-	-	-	19,171	-	19,171
Other comprehensive loss	-	-	-	-	-	(10,561)	(10,561)
Issuance of common stock (18,287 shares)	-	183	-	2,630	-	-	2,813
Preferred stock dividends	-	-	-	-	(2,205)	-	(2,205)
Common stock dividends declared ($2.10 per share)	-	-	-	-	(2,492)	-	(2,492)
Balance, December 31, 2013	$ 40	$ 11,864	$ 39,965	$ 34,054	$ 141,611	$ (11,717)	$ 215,817

See Notes to Consolidated Financial Statements

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Operating Activities		
Net income	$ 19,171	$ 20,096
Items not requiring (providing) cash:		
Depreciation and amortization	11,191	7,731
Provision for loan losses	1,750	2,962
Deferred income taxes	1,550	2,070
Deferred compensation and stock-based compensation expense	2,097	1,435
Change in fair value of mortgage servicing rights	(407)	4,252
Net gains on sale of loans	(6,998)	(10,522)
Net realized gains on available-for-sale securities	(2,723)	(1,036)
Net realized (gains) losses on non-hedging derivative financial instruments	1,109	(598)
Net realized other gains	(973)	(166)
Changes in:		
Originations and purchases of loans held for sale	(533,680)	(593,199)
Proceeds from sales of loans held for sale	586,854	586,023
Interest receivable	1,297	(274)
Other assets	(1,138)	1,443
Interest payable and other liabilities	(2,817)	(17,925)
Net cash provided by operating activities	76,283	2,292
Investing Activities		
Net change in interest-bearing time deposits in banks	-	240
Purchases of available-for-sale securities	(84,041)	(447,521)
Proceeds from maturities, calls and pay downs of available-for-sale securities	112,285	120,723
Proceeds from the sales of available-for-sale securities	88,031	56,281
Purchases of mortgage servicing rights	(5,134)	(3,609)
Proceeds from non-hedging derivative transactions	(608)	805
Proceeds from Federal Home Loan and Federal Reserve Bank stock	4,072	-
Net change in loans	(44,126)	117
Purchase of premises and equipment	(1,392)	(18,050)
Purchases of bank owned life insurance	-	(15,510)
Proceeds from the sale of foreclosed assets held for sale	3,386	3,006
Increase in cash surrender value of life insurance	(1,261)	(784)
Net cash provided by (used in) investing activities	71,212	(304,302)

Independent Bankers Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2013 and 2012

(Dollars in Thousands)

	2013	2012
Financing Activities		
Net change in deposits	$ (186,550)	$ 160,593
Net change in federal funds purchased and securities sold under agreements to repurchase	(115,404)	22,574
Repayment of Federal Home Loan Bank advances	(100,000)	(100,000)
Purchase and retirement of common stock	-	(50)
Proceeds from issuance of common stock	2,813	1,559
Dividends paid	(4,541)	(4,409)
Net cash provided by (used in) financing activities	(403,682)	80,267
Decrease in Cash and Cash Equivalents	(256,187)	(221,743)
Cash and Cash Equivalents, Beginning of Year	1,144,681	1,366,424
Cash and Cash Equivalents, End of Year	$ 888,494	$ 1,144,681
Supplemental Cash Flows Information		
Interest paid	$ 14,489	$ 18,547
Income taxes paid	5,706	8,606
Sale and financing of foreclosed assets	905	1,478
Dividends declared but unpaid	3,047	2,893

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Independent Bankers Financial Corporation and Subsidiaries (the Corporation) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, TIB-The Independent BankersBank (the Bank). The Bank is an entity which is defined by statute as a "bankers' bank." The statute requires all of the shareholders of the Bank to be depository institutions or holding companies for depository institutions and that the Bank provide services only for depository institutions or at the request of depository institutions. In this context, the Bank provides various banking and banking-related services to financial institutions primarily in Texas, New Mexico, Illinois, Georgia, Oklahoma, Louisiana and California, many of which are shareholders of the Corporation. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Principles of Consolidation

The consolidated financial statements include the accounts of Independent Bankers Financial Corporation (IBFC), the Bank and two nonbanking subsidiaries, ALX Consulting, Inc., and TIB Service Company (TIBSCO). In addition, the Corporation wholly owns IBFC Statutory Capital Trust II (Trust II). See Note 20 for further discussion regarding Trust II. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, mortgage servicing rights, valuation of deferred tax assets, other-than-temporary impairments and fair values of financial instruments.

Cash and Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of cash items, amounts due from banks, interest-bearing demand deposits in banks, federal funds sold and securities purchased under agreements to resell.

At December 31, 2013, the Corporation had cash accounts exceeding federally insured limits by approximately $103,849.

Federal funds sold are essentially uncollateralized loans to other financial institutions. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Corporation is not exposed to any significant credit risks on cash and cash equivalents.

Interest-bearing Demand Deposits in Banks

Interest-bearing demand deposits in banks mature within one year and are carried at cost.

Securities

Securities with readily determinable fair values are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the prospective level yield, to estimated maturity. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Corporation does not intend to sell a debt security, and it is more likely than not the Corporation will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

Loans Held for Sale

Mortgage loans purchased and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses recognized upon the sale of the loans are determined on a specific identification method and are recorded in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for charge-offs, and the allowance for loan losses.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given the default rate derived from the Corporation's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting

scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

The estimated useful lives for each major depreciable classification of premises and equipment are as follows:

Buildings	30 years
Building improvements	10-20 years
Leasehold improvements	5-10 years
Furniture and equipment	3-5 years

Long-lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to

result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2013 and 2012.

Federal Reserve and Federal Home Loan Bank (FHLB) Stock

Federal Reserve and FHLB stock are required investments for institutions that are members of the Federal Reserve and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to ten years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange-traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair

value may require significant management judgment or estimation. The Corporation's hedging policies permit the use of various derivative financial instruments to manage interest rate risk or to hedge specified assets and liabilities. To qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the derivative contract. The Corporation considers a hedge to be highly effective if the change in fair value of the derivative hedging instrument is within 80 percent to 120 percent of the opposite change in the fair value of the hedged item attributable to the hedged risk. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedges and the hedged items are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income (loss). Ineffective portions of hedges are reflected in earnings as they occur. During the life of the hedge, the Corporation formally assesses whether derivatives designated as hedging instruments continue to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If it is determined that a hedge has ceased to be highly effective, the Corporation will discontinue hedge accounting prospectively and the derivative instrument is reclassified to a trading position recorded at fair value.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through the purchase or sale of financial assets. Under the servicing assets and liabilities accounting guidance (Accounting Standards Codification [ASC] 860-50), servicing rights resulting from the sale of loans purchased by the Corporation are initially measured at fair value at the date of transfer. The Corporation subsequently measures each class of servicing asset using the fair value method. Under the fair value method, the servicing rights are carried in the consolidated balance sheets at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing rights and may result in a reduction to noninterest income.

