VALUE

FIRST FINANCIAL BANKSHARES INC.

annual report 2002

2002 ANNUAL REPORT

VALUES

At First Financial Bankshares, we are not a complicated company. Our value is easy to calculate because our numbers are easy to follow. The same holds true for our values. We believe in doing business the right way – from our boardrooms to our mailrooms. Maybe it's our West Texas roots, but we still appreciate the days when a handshake was binding. The relationships we have developed with our customers bear this out. More and more, in communities across Texas, we're the banks people turn to for financial services. The result has been strong, consistent, above-sector performance for our shareholders. How do values drive value? Let us explain.

Corporate Profile

First Financial Bankshares, Inc. is a financial holding company headquartered in Abilene, Texas, with consolidated assets of $2.0 billion as of December 31, 2002. The corporation has 10 affiliate banks, which provide services from 28 full-service locations in the Central, West and High Plains regions of Texas. The common stock of First Financial Bankshares, Inc. is held by more than 3,500 shareholders and is listed on The NASDAQ Stock Market® under the symbol FFIN.

> "Our 10 affiliate banks provide services from 28 full-service locations in the Central, West and High Plains regions of Texas."

Financial Highlights

IN THOUSANDS EXCEPT PER SHARE DATA	2002	2001	CHANGE
For the Year			
Net Income	$ 33,953	$ 29,355	15.7%
Basic Earnings per Share	2.75	2.38	15.5
Dividends Declared	16,680	14,365	16.1
Dividends per Share	1.35	1.16	16.4
Averages for the Year			
Assets	1,907,999	1,811,130	5.3
Securities	748,654	676,391	10.7
Loans	942,101	897,616	5.0
Deposits	1,644,170	1,566,360	5.0
Shareholders' Equity	224,355	204,517	9.7
At Year-End			
Assets	1,993,183	1,929,694	3.3
Securities	772,256	721,694	0.1
Loans	964,040	940,131	2.5
Deposits	1,711,562	1,685,163	1.6
Shareholders' Equity	238,768	213,654	11.8
Book Value per Share	19.31	17.32	11.5
Trust Assets	986,224	958,952	2.8
Key Ratios			
Return on Average Assets	1.78%	1.62%	
Return on Average Equity	15.13	14.35	
Equity/Assets at Year-End	11.98	11.07	
Efficiency	51.96	53.82	

"We promise that our dedication to you will not waver as we continue to focus on the importance of value and values."

Dear Shareholders: The theme of this year's annual report is Value and Values. We firmly believe that values do drive value. We want to provide value to our shareholders through ownership of our stock, and value to our customers through banking products and services. We do this by adhering to the principles that have guided this organization since the establishment of First National Bank of Abilene in 1890. In particular, we are committed to doing business professionally and ethically and to making sure our financial information is presented fairly.

Last year, shareholders saw the value of their stock rise as we achieved higher earnings for the 16th year in a row. Net income reached $34.0 million, a gain of 15.7% from 2001's $29.4 million. Basic earnings per share totaled $2.75, up from $2.38 in 2001. Over the past 10 years, earnings have grown at a compounded annual rate of 11.9%. The primary factors contributing to 2002's higher earnings were an increase in average earning assets and an improved net interest margin (the percentage difference between interest earned and interest paid). Also contributing was the elimination of goodwill amortization under a change in generally accepted accounting principles; this change produced an increase of $.10 in basic earnings per share.

Key profitability ratios also improved in 2002. Our return on average assets increased to 1.78% from 1.62% in 2001. This result was well above the average of 1.19% achieved by our peer group (bank holding companies of similar size). Return on average equity improved to 15.13% from 14.35% in 2001. Our operating efficiency ratio (the share of revenues consumed by operating expenses) improved to 51.96% in 2002 from 53.82% in 2001. Again, our ratio compared favorably to our peer group's average of 59.17%.

Consolidated assets at year-end 2002 totaled $1.993 billion, up 3.3% from $1.930 billion in 2001. Loans increased modestly, by 2.5%, to $964.0 million. The book value of our trust assets increased by 2.8%, reaching $986.2 million at December 31, 2002. Deposits grew by 1.6%, to $1.712 billion.

First Financial's balance sheet at year-end was again marked by strong asset quality and capital strength. Classified loans (those at risk to some degree) increased to 3.7% of total loans from 2.7% a year earlier. However, total nonperforming assets decreased to .44% of total loans from .51% at the end of 2001; by comparison, the peer group average was .75%. Shareholders' equity grew to $238.8 million at the end of 2002, yielding an equity-to-assets ratio of 11.98%.

Based on our earnings performance and strong capital position, in April 2002 the Board of Directors approved a 16.7% increase in the quarterly cash dividend, to $.35 per share from $.30 per share. The total cash dividend for 2002 was $1.35 per share. The market price of our common stock at year-end was $38.00 per share, up 26.2% from $30.10 at the end of 2001. The combination of share price appreciation and dividend paid produced a total return to shareholders of 31% for 2002.

On January 2, 2002, First Financial Bank, N. A., Southlake, opened a new branch in Keller. We are encouraged by the growth of this branch, and are looking for additional opportunities in the same northeast Tarrant County area. On October 15, 2002, First National Bank, Sweetwater, acquired the Trent branch of State National Bank of West Texas. This branch, with total assets of $6.5 million, is a good addition to the Sweetwater bank, and we are pleased to have a location in the Trent community.

We are honored that Johnny Trotter, President and Chief Executive Officer of Livestock Investors, Ltd., has accepted nomination for election as a new director of the Company at our annual shareholder meeting in April 2003. He is presently a director of the Hereford State Bank and a prominent business, community and cattle industry leader.

Craig Smith, President and Chief Executive Officer of Hereford State Bank, retired at the end of 2002, after 31 years of service to the bank. Craig also served as a director on our Company board. Mike Mauldin, a well-known Texas Panhandle banker with over 23 years of banking experience, has been elected President and Chief Executive Officer of the Hereford State Bank to succeed Craig.

After 12 years of service, Curtis Harvey, Executive Vice President and Chief Financial Officer, will be leaving the Company on March 31, 2003, to manage his new business interest in Fort Worth. J. Bruce Hildebrand has been elected to succeed Curtis. Bruce, a CPA, was a financial services audit partner at KPMG LLP, where he worked for 24 years. He is well-qualified for the Executive Vice President/Chief Financial Officer position due to his experience with publicly held companies and financial institutions. The Board has also elected Gary L. Webb as Executive Vice President/Operations. Gary has over 15 years of experience in the banking and consulting industries, and will be managing our technology, operations, training and product development. Over the next several years, we plan to make additional investments in technology in order to expand our services and gain operating efficiencies for the Company.

We thank Craig and Curtis for their outstanding service and dedication to the Company, and we welcome the newest members of our management team. We are very honored to have these experienced professionals join the Company. We also are pleased that Kenneth T. Murphy will continue as Chairman of the Board and in that role will focus on acquisitions. With this experienced management team, which includes our 10 bank presidents, we are poised for growth and continued strong results. We greatly appreciate both their efforts and those of our directors and employees.

In 2003, we will continue to pursue opportunities to grow and enhance shareholder value. We plan to actively seek strategic acquisitions; look for additional branch locations in higher-growth areas to expand our existing banks; and increase our mortgage and brokerage operations. We currently are in the process of forming a trust company that will consolidate our present trust operations, provide greater expertise to our clients and allow us to expand trust services to additional markets.

This year's annual report features a few of the many people that we work for every day – our shareholders and customers. As we grow the Company, we promise that our dedication to you will not waver, and that we will continue to focus on the importance of value and values.

Thank you for your investment in and support for First Financial Bankshares.

F. Scott Dueser
President and Chief Executive Officer

First Financial Bankshares customers and shareholders also know a thing or two about Value and Values – and we learn from them every day. We're proud to share in their success. Here are just a few of their stories.

George Marti believes in doing things. Good things.

Born to humble roots on his parents' farm in 1920, Marti has accomplished much, including founding three radio stations (and investing in 10 more) and developing a remote pickup device that became standard equipment in 80 percent of all radio stations worldwide. He still has part ownership of KCLE in Cleburne, Texas (the town where he was once mayor for 12 years).

Marti's dedication to his hometown is part of the reason why he bought Cleburne State Bank in 1992. His business skills (and success in the broadcasting industry) gave him the resources to turn the bank into yet another winning venture. Five years later, he sold it to First Financial, which merged it with their existing First Financial Bank, Cleburne.

The proceeds from the sale helped Marti complete the funding for his proudest achievement: the Marti Foundation, which he created in the 1970s to help send students from Johnson County to college. "We help over 100 students a year … most are the first from their family ever to attend college," says Marti. "I know what education did for me, so it's a great thing to help these young people." Marti says that when he dies, the Foundation will live on, $20 million strong.

Marti still serves on the board of First Financial Bank, Cleburne. "First Financial's merger of the banks was positive for the community. They have a good customer base. They are friendly, helpful and creative. They are growing, and the branches in Alvarado and Burleson are both doing well. Those are all good things."

"They are friendly, helpful and creative. Those are all good things."

George Marti
Founder
Marti Enterprises
Cleburne, Texas

S.L. Garrison knows how to grow things.

In fact, two of his businesses *specialize* in growth. As founder/partner of Bar-G Feedyard and the Garrison and Townsend Inc. hybrid seed company, Garrison has a keen perspective on what it takes to build successful companies. His other interests include Backyard Adventures, a fast-rising maker of high-quality playground equipment.

"I've been a customer of Hereford State Bank since 1966, when we were first starting out," says Garrison. "As our company grew, the bank was always willing to grow with us to meet our loan needs. Of course, we tried to be good customers and pay them back!

"I've owned First Financial Bankshares stock since the early '80s ... they are a strong company. They've paid good dividends, the value has grown, and their strategy of acquiring solid banks has been good for shareholders.

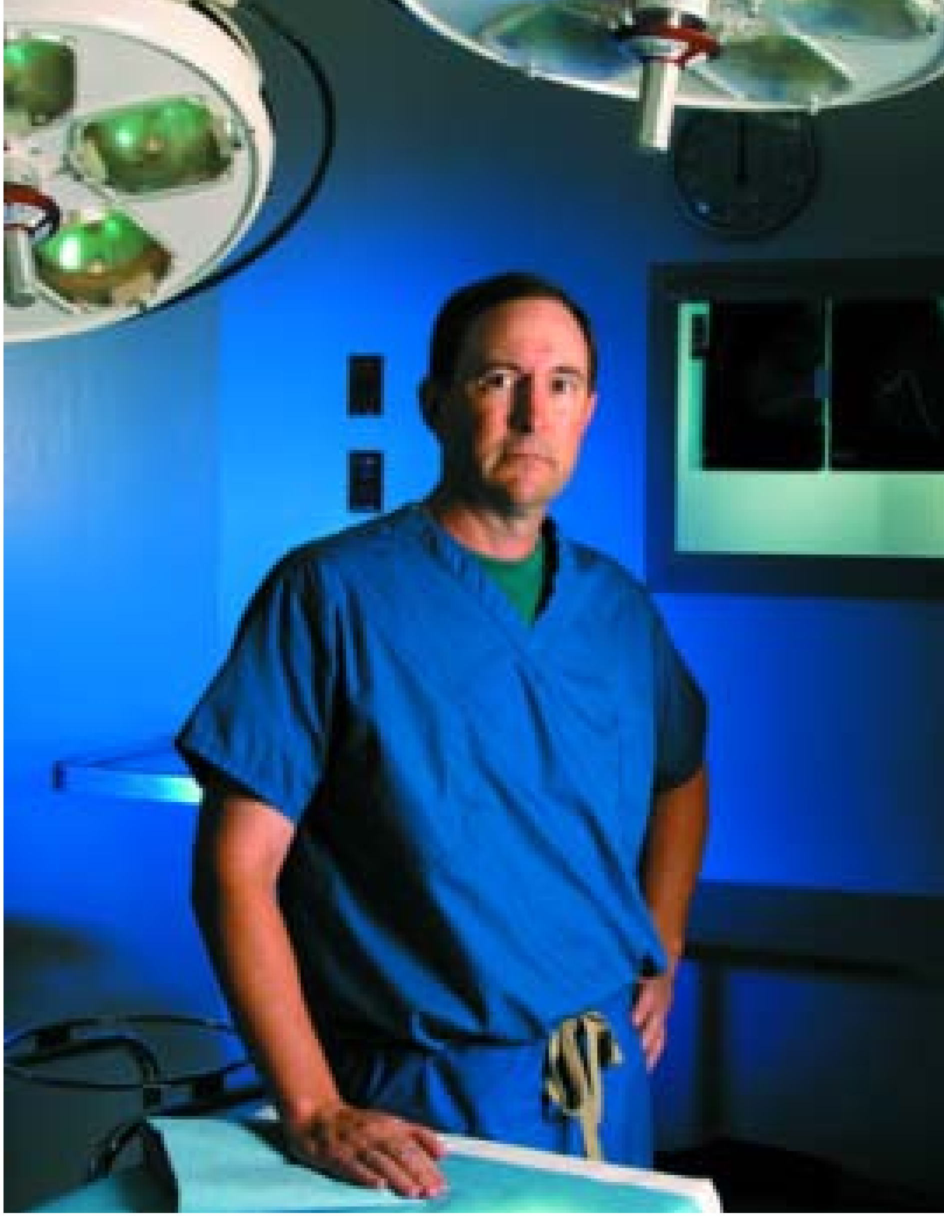
"When they acquire a bank, they keep a local board of directors for that bank – that's important for strong support of the community. They are leaders who help grow the communities they serve.

"As with all businesses, it's people that make the difference, and First Financial Bankshares' emphasis on making sure they have quality, informed people from top to bottom is obvious. They understand business, and they are active and involved in community affairs. No matter what the need, they always step in to help."

S.L. Garrison
Founder/Partner
Bar-G Feedyard
Garrison and Townsend Inc.
Hereford, Texas

"As with all businesses, it's people that make the difference."

Leigh Taliaferro, M.D.
General Surgeon
Abilene, Texas



Leigh Taliaferro, M.D., values consistency.

The Abilene native started his practice 17 years ago and has developed a flourishing business as a general surgeon. He estimates that 90 percent of his practice is for abdominal surgery. With such a busy practice, he finds comfort in having a reliable banking partner. "I have almost every type of business, trust and personal account with First National Bank of Abilene," says Dr. Taliaferro.

"First National is immersed in this city – everywhere you go, they are involved with helping people with their business. It's because of the people who work there – they are leaders … generous people who make their mark on the bank and on the community. While they may be the biggest bank in town, they sure don't act like it. It's like banking with friends."

Dr. Taliaferro has invested in First Financial Bankshares for more than a decade. "My stock has done nothing but go up in value. They are solid, sound businesspeople. I sleep well at night knowing that my investments are in good hands."

"While they may be the biggest bank in town, they sure don't act like it. It's like banking with friends."

"They stuck with me and were always team players."

Bob Housley appreciates loyalty.

His company, Housley Communications, is a thriving business with a staff of 225 and contracting relationships with over 700 firms. The company provides engineering and implementation of advanced telecommunications systems. "We provide everything a company needs to go from zero to 100 percent."

Success hasn't necessarily been easy. "We had some difficult times when we were starting out in the '80s," says Housley. "San Angelo National Bank worked very diligently to help me get where I am today. They stuck with me and were always team players."

Housley is a demanding customer – a trait to which he credits much of his success. "I am very customer service-oriented. It's how I built my business. I appreciate that I can get that same type of dedication from San Angelo National Bank, and I see it reflected throughout the First Financial Bankshares organization."

Housley the shareholder is no less demanding, but he's had good reason to be pleased with his returns from First Financial Bankshares. "First Financial's expansion strategy is excellent – they do their research and find banks with good opportunity. Their operations are sound, and their growth is well-managed. I believe they are one of the best mid-size banking organizations around."

Bob Housley
President
Housley Communications
San Angelo, Texas

Terry Wilkinson has vision. Show him an empty tract of land, and the wheels start turning.

Wilkinson's various enterprises have created some of the most profitable developments in Southlake, Texas, a once-sleepy town whose name has become synonymous with upscale living and commerce in the Dallas-Fort Worth Metroplex.

"I've been in business on my own since the early '90s, and a customer of First Financial Bank in Southlake for about six years," says Wilkinson. He works with the bank to finance numerous projects, such as residential developments, office buildings and large-scale shopping centers. "Naturally, I work with several banks, but I consider First Financial the easiest to work with."

Wilkinson believes the bank's local perspective gives it better vision for what can succeed in the community. That translates into better performance. "I prefer dealing with banks where things don't have to be sent off to people you've never met for a decision. With First Financial, they've gotten to know me, and they understand my business.

"First Financial doesn't seem like a bank that's owned by an out-of-town company. That's why they're my preferred lender."

"First Financial doesn't seem like a bank that's owned by an out-of-town company."

Terry Wilkinson
Commercial/Residential Developer
Southlake, Texas

Trust is important to Maggy Morford.

Known all over Abilene for her devotion to good causes, Morford is one of the community's most benevolent trustees – a generous contributor of money, time and hard work. Her style of leadership is to be active, get things done and set a positive example for the city she loves.

Morford does business with First National Bank of Abilene, in part because she appreciates the example they set, too. "My husband was in the cattle business. He depended upon loans from First National," says Morford. "After he died, I knew that I did not want to stay in the cattle business, so I sold it. That gave me money to invest."