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

Transactions as Agent

The Corporation acts as an agent for customer banks to purchase and sell federal funds. Revenue is recorded based on maturity.

The Corporation also acts as an agent in facilitating an overnight investment transaction between participating respondent banks and the Federal Reserve System. Transactions with the Federal Reserve System are facilitated via the Excess Balance Account (EBA) pursuant to Regulation D as applicable for correspondent banks and similarly purposed institutions, while federal funds transactions are facilitated via federal funds market brokers and direct contact. The Corporation acts as intermediary for these transactions but is not otherwise obligated by the transaction. The Corporation's consolidated financial statements do not reflect these transactions except for the fees earned. At December 31, 2013 and 2012, the Corporation was agent for participating respondent banks on EBA funds totaling $2,375,970 and $3,528,202, respectively. There were no agent federal funds for 2013 and 2012.

The Corporation generates significant revenues attributable to the services that it provides to its customer banks. The majority of these fees are related to interchange and merchant fees derived from the Corporation's card services products. Fees related to these transactions are recognized as revenue when the transaction is processed and the fees are earned.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income

taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more likely than not" means a likelihood of more than 50 percent; the terms examined and upon examination, also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Corporation is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for years before 2010.

The Corporation recognizes interest and penalties on income taxes as a component of income tax expense.

The Corporation files consolidated income tax returns with its subsidiaries.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and unrealized and realized gains and losses in derivative financial instruments that qualify for hedge accounting.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform to the 2013 consolidated financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Corporation is required to maintain cash on deposit with the Federal Reserve Bank. The reserve required at December 31, 2013 and 2012, was $56,768 and $72,099, respectively.

Note 3: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013:				
Mortgage-backed U.S. Government-sponsored enterprises (GSEs) - residential	$ 532,345	$ 5,744	$ 13,719	$ 524,370
December 31, 2012:				
Mortgage-backed U.S. GSEs - residential	$ 654,282	$ 15,746	$ 332	$ 669,696

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

At December 31, 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10 percent of shareholders' equity.

Mortgage-backed securities are not due at a single due date.

Securities with estimated fair values of $358,247 and $511,458 at December 31, 2013 and 2012, respectively, were pledged to secure securities sold under agreements to repurchase or lines of credit as permitted by law.

Gross gains of $2,723 and $1,036 resulting from sales of available-for-sale securities were realized for 2013 and 2012, respectively.

The following table shows the Corporation's available-for-sale investments' gross unrealized losses and fair value of the Corporation's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2013 and 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013:						
Mortgage-backed U.S. GSEs - residential	$ 326,357	$ 12,655	$ 22,213	$ 1,064	$ 348,570	$ 13,719
December 31, 2012:						
Mortgage-backed U.S. GSEs - residential	$ 105,165	$ 332	$ 0	$ 0	$ 105,165	$ 332

For those securities with unrealized losses at December 31, 2013 and 2012, the losses are generally due to changes in interest rates and, as such, are considered by management to be temporary. Management has the ability and intent to hold these securities for a period of time sufficient for a recovery of cost.

Note 4: Securities Purchased Under Agreements to Resell

The Corporation enters into purchases of securities under agreements to resell substantially identical securities. Securities purchased under agreements to resell at December 31, 2013, consist of marketable government securities.

The amounts advanced under these agreements are reflected as assets in the consolidated balance sheets. It is the Corporation's policy to take possession of securities purchased under agreements to resell. Agreements with third parties specify the Corporation's rights to request additional collateral, based on its monitoring of the fair value of the underlying securities on a daily basis. The securities are delivered by appropriate entry into the Corporation's account maintained at the Federal Reserve Bank or into a third-party custodian's account designated by the Corporation under a written custodial agreement that explicitly recognizes the Corporation's interest in the

securities. At December 31, 2013, resell agreements outstanding are $5,955 and scheduled to mature within 90 days. There were no resell agreements outstanding at December 31, 2012. Additionally, no material amount of agreements to resell securities purchased was outstanding with any individual dealer.

Note 5: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2013	2012
Correspondent loans:		
Bank stock	$ 122,182	$ 95,800
Real estate	141,885	159,025
Agriculture	2,925	3,065
Commercial and industrial	19,001	13,661
Consumer	1,278	1,542
Other	5,812	4,402
	293,083	277,495
Municipal	192,114	172,169
Mortgage	7,944	8,996
Credit card	149,840	142,738
Gross loans	642,981	601,398
Less:		
Allowance for loan losses	(17,070)	(16,958)
Net loans	$ 625,911	$ 584,440

The tables on the following page present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2013 and 2012.

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(Dollars in Thousands)

	2013						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Allowance for loan losses:							
Balance, beginning of year	$ 3,863	$ 9,089	$ 993	$ 600	$ 204	$ 2,209	$ 16,958
Provision charged to expense	697	(3,255)	(118)	111	311	4,004	1,750
Losses charged off	(23)	-	-	-	(139)	(1,994)	(2,156)
Recoveries	-	143	47	-	-	328	518
Balance, end of year	$ 4,537	$ 5,977	$ 922	$ 711	$ 376	$ 4,547	$ 17,070
Ending balance: individually evaluated for impairment	$ 4	$ 0	$ 416	$ 0	$ 182	$ 20	$ 622
Ending balance: collectively evaluated for impairment	$ 4,533	$ 5,977	$ 506	$ 711	$ 194	$ 4,527	$ 16,448
Loans:							
Ending balance	$ 122,182	$ 141,885	$ 29,016	$ 192,114	$ 7,944	$ 149,840	$ 642,981
Ending balance: individually evaluated for impairment	$ 1,086	$ 3,915	$ 3,885	$ 0	$ 1,075	$ 627	$ 10,588
Ending balance: collectively evaluated for impairment	$ 121,096	$ 137,970	$ 25,131	$ 192,114	$ 6,869	$ 149,213	$ 632,393