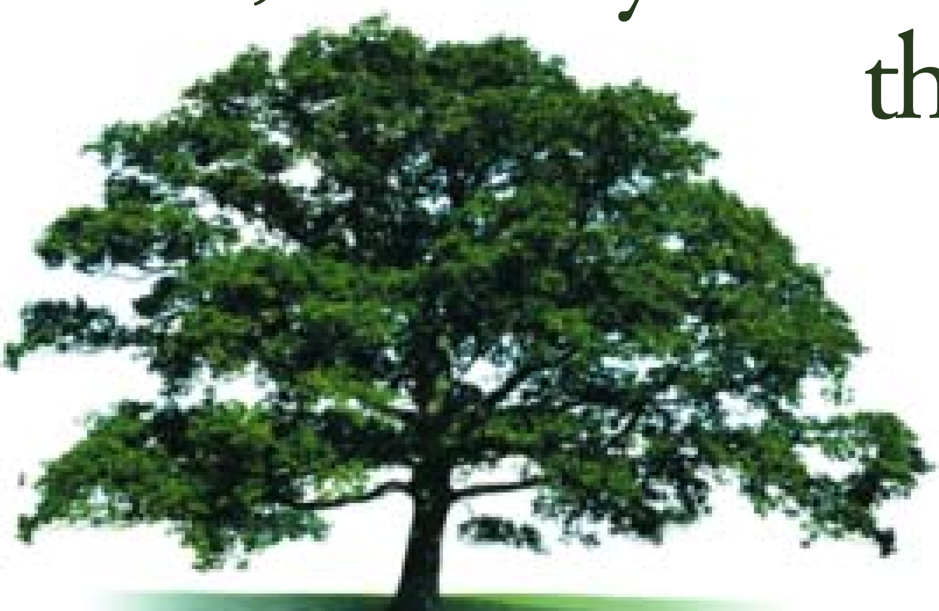
Morford chose to work with First National Bank of Abilene's Trust Department. "I created a family limited partnership. During a time when there was a lot of hysteria in the markets, they were conservative. They kept an even keel and have done well despite the difficult market.

"They are a good bunch of folks, and they make it a point to serve the community by joining boards and lending a hand where help is needed. They are very careful in the people they hire. They nurture them and bring them along, and they don't hesitate to recruit from other areas when necessary. They keep the interests of the shareholders and customers close to heart.

"With First Financial Bankshares, you know the people that you work with, and they are friends. People that you trust."

Maggy Morford
Civic Leader
Investor
Abilene, Texas

"You know the people you work with, and they are friends. People that you trust."



Selected Financial Data

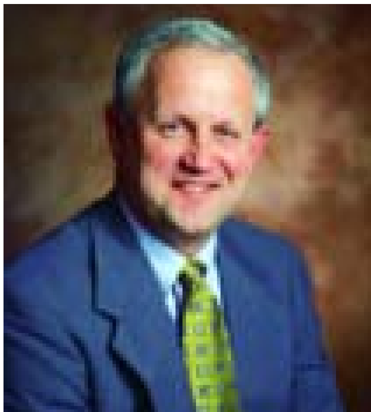
IN THOUSANDS EXCEPT PER SHARE DATA

Year-End	Total Assets[1]	Shareholders' Equity[1]	Net Income[1]	Basic Earnings per Share[2]	Cash Dividends per Share[2]	Stock Dividends and Splits	Year-End Book Value per Share[2]	Year-End Market Value per Share[2]
2002	$1,993,183	$238,768	$33,953	$2.75	$1.35	–	$19.31	$38.00
2001	1,929,694	213,654	29,355	2.38	1.16	5/4 split	17.32	30.10
2000	1,753,814	196,121	28,316	2.28	1.03	–	15.92	25.15
1999	1,723,369	178,663	25,690	2.06	0.90	–	14.33	24.60
1998	1,686,647	169,449	23,254	1.87	0.80	10% dividend	13.62	28.00
1997	1,573,509	148,226	20,063	1.70	0.70	5/4 split	12.46	31.18
1996	1,262,041	131,161	18,122	1.58	0.63	5/4 split	11.36	23.27
1995	1,062,325	114,917	16,355	1.52	0.56	–	10.66	15.59
1994	1,001,906	103,908	13,112	1.22	0.51	5/4 split	9.67	12.44
1993	924,630	90,443	11,978	1.31	0.45	10% dividend	8.99	15.46
Ten-Year Compound Growth Rate	9.03%	11.36%	11.94%	9.60%	14.45%	–	9.02%	11.15%

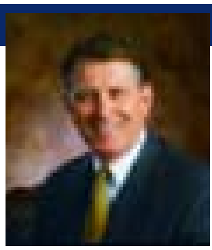
[1] As originally reported at the close of each year and prior to restatements for pooling-of-interests.
[2] Adjusted for stock dividends and splits.

"The value of our stock rose as we achieved higher earnings for the 16th year in a row."

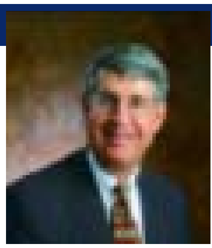
Curtis R. Harvey
Executive Vice President and Chief Financial Officer



Trust Services



Robert S. Patterson
First National Bank of Abilene



David Byrd
San Angelo National Bank

Perry Elliott
Stephenville Bank & Trust Co.

Janis McDowell
First National Bank, Sweetwater

Assets managed by the Trust Departments at First National Bank of Abilene, San Angelo National Bank, Stephenville Bank & Trust Co. and First National Bank, Sweetwater, increased $27.3 million during the past year to a December 31, 2002 book value of $986.2 million. However, due to depressed stock market values and volumes, trust department revenue declined in 2002. Trust combined revenues for the year were down slightly from $5.89 million in 2001 to $5.83 million for 2002. In 2003, we anticipate a return to improved income growth.

The performance of the stock market the past three years has been a challenge that our trust investment professionals have managed well. Not since 1939-1941 have we seen the S&P 500 drop 35% in a three-year period. Our portfolio managers outperformed their indices in Large Cap stocks by 83 basis points and Fixed Income securities by 168 basis points. This performance bodes well for the present and future of our client accounts.

During 2002, we saw a successful conversion of Stephenville Bank & Trust to the SEI Corporation accounting system. In March 2003, we will be converting First National Bank, Sweetwater, to this system as well. This will provide all First Financial Bankshares trust clients with the strength and advantages of a uniform accounting system. Other operational systems have been examined and consistent practices and procedures have been implemented.

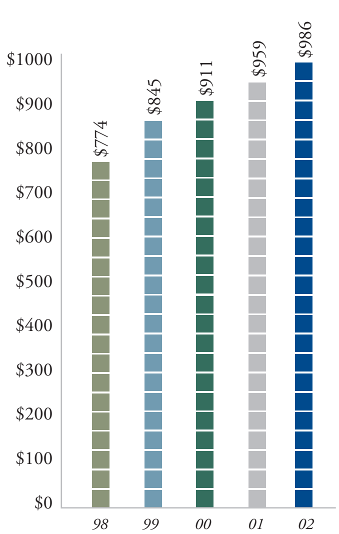
To further enhance our risk management assessments in 2003, we will be introducing an Operational Peer Review Team similar to the successful peer review teams used in the Personal Trust areas of our four locations.

Plans for the formation of a First Financial Bankshares trust company are moving forward with regulatory approval anticipated in late Spring or early Summer. This will permit your Company to provide quality, locally delivered trust services to additional markets.

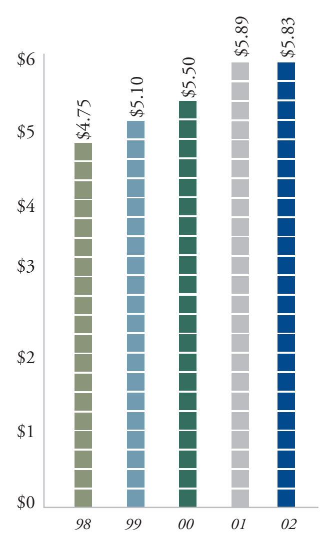
With skilled trust professionals offering a complete range of financial products and services, the future of our trust departments look bright. Through dedication to individualized portfolio design and personalized service, our trust departments stand ready to meet the needs of our present and future clients.

Robert S. Patterson
Senior Vice President, Trust Services

TRUST ASSETS in millions



TRUST FEES in millions



J. Bruce Hildebrand
Executive Vice President

First National Bank of Abilene

Main Office
400 Pine Street
Abilene, Texas 79601
Chartered 1890

Branches
4400 Buffalo Gap Road
Abilene, Texas 79606

4350 Southwest Drive
Abilene, Texas 79606

920 N. Willis
Abilene, Texas 79603

3300 S. 14th Street
Abilene, Texas 79605

1010 N. Judge Ely Blvd.
Abilene, Texas 79601

701 Pine Street
Abilene, Texas 79601

1345 Barrow Street
Abilene, Texas 79605

Senior Officers
F. Scott Dueser
Chairman of the Board

Chuck A. Cowell
President and Chief Executive Officer

Ron Fogle
Executive Vice President, Commercial Loans

Robert S. Patterson
Executive Vice President and Senior Trust Officer

John Prince
Executive Vice President, Personal Loans

Mario A. Luppino
Executive Vice President, Marketing and Retail

Gary Tucker, CDP
Executive Vice President and Chief Information Officer

Leo Dennis
Executive Vice President, Chief Financial Officer and Cashier

Directors
Chuck A. Cowell
President and Chief Executive Officer

J. Michael Alexander
President, James M. Alexander & Co.

Tucker S. Bridwell
President and Chief Executive Officer, Mansefeldt Investments, Inc.

Joseph E. Canon
Executive Director, Dodge Jones Foundation

David Copeland
President, Shelton Family Foundation

Joe Crawford
President, Abilene Aero, Inc.

F. Scott Dueser
First Financial Bankshares, Inc.

Charles Ezzell
Investments

Allan D. Frizzell
Executive Vice President, Enrich Oil Corporation

Raymond A. McDaniel, Jr.
Investments

Bynum Miers
Rancher

William D. Minter
Vice President, CameraMouse

Stanley Morris, Jr.
Investments

Kenneth T. Murphy
First Financial Bankshares, Inc.

James Parker
President, Parker Properties, Inc.

Jack D. Ramsey, M.D.
Physician

Dian Graves Stai
Investments

Michael C. Waters, F.A.C.H.E.
President, Hendrick Health System

Advisory
Bob J. Surovik
McMahon, Surovik, Suttle, Buhrmann, Hicks and Gill, P.C.

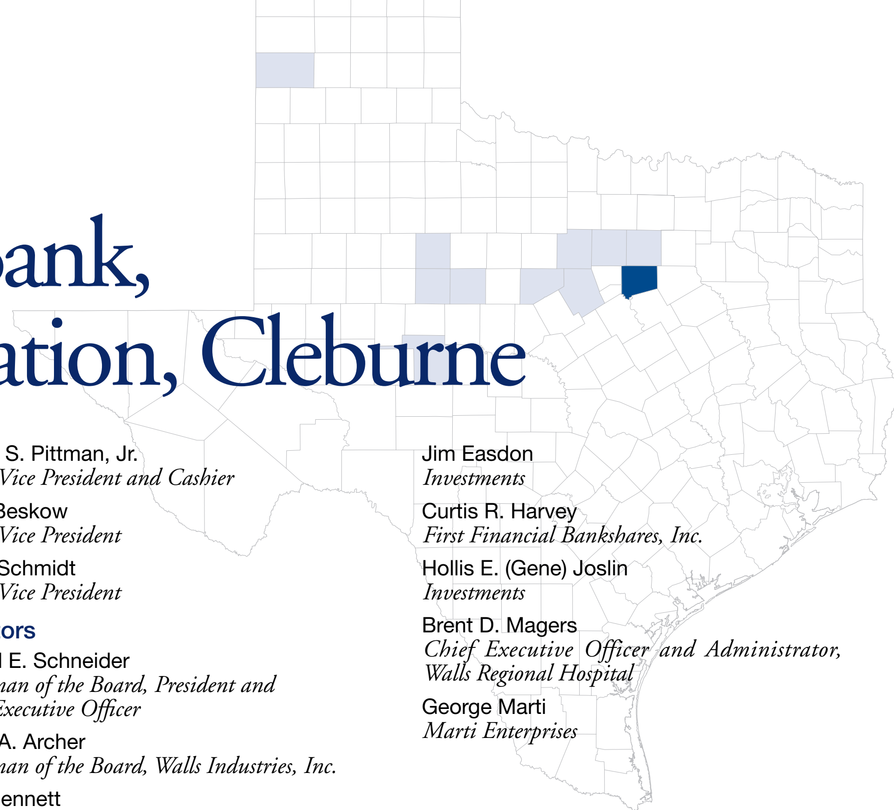
Steve Suttle
McMahon, Surovik, Suttle, Buhrmann, Hicks and Gill, P.C.

Chuck A. Cowell
President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$705,468	$670,959
Loans	353,564	344,341
Deposits	624,262	598,310
Equity	68,670	63,276
Net Income	14,277	13,051
Trust Assets	740,745	722,504
Return on Average Assets	2.12%	1.98%
Return on Average Equity	21.05	20.19

Taylor County Deposit Market Share 46%

Abilene



First Financial Bank, National Association, Cleburne

Main Office
403 N. Main
Cleburne, Texas 76033
Chartered 1927

Branches
200 N. Ridgeway
Cleburne, Texas 76033

1900 S.W. Wilshire
Burleson, Texas 76028

201 E. Highway 67
Alvarado, Texas 76009

Senior Officers

Ronald E. Schneider
Chairman of the Board, President and Chief Executive Officer

Perry Ginn
Executive Vice President

Homer S. Pittman, Jr.
Senior Vice President and Cashier

Craig Beskow
Senior Vice President

Derek Schmidt
Senior Vice President

Directors

Ronald E. Schneider
Chairman of the Board, President and Chief Executive Officer

Albert A. Archer
Chairman of the Board, Walls Industries, Inc.

Gary Bennett
Bennett Printing & Office Supply

Robert T. Childress
Investments

F. Scott Dueser
First Financial Bankshares, Inc.

Jim Easdon
Investments

Curtis R. Harvey
First Financial Bankshares, Inc.

Hollis E. (Gene) Joslin
Investments

Brent D. Magers
Chief Executive Officer and Administrator, Walls Regional Hospital

George Marti
Marti Enterprises

Ronald E. Schneider
Chairman of the Board, President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$205,591	$209,159
Loans	106,755	108,607
Deposits	182,715	189,597
Equity	20,364	18,040
Net Income	3,451	3,120
Return on Average Assets	1.72%	1.62%
Return on Average Equity	17.66	17.08

Johnson County Deposit Market Share 22%

Cleburne

Eastland National Bank

Office
201 E. Main
Eastland, Texas 76448
Chartered 1934

Senior Officers

Tommy J. Barrow
Chairman of the Board, President and Chief Executive Officer

Clint S. Ferguson
Executive Vice President

Jim Davidson
Senior Vice President and Cashier

Directors

Tommy J. Barrow
Chairman of the Board, President and Chief Executive Officer

F. Scott Dueser
First Financial Bankshares, Inc.

Clint S. Ferguson
Executive Vice President

Curtis R. Harvey
First Financial Bankshares, Inc.

Jim Keffer
President, EBAA Iron Sales, Inc.

Mike T. Perry
President, Kinnaird, Rossander & Perry Agency, Inc.

Dale Squiers, R.Ph.
Owner, Eastland Drug Company

Tommy Warford
Turner, Seaberry and Warford, Attorneys

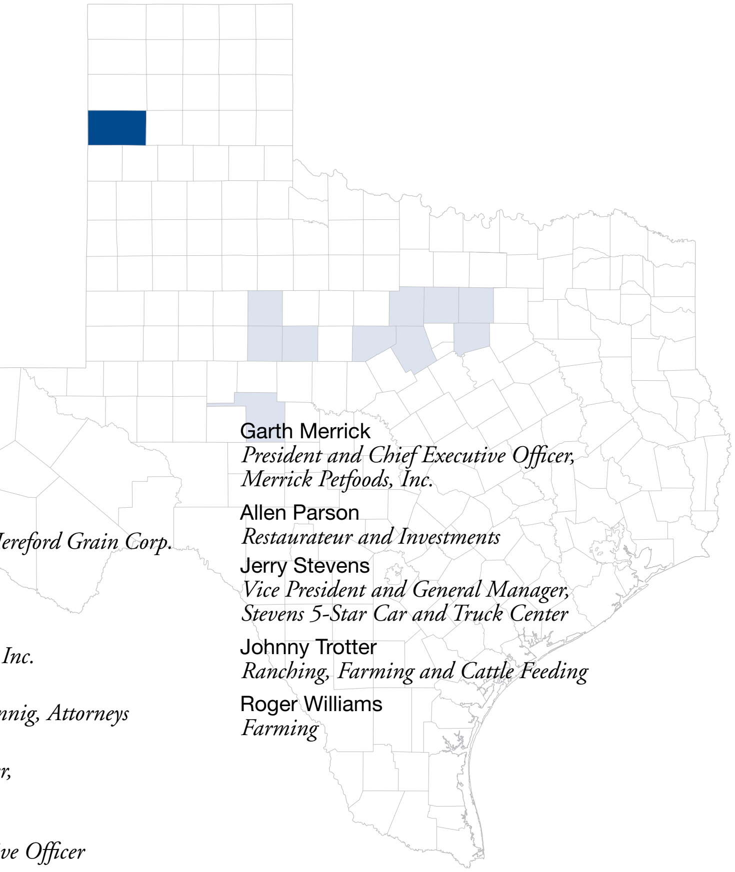
M.D. White, Jr.
President and Owner, Ace Hardware Store Eastland/Cisco

Tommy J. Barrow
Chairman of the Board, President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$59,090	$57,412
Loans	31,931	29,904
Deposits	50,109	51,577
Equity	6,113	5,737
Net Income	1,016	894
Return on Average Assets	1.70%	1.58%
Return on Average Equity	16.90	15.91

Eastland County Deposit Market Share 28%

Eastland



Hereford State Bank

Office
212 E. Third Street
Hereford, Texas 79045
Chartered 1947

Senior Officers

Craig Smith
Chairman of the Board

Mike Mauldin
President and Chief Executive Officer

Terry Bromlow
Executive Vice President

Steve Gilbert
Senior Vice President and Cashier

Jeff Brown
Senior Vice President

Directors

Craig Smith
Chairman of the Board

Joe Artho
Retired General Manager, Hereford Grain Corp.