	2012						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Allowance for loan losses:							
Balance, beginning of year	$ 3,971	$ 8,290	$ 649	$ 1,112	$ 222	$ 3,246	$ 17,490
Provision charged to expense	(111)	1,721	258	(512)	31	1,575	2,962
Losses charged off	-	(1,105)	-	-	(49)	(2,982)	(4,136)
Recoveries	3	183	86	-	-	370	642
Balance, end of year	$ 3,863	$ 9,089	$ 993	$ 600	$ 204	$ 2,209	$ 16,958
Ending balance: individually evaluated for impairment	$ 147	$ 671	$ 574	$ 0	$ 3	$ 0	$ 1,395
Ending balance: collectively evaluated for impairment	$ 3,716	$ 8,418	$ 419	$ 600	$ 201	$ 2,209	$ 15,563
Loans:							
Ending balance	$ 95,800	$ 159,025	$ 22,670	$ 172,169	$ 8,996	$ 142,738	$ 601,398
Ending balance: individually evaluated for impairment	$ 198	$ 7,901	$ 0	$ 0	$ 703	$ 0	$ 8,802
Ending balance: collectively evaluated for impairment	$ 95,602	$ 151,124	$ 22,670	$ 172,169	$ 8,293	$ 142,738	$ 592,596

Internal Risk Categories

Loan grades are numbered 1 through 10. Grades 1 through 6 are considered satisfactory grades. The grade of 7, or Special Mention, represents loans of lower quality and is considered criticized. The grades of 8, or Substandard, and 9, or Doubtful, refer to assets that are classified. The grade of 10, or Loss, refers to loans that are considered uncollectible. The use and application of these grades by the Bank will be uniform and shall conform to the Bank's policy.

- **Grade 1** – A SUPERIOR asset is generally secured by highly liquid collateral. If a loan is secured by marketable securities, it should be adequately margined. This loan grade includes Municipal Loans that have the guarantee of the Texas Permanent School Fund. A Superior asset will have no documentation deficiencies and minimal servicing issues.

- **Grade 2** – A STRONG asset is generally a secured loan with some other form of credit enhancement, other than liquid collateral, adequately margined. This will typically apply to Municipal Loans that are backed by the local taxing authority where law requires taxes to be sufficient to cover the debt obligation (*i.e.*, General Obligations or Certificates of Obligations). Loans could be secured by marketable securities, but have smaller margins than those in the Superior category. A Strong asset will have no documentation deficiencies and minimal servicing issues.

- **Grade 3** – A GOOD asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A Good asset may have some vulnerability to changing economic or industry conditions, but is currently a satisfactory risk. Revenue-backed municipal loans generally fall into this loan grade.

- **Grade 4** – A SATISFACTORY asset is based on an individual's or a company's financial capacity and/or secured by collateral where there is no impairment to liquidation. A Satisfactory asset may have some deficiency or vulnerability above normal, based on adverse economic trends and/or industry conditions, but is currently an acceptable risk with the vulnerability noted. Borrowers typically reflect acceptable, but minimum debt service coverage ratios.

- **Grade 5** – An ACCEPTABLE asset is similar in repayment capacity with increased vulnerability to changing economic or industry conditions based on underwriting concessions, excessive levels of guideline non-compliance (for bank stock loans), acceptable, but marginal debt service coverage ratios (for real estate loans) and acceptable erratic financial trends, but not to the point of potential weakness. Generally, this loan grade would include unsecured or marginally secured loans to borrowers with reasonable credit risk.

- **Grade 6** – A PASS/NEEDS ATTENTION asset is used to identify credits, which may have one or some of the following characteristics: collateral documentation deficiencies, marginal collateral support, weak or unsupported collateral valuations, lack current or complete financial data and/or analysis, need additional monitoring increased, recent changes in management or operations, terms beyond policy guidelines, variations in balance sheet or cash flow/operating components or trends from prior periods or forecasts, past credit problems, high leverage, or untested performance under repayment terms, among others. This loan grade may include loan participations with a financially weak selling bank or a selling bank lacking the knowledge or expertise to lead the credit.

- **Grade 7** – A SPECIAL MENTION asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Corporation to sufficient risk to warrant adverse classification.

- **Grade 8** – A SUBSTANDARD asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.

- **Grade 9** – An asset classified as DOUBTFUL has all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point where on the basis of current information, and values, collection or liquidation in full is highly improbable. The length of time an asset may be classified doubtful is a matter of judgment.

- **Grade 10** – Assets classified as LOSS are considered uncollectible and of such little value that their continuance as active assets of the Corporation is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future. Amounts classified as Loss are promptly charged off.

Loan Origination Risk Management: The Corporation has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to

loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Loans are generally in four primary categories: correspondent lending, credit cards, mortgage and municipal lending. Correspondent lending may further include bank stock, real estate, commercial and industrial, and other correspondent loans.

Correspondent bank loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and manage its business. Underwriting standards are designed to determine that the borrower's management possesses sound ethics and solid business acumen. The Corporation's management examines past, current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Correspondent loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most correspondent loans are generally secured by the assets being financed or other business assets. However, some short-term loans may be made on an unsecured basis.

Bank stock loans are those generally made to holding companies, control groups or individuals. Those loans to holding companies and control groups are generally for the purpose of bank capitalization, bank/branch purchases or liquidity. These loans are generally secured by a majority of the outstanding stock of the bank unless, through the underwriting process, it is determined the borrower warrants either unsecured debt or a minority position in collateral. Loans are also offered for minority interest bank stock or holding company loans. There is value in this underlying collateral, but emphasis is given to the overall creditworthiness of the borrower. Specific minimum guidelines are considered for both secured and unsecured debts.

Real estate loans noted above exclude "held-for-sale" loans. Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporation's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity can help reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. Within the category of commercial real estate, the volume of construction and development loans is considered insignificant. As a general rule, the Corporation avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The level of commercial real estate is monitored consistent with regulatory guidelines with

levels substantially below those guidelines. Changes in real property values and the employment status of borrowers are key risk factors that may impact the collectability of these loans, along with the condition of the collateral if foreclosed.

The majority of the residential 1-4 family real estate mortgage loans are underwritten utilizing agency guidelines and booked to sell in the secondary market. Risks on these loans are generally limited to early payment default and breaches of representations and warranties. A small number of loans are held to maturity and are generally accommodations for Bank officers and directors. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the applicable market areas that might impact either property values or a borrower's personal income.

The credit card portfolio consists of consumer and business loans extended through credit card accounts to individuals and entities. These loans are generally unsecured. The Corporation has a marketing relationship and provides an agent bank credit card program to customer banks across the country, which results in a geographically diverse portfolio. The portfolio is composed of stable, relationship-based applicants referred to the Corporation by these customer banks. The credit card program originated in the 1980s; therefore, the portfolio is generally seasoned and mature. The employment status of borrowers is a key risk factor that may impact the collectability of these receivables.