Terry Bromlow
Executive Vice President

F. Scott Dueser
First Financial Bankshares, Inc.

Terry Langehennig
Cowsert, Line and Langehennig, Attorneys

Steve Lewis, D.V.M.
Manager and Senior Partner, Hereford Veterinary Clinic

Mike Mauldin
President and Chief Executive Officer

Garth Merrick
President and Chief Executive Officer, Merrick Petfoods, Inc.

Allen Parson
Restaurateur and Investments

Jerry Stevens
Vice President and General Manager, Stevens 5-Star Car and Truck Center

Johnny Trotter
Ranching, Farming and Cattle Feeding

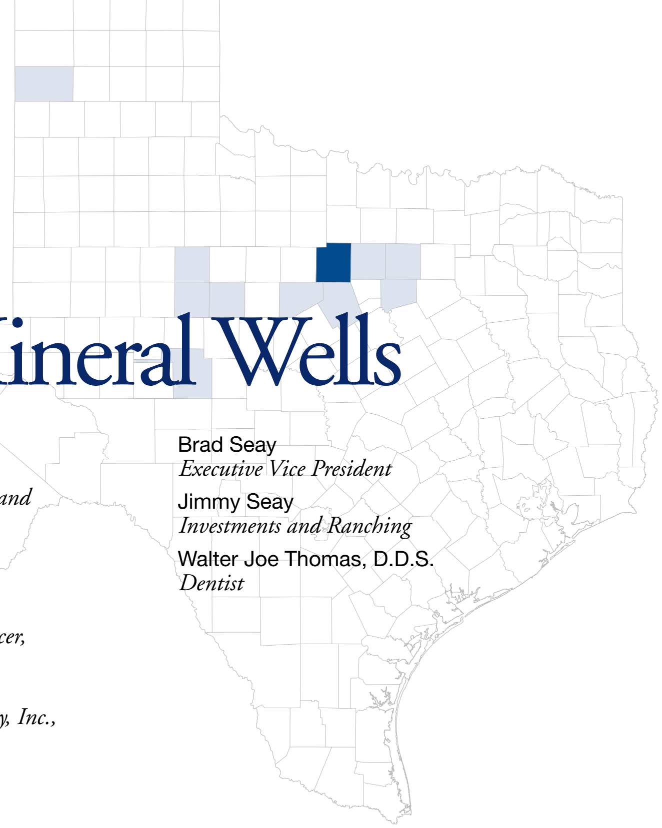
Roger Williams
Farming

Mike Mauldin
President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$80,976	$84,246
Loans	38,383	46,261
Deposits	71,926	70,546
Equity	8,529	8,120
Net Income	1,205	1,277
Return on Average Assets	1.48%	1.57%
Return on Average Equity	14.41	15.64

Deaf Smith County Deposit Market Share 48%

Hereford



City National Bank, Mineral Wells

Office
1800 E. Hubbard
Mineral Wells, Texas 76068
Chartered 1925

Senior Officers

Ken A. Williamson
Chairman of the Board, President and Chief Executive Officer

Brad Seay
Executive Vice President, Lending

Eddie Gregory
Vice President

Kay Hudspeth
Cashier

Mike Mearse
Vice President

Directors

Ken A. Williamson
Chairman of the Board, President and Chief Executive Officer

F. Scott Dueser
First Financial Bankshares, Inc.

Terry L. Murphy
President and Chief Executive Officer, Murphy and Murphy, Inc.

Don O'Neal
Don O'Neal Distributing Company, Inc., O'Neal Enterprises, Inc.

David Ramsey, M.D.
Family Practice Center

Brad Seay
Executive Vice President

Jimmy Seay
Investments and Ranching

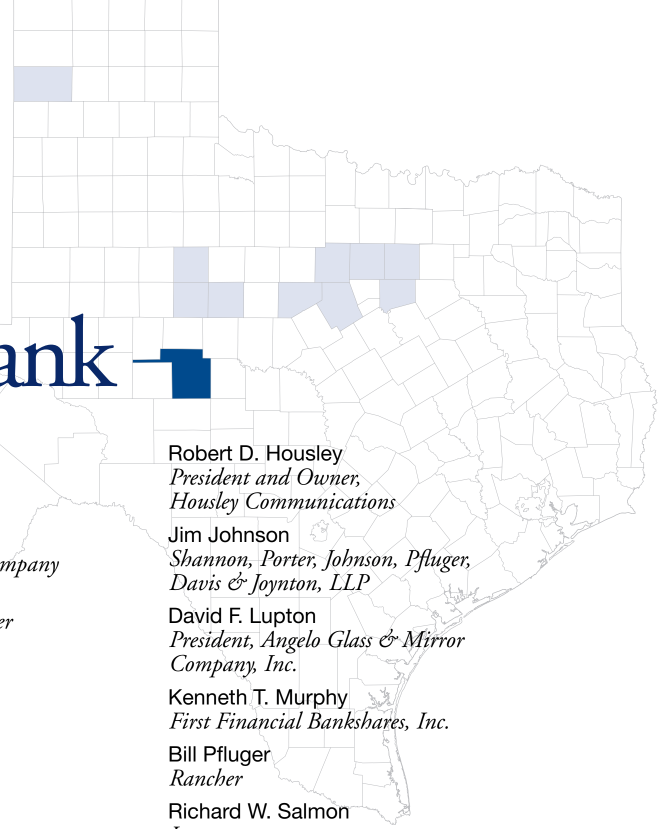
Walter Joe Thomas, D.D.S.
Dentist

Ken A. Williamson
Chairman of the Board, President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$93,969	$91,252
Loans	51,224	48,838
Deposits	84,043	82,339
Equity	9,538	8,433
Net Income	1,659	574
Return on Average Assets	1.79%	1.25%
Return on Average Equity	18.02	13.22

Palo Pinto County Deposit Market Share 26%

Mineral Wells



San Angelo National Bank

Main Office
301 W. Beauregard
San Angelo, Texas 76903
Chartered 1997

Branch
3471 Knickerbocker
San Angelo, Texas 76904

Senior Officers
Michael L. Boyd
President and Chief Executive Officer

David Byrd
Executive Vice President and Trust Officer

Robert Pate
Executive Vice President

Katherine Reeves
Executive Vice President and Cashier

Directors
Dal DeWees
Chairman of the Board

George Alexander
Partner, Alexander Construction Company

Michael L. Boyd
President and Chief Executive Officer

W. Dan Cravy, M.D.
Physician

David B. Drake
Investment Advisor

F. Scott Dueser
First Financial Bankshares, Inc.

Doug Eakman
Owner, Pecos Street Pharmacy

Joe Henderson
President, Porter Henderson Implement Company, Inc.

Robert D. Housley
President and Owner, Housley Communications

Jim Johnson
Shannon, Porter, Johnson, Pfluger, Davis & Joynton, LLP

David F. Lupton
President, Angelo Glass & Mirror Company, Inc.

Kenneth T. Murphy
First Financial Bankshares, Inc.

Bill Pfluger
Rancher

Richard W. Salmon
Investments

John E. Schwartz, Sr.
Farmer/Rancher

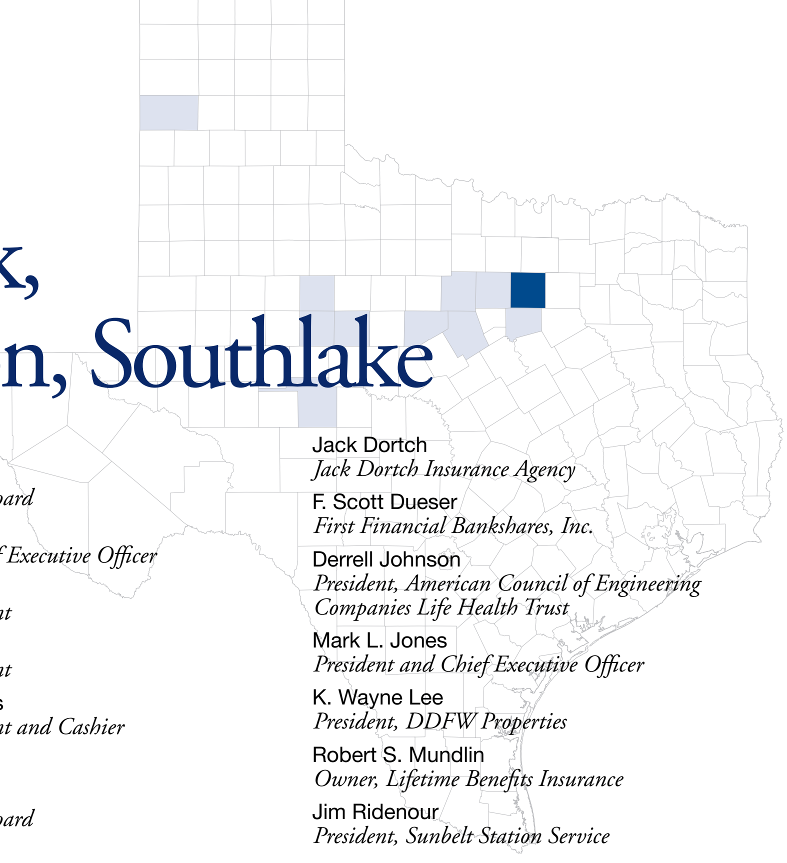
F.L. (Steve) Stephens
Retired Chairman and Chief Executive Officer, Town & Country Food Stores, Inc.

Michael L. Boyd
President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$303,124	$299,808
Loans	115,450	110,685
Deposits	251,931	257,212
Equity	30,634	27,986
Net Income	4,917	4,167
Trust Assets	144,047	129,471
Return on Average Assets	1.70%	1.46%
Return on Average Equity	16.48	15.13

Tom Green County Deposit Market Share 24%

San Angelo



First Financial Bank, National Association, Southlake

Main Office
3205 E. Highway 114
Southlake, Texas 76092
Chartered 1985

Branches
95 Trophy Club Drive
Trophy Club, Texas 76262

891 E. Keller Parkway
Suite 100
Keller, Texas 76248

Senior Officers

Perry D. Elliott
Chairman of the Board

Mark L. Jones
President and Chief Executive Officer

F. Mills Shallene
Senior Vice President

J. Sean Shope
Senior Vice President

Michele P. Stevens
Senior Vice President and Cashier

Directors

Perry D. Elliott
Chairman of the Board

James E. Burger
Burger Construction

Jack Dortch
Jack Dortch Insurance Agency

F. Scott Dueser
First Financial Bankshares, Inc.

Derrell Johnson
President, American Council of Engineering Companies Life Health Trust

Mark L. Jones
President and Chief Executive Officer

K. Wayne Lee
President, DDFW Properties

Robert S. Mundlin
Owner, Lifetime Benefits Insurance

Jim Ridenour
President, Sunbelt Station Service

Mark L. Jones
President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$67,750	$65,554
Loans	45,132	42,366
Deposits	61,532	59,672
Equity	6,295	5,845
Net Income	412	652
Return on Average Assets	0.62%	1.07%
Return on Average Equity	6.74	10.97

Cities of Southlake, Keller and Roanoke Deposit Market Share 9%

Southlake

Stephenville Bank & Trust Co.

Main Office
2201 W. South Loop
Stephenville, Texas 76401
Chartered 1923

Branches
1875 Lingleville Road
Stephenville, Texas 76401

199 N. Columbia
Stephenville, Texas 76401

Senior Officers
Ron Butler
President and Chief Executive Officer

Perry D. Elliott
Vice Chairman

Ken Luker
Executive Vice President

Monty Bedwell
Senior Vice President

Dereece Howell
Senior Vice President and Cashier

Terry McCoy
Senior Vice President

Robert Reeves
Senior Vice President

Directors
James C. Terrell, Jr., M.D.
Chairman of the Board

Perry D. Elliott
Vice Chairman

Ron Butler
President and Chief Executive Officer

William L. Corbin
Investments

F. Scott Dueser
First Financial Bankshares, Inc.

Charles P. Gillespie, Jr.
Engineer

Curtis R. Harvey
First Financial Bankshares, Inc.

William H. Oxford
Attorney

Bill Parham
Parham & Parham, CPAs

Jerry Parham
Investments

Jack Parks
Farmer

Ronald E. Schneider
First Financial Bank, Cleburne

Frank Terrell, M.D.
Ophthalmologist

John Terrill
Attorney

Advisory
W.L. Nix
Investments

Ron Butler
President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$138,260	$130,186
Loans	75,454	71,367
Deposits	125,226	118,903
Equity	12,755	10,954
Net Income	2,313	2,151
Trust Assets	36,578	40,859
Return on Average Assets	1.75%	1.79%
Return on Average Equity	19.06	19.88

Erath County Deposit Market Share 31%

Stephenville

First National Bank, Sweetwater

Main Office
201 Elm Street
Sweetwater, Texas 79556
Chartered 1948

Branches
123 N. Concho
Roby, Texas 79543

117 N. Main
Trent, Texas 79561

Senior Officers

J.V. Martin
Chairman of the Board, President and Chief Executive Officer

Kirby Andrews
Senior Vice President, Lending

Rodney Foster
Senior Vice President, Lending

Janis McDowell
Senior Vice President, Trust Officer

Donnie Ruppert
Senior Vice President and Controller

Directors

J.V. Martin
Chairman of the Board, President and Chief Executive Officer

Glenn D. Bennett
Bennett & Associates

Louis Brooks, Jr.
Ranching, Brooks-Maberry, Inc.

Bill W. Burns
President, Bill Burns Oil Co., Inc.

Ronnie Cox
Owner, Cox Jewelry

F. Scott Dueser
First Financial Bankshares, Inc.

Cecil J. King
Retired President, Citizens State Bank, Roby

Thomas L. Rees, Sr.
Rees and Rees, Attorneys

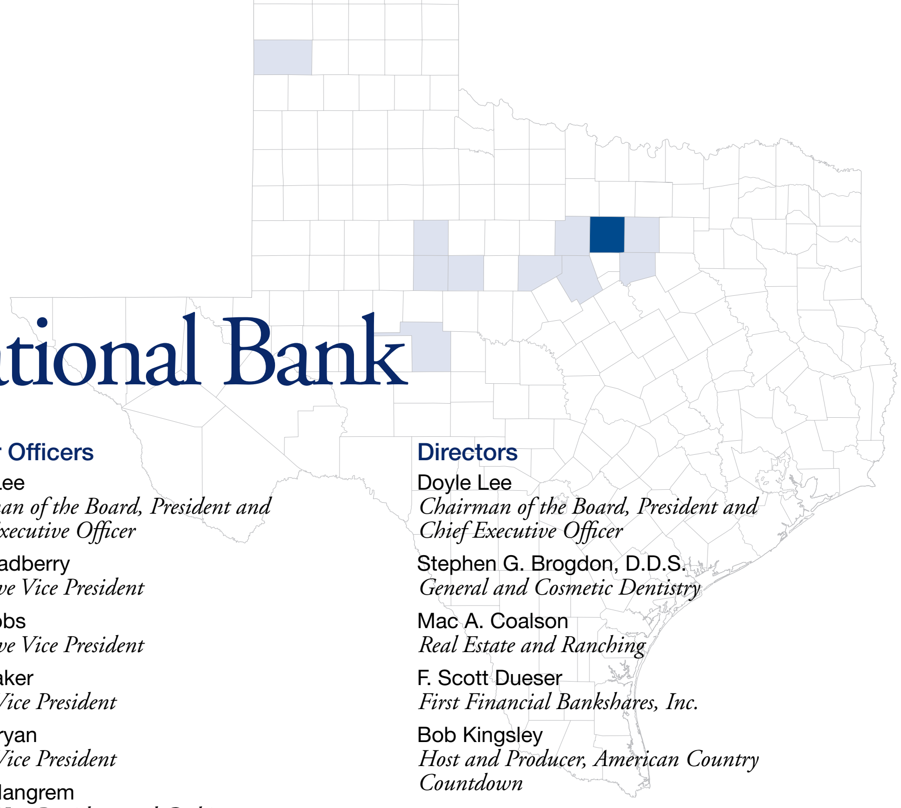
J.V. Martin
Chairman of the Board, President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$112,079	$104,968
Loans	49,487	46,666
Deposits	100,306	90,100
Equity	11,114	10,204
Net Income	2,078	1,605
Trust Assets	64,854	66,118
Return on Average Assets	1.99%	1.53%
Return on Average Equity	19.15	15.82

Nolan and Fisher Counties Deposit Market Share

38%

Sweetwater



Weatherford National Bank

Main Office
101 N. Main Street
Weatherford, Texas 76086
Chartered 1984

Branches
101 College Park Drive
Weatherford, Texas 76086

1214 N. Main Street
Weatherford, Texas 76086

505 Farm Road 1187
Aledo, Texas 76008

Senior Officers

Doyle Lee
Chairman of the Board, President and Chief Executive Officer

Bob Bradberry
Executive Vice President

Jay Gibbs
Executive Vice President

Paul Baker
Senior Vice President

Jean Bryan
Senior Vice President

Larry Mangrem
Senior Vice President and Cashier

Louis Sneed
Senior Vice President

Directors

Doyle Lee
Chairman of the Board, President and Chief Executive Officer

Stephen G. Brogdon, D.D.S.
General and Cosmetic Dentistry

Mac A. Coalson
Real Estate and Ranching

F. Scott Dueser
First Financial Bankshares, Inc.

Bob Kingsley
Host and Producer, American Country Countdown

Dave Lang
President, Dralco, Inc.

Kenneth T. Murphy
First Financial Bankshares, Inc.

Doyle Lee
Chairman of the Board, President and Chief Executive Officer

IN THOUSANDS	December 31, 2002	December 31, 2001
Assets	$211,235	$201,768
Loans	96,660	91,096
Deposits	189,630	182,696
Equity	20,526	18,595
Net Income	3,862	3,721
Return on Average Assets	1.97%	1.99%
Return on Average Equity	19.43	20.83

Parker County Deposit Market Share 26%

Weatherford

"We will continue to pursue opportunities to grow and enhance shareholder value. We plan to actively seek strategic acquisitions; look for additional branch locations in higher-growth areas to expand our existing banks; and increase our mortgage and brokerage operations."