The Corporation will make loans to tax-exempt municipal entities. These entities will primarily be governmental entities such as cities, counties, school districts and economic development authorities, but may also include hospital districts, utility districts, universities, colleges and private schools. These entities are often very well known to local bankers who desire to maintain or expand their relationship with the entity. In the risk assessment, municipal loans are categorized as General Obligations, Revenue Bonds and Permanent School Fund (PSF) guaranteed loans. Changes in real property values is a key risk factor that may impact the collectability of these receivables along with the nature, value and condition of the collateral if repossessed.

The Corporation engages TIBSCO, a loan review group wholly owned by the Corporation, to review and validate the credit risk program on an annual basis. Results of these reviews are presented to management and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's policies and procedures.

Concentrations of Credit: Most of the Corporation's lending activity occurs within the State of Texas and in other markets to a much lesser degree.

The tables on the following page present the credit risk profile of the Corporation's loan portfolio based on internal rating category and payment activity as of December 31, 2013 and 2012.

	2013						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	$ 121,096	$ 137,970	$ 25,131	$ 192,114	$ 6,869	$ 149,213	$ 632,393
Special Mention	54	1,432	-	-	-	-	1,486
Substandard	1,032	2,483	3,885	-	1,075	554	9,029
Doubtful	-	-	-	-	-	73	73
Total	$ 122,182	$ 141,885	$ 29,016	$ 192,114	$ 7,944	$ 149,840	$ 642,981

	2012						
	Bank Stock	Real Estate	Other Correspondent	Municipal	Mortgage	Credit Card	Total
Grade:							
Pass (1-6)	$ 93,880	$ 150,326	$ 18,319	$ 172,169	$ 8,345	$ 142,176	$ 585,215
Special Mention	1,722	2,452	69	-	-	-	4,243
Substandard	198	6,247	4,282	-	651	521	11,899
Doubtful	-	-	-	-	-	41	41
Total	$ 95,800	$ 159,025	$ 22,670	$ 172,169	$ 8,996	$ 142,738	$ 601,398

The Corporation evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. No significant changes were made to either during 2013 or 2012.

The following tables present the Corporation's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2013 and 2012:

	2013						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	$ -	$ -	$ -	$ -	$ 122,182	$ 122,182	$ -
Real estate	-	-	-	-	141,885	141,885	-
Agriculture	-	-	-	-	2,925	2,925	-
Commercial and industrial	-	-	-	-	19,001	19,001	-
Consumer	-	-	-	-	1,278	1,278	-
Other	-	-	-	-	5,812	5,812	-
Municipal	-	-	-	-	192,114	192,114	-
Mortgage	278	86	-	364	7,580	7,944	-
Credit card	536	314	313	1,163	148,677	149,840	313
Total	$ 814	$ 400	$ 313	$ 1,527	$ 641,454	$ 642,981	$ 313

	2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Correspondent loans:							
Bank stock	$ 268	$ 20	$ -	$ 288	$ 95,512	$ 95,800	$ -
Real estate	798	84	-	882	158,143	159,025	-
Agriculture	-	-	-	-	3,065	3,065	-
Commercial and industrial	-	-	-	-	13,661	13,661	-
Consumer	-	-	-	-	1,542	1,542	-
Other	-	-	-	-	4,402	4,402	-
Municipal	-	-	-	-	172,169	172,169	-
Mortgage	123	42	-	165	8,831	8,996	-
Credit card	451	290	271	1,012	141,726	142,738	271
Total	$ 1,640	$ 436	$ 271	$ 2,347	$ 599,051	$ 601,398	$ 271

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Corporation will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming correspondent and mortgage loans, but also include loans modified in troubled debt restructurings (TDRs).

The following tables present impaired loans for the years ended December 31, 2013 and 2012:

	2013				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Bank stock	$ 1,032	$ 1,034	$ -	$ 258	$ 59
Real estate	7,039	7,262	-	8,856	431
Other correspondent	-	-	-	97	-
Mortgage	173	173	-	173	1
Loans with a specific valuation allowance:					
Mortgage	569	573	174	821	1
Total:					
Correspondent	$ 8,071	$ 8,296	$ -	$ 9,211	$ 490
Mortgage	742	746	174	994	2
Total impaired loans	$ 8,813	$ 9,042	$ 174	$ 10,205	$ 492

	2012				
	Recorded Balance	**Unpaid Principal Balance**	**Specific Allowance**	**Average Investment in Impaired Loans**	**Interest Income Recognized**
Loans without a specific valuation allowance:					
Bank stock	$ 198	$ 202	$ -	$ 100	$ -
Real estate	7,901	9,084	-	8,869	277
Other correspondent	-	-	-	37	-
Mortgage	703	709	-	1,009	13
Total impaired loans	$ 8,802	$ 9,995	$ 0	$ 10,015	$ 290

The following table presents the Corporation's nonaccrual loans at December 31, 2013 and 2012. This table excludes purchased impaired loans and performing troubled debt restructurings.

	2013	**2012**
Correspondent loans:		
Bank stock	$ 1,032	$ 198
Real estate	2,483	4,699
	3,515	4,897
Mortgage	742	528
Total	$ 4,257	$ 5,425

At December 31, 2013 and 2012, the Corporation had a number of loans that were modified in TDRs and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The table on the following page presents information regarding new TDRs by class for the year ended December 31, 2012. There were no new TDRs during the year ended December 31, 2013.

Newly classified TDRs:

	2012		
	Number of Loans	Pre-modification Recorded Balance	Post-modification Recorded Balance
Real estate	$ 2	$ 2,981	$ 2,981
Mortgage	1	174	174
	$ 3	$ 3,155	$ 3,155

There were no TDRs during the previous 12 months that subsequently defaulted during the years ended December 31, 2013 and 2012, respectively.

Note 6: Foreclosed Assets Held for Sale

Activity in the allowance for losses on foreclosed assets was as shown below:

	2013	2012
Balance, beginning of year	$ 900	$ 1,432
Recoveries	(900)	(532)
Balance end of year	$ 0	$ 900

Activity applicable to foreclosed assets during 2013 and 2012 includes the following:

	2013	2012
Net gain on sales of real estate	$ 961	$ 155
Operating expenses, net of income	(7)	(121)
	$ 954	$ 34

Note 7: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2013	2012
Land	$ 2,916	$ 2,916
Buildings and improvements	20,968	20,446
Furniture and equipment	12,073	11,466
Leasehold improvements	427	427
	36,384	35,255
Less accumulated depreciation	16,247	14,848
Net premises and equipment	$ 20,137	$ 20,407

Note 8: Derivative Financial Instruments

In the normal course of business, the Corporation uses various derivative financial instruments to manage its interest rate risk and market risks in accommodating the needs of its customers. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the Corporation's accompanying consolidated financial statements and are measured at fair value.