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to ________

Commission file number 0-7674

First Financial Bankshares, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-0944023**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
400 Pine Street **Abilene, Texas**	**79601**
(Address of Principal Executive Offices)	(Zip Code)
Registrant's telephone number, including area code:	**(915) 627-7155**

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
None	N/A

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $10.00 per share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

As of June 30, 2002, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting stock held by non-affiliates was $458,357,747.

As of February 25, 2003, there were 12,364,642 shares of Common Stock outstanding.

Documents Incorporated by Reference

Certain information called for by Part III is incorporated by reference to the Proxy Statement for the 2003 Annual Meeting of our shareholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2002.

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING
FORWARD-LOOKING STATEMENTS

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-K, words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “predict,” “project,” and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to:

- general economic conditions;
- legislative and regulatory actions and reforms;
- competition from other financial institutions and financial holding companies;
- the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- changes in the demand for loans;
- fluctuations in value of collateral and loan reserves;
- inflation, interest rate, market and monetary fluctuations;
- changes in consumer spending, borrowing and savings habits;
- acquisitions and integration of acquired businesses; and
- other factors described in “PART II, Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Such statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph.

PART I

ITEM 1. BUSINESS

General

First Financial Bankshares, Inc., a Texas corporation, is a financial holding company registered under the Bank Holding Company Act of 1956, or BHCA. As such, we are supervised by the Board of Governors of the Federal Reserve System, or Federal Reserve Board, as well as several other state and federal regulators. We were formed as a bank holding company in 1956 under the original name F & M Operating Company, but our banking operations date back to 1890, when Farmers and Merchants National Bank opened for business in Abilene, Texas. By virtue of a series of reorganizations, mergers, and acquisitions since 1956, we now own, through our wholly-owned Delaware subsidiary, First Financial Bankshares of Delaware, Inc., ten banks organized and located in Texas. These ten banks are:

- First National Bank of Abilene, Abilene, Texas;
- Hereford State Bank, Hereford, Texas;
- First National Bank, Sweetwater, Texas;

- Eastland National Bank, Eastland, Texas;
- First Financial Bank, National Association, Cleburne, Texas;
- Stephenville Bank and Trust Co., Stephenville, Texas;
- San Angelo National Bank, San Angelo, Texas;
- Weatherford National Bank, Weatherford, Texas;
- First Financial Bank, National Association, Southlake, Texas; and
- City National Bank, Mineral Wells, Texas.

As described in more detail below, we elected to be treated as a financial holding company in September 2001.

Our service centers are located primarily in North Central and West Texas. Considering the branches and locations of all our subsidiary banks, as of December 31, 2002, we had 28 financial centers across Texas, with seven locations in Abilene, two locations in Cleburne, two locations in Stephenville, two locations in San Angelo, three locations in Weatherford, and one location each in Mineral Wells, Hereford, Sweetwater, Eastland, Southlake, Aledo, Alvarado, Burleson, Keller, Trophy Club, Roby, and Trent.

Information on our revenues, profits and losses and total assets appears in the discussion of our Results of Operations contained in Item 7 hereof.

First Financial Bankshares, Inc.

We provide management and technical resources and policy direction to our subsidiary banks, which enables them to improve or expand their banking services while continuing their local activity and identity. Each of our subsidiary banks operates under the day-to-day management of its own board of directors and officers, with substantial authority in making decisions concerning their own investments, loan policies, interest rates, and service charges. We provide resources and policy direction in, among other things, the following areas:

- asset and liability management;
- accounting, budgeting, planning and insurance;
- capitalization; and
- regulatory compliance.

In particular, we assist our subsidiary banks with, among other things, decisions concerning major capital expenditures, employee fringe benefits, including pension plans and group insurance, dividend policies, and appointment of officers and directors and their compensation. We also perform, through corporate staff groups or by outsourcing to third parties, internal audits and loan reviews of our subsidiary banks. Through First National Bank of Abilene, we provide advice and specialized services for our banks related to lending, investing, purchasing, advertising, public relations, and computer services.

While we have no specific acquisition agreements in place or commitments to expand our branch network, we periodically evaluate various potential financial institution acquisition opportunities and also periodically evaluate potential locations for new branch offices. We anticipate that funding for any acquisitions or expansions would be provided from our existing cash balances, available dividends from subsidiary banks, utilization of available lines of credit and future debt or equity offerings.

Services Offered by Our Subsidiary Banks

Each of our subsidiary banks is a separate legal entity that operates under the day-to-day management of its own board of directors and officers. Each of our subsidiary banks provides general commercial banking services, which include accepting and holding checking, savings and time deposits, making loans, automated teller machines, drive-in and night deposit services, safe deposit facilities, transmitting funds, and performing other customary commercial banking services. Certain of our subsidiary banks also administer pension plans, profit sharing plans and other employee benefit plans. First National Bank of Abilene, First National Bank, Sweetwater, Stephenville Bank and Trust Co. and San Angelo National Bank have active trust departments. The trust departments offer a complete range of services to individuals, associations, and corporations. These services include administering estates, testamentary trusts, various types of living trusts, and agency accounts. In addition, First National Bank of Abilene, First Financial Bank, Cleburne, San Angelo National Bank and First Financial Bank, National Association, Southlake, Texas provide securities brokerage services through arrangements with various third parties.

We have filed an application with the office of the Comptroller of the Currency to form a limited purpose national bank under which we will consolidate the management of our current trust departments. The new entity will operate as a subsidiary of our subsidiary holding company, First Financial Bankshares of Delaware, Inc. We believe that with this structure we can more effectively manage our current trust operations and provide trust services to customers of our banks that do not currently have trust departments. We anticipate that the new trust company will begin operations in the latter part of 2003.

Competition

Commercial banking in Texas is highly competitive, and because we hold less than 1% of the state's deposits, we represent only a minor segment of the industry. To succeed in this industry, our management believes that our banks must have the capability to compete in the areas of (1) interest rates paid or charged; (2) scope of services offered; and (3) prices charged for such services. Our subsidiary banks compete in their respective service areas against highly competitive banks, thrifts, savings and loan associations, small loan companies, credit unions, mortgage companies, and brokerage firms, all of which are engaged in providing financial products and services and some of which are larger than our subsidiary banks in terms of capital, resources and personnel.

Our business does not depend on any single customer or any few customers, the loss of any one of which would have a materially adverse effect upon our business. Although we have a broad base of customers that are not related to us, our customers also occasionally include our officers and directors, as well as other entities with which we are affiliated. With our subsidiary banks we may make loans to officers and directors, and entities with which we are affiliated, in the ordinary course of business. We make these loans on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. Loans to directors, officers and their affiliates are also subject to numerous restrictions under federal and state banking laws which we describe in greater detail below.

Employees

With our subsidiary banks we employed approximately 750 full-time equivalent employees at February 1, 2003. Our management believes that our employee relations have been and will continue to be good.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies, financial holding companies and banks. These laws (and the regulations promulgated thereunder) are primarily intended to protect depositors and the deposit insurance fund of the Federal Deposit Insurance Corporation, or FDIC, although shareholders may also benefit. The following information describes particular laws and regulatory provisions relating to financial holding companies and banks. This discussion is qualified in its entirety by reference to the particular laws and regulatory provisions. A change in any of these laws or regulations may have a material effect on our business and the business of our subsidiary banks.

Bank Holding Companies and Financial Holding Companies

Traditionally, the activities of bank holding companies were limited to the business of banking and activities closely related or incidental to banking. Bank holding companies were generally prohibited from acquiring control of any company which was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. The Gramm-Leach-Bliley Act, which took effect on March 12, 2000, dismantled many Depression-era restrictions against affiliation between banking, securities and insurance firms by permitting bank holding companies to engage in a broader range of financial activities, so long as certain safeguards are observed. Specifically, bank holding companies may elect to become "financial holding companies" that may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental to a financial activity. Thus, with the enactment of the Gramm-Leach-Bliley Act, banks, securities firms and insurance companies find it easier to acquire or affiliate with each other and cross-sell financial products. The act permits a single financial services organization to offer a more complete array of financial products and services than historically was permitted.

A financial holding company is essentially a bank holding company with significantly expanded powers. Under the Gramm-Leach-Bliley Act, among the activities that will be deemed "financial in nature" for financial holding companies are, in addition to traditional lending activities, securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, activities which the Federal Reserve Board determines to be closely related to banking, and certain merchant banking activities. The Federal Reserve Board has proposed permitting a number of additional financial activities, but we cannot predict whether any of these additional proposals will be adopted or the form any final rule will take.

We elected to become a financial holding company in September 2001. As a financial holding company, we have very broad discretion to affiliate with securities firms and insurance companies, make merchant banking investments, and engage in other activities that the Federal Reserve Board has deemed financial in nature. In order to continue as a financial holding company, we must continue to be well-capitalized, well-managed and maintain compliance with the Community Reinvestment Act. Depending on the types of financial activities that we may engage in in the future, under Gramm-Leach-Bliley's fractional regulation principles, we may become subject to supervision by additional government agencies. The election to be treated as a financial holding company increases our ability to offer financial products and services that historically we were either unable to provide or were only able to provide on a limited basis. As a result, we will face increased competition in the markets for any new financial products and services that we may offer. Likewise, an increased amount of consolidation among banks and securities firms or banks and insurance firms could result in a growing number of large financial institutions that could compete aggressively with us.

Mergers and Acquisitions

We generally must obtain approval from the banking regulators before we can acquire other financial institutions. We must not engage in certain acquisitions if we are undercapitalized. Furthermore, the BHCA provides that the Federal Reserve Board cannot approve any acquisition, merger or consolidation that may substantially lessen competition in the banking industry, create a monopoly in any section of the country, or be a restraint of trade. However, the Federal Reserve Board may approve such a transaction if the convenience and needs of the community clearly outweigh any anti-competitive effects. Specifically, the Federal Reserve Board would consider, among other factors, the expected benefits to the public (greater convenience, increased competition, greater efficiency, etc.) against the risks of possible adverse effects (undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, etc.).

Banks

Federal and state laws and regulations that govern banks have the effect of, among other things, regulating the scope of business, investments, cash reserves, the purpose and nature of loans, the maximum interest rate chargeable on loans, the amount of dividends declared, and required capitalization ratios.

National Banking Associations. Banks that are organized as national banking associations under the National Bank Act are subject to regulation and examination by the Office of the Comptroller of the Currency, or OCC. The OCC supervises, regulates and regularly examines the First National Bank of Abilene, First National Bank, Sweetwater, First Financial Bank, National Association, Cleburne, Eastland National Bank, San Angelo National Bank, Weatherford National Bank, First Financial Bank, National Association, Southlake and City National Bank, Mineral Wells. The OCC's supervision and regulation of banks is primarily intended to protect the interests of depositors. The National Bank Act:

- requires each national banking association to maintain reserves against deposits,
- restricts the nature and amount of loans that may be made and the interest that may be charged, and
- restricts investments and other activities.

State Banks. Banks that are organized as state banks under Texas law are subject to regulation and examination by the Banking Commissioner of the State of Texas. The Commissioner regulates and supervises, and the Texas Banking Department regularly examines, Hereford State Bank and Stephenville Bank and Trust Co. The Commissioner's supervision and regulation of banks is primarily designed to protect the interests of depositors. Texas law

- requires each state bank to maintain reserves against deposits,
- restricts the nature and amount of loans that may be made and the interest that may be charged, and
- restricts investments and other activities.

Because our Texas-chartered banks are members of the FDIC, they are also subject to regulation at the federal level by the FDIC, and are subject to most of the federal laws described below.

Deposit Insurance

Each of our subsidiary banks is a member of the FDIC. The FDIC provides deposit insurance protection that covers all deposit accounts in FDIC-insured depository institutions and generally does not exceed $100,000 per depositor. Our subsidiary banks must pay assessments to the FDIC under a risk-based assessment system for federal deposit insurance protection. FDIC-insured depository institutions that are members of the Bank Insurance Fund pay insurance premiums at rates based on their risk classification. Institutions assigned to higher risk classifications (i.e., institutions that pose a greater risk of loss to their respective deposit insurance funds) pay assessments at higher rates than institutions that pose a lower risk. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to bank regulators. In addition, the FDIC can impose special assessments to cover the costs of borrowings from the U.S. Treasury, the Federal Financing Bank and the Bank Insurance Fund member banks. As of December 31, 2002, the assessment rate for each of our subsidiary banks is at the lowest level risk-based premium available.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, or FIRREA, an FDIC-insured depository institution can be held liable for any losses incurred by the FDIC in connection with (1) the "default" of one of its FDIC-insured subsidiaries or (2) any assistance provided by the FDIC to one of its FDIC-insured subsidiaries "in danger of default." "Default" is defined generally as the appointment of a conservator or receiver, and "in danger of default" is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance.

The Federal Deposit Insurance Act, or FDIA requires that the FDIC review (1) any merger or consolidation by or with an insured bank, or (2) any establishment of branches by an insured bank. The FDIC is also empowered to regulate interest rates paid by insured banks. Approval of the FDIC is also required before an insured bank retires any part of its common or preferred stock, or any capital notes or debentures. Insured banks that are also members of the Federal Reserve System, however, are regulated with respect to the foregoing matters by the Federal Reserve System.

Payment of Dividends

We are a legal entity separate and distinct from our banking and other subsidiaries. We receive most of our revenue from dividends paid to us by our Delaware holding company subsidiary. Similarly, the Delaware holding company subsidiary receives dividends from our bank subsidiaries. Described below are some of the laws and regulations that apply when either we or our subsidiary banks pay dividends.

Each state bank that is a member of the Federal Reserve System and each national banking association is required by federal law to obtain the prior approval of the Federal Reserve Board and the OCC, respectively, to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

Our subsidiary banks paid aggregate dividends of approximately $26.6 million in 2002 and approximately $25.5 million in 2001. Under the dividend restrictions discussed above, as of December 31, 2002, our subsidiary banks, without obtaining governmental approvals, could have declared in the aggregate additional dividends of approximately $20.7 million from retained net profits.

To pay dividends, we and our subsidiary banks must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve Board and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve Board, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends to the extent that net income is sufficient to cover both cash dividends and rate of earnings retention consistent with capital needs, asset quality and overall financial condition. No undercapitalized institution may pay a dividend.

Affiliate Transactions

The Federal Reserve Act, the FDIA and the rules adopted under these statutes restrict the extent to which we can borrow or otherwise obtain credit from, or engage in certain other transactions with, our depository subsidiaries. These laws regulate "covered transactions" between insured depository institutions and their subsidiaries, on the one hand, and their nondepository affiliates, on the other hand. "Covered transactions" include a loan or extension of credit to a nondepository affiliate, a purchase of securities issued by such an affiliate, a purchase of assets from such an affiliate (unless otherwise exempted by the Federal Reserve Board), an acceptance of securities issued by such an affiliate as collateral for a loan, and an issuance of a guarantee, acceptance, or letter of credit for the benefit of such an affiliate. The "covered transactions" that an insured depository institution and its subsidiaries are permitted to engage in with their nondepository affiliates are limited to the following amounts: (1) in the case of any one such affiliate, the aggregate amount of "covered transactions" cannot exceed ten percent of the capital stock and the surplus of the insured depository institution; and (2) in the case of all affiliates, the aggregate amount of "covered transactions" cannot exceed twenty percent of the capital stock and surplus of the insured depository institution. In addition, extensions of credit that constitute "covered transactions" must be collateralized in prescribed amounts. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. Finally, when we and our subsidiary banks conduct transactions internally among us, we are required to do so at arm's length.

Loans to Directors, Executive Officers and Principal Shareholders

The authority of our subsidiary banks to extend credit to our directors, executive officers and principal shareholders, including their immediate family members and corporations and other entities that they control, is subject to substantial restrictions and requirements under Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder. These statutes and regulations impose specific limits on the amount of loans our subsidiary banks may make to directors and other insiders, and specified approval procedures must be followed in making loans that exceed certain amounts. In addition, all loans our subsidiary banks make to directors and other insiders must satisfy the following requirements:

- The loans must be made on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with persons not affiliated with us or the subsidiary banks;

- The subsidiary banks must follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with us or the subsidiary banks; and

- The loans must not involve a greater than normal risk of repayment or other unfavorable features.

Furthermore, each subsidiary bank must periodically report all loans made to directors and other insiders to the bank regulators, and these loans are closely scrutinized by the regulators for compliance with Sections 22(g) and 22(h) of the Federal Reserve Ace and Regulation O.

Capital

Bank Holding Companies and Financial Holding Companies. The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies and financial holding companies. The ratio of total capital to risk weighted assets (including certain off-balance-sheet activities, such as standby letters of credit) must be a minimum of eight percent. At least half of the total capital is to be composed of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries and a limited amount of perpetual preferred stock, less goodwill, which is collectively referred to as Tier 1 Capital. The remainder of total capital may consist of subordinated debt, other preferred stock and a limited amount of loan loss reserves.

In addition, the Federal Reserve Board has established minimum leverage ratio guidelines for bank holding companies and financial holding companies. Bank holding companies and financial holding companies that meet certain specified criteria, including having the highest regulatory rating, must maintain a minimum Tier 1 Capital leverage ratio (Tier 1 Capital to average assets for the current quarter, less goodwill) of three percent. Bank holding companies and financial holding companies that do not have the highest regulatory rating will generally be required to maintain a higher Tier 1 Capital leverage ratio of three percent plus an additional cushion of 100 to 200 basis points. The Federal Reserve Board has not advised us of any specific minimum leverage ratio applicable to us. The guidelines also provide that bank holding companies and financial holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions. Such strong capital positions must be kept substantially above the minimum supervisory levels without significant reliance on intangible assets (e.g., goodwill, core deposit intangibles and purchased mortgage servicing rights). As of December 31, 2002, our capital ratios were as follows: (1) Tier 1 Capital to Risk-Weighted Assets Ratio, 18.50%; (2) Total Capital to Risk-Weighted Assets Ratio, 19.52%; and (3) Tier 1 Capital Leverage Ratio, 10.51%.

Banks. The Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA established five capital tiers with respect to depository institutions: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A depository institution's capital tier will depend upon where its capital levels are in relation to various relevant capital measures, including (1) risk-based capital measures, (2) a leverage ratio capital measure and (3) certain other factors. Regulations establishing the specific capital tiers provide that a "well-capitalized" institution will have a total risk-based capital ratio of ten percent or greater, a Tier 1 risk-based capital ratio of six percent or greater, and a Tier 1 leverage ratio of five percent or greater, and not be subject to any written regulatory enforcement agreement, order, capital directive or prompt corrective action derivative. For an institution to be "adequately capitalized," it will have a total risk-based capital ratio of eight percent or greater, a Tier 1 risk-based capital ratio of four percent or greater, and a Tier 1 leverage ratio of four percent or greater (in some cases three percent). For an institution to be "undercapitalized," it will have a total risk-based capital ratio that is less than eight percent, a Tier 1 risk-based capital ratio less than four percent or a Tier 1 leverage ratio less than four percent (or a leverage ratio less than three percent if the institution is rated composite 1 in its most recent report of examination, subject to appropriate federal banking agency guidelines). For an institution to be "significantly undercapitalized," it will have a total risk-based capital ratio less than six percent, a Tier 1 risk-based capital ratio less than three percent, or a Tier 1 leverage ratio less than three percent. For an institution to be "critically undercapitalized," it will have a ratio of tangible equity to total assets equal to or less than two percent. FDICIA requires federal banking agencies to take "prompt corrective action" against depository institutions that do not meet minimum capital requirements. Under current regulations, we were "well capitalized" as of December 31, 2002.

FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be "undercapitalized." An "undercapitalized" institution must develop a capital restoration plan and its parent holding company must guarantee that institution's compliance with such plan. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the institution's assets at the time it became "undercapitalized" or the amount needed to bring the institution into compliance with all capital standards. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. If a depository institution fails to submit an acceptable capital restoration plan, it shall be treated as if it is significantly undercapitalized. "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator. Finally, FDICIA requires the various regulatory agencies to set forth certain standards that do not relate to capital. Such standards relate to the safety and soundness of operations and management and to asset quality and executive compensation, and permit regulatory action against a financial institution that does not meet such standards.

If an insured bank fails to meet its capital guidelines, it may be subject to a variety of other enforcement remedies, including a prohibition on the taking of brokered deposits and the termination of deposit insurance by the FDIC. Bank regulators continue to indicate their desire to raise capital requirements beyond their current levels.

In addition to FDICIA capital standards, Texas-chartered banks must also comply with the capital requirements imposed by the Texas Banking Department. Neither the Texas Finance Code nor its regulations specify any minimum capital-to-assets ratio that must be maintained by a Texas-chartered bank. Instead, the Texas Banking Department determines the appropriate ratio on a bank by bank basis, considering factors such as the nature of a bank's business, its total revenue, and the bank's total assets. As of December 31, 2002, all of our Texas-chartered banks exceeded the minimum ratios applied to them.

Our Support of Our Subsidiary Banks

Under Federal Reserve Board policy, we are expected to commit resources to act as a source of strength to support each of our subsidiary banks. This support may be required at times when, absent such Federal Reserve Board policy, we would not otherwise be required to provide it. In addition, any loans we make to our subsidiary banks would be subordinate in right of payment to deposits and to other indebtedness of our banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and be subject to a priority of payment.

Under the National Bank Act, if the capital stock of a national bank is impaired by losses or otherwise, the OCC is authorized to require the bank's shareholders to pay the deficiency on a pro-rata basis. If any shareholder refuses to pay the pro-rata assessment after three months notice, then the bank's board of directors must sell an appropriate amount of the shareholder's stock at a public auction to make up the deficiency. To the extent necessary, if a deficiency in capital still exists and the bank refuses to go into liquidation, then a receiver may be appointed to wind up the bank's affairs. Additionally, under the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the FDIC (either as a result of the default of a banking subsidiary or related to FDIC assistance provided to a subsidiary in danger of default) our other banking subsidiaries may be assessed for the FDIC's loss.

Interstate Banking and Branching Act

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, or Riegle-Neal Act, a bank holding company or financial holding company is able to acquire banks in states other than its home state. The Riegle-Neal Act also authorized banks to merge across state lines, thereby creating interstate branches, beginning June 1, 1997. Furthermore, under this act, a bank is now able to open new branches in a state in which it does not already have banking operations, if the laws of such state permit it to do so. Accordingly, both the OCC and the Texas Banking Department accept applications for interstate merger and branching transactions, subject to certain limitations on ages of the banks to be acquired and the total amount of deposits within the state a bank or financial holding company may control. Since our primary service area is Texas, we do not expect that the ability to operate in other states will have any material impact on our growth strategy. We may, however, face increased competition from out-of-state banks that branch or make acquisitions in our primary markets in Texas.

Community Reinvestment Act of 1977

The Community Reinvestment Act of 1977, or CRA subjects a bank to regulatory assessment to determine if the institution meets the credit needs of its entire community, including low- and moderate-income neighborhoods served by the bank, and to take that determination into account in its evaluation of any application made by such bank for, among other things, approval of the acquisition or establishment of a branch or other deposit facility, an office relocation, a merger, or the acquisition of shares of capital stock of another financial institution. The regulatory authority prepares a written evaluation of an institution's record of meeting the credit needs of its entire community and assigns a rating. We believe our subsidiary banks have taken significant actions to comply with the CRA, and each has received at least a "satisfactory" commendation in its most recent review by federal regulators with respect to its compliance with the CRA.

Monitoring and Reporting Suspicious Activity

Under the Bank Secrecy Act, IRS rules and other regulations, we are required to monitor and report unusual or suspicious account activity as well as transactions involving the transfer or withdrawal of amounts in excess of prescribed limits. In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism, or USA PATRIOT Act, of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps to:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are also required to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

In addition, the USA PATRIOT Act also requires the Secretary of the Treasury to adopt rules addressing a number of related issues, including increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to violate the privacy provisions of the Gramm-Leach-Bliley Act that are discussed below. Finally, under the regulations of the Office of Foreign Asset Control, we are required to monitor and block transactions with certain "specially designated nationals" who OFAC has determined pose a risk to U.S. national security.

Consumer Laws and Regulations

We are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the following list is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations among other things prohibit discrimination on the basis of race, gender or other designated characteristics and mandate various disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. These and other laws also limit finance charges or other fees or charges earned in our activities. We must comply with the applicable provisions of these consumer protection laws and regulations as part of our ongoing customer relations.

Technology Risk Management and Consumer Privacy

State and federal banking regulators have issued various policy statements emphasizing the importance of technology risk management and supervision in evaluating the safety and soundness of depository institutions with respect to banks that contract with outside vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels and processes expose a bank to various risks, particularly operational, privacy, security, strategic, reputation and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology.

Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established appropriate standards for financial institutions regarding the implementation of safeguards to ensure the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must also provide its customers with a notice of privacy policies and practices. Section 502 prohibits a financial institution from disclosing nonpublic personal information about a consumer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. Under Section 504, the agencies are authorized to issue regulations as necessary to implement notice requirements and restrictions on a financial institution's ability to disclose nonpublic personal information about consumers to nonaffiliated third parties. Under the final rule the regulators adopted, all banks must develop initial and annual privacy notices which describe in general terms the bank's information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure (with certain exceptions). Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit, or transaction accounts to any nonaffiliated third party for use in marketing.

Monetary Policy

Banks are affected by the credit policies of other monetary authorities, including the Federal Reserve Board, that affect the national supply of credit. The Federal Reserve Board regulates the supply of credit in order to influence general economic conditions, primarily through open market operations in United States government obligations, varying the discount rate on financial institution borrowings, varying reserve requirements against financial institution deposits, and restricting certain borrowings by financial institutions and their subsidiaries. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past and are expected to continue to do so in the future.

Pending and Proposed Legislation

New regulations and statutes are regularly proposed containing wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Enforcement Powers of Federal Banking Agencies

The Federal Reserve and other state and federal banking agencies and regulators have broad enforcement powers, including the power to terminate deposit insurance, issue cease-and-desist orders, impose substantial fees and other civil and criminal penalties and appoint a conservator or receiver. Our failure to comply with applicable laws, regulations and other regulatory pronouncements could subject us, as well as our officers and directors, to administrative sanctions and potentially substantial civil penalties.

Available Information

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the Securities and Exchange Commission's web site at http://www.sec.gov. No information from this web page is incorporated by reference herein. Our web site is http://www.ffin.com. You may also obtain copies of our annual, quarterly and special reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, free of charge from our web site. These documents are posted to our web site as soon as reasonably practicable after we have filed them with the SEC.

ITEM 2. PROPERTIES

Our principal office is located in the First National Bank Building at 400 Pine Street in downtown Abilene, Texas. We lease two spaces in a building owned by First National Bank of Abilene. The lease for approximately 2,300 square feet of space expires December 31, 2004. The lease for approximately 1,100 square feet of space expires May 31, 2006. Our subsidiary banks collectively own 22 banking facilities, some of which are detached drive-ins, and they also lease six banking facilities. Our management considers all of our existing locations to be well-suited for conducting the business of banking. We believe that our existing facilities are adequate to meet our requirements and our subsidiary banks' requirements for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time we and our subsidiary banks are parties to lawsuits arising in the ordinary course of our banking business. However, there are no material pending legal proceedings to which we, our subsidiary banks or our other direct and indirect subsidiaries, or any of their properties, are currently subject. Other than regular, routine examinations by state and federal banking authorities, there are no proceedings pending or known to be contemplated by any governmental authorities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of our fiscal year ended December 31, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock, par value $10.00 per share, is traded on the Nasdaq Stock Market under the trading symbol FFIN. See "Item 8—Financial Statements and Supplementary Data—Quarterly Financial Data" for the high, low and closing sales prices as reported by the Nasdaq Stock Market for our common stock for the periods indicated.

Holders

As of February 13, 2003, we had 1,604 shareholders of record.

Dividends

See "Item 8—Financial Statements and Supplementary Data—Quarterly Results of Operations" for the frequency and amount of cash dividends paid by us. Also, see "Item 1 – Business – Supervision and Regulation – Payment of Dividends" and "Item 7 – Management's Discussion and Analysis of the Financial Condition and Results of Operations – Liquidity – Dividends" for restrictions on our present or future ability to pay dividends, particularly those restrictions arising under federal and state banking laws.

Recent Sales of Unregistered Securities

During the year ended December 31, 2002, the following sales of unregistered shares of common stock were made to employees in connection with their exercise of stock options:

Date	Number of Common Shares	Price Per Share	Aggregate Sales Price
01-25-02	3,702	$ 14.90	$ 55,159.80
02-04-02	4,830	14.90	71,967.00
02-22-02	2,147	14.90	31,990.30
02-27-02	1,073	14.90	15,987.70
02-27-02	220	29.27	6,439.40
04-11-02	309	29.27	9,044.43
04-15-02	75	20.80	1,560.00
04-19-02	110	29.27	3,219.70
05-20-02	400	14.90	5,960.00
05-21-02	1,073	14.90	15,987.70
06-05-02	353	14.90	5,259.70
06-05-02	150	20.80	3,120.00
06-05-02	1,514	29.27	44,314.78
06-06-02	2,343	20.80	48,734.40
06-06-02	860	14.90	12,814.00
06-07-02	450	14.90	6,705.00
06-11-02	673	14.90	10,027.70
06-13-02	247	29.27	7,229.69
06-28-02	330	29.27	9,659.10
07-02-02	330	29.27	9,659.10
07-16-02	1,341	14.90	19,980.90
08-26-02	330	29.27	9,659.10
08-26-02	2,414	14.90	35,968.60
09-11-02	75	20.80	1,560.00
09-12-02	309	29.27	9,044.43
11-05-02	257	14.90	3,829.30
12-05-02	350	14.90	5,215.00
12-06-02	200	14.90	2,980.00
12-06-02	1,815	29.27	53,125.05
12-12-02	50	14.90	745.00
12-16-02	2,344	20.80	48,755.20
12-20-02	75	20.80	1,560.00
12-20-02	200	29.27	5,854.00
Totals	30,949	$ 18.52	$ 573,116.08

Each of the foregoing sales were made in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below as of and for the years ended December 31, 2002, 2001, 2000, 1999, and 1998, have been derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements. The results of operations presented below are not necessarily indicative of the results of operations that may be achieved in the future. The amounts related to shares of our common stock have been adjusted to give effect to all stock dividends and stock splits. Management's Discussion and Analysis of Financial Condition and Results of Operations incorporated information required to be disclosed by the Securities and Exchange Commissions' Industry Guide 3, "Statistical Disclosure by Bank Holding Companies."

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands, except per share data)				
Summary Income Statement Information:					
Interest income	$ 104,862	$ 116,473	$ 117,951	$ 110,013	$ 111,868
Interest expense	24,380	44,834	48,829	43,338	46,292
Net interest income	80,482	71,639	69,122	66,675	65,576
Provision for loan losses	2,370	1,964	2,398	2,031	1,140
Noninterest income	29,553	27,579	25,947	24,484	22,351
Noninterest expense	59,082	55,072	51,692	51,934	52,422
Earnings before income taxes	48,583	42,182	40,979	37,194	34,365
Income tax expense	14,630	12,827	12,663	11,504	11,111
Net earnings	$ 33,953	$ 29,355	$ 28,316	$ 25,690	$ 23,254
Per Share Data:					
Net earnings per share, basic	$ 2.75	$ 2.38	$ 2.28	$ 2.06	$ 1.87
Net earnings per share, assuming dilution	2.74	2.37	2.27	2.05	1.86
Cash dividends declared	1.35	1.16	1.03	.90	.80
Book value at period-end	19.31	17.32	15.92	14.33	13.62
Earnings performance ratios:					
Return on average assets	1.78%	1.62%	1.67%	1.53%	1.44%
Return on average equity	15.13	14.35	15.39	14.84	14.51
Summary Balance Sheet Data (Period-end):					
Investment securities	$ 772,256	$ 721,694	$ 654,253	$ 656,218	$ 625,891
Loans	964,040	940,131	859,271	797,275	779,544
Total assets	1,993,183	1,929,694	1,753,814	1,723,369	1,686,647
Deposits	1,711,562	1,685,163	1,519,874	1,524,704	1,504,856
Total liabilities	1,754,415	1,716,040	1,557,693	1,544,706	1,517,198
Total shareholders' equity	238,768	213,654	196,121	178,663	169,449
Asset quality ratios:					
Allowance for loan losses/period-end loans	1.16%	1.13%	1.15%	1.12%	1.15%
Nonperforming assets/period-end loans plus foreclosed assets	0.44	0.51	0.48	0.26	0.41
Net charge offs/average loans	0.19	0.18	0.18	0.27	0.36
Capital ratios:					
Average shareholders' equity/average assets	11.76%	11.29%	10.86%	10.30%	9.89%
Leverage ratio (1)	10.51	9.92	10.40	9.62	9.02
Tier 1 risk-based capital (2)	18.50	17.10	17.75	17.19	16.03
Total risk-based capital (3)	19.52	18.08	18.74	18.13	17.01
Dividend payout ratio	49.13	48.94	45.23	43.64	41.66

(1) Calculated by dividing, at period-end, shareholders' equity (before unrealized gain/loss on securities available-for-sale) less intangible assets by fourth quarter average assets less intangible assets.
(2) Calculated by dividing, at period-end, shareholders' equity (before unrealized gain/loss on securities available-for-sale) less intangible assets by risk-adjusted assets.
(3) Calculated by dividing, at period-end, shareholders' equity (before unrealized gain/loss on securities available for sale) less intangible assets plus allowance for loan losses to the extent allowed under regulatory guidelines by risk-adjusted assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's discussion and analysis of the major elements of our consolidated balance sheets as of December 31, 2002 and 2001, and consolidated statements of earnings for the years 2000 through 2002 should be reviewed in conjunction with our consolidated financial statements, accompanying notes, and selected financial data presented elsewhere in this Form 10-K. All amounts, prices and per share data related to our common stock have been adjusted to give effect to all stock splits and stock dividends.

On July 3, 2001, we acquired City Bancshares, Inc. and its subsidiary City National Bank, Mineral Wells, Texas for $16.5 million in cash. The results of City National Bank are included in our consolidated financial statements beginning July 1, 2001 and may to some extent affect the comparisons to the prior period amounts and 2002 operating results which include a full year of City National Bank's operations.

Critical Accounting Policies

The preparation of the Company's consolidated financial statements is based on the selection of certain accounting policies, based on generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require management to make significant estimates and assumptions. The following discussion addresses the Company's allowance for loan loss and its provision for loan losses which is deemed by management to be its most critical accounting policy. We have other key accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe that these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely that they would have a material impact on our reported results for a given period.

A policy is deemed critical if (i) the accounting estimate required the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate was made; and (ii) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

The allowance for loan losses is an amount that management believes will be adequate to absorb inherent estimated losses on existing loans in which collectibility is unlikely based upon management's review and evaluation of the loan portfolio, including letters of credit, lines of credit and unused commitments to provide financing. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries).

Management's periodic evaluation of the adequacy of the allowance is based on general economic conditions, the financial condition of the borrower, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio by our loan review department and regulatory examiners. A consistent, well documented loan review methodology has been developed that includes allowances assigned to specific loans and nonspecific allowances that are based on the factors noted in the prior sentence. Our independent loan review department is responsible for performing this evaluation for all of our subsidiary banks to ensure consistent methodology.

Although we believe that we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan loss provisions and reductions in income. Additionally, as an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

The Company's policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price.