Cash Flow Hedge

The Corporation utilizes interest rate swaps to mitigate interest rate risk in a rising rate environment. The Corporation entered into certain interest rate swap contracts that are designed to offset some of its risk on forecasted variable interest obligations arising from its federal funds principal purchases and brokered deposits. The Corporation did not enter into any new interest rate swap contracts in 2013 or 2012. The swaps are designated as highly effective cash flow hedges. There were no amounts reclassified to earnings due to ineffectiveness during 2013 or 2012.

The swap contracts at December 31, 2013 and 2012, are summarized as follows:

	Effective Date	Termination Date	Fixed Rate	Variable Rate	Notional Amount	Fair Value 2013	Fair Value 2012
Agreement 1	September 8, 2008	September 8, 2014	3.445%	Fed Funds Daily Rate	$ 50,000	$ (1,265)	$ (2,907)
Agreement 2	September 8, 2008	September 8, 2014	3.445%	Fed Funds Daily Rate	50,000	(1,264)	(2,909)
Agreement 3	November 28, 2008	May 31, 2016	2.685%	Fed Funds Daily Rate	50,000	(2,800)	(4,122)
Agreement 4	November 28, 2008	November 28, 2015	2.620%	Fed Funds Daily Rate	50,000	(2,296)	(3,515)
Agreement 5	May 4, 2011	May 1, 2017	2.258%	Fed Funds Daily Rate	25,000	(1,285)	(2,020)
Agreement 6	May 4, 2011	November 1, 2016	2.097%	Fed Funds Daily Rate	25,000	(1,141)	(1,719)
						$ (10,051)	$ (17,192)

A liability of $10,051 and $17,192 is included in derivative liabilities at December 31, 2013 and 2012, respectively, and an unrealized gain of $4,642 and $2,869, net of deferred tax of $2,499 and $1,545, is included in other comprehensive income (loss) for the years ended December 31, 2013 and 2012, respectively.

Swap Collateral

The aggregate fair value of marketable government securities pledged as collateral by the Corporation related to swap contracts totaled $32,111 and $33,929 at December 31, 2013 and 2012, respectively.

Non-hedging derivatives

The Corporation purchases various 10-year treasury puts, calls and futures contracts to offset changes in the fair value of mortgage servicing rights. These positions turn over approximately every 90 days and are replaced with similar positions. The average positions outstanding during the year are materially consistent with the positions outstanding at December 31, 2013. The Corporation recorded a loss of $1,109 in 2013 and a gain of $598 in 2012 for these derivatives.

The table on the following page presents the fair value of derivative instruments as of December 31, 2013 and 2012.

	2013		2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate derivatives designated as cash flow hedges:				
Interest rate swaps on federal funds purchased	$ 100,000	$ (2,529)	$ 100,000	$ (5,816)
Interest rate swaps on brokered deposits	150,000	(7,522)	150,000	(11,376)
	250,000	(10,051)	250,000	(17,192)
Derivatives not designated as hedging instruments:				
Futures contracts	19,000	(500)	10,500	(44)
Written options	15,500	(118)	8,000	(64)
Purchased options	7,000	14	4,500	4
	41,500	(604)	23,000	(104)
Total derivatives	$ 291,500	$ (10,655)	$ 273,000	$ (17,296)
Derivative - assets		$ 14		$ 4
Derivative - liabilities		(10,669)		(17,300)
		$ (10,655)		$ (17,296)

Note 9: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2013 and 2012, were:

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 1,066	$ (835)	$ 1,066	$ (622)
Other	7,150	(3,250)	7,150	(2,510)
	$ 8,216	$ (4,085)	$ 8,216	$ (3,132)

Amortization expense for each of the years ended December 31, 2013 and 2012, was $953. Estimated amortization expense for each of the following five years is:

2014	$	936
2015		708
2016		690
2017		690
2018		690

Note 10: Loan Servicing

Loans serviced for others are not included in the Corporation's accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage and other loans serviced for others were $1,558,543 and $1,355,421 at December 31, 2013 and 2012, respectively.

The table below summarizes the activity in mortgage servicing rights measured using the fair value method for the years ended December 31, 2013 and 2012.

	2013		2012	
Fair value as of the beginning of the period	$	8,866	$	9,509
Additions:				
Purchases		5,134		3,609
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model*		407		(4,252)
Fair value at the end of the period	$	14,407	$	8,866

*Reflects changes in discount rates and prepayment speed assumptions.

Note 11: Time Deposits

Time deposits in denominations of $100 or more were $298,343 on December 31, 2013, and $430,672 on December 31, 2012.

At December 31, 2013, the scheduled maturities of time deposits are as follows:

2014	$	268,642
2015		10
2016		43,220
	$	311,872

Note 12: Short-term Borrowings

Short-term borrowings included the following at December 31:

	2013	2012
Federal funds purchased	$ 210,432	$ 325,836

The Corporation sells certain securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the accompanying consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. At December 31, 2013 and 2012, there were no repurchase agreements outstanding.

Other borrowings consisted of the following components:

	2013	2012
FHLB advances	$ 0	$ 100,000

The FHLB advances were secured by a blanket lien on real estate mortgage loans and marketable securities totaling $459,946 at December 31, 2012.

At December 31, 2013, the Bank had a primary credit line with the Federal Reserve Bank of Dallas with an advanceable amount of up to $341,000. This borrowing is secured by municipal loans, Bank stock loans and marketable securities. There was no balance outstanding at any time in 2013 or 2012.

Note 13: Income Taxes

The Corporation or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction and various states' jurisdictions.