Results of Operations

Performance Summary. Net earnings for 2002 were $34.0 million, an increase of $4.6 million, or 15.7%, over net earnings for 2001 of $29.4 million. Net earnings for 2000 were $28.3 million. The increase in net earnings for 2002 over 2001 was primarily attributable to an increase in net interest income resulting primarily from growth in average earning assets and an improved net interest margin. The increase in net earnings for 2001 over 2000 was primarily attributable to an increase in net interest income resulting primarily from the growth in average earning assets and an increase in noninterest income resulting primarily from increases in service fees on deposit accounts and real estate mortgage fees.

On a basic net earnings per share basis, net earnings were $2.75 for 2002 as compared to $2.38 for 2001 and $2.28 for 2000. Return on average assets was 1.78% for 2002 as compared to 1.62% for 2001 and 1.67% for 2000. Return on average equity was 15.13% for 2002 as compared to 14.35% for 2001 and 15.39% for 2000.

Affecting our 2002 net earnings and basic and diluted earnings per share is the implementation of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. SFAS No. 142 was effective January 1, 2002 for calendar year companies; however, acquired goodwill and intangible assets recorded in the acquisition of City Bancshares, Inc. closed subsequent to June 30, 2001 were subject immediately to its provisions.

On January 1, 2002, goodwill amounting to $23,765,896 was not subject to further amortization as a result of SFAS No. 142. The Company conducted its initial impairment test in 2002, with no reduction of recorded goodwill resulting from the test. A reconciliation adjusting comparative net earnings and earnings per share for the years ended December 31, 2001 and 2000, to show the effect of no longer amortizing the Company's goodwill, follows:

	2001	2000
Reported net earnings	$ 29,354,505	$ 28,316,047
Add back: goodwill amortization		
Goodwill amortization, before income tax	1,641,367	1,641,367
Income tax benefit	(420,000)	(420,000)
Adjusted net earnings	$ 30,575,872	$ 29,537,414
Basic earnings per share:		
Reported net earnings	$ 2.38	$ 2.28
Goodwill amortization, net of income tax benefit	.10	.10
Adjusted net earnings	$ 2.48	$ 2.38
Earnings per share, assuming dilution:		
Reported net earnings	$ 2.37	$ 2.27
Goodwill amortization, net of income tax benefit	.10	.10
Adjusted net earnings	$ 2.47	$ 2.37

Net Interest Income. Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits. Tax-equivalent net interest income was $84.2 million in 2002 as compared to $74.8 million in

2001 and $71.9 million in 2000. These increases were primarily due to growth in the volume of earning assets, and for 2002, an improved net interest margin. Average earning assets were $1.748 billion in 2002, as compared to $1.653 billion in 2001 and $1.538 billion in 2000. The 2002 increase in average earning assets is attributable to higher average investment securities we held, which increased $72.3 million, and higher average loans we made, which increased $44.5 million. These increases were partially offset by a $22.4 million decrease in the 2002 average of short-term investments, which consist of primarily Federal funds sold. The 2001 increase in average earning assets was due primarily to an increase in average short-term investments, which increased $28.9 million, and higher average loans, which increased $80.0 million. Table 1 allocates the increases in tax-equivalent net interest income for 2002 and 2001 between the amount of increase attributable to volume and rate.

Table 1 — Changes in Interest Income and Interest Expense (in thousands):

	2002 Compared to 2001			2001 Compared to 2000		
	Change Attributable to		Total	Change Attributable to		Total
	Volume	Rate	Change	Volume	Rate	Change
Short-term investments	$ (905)	$ (1,359)	$ (2,264)	$ 1,799	$ (1,736)	$ 63
Taxable investment securities	3,394	(3,300)	94	(233)	(1,154)	(1,387)
Tax-exempt investment securities (1)	1,032	241	1,273	707	106	813
Loans (1)	3,720	(13,911)	(10,191)	7,404	(7,993)	(589)
Interest income	7,241	(18,329)	(11,088)	9,678	(10,778)	(1,100)
Interest-bearing deposits	1,169	(21,052)	(19,883)	2,688	(6,455)	(3,767)
Short-term borrowings	(26)	(545)	(571)	481	(709)	(228)
Interest expense	1,143	(21,597)	(20,454)	3,169	(7,164)	(3,995)
Net interest income	$ 6,098	$ 3,268	$ 9,366	$ 6,508	$ (3,613)	$ 2,895

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.

The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated below in Table 2 for the years 2000 through 2002. As the prime rate declined from 9.50% to 4.75% in 2001, our earning assets re-priced in advance of interest bearing deposits, which resulted in a lower net interest margin. As we re-priced our interest bearing deposits in 2002, the net interest margin improved to 4.82% as compared to 4.52% for 2001.

Table 2 — Average Balances and Average Yields and Rates (in thousands, except percentages):

	2002			2001			2000		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Short-term investments	$ 57,030	$ 947	1.66%	$ 79,424	$ 3,211	4.04%	$ 50,538	$ 3,148	6.23%
Taxable investment securities	597,830	32,264	5.40	540,771	32,170	5.95	544,546	33,557	6.16
Tax-exempt investment securities (1)	150,824	10,475	6.95	135,620	9,202	6.79	125,072	8,389	6.71
Loans (1)(2)	942,101	64,872	6.89	897,616	75,063	8.36	817,603	75,652	9.25
Total earning assets	1,747,785	108,558	6.21	1,653,431	119,646	7.24	1,537,759	120,746	7.85
Cash and due from banks	81,016			80,032			77,727		
Bank premises and equipment	41,195			40,903			40,400		
Other assets	24,458			17,693			28,212		
Goodwill, net	24,644			29,178			19,335		
Allowance for loan losses	(11,099)			(10,107)			(9,420)		
Total assets	$1,907,999			$1,811,130			$1,694,013		
Liabilities and Shareholders' Equity									
Interest-bearing deposits	$1,259,158	$ 24,088	1.91%	$1,226,560	$ 43,971	3.58%	$1,161,175	$ 47,738	4.11%
Short-term borrowings	24,628	292	1.19	25,392	863	3.40	17,621	1,091	6.19
Total interest-bearing liabilities	1,283,786	24,380	1.90	1,251,952	44,834	3.58	1,178,796	48,829	4.14
Noninterest-bearing deposits	385,012			339,800			317,659		
Other liabilities	14,846			14,861			13,529		
Total liabilities	1,683,644			1,606,613			1,509,984		
Shareholders' equity	224,355			204,517			184,029		
Total liabilities and shareholders' equity	$1,907,999			$1,811,130			$1,694,013		
Net interest income		$ 84,178			$ 74,812			$ 71,917	
Rate Analysis:									
Interest income/earning assets			6.21%			7.24%			7.85%
Interest expense/earning assets			1.39			2.71			3.18
Net yield on earning assets			4.82%			4.52%			4.68%

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.
(2) Nonaccrual loans are included in loans.

Noninterest Income. Noninterest income for 2002 was $29.6 million, an increase of $2.0 million, or 7.2%, as compared to 2001. The increase resulted primarily from (i) an increase in service fees on deposit accounts of $692 thousand which reflects growth in number of accounts and transactions processed; (ii) an increase in real estate mortgage fees of $248 thousand which reflects a continued high volume of mortgage originations and refinancing transactions generated by low mortgage rates; (iii) an increase of $429 thousand in ATM transaction fees which reflects the Company's focus to increase the cardholder base and the usage of check cards; and (iv) $735 thousand in check printing fees that, in periods prior to 2002, were recorded as a reduction in printing and supplies expense. The change in classification for check printing fees was made in response to a change in bank regulatory financial reporting guidelines.

Noninterest income for 2001 was $27.6 million, an increase of $1.6 million, or 6.3%, as compared to 2000. This increase was primarily a result of; (i) an increase in trust fees of $397 thousand; (ii) an increase in service fees on deposit accounts of $669 thousand; and (iii) an increase of $588 thousand in real estate mortgage fees. Table 3 provides comparisons for other categories of noninterest income.

Table 3 — Noninterest Income (in thousands):

	2002	Increase (Decrease)	2001	Increase (Decrease)	2000
Trust fees	$ 5,836	$ (55)	$ 5,891	$ 397	$ 5,494
Service fees on deposit accounts	15,435	692	14,743	669	14,074
Real estate mortgage fees	1,858	248	1,610	588	1,022
Net securities gains (losses)	16	(52)	68	(462)	530
ATM fees	2,370	429	1,941	387	1,554
Other:					
Mastercard fees	980	26	954	124	830
Check printing fees	735	735	-	-	-
Miscellaneous income	708	(95)	803	(114)	917
Safe deposit rental fees	403	9	394	(1)	395
Exchange fees	196	11	185	(39)	224
Credit life fees	200	(16)	216	(21)	237
Data processing fees	245	(16)	261	113	148
Brokerage commissions	340	46	294	42	252
Interest on loan recoveries	230	12	218	(52)	270
Total other	4,037	712	3,325	52	3,273
Total Noninterest Income	$ 29,552	$ 1,974	$ 27,578	$ 1,631	$ 25,947

Noninterest Expense. Total noninterest expense for 2002 was $59.1 million, an increase of $4.0 million, or 7.3%, as compared to 2001. Noninterest expense for 2001 amounted to $55.1 million, an increase of $3.4 million or 6.3% as compared to 2000. An important measure in determining whether a banking company effectively managed noninterest expenses is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Our efficiency ratio for 2002 was 51.96% which represented improvement when compared to 53.82% for 2001, and 53.11% for 2000.

Salaries and employee benefits for 2002 totaled $32.0 million, an increase of $3.3 million, or 11.5%, as compared to 2001. Salaries for 2002 were up $1.6 million with the increase attributable to normal pay increases, a higher number of full time equivalent employees, and higher performance incentive payments. Profit sharing and pension expenses for 2002 increased $823 thousand and $549 thousand, respectively, as compared to the prior year. The higher profit sharing expense related to the Company's 2002 increase in net earnings. In 2002, the Company lowered the expected long-term rate of return on pension plan assets from 8.5% to 6.5%; this change is the primary factor contributing to higher pension expense in the current year as compared to the prior year. Net occupancy expense for 2002 was virtually unchanged from the prior year and equipment expense was up $343 thousand over the 2001 amount. The higher equipment expense resulted primarily from higher depreciation and higher repairs and maintenance expense as compared to 2001. Intangible asset amortization for 2002 decreased $1.5 million and resulted primarily from the change in accounting principle that became effective January 1, 2002 and which eliminated the amortization of goodwill. Printing, stationery and supplies expense for 2002 increased $391 thousand over the prior year amount. The increase for 2002 was due to $735 thousand in check printing fees being included in noninterest income for 2002 versus a reduction in printing expense in prior years. ATM expense for 2002 was $266 thousand higher than the 2001 amount and reflects increased customer usage in 2002.

Salaries and employee benefits for 2001 totaled $28.7 million, an increase of $1.6 million as compared to 2000. The increase resulted primarily from normal salary increases and the addition of employees from our acquisition finalized in July 2001. Net occupancy and equipment expense in the aggregate for 2001 increased by $710 thousand and resulted primarily from higher utilities and repair and maintenance expense. Other professional fees for 2001 increased $302 thousand as compared to the prior year. The increase resulted primarily from; (i) executive search fees; (ii) leasehold improvement design fees; and (iii) technology systems conversions. Printing, stationery, and supplies expense for 2001 increased $202 thousand as compared to 2000 and reflects expense related to the printing of additional customer disclosures and supplies related to implementation of check imaging at a number of our subsidiary banks.

Table 4 — Noninterest Expense (in thousands):

	2002	Increase (Decrease)	2001	Increase (Decrease)	2000
Salaries	$ 23,984	$ 1,604	$ 22,380	$ 1,417	$ 20,963
Medical and other benefits	2,297	180	2,117	133	1,984
Profit sharing	2,681	823	1,858	(16)	1,874
Pension	1,173	549	624	(56)	680
Payroll taxes	1,858	152	1,706	130	1,576
Total salaries and employee benefits	31,993	3,308	28,685	1,608	27,077
Net occupancy expense	3,909	(87)	3,996	433	3,563
Equipment expense	4,801	343	4,458	277	4,181
Intangible amortization	135	(1,506)	1,641	-	1,641
Other:					
Data processing and operation fees	1,078	(38)	1,116	(147)	1,263
Postage	1,094	(80)	1,174	128	1,046
Printing, stationery and supplies	1,475	391	1,084	202	882
Advertising	1,169	64	1,105	51	1,054
Correspondent bank service charges	1,491	162	1,329	67	1,262
ATM expense	1,361	266	1,095	145	950
Credit card fees	696	27	669	65	604
Telephone	870	(8)	878	124	754
Public relations and business development	758	43	715	12	703
Directors' fees	516	30	486	33	453
Audit and accounting fees	785	39	746	80	666
Legal fees	383	50	333	54	279
Other professional and service fees	796	(37)	833	302	531
Regulatory exam fees	526	83	443	19	424
Travel	311	7	304	54	250
Courier expense	676	127	549	101	448
Operational and other losses	743	203	540	(205)	745
Other miscellaneous expense	3,516	623	2,893	(23)	2,916
Total other	18,244	1,952	16,292	1,062	15,230
Total Noninterest Expense	$ 59,082	$ 4,010	$ 55,072	$ 3,380	$ 51,692

Income Taxes. Income tax expense was $14.6 million for 2002 as compared to $12.8 million for 2001 and $12.7 million for 2000. Our effective tax rates on pretax income were 30.1%, 30.4% and 30.9%, respectively, for the years 2002, 2001 and 2000.

Balance Sheet Review

Loans. The loan portfolio is comprised of loans made to businesses, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary banks. Real estate loans represent loans primarily for new home construction and owner-occupied real estate. The structure of loans in the real estate mortgage classification generally provides repricing intervals to minimize the interest rate risk inherent in long-term fixed rate mortgage loans. As of December 31, 2002, total loans were $964.0 million, an increase of $23.9 million, as compared to December 31, 2001. As compared to year-end 2001, real estate loans increased $28.6 million and consumer loans decreased $4.4 million. Commercial, financial and agricultural loans as of year-end 2002 were virtually unchanged from one year ago. Loans averaged $942.1 million during 2002, an increase of $44.5 million over the prior year average.

Table 5 — Composition of Loans (in thousands):

	December 31, 2002	2001	2000	1999	1998
Commercial, financial and agricultural	$ 311,743	$ 312,053	$ 295,032	$ 297,966	$ 278,647
Real estate — construction	50,911	47,173	40,610	43,039	36,721
Real estate — mortgage	375,256	350,382	290,920	208,895	198,447
Consumer, net of unearned income	226,130	230,523	232,709	247,375	265,729
	$ 964,040	$ 940,131	$ 859,271	$ 797,275	$ 779,544

Table 6 — Maturity Distribution and Interest Sensitivity of Loans at December 31, 2002 (in thousands):

The following tables summarize maturity and yield information for the commercial, financial, and agricultural and the real estate-construction portion of the loan portfolio as of December 31, 2002:

	One Year or less	After One Year Through Five Years	After Five Years	Total
Commercial, financial, and agricultural	$ 216,797	$ 76,860	$ 18,086	$ 311,743
Real estate — construction	35,292	15,619	-	50,911
	$ 252,089	$ 92,479	$ 18,086	$ 362,654

	Maturities After One Year
Loans with fixed interest rates	$ 55,354
Loans with floating or adjustable interest rates	55,211
	$ 110,565

Asset Quality. Loan portfolios of each of our subsidiary banks are subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by state and federal bank regulatory agencies. Loans are placed on nonaccrual status when, in the judgment of management, the collectibility of principal or interest under the original terms becomes doubtful. Nonperforming assets, which consist of nonperforming loans and foreclosed assets, were $4.3 million at December 31, 2002, as compared to $4.8 million at December 31, 2001 and $4.1 million at December 31, 2000. As a percent of loans and foreclosed assets, nonperforming assets were 0.44% at December 31, 2002, as compared to 0.51% at December 31, 2001 and 0.48% at December 31, 2000. Management considers the level of nonperforming assets to be manageable and is not aware of any material classified credit not properly disclosed as nonperforming at December 31, 2002.

Table 7 — Nonperforming Assets (in thousands, except percentages):

	At December 31, 2002	2001	2000	1999	1998
Nonaccrual loans	$ 3,716	$ 3,727	$ 3,512	$ 1,389	$ 2,717
Loans still accruing and past due 90 days or more	14	66	34	63	67
Restructured loans	-	-	-	-	-
Nonperforming loans	3,730	3,793	3,546	1,452	2,784
Foreclosed assets	536	1,031	546	637	385
Total nonperforming assets	$ 4,266	$ 4,824	$ 4,092	$ 2,089	$ 3,169
As a % of loans and foreclosed assets	0.44%	0.51%	0.48%	0.26%	0.41%

Provision and Allowance for Loan Losses. The allowance for loan losses is the amount deemed by management as of a specific date to be adequate to provide for losses on loans that are deemed uncollectible. Management determines the allowance and the required provision expense by reviewing general loss experiences and the performances of specific credits. The provision for loan losses was $2.4 million for 2002 as compared to $2.0 million for 2001 and $2.4 million for 2000. As a percent of average loans, net loan charge-offs were 0.19% during 2002, and 0.18% during 2001 and 2000. The allowance for loan losses as a percent of loans was 1.16% as of

December 31, 2002, as compared to 1.13% as of December 31, 2001. A key indicator of the adequacy of the allowance for loan losses is the ratio of the allowance to nonperforming loans, which consist of nonaccrual loans, loans past due 90 days, and restructured loans. This ratio for the past five years is disclosed in Table 8. Table 9 provides an allocation of the allowance for loan losses based on loan type and the percent of total loans that each major loan type represents. Other than the loan types presented in Table 9, we had no loan concentration at December 31, 2002 that represented more than 10% of total loans.