The provision for income taxes includes these components:

	2013	2012
Taxes currently payable	$ 5,774	$ 5,360
Deferred income taxes	1,550	2,070
Income tax expense	$ 7,324	$ 7,430

A reconciliation of income tax expense at the statutory rate to the Corporation's actual income tax expense is as follows:

	2013	2012
Computed at the statutory rate (35%)	$ 9,273	$ 9,634
Increase (decrease) resulting from:		
Tax-exempt interest	(1,780)	(2,197)
Nondeductible expenses	272	267
Increase in cash value of life insurance	(441)	(274)
Actual tax expense	$ 7,324	$ 7,430

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 5,881	$ 5,916
Unrealized losses on available-for-sale securities	2,791	-
Valuation of foreclosed assets	-	53
Premises and equipment	338	210
Interest rate swap derivative	3,518	6,017
Derivatives	211	72
Accrued expenses and other liabilities	4,262	3,901
Other	163	463
Total deferred tax assets	17,164	16,632
Deferred tax liabilities:		
Credit card premiums and intangibles	929	1,471
Mortgage servicing rights	4,742	2,410
Unrealized gains on available-for-sale securities	-	5,395
Total deferred tax liabilities	5,671	9,276
Net deferred tax assets	$ 11,493	$ 7,356

Note 14: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, included in shareholders' equity, are as follows:

	2013	2012
Net unrealized gains (losses) on available-for-sale securities	$ (7,975)	$ 15,414
Cash flow hedges	(10,051)	(17,192)
	(18,026)	(1,778)
Tax effect	6,309	622
Net-of-tax amount	$ (11,717)	$ (1,156)

Note 15: Shareholders' Equity

The Corporation has 2,000,000 authorized shares of convertible redeemable Class B common stock, $10.00 par value per share and 1,000,000 authorized shares of preferred stock (Series A, B, C and D), $1.00 par value per share. There were no shares outstanding of convertible redeemable common stock or preferred stock (Series B, C and D) as December 31, 2013 or 2012. There were 40,005 shares of Series A preferred stock outstanding as of December 31, 2013 and 2012.

Series A preferred stock dividend rights are cumulative and payable quarterly. The Corporation has the option after the 5th anniversary of the date of issuance to redeem the stock at a price equal to $1.00 per share plus any accrued and unpaid dividends. Series A preferred stock shareholders have no voting rights. Although common stock generally has the exclusive right to vote, Series A preferred stock rank senior to common stock with respect to dividend rights and liquidation preferences.

The Corporation maintains a Dividend Reinvestment and Share Purchase Plan whereby shareholders may elect to: (1) reinvest common stock dividends in the common stock of the Corporation, and (2) make optional cash payments to purchase additional common stock of the Corporation. The purchase price of common shares issued under the Plan is based on the book

value of the stock (excluding other comprehensive income) as of the quarter ended immediately preceding the reinvestment date. During 2013 and 2012, 5,566 and 5,738 shares of common stock were issued under the Plan with an average issue price of $145.74 and $132.38 per share, respectively.

Note 16: Regulatory Matters

The Corporation and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices must be met. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Corporation's regulators could require adjustments to regulatory capital not reflected in these consolidated financial statements.

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

As of December 31, 2013 and 2012, the Corporation and the Bank met the level of capital necessary to be categorized as well capitalized under prompt corrective action regulations. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. As of December 31, 2013 and 2012, management believes the Corporation met all capital requirements under the regulatory framework specified by the Federal Reserve Board. Management is not aware of any conditions subsequent to December 31, 2013, that would change the Corporation's or the Bank's capital category.

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

	Actual		Minimum Capital Requirement		Minimum 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:						
Consolidated	$ 263,170	27.5%	$ 76,447	8.0%	N/A	N/A
Bank only	229,675	24.1%	76,134	8.0%	$ 95,167	10.0%
Tier I capital to risk-weighted assets:						
Consolidated	239,428	25.1%	38,224	4.0%	N/A	N/A
Bank only	217,715	22.9%	38,067	4.0%	57,100	6.0%
Tier I capital to average assets:						
Consolidated	239,428	10.9%	87,724	4.0%	N/A	N/A
Bank only	217,715	10.0%	87,559	4.0%	109,449	5.0%
As of December 31, 2012:						
Total capital to risk-weighted assets:						
Consolidated	245,552	25.4%	77,210	8.0%	N/A	N/A
Bank only	221,281	23.0%	76,942	8.0%	96,178	10.0%
Tier I capital to risk-weighted assets:						
Consolidated	219,452	22.7%	38,605	4.0%	N/A	N/A
Bank only	209,198	21.8%	38,471	4.0%	57,707	6.0%
Tier I capital to average assets:						
Consolidated	219,452	8.7%	100,762	4.0%	N/A	N/A
Bank only	209,198	8.3%	100,627	4.0%	125,784	5.0%

Note 17: Related-party Transactions

At December 31, 2013 and 2012, the Corporation had loans outstanding to executive officers, directors, significant shareholders and their affiliates (related parties) in the amount of $600 and $2,455, respectively.

Annual activity consisted of the following:

	2013	2012
Beginning balance	$ 2,455	$ 4,118
New loans	198	17
Repayments	(2,053)	(1,680)
Ending balance	$ 600	$ 2,455

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2013 and 2012, totaled $47,893 and $47,458, respectively.

Note 18: Employee Benefits

The Corporation maintains a savings plan for employees. Employees are eligible to participate immediately upon hire subject to the next enrollment date. Maximum annual employer and employee contributions to the plan are limited to $51 or 100 percent of an employee's gross earnings, whichever is less. The Corporation may make contributions in an amount necessary to match up to a maximum of 5 percent of the employee's annual compensation. Both employer and employee contributions to the savings plan vest immediately. The Corporation's contributions were $1,055 and $984 in 2013 and 2012, respectively.

The Corporation has nonqualified deferred compensation plans, which provide death and retirement benefits to certain officers. Benefits under the plans are payable over a 15-year period following death or retirement. Deferred compensation expense of $1,287 and $705 was recorded in 2013 and 2012, respectively. Deferred compensation payable totaled $9,365 and $8,523 at December 31, 2013 and 2012, respectively. The Corporation purchased life insurance policies to fund future plan obligations. These policies had an aggregate cash surrender value of $43,557 and $42,296 at December 31, 2013 and 2012, respectively.

During 2002, the Corporation adopted a Phantom Stock Ownership and Long-Term Incentive Plan under which eligible employees may be granted phantom shares from an initial pool of 108,000 shares and such shares generally vest over five years. The value of the phantom shares is calculated using an intrinsic method based on the change in the book value of the Corporation's stock from the original grant date. Holders of the phantom shares have no rights as a shareholder of the Corporation, but may redeem vested phantom shares held for cash in an amount equal to the increase in the book value of the Corporation's common stock subsequent to the grant date.

Information regarding phantom shares is as follows:

	2013	2012
Phantom shares outstanding, beginning of year	8,135	24,868
Redeemed	(1,629)	(16,733)
Phantom shares outstanding, end of year	6,506	8,135
Available for grant, end of year	27,039	27,039
Vested, end of year	6,506	8,135

All phantom shares were vested as of December 31, 2009. The value of phantom shares redeemed in 2013 and 2012 was $185 and $1,666, respectively. The tax benefit recognized in 2013 and 2012 was $65 and $583, respectively. There were no phantom shares granted in 2013 or 2012.