Although we believe that we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A downturn in the economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan loss provisions and reductions in income. Additionally, as an integral part of their examination process, bank regulatory agencies periodically review our allowance for loan losses. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Table 8 — Loan Loss Experience and Allowance for Loan Losses (in thousands, except percentages):

	2002	2001	2000	1999	1998
Balance at January 1,	$ 10,602	$ 9,888	$ 8,938	$ 8,988	$ 10,632
Allowance established from purchase acquisitions	-	407	-	-	-
	10,602	10,295	8,938	8,988	10,632
Charge-offs:					
Commercial, financial and agricultural	1,116	1,094	950	1,038	1,267
Consumer	1,471	1,498	1,998	2,747	2,786
All other	-	33	45	36	106
Total loans charged off	2,587	2,625	2,993	3,821	4,159
Recoveries:					
Commercial, financial and agricultural	288	269	391	632	532
Consumer	535	688	855	936	811
All other	11	11	299	172	32
Total recoveries	834	968	1,545	1,740	1,375
Net charge-offs	1,753	1,657	1,448	2,081	2,784
Provision for loan losses	2,370	1,964	2,398	2,031	1,140
Balance at December 31,	$ 11,219	$ 10,602	$ 9,888	$ 8,938	$ 8,988
Loans at year-end	$964,040	$940,131	$ 859,271	$ 797,275	$ 779,544
Average loans	942,101	897,616	817,603	779,283	770,183
Net charge-offs/average loans	0.19%	0.18%	0.18%	0.27%	0.36%
Allowance for loan losses/year-end loans	1.16	1.13	1.15	1.12	1.15
Allowance for loan losses/nonperforming loans	300.78	279.51	278.85	615.55	322.84

Table 9 — Allocation of Allowance for Loan Losses (in thousands):

	2002	2001	2000	1999	1998
	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount	Allocation Amount
Commercial, financial and agricultural	$ 3,628	$ 4,966	$ 3,394	$ 3,340	$ 3,213
Real estate — construction	592	415	468	483	423
Real estate — mortgage	4,368	2,710	3,348	2,342	2,288
Consumer	2,631	2,511	2,678	2,773	3,064
Total	$ 11,219	$ 10,602	$ 9,888	$ 8,938	$ 8,988

Percent of Total Loans:

	2002	2001	2000	1999	1998
Commercial, financial and agricultural	32.34%	33.19%	34.33%	37.37%	35.74%
Real estate — construction	5.28	5.02	4.73	5.40	4.71
Real estate — mortgage	38.93	37.27	33.86	26.20	25.46
Consumer, net of unearned income	23.45	24.52	27.08	31.03	34.09

Certain loans classified for regulatory purposes as doubtful, substandard, or special mention are included in the nonperforming asset table. Also included in classified loans are certain other loans that are deemed to be potential problems. Potential problem loans are those loans that are currently performing but where known information about trends or uncertainties or possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present repayment terms, possibly resulting in the transfer of such loans to nonperforming status. These potential problem loans totaled $12.0 million as of December 31, 2002.

Investment Securities. Investment securities totaled $772.3 million as of December 31, 2002, as compared to $721.7 million at December 31, 2001 and $654.3 million at December 31, 2000. At December 31, 2002, securities with an amortized cost of $200.4 million were classified as securities held-to-maturity and securities with a market value of $571.8 million were classified as securities available-for-sale. As compared to December 31, 2001, the portfolio at December 31, 2002, reflected (i) an increase of $14.8 million in U.S. Treasury; (ii) an increase of $12.8 million in tax-exempt obligations of states and political subdivisions; (iii) a $4.2 million decrease in corporate bonds and other securities; and (iv) a $27.2 million increase in mortgage-backed securities. As compared to December 31, 2000, the portfolio at December 31, 2001 reflected (i) a decrease of $86.9 million in U.S. Treasury and U.S. Government corporations and agency securities; (ii) an increase of $16.8 million in tax-exempt obligations of states and political subdivisions; (iii) an $6.6 million increase in other securities, primarily corporate bonds; and (iv) a $130.9 million increase in mortgage-backed securities. The overall portfolio yield of 5.62% at the end of 2002 was down from the prior year-end yield of 6.06% due to lower average interest rates. We did not hold collateralized mortgage obligations that entail higher risks than other mortgage-backed securities without complex payment features nor did we hold any structured notes. See Note 2 to the Consolidated Financial Statements for additional disclosures relating to the maturities and fair values of the investment portfolio at December 31, 2002 and 2001.

Table 10 — Composition of Investment Securities (dollars in thousands):

	At December 31,					
	2002		2001		2000	
Held-to-Maturity:	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 110,939	$ 117,808	$ 172,880	$ 177,872	$ 251,418	$ 251,922
Obligations of states and political subdivisions	60,836	64,050	75,959	77,495	82,344	83,067
Corporate bonds	499	540	498	512	4,615	4,597
Mortgage-backed securities	28,176	29,464	41,333	42,687	53,541	54,005
Other securities	-	-	4	4	-	-
	200,450	211,862	290,674	298,570	391,918	393,591

	At December 31,					
	2002		2001		2000	
Available-for-Sale:	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 164,090	$ 171,619	$ 93,151	$ 94,919	$ 102,872	$ 103,321
Obligations of states and political subdivisions	104,800	110,741	82,546	82,851	58,544	59,610
Corporate bonds	49,234	51,812	56,553	58,522	47,326	47,715
Mortgage-backed securities	228,490	232,106	189,421	191,720	47,963	48,551
Other securities	5,453	5,529	3,007	3,007	3,137	3,137
	552,067	571,807	424,678	431,019	259,842	262,334
	$ 752,517	$ 783,669	$ 715,352	$ 729,589	$ 651,760	$ 655,925

Table 11 — Maturities and Yields of Investment Securities Held at December 31, 2002 (in thousands, except percentages):

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
Held-to-Maturity:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury obligations	$ 1,002	5.38%	$ -	-%	$ -	-%	$ -	-%	$ 1,002	5.38%
Obligations of U.S. Government corporations and agencies	31,627	5.33	78,310	5.70	-	-	-	-	109,937	5.59
Obligations of states and political subdivisions	18,476	6.12	19,953	6.57	8,275	7.44	14,132	7.76	60,836	6.83
Corporate bonds and other securities	-	-	499	6.17	-	-	-	-	499	6.17
Mortgage-backed securities	4,855	6.91	22,290	6.72	1,031	5.44	-	-	28,176	6.71
Total	$55,960	5.73%	$121,052	6.01%	$9,306	7.22%	$14,132	7.76%	$200,450	6.12%

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
Available-for-Sale:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury obligations	$ -	- %	$ 1,005	1.89%	$ -	-%	$ -	-%	$ 1,005	1.89%
Obligations of U.S. Government corporations and agencies	12,418	5.12	158,196	4.32	-	-	-	-	170,614	4.38
Obligations of states and political subdivisions	4,211	6.38	8,133	5.71	34,469	7.26	63,928	7.24	110,741	7.10
Corporate bonds and other securities	12,586	5.94	40,647	6.01	-	-	4,108	6.00	57,341	5.99
Mortgage-backed securities	17,910	5.49	182,752	5.40	31,444	4.93	-	-	232,106	5.34
Total	$47,125	5.59%	$390,733	5.02%	$65,913	6.06%	$68,036	7.17%	$571,807	5.44%

	Maturing									
	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
Total Investment Securities:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury obligations	$ 1,002	5.38%	$ 1,005	1.89%	$ -	-%	$ -	-%	$ 2,007	3.63%
Obligations of U.S. Government corporations and agencies	44,045	5.27	236,506	4.78	-	-	-	-	280,551	4.85
Obligations of states and political subdivisions	22,687	6.17	28,086	6.32	42,744	7.30	78,060	7.33	171,577	7.00
Corporate bonds and other securities	12,586	5.94	41,146	6.01	-	-	4,108	6.00	57,840	5.99
Mortgage-backed securities	22,765	5.79	205,042	5.54	32,475	4.95	-	-	260,282	5.48
Total	$103,085	5.67%	$511,785	5.26%	$75,219	6.20%	$82,168	7.27%	$772,257	5.62%

Deposits. Deposits held by subsidiary banks represent our primary source of funding. Total deposits were $1.712 billion as of December 31, 2002, as compared to $1.685 billion as of December 31, 2001 and $1.520 billion as of December 31, 2000. Table 12 provides a breakdown of average deposits and rates paid over the past three years and the remaining maturity of time deposits of $100 thousand or more.

Table 12 — Composition of Average Deposits and Remaining Maturity of Time Deposits of $100,000 or More (in thousands, except percentages):

	2002		2001		2000	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	$ 385,012	-	$ 339,800	-	$ 317,659	-
Interest-bearing deposits						
Interest-bearing checking	315,688	0.71%	279,585	1.43%	252,281	1.59%
Savings and money market accounts	389,337	1.18	366,412	2.58	374,396	3.93
Time deposits under $100,000	371,970	3.11	384,576	5.30	370,093	5.29
Time deposits of $100,000 or more	182,163	3.13	195,987	5.19	164,405	5.74
Total interest-bearing deposits	1,259,158	1.91%	1,226,560	3.58%	1,161,175	4.11%
Total average deposits	$ 1,644,170		$ 1,566,360		$ 1,478,834	

	December 31, 2002
Three months or less	$ 75,477
Over three through six months	39,710
Over six through twelve months	57,785
Over twelve months	22,782
Total time deposits of $100,000 or more	$ 195,754

Capital Resources

Total shareholders' equity was $238.8 million, or 11.98% of total assets, at December 31, 2002, as compared to $213.6 million, or 11.07% of total assets, at December 31, 2001. During 2002, total shareholders' equity averaged $224.4 million, or 11.76% of average assets, as compared to $204.5 million, or 11.29% of average assets, during 2001.

Banking regulators measure capital adequacy by means of the risk-based capital ratio and leverage ratio. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 100%. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets. Regulatory minimums for risk-based and leverage ratios are 8.00% and 3.00%, respectively. As of December 31, 2002, our total risk-based and leverage ratios were 19.52% and 10.51%, respectively, as compared to total risk-based and leverage ratios of 18.08% and 9.92% as of December 31, 2001. We believe by all measurements our capital ratios remain above regulatory minimums.

Interest Rate Risk. Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. Our exposure to interest rate risk is managed primarily through our strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities that generate favorable earnings while limiting the potential negative effects of changes in market interest rates. We use no off-balance-sheet financial instruments to manage interest rate risk.

Each of our subsidiary banks has an asset/liability committee that monitors interest rate risk and compliance with investment policies. Each subsidiary bank tracks interest rate risk by, among other things, interest-sensitivity gap and simulation analysis. Table 13 sets forth the interest rate sensitivity of our consolidated assets and liabilities as of December 31, 2002, and sets forth the repricing dates of our consolidated interest-earning assets and interest-bearing liabilities as of that date, as well as our projected consolidated interest rate sensitivity gap percentages for the periods presented. The table is based upon assumptions as to when assets and liabilities will reprice in a changing interest rate environment. These assumptions are estimates made by management. Assets and liabilities indicated as maturing or otherwise repricing within a stated period may, in fact, mature or reprice at different times and at different volumes than those estimated. Also, the renewal or repricing of certain assets and liabilities can be discretionary and subject to competitive and other pressures. Therefore, the following table does not and cannot necessarily indicate the actual future impact of general interest rate movements on our consolidated net interest income.

Table 13 — Interest Sensitivity Analysis (in thousands, except percentages):

	2002	2003	2004	2005	2006	Beyond	Total	December 31, 2002 Estimated Fair Value
Loans								
Fixed rate loans	$ 95,936	$ 65,864	$ 82,400	$ 79,104	$ 70,057	$ 89,516	$ 482,877	$ 492,042
Average interest rate	7.00%	8.42%	8.02%	7.23%	7.17%	7.80%	7.58%	
Adjustable rate loans	451,626	5,725	3,552	10,087	9,898	275	481,163	481,163
Average interest rate	4.87	—	—	—	—	—	4.57	
Investment securities								
Fixed rate securities	102,770	163,451	185,336	149,146	9,990	157,308	768,001	779,414
Average interest rate	5.65	5.62	5.22	4.86	5.61	6.75	5.61	
Adjustable rate securities	4,255	—	—	—	—	—	4,255	4,255
Average interest rate	4.81	—	—	—	—	—	4.81	
Other earning assets								
Adjustable rate other	72,325	—	—	—	—	—	72,325	72,325
Average interest rate	1.23	—	—	—	—	—	1.23	
Total interest sensitive assets	$ 726,912	$ 235,040	$ 271,288	$ 238,337	$ 89,945	$ 247,099	$1,808,621	$ 1,828,364
Average interest rate	4.76%	6.43%	6.08%	5.68%	6.98%	7.13%	5.73%	
Deposits								
Fixed rate deposits	466,285	42,008	12,232	2,223	10,879	—	533,627	537,171
Average interest rate	2.41%	3.31%	5.28%	4.40%	4.25%	—	2.59%	
Adjustable rate deposits	750,041	2,421	—	—	—	—	752,462	752,462
Average interest rate	0.79	—	—	—	—	—	0.79	
Other interest-bearing liabilities								
Adjustable rate other	26,709	—	—	—	—	—	26,709	26,709
Average interest rate	0.67	—	—	—	—	—	0.67	
Total interest sensitive liabilities	1,243,035	44,429	12,232	2,223	10,879	—	1,312,798	1,316,342
Average interest rate	1.39%	3.13%	5.28%	4.40%	4.25%	—	1.52%	
Interest sensitivity gap	$ (516,123)	$ 190,611	$ 259,056	$ 236,114	$ 79,066	$ 247,099	$ 495,823	$ 512,022
Cumulative interest sensitivity gap	(516,123)	(325,512)	(66,456)	169,658	248,724	495,823		
Ratio of interest sensitive assets to interest sensitive liabilities	58.48%							
Cumulative ratio of interest sensitive assets to interest sensitive liabilities	58.48%	74.72%	94.89%	113.03%	118.95%	137.77%		
Cumulative interest sensitivity gap as a percent of earning assets	(28.54)%	(18.00)%	(3.67)%	9.38%	13.75%	27.41%		

As of December 31, 2001, our 2002 interest-sensitivity gap was ($518.8) million and our 2002 ratio of interest sensitive assets to interest sensitive liabilities was 58.73%.

Management estimates that, as of December 31, 2002, an upward shift of interest rates by 150 basis points would result in a 4.5% increase in projected net interest income over the next twelve months, and a downward shift of interest rates by 150 basis points would result in a 7.1% reduction in projected net interest income over the next twelve months. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. In management's belief, these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. Management believes that it is unlikely that such changes would occur in a short time period. As interest-bearing assets and liabilities reprice at different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, our future results would, in management's belief, be different from the foregoing estimates, and such differences could be material.

Liquidity

Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore the total commitment amounts do not necessarily represents future cash requirements affecting our liquidity position. The potential need for liquidity arising from these types of financial instruments is represented by the contractual notional amount of the instrument, as detailed in Table 14. Asset liquidity is provided by cash and assets, which are readily marketable or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in time deposits in banks. Liquidity is also provided by access to funding sources, which include core depositors and correspondent banks that maintain accounts with and sell federal funds to our subsidiary banks. Other sources of funds include our ability to sell securities under agreement to repurchase, which amounted to $26.7 million at December 31, 2002, and an unfunded $25.0 million line of credit established with a nonaffiliated bank which matures on June 30, 2003. We believe the line of credit will be renewed upon maturity. Given the strong core deposit base and relatively low loan to deposit ratios maintained at the subsidiary banks, management considers the current liquidity position to be adequate to meet short- and long-term liquidity needs.

In addition, we anticipate that any future acquisition of financial institutions and expansion of branch locations could also place a demand on our cash resources. Available cash at our parent company which totaled $23.1 million at December 31, 2002, available dividends from subsidiary banks which totaled $20.7 million at December 31, 2002, utilization of available lines of credit, and future debt or equity offerings are expected to be the source of funding for these potential acquisitions or expansions.

Table 14 — Commercial Commitments As of December 31, 2002 (in thousands):

	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years
Commitments to extend credit	$ 185,895	$ 176,758	$ 4,779	$ 2,491	$ 1,867
Standby letters of credit	6,068	5,253	806	9	-
Total Commercial Commitments	$ 191,963	$ 182,011	$ 5,585	$ 2,500	$ 1,867

The Company has no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

Parent Company Funding. Our ability to fund various operating expenses, dividends, and cash acquisitions is generally dependent solely on our own earnings (without giving effect to our subsidiaries), cash reserves and funds derived from our subsidiary banks. These funds historically have been produced by intercompany dividends and management fees that are limited to reimbursement of actual expenses. We anticipate that our recurring cash sources will continue to include dividends and management fees from our subsidiary banks. At December 31, 2002, approximately $20.7 million was available for the payment of intercompany dividends by the subsidiary banks without the prior approval of regulatory agencies. Our subsidiary banks paid aggregate dividends of $26.6 million in 2002 and $25.5 million in 2001. Also at December 31, 2002, we had $25.0 million available under a line of credit with an unaffiliated financial institution.

Dividends. Our long-term dividend policy is to pay cash dividends to our shareholders of between 40% and 50% of net earnings while maintaining adequate capital to support growth. The cash dividend payout ratios have amounted to 49.1%, 48.9% and 45.2% of net earnings, respectively, in 2002, 2001 and 2000. Given our current strong capital position and projected earnings and asset growth rates, we do not anticipate any change in our current dividend policy.

Each state bank that is a member of the Federal Reserve System and each national banking association is required by federal law to obtain the prior approval of the Federal Reserve Board and the OCC, respectively, to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus. In addition, these banks may only pay dividends to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

To pay dividends, we and our subsidiary banks must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve Board and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve Board, the OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our management considers interest rate risk to be a significant market risk for us. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Review—Interest Rate Risk" for disclosure regarding this market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements begin on page F-1.