In 2006, the Corporation adopted a Stock Appreciation Right Plan (SAR) under which eligible employees are awarded the right to receive a lump sum cash payment in an amount equal to the increase in the fair market value of the Corporation's stock on an established date, after the vesting period of generally five years, over the grant date price of the SAR. The value of the SAR awards is calculated using an intrinsic method based on the change in the book value of the Corporation's stock from the original grant date.

	2013	2012
SAR awards outstanding, beginning of year	60,700	63,250
Redeemed	(11,650)	(10,973)
Forfeited	-	(4,877)
Granted	15,000	13,300
SAR awards outstanding, end of year	64,050	60,700

The number of shares of SAR awards granted in 2013 and 2012 was 15,000 and 13,300, respectively. The value of SAR awards vested and redeemed totaled $652 and $508 in 2013 and 2012, respectively. The tax benefit recognized in 2013 and 2012 was $228 and $178, respectively.

Compensation expense related to phantom shares and stock appreciation rights is accrued over the vesting period of the award, plus any increases in intrinsic value. Accrued compensation payable under the plans totaled $1,719 and $1,747 at December 31, 2013 and 2012, respectively. Compensation expense recognized under the plans totaled $810 and $730 in 2013 and 2012, respectively.

Note 19: Operating Leases

The Corporation has several noncancellable operating leases, primarily for certain office facilities and office equipment that expire at various dates through 2016. These leases generally contain renewal options and require the Corporation to pay all executory costs such as taxes, maintenance and insurance. Rental expense for these leases was $1,059 and $1,140 for the years ended December 31, 2013 and 2012, respectively.

Future minimum lease payments under operating leases are:

2014	$	567
2015		205
2016		131
Total minimum lease payments	$	903

Note 20: Junior Subordinated Debentures

On January 25, 2006, IBFC issued $30,928 of Floating Rate Junior Subordinated Debentures to a newly formed wholly owned subsidiary, Trust II. Trust II sold Capital Securities of $30,000. IBFC also made an equity contribution of $928 to form Trust II. Interest on the debentures is payable quarterly at LIBOR plus 1.480 percent (1.723 percent and 1.780 percent at December 31, 2013 and 2012, respectively) and the debentures mature on March 15, 2036.

IBFC's obligations under the Capital Securities and Junior Subordinated Debentures are unsecured and rank junior in priority to any existing and future indebtedness of IBFC. IBFC may, at any time, dissolve Trust II and distribute the Junior Subordinated Debentures to holders of the Capital Securities in exchange for the Capital Securities.

The Corporation accounts for Trust II in accordance with ASC Topic 810, *Consolidation*. ASC 810 establishes accounting guidance for consolidation of variable interest entities (VIEs) that function to support the activities of the primary beneficiary. The primary beneficiary of a VIE is the entity that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, as a result of ownership, controlling interest, contractual relationship, or other business relationship with the VIE. Prior to the implementation of ASC 810, VIEs were generally consolidated when an enterprise had a controlling financial interest through ownership of a majority of voting interest in the entity. ASC 810 requires the Corporation to deconsolidate its investment in trust subsidiaries because the Corporation is not the primary beneficiary.

Note 21: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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 3 Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Recurring Measurements

The table on the following page presents the fair value measurements of assets and liabilities recognized in the Corporation's accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013:				
Mortgage-backed U.S. GSEs - residential	$ 524,370	$ -	$ 524,370	$ -
Mortgage servicing rights	14,407	-	-	14,407
Derivative assets	14	14	-	-
Derivative liabilities	(10,669)	(618)	(10,051)	-
December 31, 2012:				
Mortgage-backed U.S. GSEs - residential	669,696	-	669,696	-
Mortgage servicing rights	8,866	-	-	8,866
Derivative assets	4	4	-	-
Derivative liabilities	(17,300)	(108)	(17,192)	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2013 and 2012. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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 Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation'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 Corporation'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 consolidated balance sheets date may differ significantly from the amounts presented herein.

Available-for-sale Securities

Securities classified as "available for sale" are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Derivatives

Derivatives are reported at fair value Utilizing Level 1 and Level 2 inputs. The Corporation uses dealer quotations obtained from third-party firms for derivatives used for hedging mortgage servicing rights. Third-party firms make use of exchange settlement prices (Level 1), which are published daily to value these derivatives. The Corporation uses an independent valuation firm to estimate fair value of interest rate swap derivatives through the use of valuation models with observable market data inputs (Level 2).

Mortgage Servicing Rights

Mortgage servicing rights are reported at fair value utilizing Level 3 inputs. The Corporation uses an independent valuation firm to estimate the fair value of mortgage servicing rights through the use of prevailing market participant assumptions and market participant valuation processes. This valuation and its techniques are periodically tested and validated against other third-party firm valuations. For purposes of determining the fair value of mortgage servicing rights, they are placed in homogeneous groups by investor, remittance requirements, loan type, interest rate and year of origination. At December 31, 2013 and 2012, prepayment speeds were determined using Andrew Davidson's MBS Enhanced Prepayment Model and resulted in weighted-average years to payoff of 6.48 years and 4.25 years, respectively. At December 31, 2013 and 2012, the primary discount rates averaged 10.19 percent and 10.34 percent, respectively. During the years ended December 31, 2013 and 2012, the entire changes in fair value were attributable to changes in valuation inputs and assumptions.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the Corporation's accompanying consolidated balance sheets using significant unobservable (Level 3) inputs.

	Mortgage Servicing Rights
Balance, January 1, 2012	$ 9,509
Included in net income:	
Decrease in fair value	(4,252)
Purchases	3,609
Balance, December 31, 2012	8,866
Included in net income:	
Increase in fair value	407
Purchases	5,134
Balance, December 31, 2013	$ 14,407

Changes in fair value reflected in the table above are included in other noninterest income for the year ended December 31, 2013, and noninterest expense for the year ended December 31, 2012.

For the years ended December 31, 2013 and 2012, there were no significant transfers among Levels 1, 2 and 3.

Nonrecurring Measurements

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a nonrecurring basis are as shown on the following page.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of cost or fair value less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013:				
Foreclosed assets held for sale	$ 708	$ -	$ -	$ 708
December 31, 2012:				
Foreclosed assets held for sale	2,237	-	-	2,237

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at December 31, 2013 and 2012.

	Fair Value at December 31, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 14,407	Discounted cash flow	Discount rate Prepayments Delinquencies	10%-11% (10.2%) 11%-12% (11.4%) 4%-5% (4.2%)
Foreclosed assets held for sale	708	Market comparable properties	Comparability adjustments	Not available

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Mortgage servicing rights	$ 8,866	Discounted cash flow	Discount rate Prepayments Delinquencies	10%-11% (10.4%) 18%-19% (18.1%) 9%-10% (9.5%)
Foreclosed assets held for sale	2,237	Market comparable properties	Comparability adjustments	Not available

Fair Value of Financial Instruments

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

Loans Held For Sale

The carrying amount approximates fair value due to the insignificant time between origination and date of sale. The carrying amount is the amount funded and accrued interest.

Loans

Fair value of fixed-rate loans and variable-rate loans, which reprice on an infrequent basis is estimated by discounting future cash flows using the current interest rates at which similar loans with similar terms would be made to borrowers of similar credit quality. For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans, along with local economic and market conditions.

Federal Home Loan and Federal Reserve Bank Stock

The fair values of Federal Reserve Bank and FHLB – Dallas stocks approximate their carrying values based on their respective redemption provisions.

Deposits

The fair value of fixed-rate deposit liabilities with defined maturities is estimated by discounting future cash flows using the interest rates currently offered for deposits of similar remaining maturities. The market rates used were obtained from a knowledgeable independent third party and reviewed by the Corporation. The rates were the average of current rates offered by local competition.

Federal Home Loan Bank Advances

Fair value is estimated by discounting the future cash flows using rates of similar advances with similar maturities. These rates were obtained from current rates offered by FHLB.

Subordinated Debentures

Fair value of the subordinated debt is estimated by discounting the estimated future cash flows using current estimated market rates. The market rates used were averages of currently traded trust preferred securities with similar characteristics to the Corporation's issuances and obtained from an independent third party.

Off-Balance Sheet Instruments

Fair values of these items are not material and are, therefore, not included on the following schedule.

The following tables present estimated fair values of the Corporation's financial instruments, not previously disclosed, at December 31, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 888,495	$ 888,495	$ 1,144,681	$ 1,144,681
Available-for-sale securities	524,370	524,370	669,696	669,696
Federal Reserve and FHLB stock	3,526	3,526	7,598	7,598
Interest receivable	4,563	4,563	5,860	5,860
Loans held for sale	21,356	21,356	67,532	67,532
Loans	625,911	633,254	584,440	595,387

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Interest payable	$ 63	$ 63	$ 381	$ 381
Deposits	1,695,815	1,700,796	1,882,365	1,885,571
FHLB advances	-	-	100,000	101,329
Junior subordinated debentures	30,928	30,928	30,928	30,928
Short-term borrowings	210,432	210,432	325,836	325,836

Note 22: Significant Estimates, Concentrations, Commitments and Credit Risk

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the note regarding loans.

General Litigation

The Corporation is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Corporation.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Corporation be obligated to perform under the standby letters of credit, the Corporation may seek recourse from the customer for reimbursement of amounts paid.

The Corporation had total outstanding standby letters of credit amounting to $2,950 and $2,527 at December 31, 2013 and 2012, respectively, with terms ranging from 182 days to nine years.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line of credit may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment; commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2013, the Corporation had granted unused lines of credit to borrowers aggregating approximately $149,003 and $855,915 for commercial lines and open-end consumer lines, respectively. At December 31, 2012, unused lines of credit to borrowers aggregated approximately $146,658 for commercial lines and $753,708 for open-end consumer lines.

Other Credit Risks

At December 31, 2013, approximately 79.7 percent of the Corporation's total time deposits consisted of short-term jumbo certificates of deposit, which were issued through a broker and had minimum denominations in excess of $100,000.

Securities

The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 23: Subsequent Events

The Corporation has evaluated subsequent events through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Effective January 1, 2014, the Bank acquired a credit card portfolio along with various merchant contracts from Prosperity Bank in Oklahoma for a cash purchase price of $6,440. The acquisition will increase the Bank's card processing volumes, creating economies that will allow the Bank to improve efficiencies. A summary of the transaction is as shown on the following page.

Card balances	$	4,216
Premium paid		1,224
Goodwill		1,000
Total purchase price	$	6,440

The premium paid was allocated to credit card portfolio and merchant contracts and will be amortized over five years.

Effective February 1, 2014, TIBSCO, a wholly owned subsidiary of the Bank, purchased the assets and consulting contracts of Bequeaith Banking LLC for a cash purchase price of $950. The acquisition will enable TIBSCO to include compliance and training in their portfolio of services for community banks which will in turn create new opportunities for growth. The majority of the purchase price was allocated to intangible assets with an average life of five years.

Note 24: Condensed Financial Information (Parent Corporation Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Corporation:

Condensed Balance Sheets

	December 31,	
	2013	2012
Assets		
Cash and due from banks	$ 34,959	$ 26,199
Investment in common stock of subsidiaries	212,703	215,194
Other assets	3,873	3,298
Total assets	$ 251,535	$ 244,691
Liabilities		
Dividends payable	$ 3,047	$ 2,892
Junior subordinated debentures	30,928	30,928
Other liabilities	1,743	1,780
Total liabilities	35,718	35,600
Shareholders' Equity	215,817	209,091
Total liabilities and shareholders' equity	$ 251,535	$ 244,691

Independent Bankers Financial Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(Dollars in Thousands)

Condensed Statements of Income and Comprehensive Income

	Years Ended December 31,	
	2013	2012
Income		
Dividends from subsidiaries	$ 12,000	$ -
Interest income	17	18
Other income	34	48
Total income	12,051	66
Expenses		
Interest expense	551	609
Other expenses	883	735
Total expenses	1,434	1,344
Income (Loss) Before Income Tax and Equity in Undistributed Net Income of Subsidiaries	10,617	(1,278)
Income Tax Benefit	484	447
Income (Loss) Before Equity in Undistributed Net Income of Subsidiaries	11,101	(831)
Equity in Undistributed Net Income of Subsidiaries	8,070	20,927
Net Income	$ 19,171	$ 20,096
Comprehensive Income	$ 8,610	$ 24,505

Independent Bankers Financial Corporation
and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(Dollars in Thousands)

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
Operating Activities		
Net income	$ 19,171	$ 20,096
Items not providing cash	(8,683)	(14,035)
Net cash provided by operating activities	10,488	6,061
Financing Activities		
Sale of common stock	2,813	1,559
Purchase and retirement of common stock	-	(50)
Cash dividends paid on common and preferred stock	(4,541)	(4,409)
Net cash used in financing activities	(1,728)	(2,900)
Net Change in Cash and Cash Equivalents	8,760	3,161
Cash and Cash Equivalents at Beginning of Year	26,199	23,038
Cash and Cash Equivalents at End of Year	$ 34,959	$ 26,199