Quarterly Results of Operations (in thousands, except per share and common stock data):

The following tables set forth certain unaudited historical quarterly financial data for each of the eight consecutive quarters in fiscal 2002 and 2001. This information is derived from unaudited consolidated financial statements that include, in our opinion, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation when read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

	2002			
	4th	3rd	2nd	1st
Summary Income Statement Information:				
Interest income	$ 25,687	$ 26,316	$ 26,414	$ 26,445
Interest expense	5,244	5,818	6,246	7,072
Net interest income	20,443	20,498	20,168	19,373
Provision for loan losses	809	652	510	399
Net interest income after provision for loan losses	19,634	19,846	19,658	18,974
Noninterest income	7,858	7,527	7,177	6,975
Net gain (loss) on securities transactions	-	(3)	19	-
Noninterest expense	15,247	14,902	14,677	14,256
Earnings before income taxes	12,245	12,468	12,177	11,693
Income tax expense	3,694	3,768	3,655	3,513
Net earnings	$ 8,551	$ 8,700	$ 8,522	$ 8,180
Per Share Data:				
Net earnings per share, basic	$ 0.69	$ 0.70	$ 0.69	$ 0.66
Net earnings per share, assuming dilution	0.69	0.70	0.69	0.66
Cash dividends declared	0.35	0.35	0.35	0.30
Book value at period-end	19.31	19.25	18.43	17.60
Common stock sales price: (1)				
High	$ 42.00	$ 41.73	$ 43.00	$ 34.30
Low	34.65	34.85	33.00	29.30
Close	38.00	36.44	41.84	33.21

	2001			
	4th	3rd	2nd	1st
Summary Income Statement Information:				
Interest income	$ 27,814	$ 29,500	$ 29,213	$ 29,946
Interest expense	9,071	10,958	11,779	13,026
Net interest income	18,743	18,542	17,434	16,920
Provision for loan losses	562	539	497	366
Net interest income after provision for loan losses	18,181	18,003	16,937	16,554
Noninterest income	6,972	6,847	7,046	6,646
Net gain on securities transactions	-	-	14	54
Noninterest expense	14,364	14,047	13,507	13,154
Earnings before income taxes	10,789	10,803	10,490	10,100
Income tax expense	3,258	3,270	3,203	3,096
Net earnings	$ 7,531	$ 7,533	$ 7,287	$ 7,004
Per Share Data:				
Net earnings per share, basic	$ 0.61	$ 0.61	$ 0.59	$ 0.57
Net earnings per share, assuming dilution	0.61	0.61	0.59	0.56
Cash dividends declared	0.30	0.30	0.30	0.264
Book value at period-end	17.32	17.31	16.77	16.40
Common stock sales price: (1)				
High	$ 31.88	$ 32.91	$ 31.44	$ 27.15
Low	27.20	27.00	25.00	23.40
Close	30.10	29.03	31.00	26.60

(1) These quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 25, 2002, we determined not to renew the engagement of our independent accountants, Arthur Andersen LLP. Arthur Andersen had served as our independent auditors since 1990. The decision not to renew the engagement of Arthur Andersen was made by the executive committee of our board of directors following the recommendation of our audit committee. Arthur Andersen's report on our 2001 financial statements was filed with the Securities and Exchange Commission on March 20, 2002 in conjunction with the filing of our Annual Report on Form 10-K for the year ended December 31, 2001.

During the two fiscal years ended December 31, 2001, and through the subsequent interim period through March 25, 2002, there were no disagreements between Arthur Andersen and us on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to Arthur Andersen's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with their reports.

None of the reportable events defined under Item 304(a)(1)(v) of Regulation S-K occurred within our two fiscal years ended December 31, 2001 and through the subsequent interim period through March 25, 2002. The audit reports of Arthur Andersen on our consolidated financial statements as of and for the fiscal years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. We provided Arthur Andersen with a copy of the foregoing disclosure, and a copy of its letter stating its agreement with these statements was filed as an exhibit to our Form 8-K dated March 25, 2002.

The executive committee of our board of directors, upon the recommendation of our audit committee, elected to appoint Ernst & Young LLP as our independent auditors, effective May 16, 2002. During our two fiscal years ended December 31, 2001, and through the subsequent interim periods through May 16, 2002, we did not consult with Ernst & Young regarding any of the matters or events set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is hereby incorporated by reference from our proxy statement for our 2003 annual meeting of shareholders or our 2003 proxy statement, under the captions "Proposal 1 — Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from our 2003 proxy statement under the caption "Management."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is hereby incorporated by reference from our 2003 proxy statement under the captions "Proposal 1 — Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is hereby incorporated by reference from our 2003 proxy statement under the caption "Interest in Certain Transactions."

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 15d-15. Our management, including the principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our principal executive officer and principal financial officer have concluded, based on our evaluation of our disclosure controls and procedures, that our disclosure controls and procedures under Rule 13a-14(c) and Rule 15d-14(c) of the Securities Exchange Act of 1934 are effective.

Subsequent to our evaluation, there were no significant changes in internal controls or other factors that could significantly affect these internal controls.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

A. The following documents are filed as part of this report:

(1) Financial Statements

Report of Independent Auditors
Report of Independent Public Accountants
Management's Report on Responsibility for the Financial Statements
Consolidated Balance Sheets as of December 31, 2002 and 2001
Consolidated Statements of Earnings for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Comprehensive Earnings for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000
Notes to the Consolidated Financial Statements

(2) Financial Statement Schedules

These schedules have been omitted because they are not required, are not applicable or have been included in our consolidated financial statements.

(3) Exhibits

The information required by this Item 15(a)(3) is set forth in the Exhibit Index immediately following our financial statements. The exhibits listed herein will be furnished upon written request to J. Bruce Hildebrand, Executive Vice President, First Financial Bankshares, Inc., 400 Pine Street, Abilene, Texas 79601, and payment of a reasonable fee that will be limited to our reasonable expense in furnishing such exhibits.

B. Reports on Form 8-K.

On October 1, 2002, we filed a Form 8-K announcing the hiring of J. Bruce Hildebrand as our next chief financial officer replacing Curtis R. Harvey during the first quarter of 2003. No financial statements were reported as part of this Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST FINANCIAL BANKSHARES, INC.

Date: March 10, 2003

By: /s/ F. SCOTT DUESER
F. SCOTT DUESER
President, Chief Executive Officer and Director

The undersigned directors and officers of First Financial Bankshares, Inc. hereby constitute and appoint Curtis R. Harvey, with full power to act and with full power of substitution and resubstitution, our true and lawful attorney-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission and hereby ratify and confirm all that such attorney-in-fact or his substitute shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ KENNETH T. MURPHY Kenneth T. Murphy	Chairman of the Board and Director	March 10, 2003
/s/ F. SCOTT DUESER F. Scott Dueser	President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2003
/s/ CURTIS R. HARVEY Curtis R. Harvey	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 10, 2003
/s/ JOSEPH E. CANON Joseph E. Canon	Director	March 18, 2003
/s/ MAC A. COALSON Mac A. Coalson	Director	March 25, 2003
/s/ DAVID COPELAND David Copeland	Director	March 18, 2003

Name	Title	Date
/s/ DERRELL E. JOHNSON Derrell E. Johnson	Director	March 13, 2003
/s/ KADE L. MATTHEWS Kade L. Matthews	Director	March 25, 2003
/s/ RAYMOND A. MCDANIEL, JR. Raymond A. McDaniel, Jr.	Director	March 18, 2003
/s/ BYNUM MIERS Bynum Miers	Director	March 18, 2003
/s/ JAMES M. PARKER James M. Parker	Director	March 18, 2003
/s/ JACK D. RAMSEY Jack D. Ramsey	Director	March 18, 2003
____________________ Craig Smith	Director	March __, 2003
/s/ DIAN GRAVES STAI Dian Graves Stai	Director	March 18, 2003
/s/ F. L. STEPHENS F. L. Stephens	Director	March 25, 2003

CERTIFICATIONS

I, F. Scott Dueser, certify that:

1. I have reviewed this annual report on Form 10-K of First Financial Bankshares, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have;

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of this disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ F. SCOTT DUESER
F. Scott Dueser
President, Chief Executive Officer and Director

I, Curtis R. Harvey, certify that:

1. I have reviewed this annual report on Form 10-K of First Financial Bankshares, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have;

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 10, 2003

By: /s/ Curtis R. Harvey
Curtis R. Harvey
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
First Financial Bankshares, Inc.

We have audited the accompanying consolidated balance sheet of First Financial Bankshares, Inc. (a Texas corporation) and subsidiaries as of December 31, 2002, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of First Financial Bankshares, Inc. and subsidiaries as of December 31, 2001 and for each of the two years then ended, were audited by other auditors who have ceased operations and whose report dated January 11, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Financial Bankshares, Inc. and subsidiaries at December 31, 2002, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed above, the financial statements of First Financial Bankshares, Inc. as of December 31, 2001 and the two years then ended were audited by other auditors who have ceased operations. As described in Note 1, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 1 with respect to 2001 and 2000 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense including related tax effects recognized in those periods related to goodwill to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings per share amounts. In our opinion, the disclosures for 2001 and 2000 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

Ernst & Young LLP

Dallas, Texas
January 14, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
First Financial Bankshares, Inc.

We have audited the accompanying consolidated balance sheets of First Financial Bankshares, Inc. (a Texas corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Financial Bankshares, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Dallas, Texas,
January 11, 2002

NOTE: THIS IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP WHICH CEASED OPERATIONS. THIS REPORT ADDRESSES CERTAIN FINANCIAL STATEMENTS FOR PERIODS THAT ARE NOT OTHERWISE REQUIRED TO BE INCLUDED IN THIS FORM 10-K.

MANAGEMENT'S REPORT ON RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of First Financial Bankshares, Inc. and subsidiaries is responsible for the preparation, integrity, and fair presentation of its annual consolidated financial statements as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include amounts based on judgments and estimates made by Management. Management has also prepared the other information included in this Annual Report and is responsible for its accuracy and consistency with the consolidated financial statements.

The annual consolidated financial statements as of and for the year ended December 31, 2002 have been audited by Ernst & Young LLP, who have been given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders and the Board of Directors. Management believes that all representations made to Ernst & Young LLP during the audit were valid and appropriate.

The annual consolidated financial statements as of December 31, 2001, and for the years ended December 31, 2001 and 2000, were audited by Arthur Andersen LLP, who were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders and the Board of Directors. Management believes that all representations made to Arthur Andersen LLP during the audits were valid and appropriate. Arthur Andersen LLP subsequently ceased operations.

F. Scott Dueser
President and Chief Executive Officer

Curtis R. Harvey
Executive Vice President
and Chief Financial Officer

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2002 and 2001

ASSETS	2002	2001
CASH AND DUE FROM BANKS	$ 108,436,645	$ 112,150,214
FEDERAL FUNDS SOLD	70,000,000	72,975,000
Total cash and cash equivalents	178,436,645	185,125,214
INTEREST-BEARING DEPOSITS IN BANKS	2,324,425	1,374,285
INVESTMENT SECURITIES:		
Securities held-to-maturity (fair value of $211,862,151 in 2002 and $298,569,794 in 2001)	200,449,784	290,674,490
Securities available-for-sale, at fair value	571,806,629	431,019,205
Total investment securities	772,256,413	721,693,695
LOANS	964,039,773	940,130,975
Less- allowance for loan losses	11,218,729	10,602,419
Net loans	952,821,044	929,528,556
BANK PREMISES AND EQUIPMENT, net	40,605,401	42,012,431
INTANGIBLE ASSETS	24,870,788	24,711,969
OTHER ASSETS	21,868,220	25,247,980
Total assets	$1,993,182,936	$1,929,694,130
LIABILITIES AND SHAREHOLDERS' EQUITY		
NONINTEREST-BEARING DEPOSITS	$ 425,473,353	$ 389,406,666
INTEREST-BEARING DEPOSITS	1,286,088,863	1,295,755,932
Total deposits	1,711,562,216	1,685,162,598
DIVIDENDS PAYABLE	4,327,374	3,699,976
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	26,708,994	19,847,067
OTHER LIABILITIES	11,816,707	7,330,476
Total liabilities	1,754,415,291	1,716,040,117
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $10 par value; authorized 20,000,000 shares; 12,364,201 and 12,333,252 issued and outstanding at December 31, 2002 and 2001, respectively	123,642,010	123,332,520
Capital surplus	58,087,687	57,824,061
Retained earnings	45,647,522	28,375,353
Accumulated other comprehensive earnings	11,390,426	4,122,079
Total shareholders' equity	238,767,645	213,654,013
Total liabilities and shareholders' equity	$1,993,182,936	$1,929,694,130

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
December 31, 2002, 2001 and 2000

	2002	2001	2000
INTEREST INCOME:			
Interest and fees on loans	$ 64,609,189	$ 74,881,682	$ 75,474,661
Interest on investment securities:			
Taxable	32,263,763	32,169,874	33,556,796
Exempt from federal income tax	7,042,102	6,279,973	5,770,861
Interest on federal funds sold and interest-bearing deposits in banks	946,861	3,211,316	3,148,277
Total interest income	104,861,915	116,472,845	117,950,595
INTEREST EXPENSE:			
Interest on deposits	24,087,911	43,970,532	47,737,862
Other	291,793	863,480	1,091,180
Total interest expense	24,379,704	44,834,012	48,829,042
Net interest income	80,482,211	71,638,833	69,121,553
PROVISION FOR LOAN LOSSES	2,369,634	1,964,050	2,397,750
Net interest income after provision for loan losses	78,112,577	69,674,783	66,723,803
NONINTEREST INCOME:			
Trust department income	5,835,909	5,890,600	5,494,246
Service fees on deposit accounts	15,435,137	14,743,217	14,073,514
ATM fees	2,370,313	1,941,508	1,554,437
Real estate mortgage fees	1,858,378	1,609,518	1,021,590
Net gain on securities transactions	16,373	67,789	530,097
Other	4,036,366	3,325,858	3,273,445
Total noninterest income	29,552,476	27,578,490	25,947,329
NONINTEREST EXPENSE:			
Salaries and employee benefits	31,992,733	28,685,294	27,077,436
Net occupancy expense	3,908,856	3,995,597	3,563,289
Equipment expense	4,800,768	4,457,909	4,180,782
Printing, stationary and supplies	1,474,683	1,084,134	882,470
Correspondent bank service charges	1,491,132	1,329,134	1,261,811
Amortization of intangible assets	135,156	1,641,367	1,641,367
Other expenses	15,278,722	13,878,262	13,085,333
Total noninterest expense	59,082,050	55,071,697	51,692,488
EARNINGS BEFORE INCOME TAXES	48,583,003	42,181,576	40,978,644
INCOME TAX EXPENSE	14,630,453	12,827,071	12,662,597
NET EARNINGS	$ 33,952,550	$ 29,354,505	$28,316,047
NET EARNINGS PER SHARE, BASIC	$ 2.75	$ 2.38	$ 2.28
NET EARNINGS PER SHARE, ASSUMING DILUTION	$ 2.74	$ 2.37	$ 2.27

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Earnings
December 31, 2002, 2001 and 2000

	2002	2001	2000
NET EARNINGS	$ 33,952,550	$ 29,354,505	$ 28,316,047
OTHER ITEMS OF COMPREHENSIVE EARNINGS:			
Change in unrealized gain on investment securities available-for-sale, before income tax	13,414,265	3,916,477	9,319,576
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(16,373)	(67,789)	(530,097)
Minimum liability pension adjustment, before income tax	(2,215,820)	-	-
Total other items of comprehensive earnings	11,182,072	3,848,688	8,789,479
Income tax expense related to other items of comprehensive earnings	(3,913,725)	(1,347,041)	(3,076,320)
COMPREHENSIVE EARNINGS	$ 41,220,897	$ 31,856,152	$ 34,029,206

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
December 31, 2002, 2001 and 2000

	Common Stock					Accumulated	
	Shares	Amount	Capital Surplus	Retained Earnings	Treasury Stock, at cost	Other Comprehensive Earnings (Losses)	Total Shareholders' Equity
BALANCE, December 31, 1999	9,972,193	$99,721,930	$60,538,481	$22,495,259	$ -	$(4,092,727)	$178,662,943
Net earnings	-	-	-	28,316,047	-	-	28,316,047
Cash dividends declared, $1.03 per share	-	-	-	(12,808,111)	-	-	(12,808,111)
Acquisition of treasury stock	-	-	-	-	(3,925,069)	-	(3,925,069)
Stock issuances	10,809	108,090	53,829	-	-	-	161,919
Change in unrealized gain (loss) on investment in securities available-for-sale, net of related income taxes	-	-	-	-	-	5,713,159	5,713,159
BALANCE, December 31, 2000	9,983,002	$99,830,020	$60,592,310	$38,003,195	$(3,925,069)	$ 1,620,432	$196,120,888
Net earnings	-	-	-	29,354,505	-	-	29,354,505
Stock split, effected in the form of a 25% stock dividend	2,461,770	24,617,700	-	(24,617,700)	-	-	-
Cash dividends declared, $1.16 per share	-	-	-	(14,364,647)	-	-	(14,364,647)
Acquisition of treasury stock	-	-	-	-	(315,050)	-	(315,050)
Retirement of treasury stock	(136,000)	(1,360,000)	(2,880,119)	-	4,240,119	-	-
Stock issuances	24,480	244,800	111,870	-	-	-	356,670
Change in unrealized gain on investment in securities available-for-sale, net of related income taxes	-	-	-	-	-	2,501,647	2,501,647
BALANCE, December 31, 2001	12,333,252	$123,332,520	$57,824,061	$28,375,353	$ -	$ 4,122,079	$213,654,013
Net earnings	-	-	-	33,952,550	-	-	33,952,550
Cash dividends declared, $1.35 per share	-	-	-	(16,680,381)	-	-	(16,680,381)
Stock issuances	30,949	309,490	263,626	-	-	-	573,116
Minimum liability pension adjustment, net of related income taxes	-	-	-	-	-	(1,440,283)	(1,440,283)
Change in unrealized gain on investment in securities available-for-sale, net of related income taxes	-	-	-	-	-	8,708,630	8,708,630
BALANCE, December 31, 2002	12,364,201	$123,642,010	$58,087,687	$45,647,522	$ -	$11,390,426	$238,767,645

The accompanying notes are an integral part of these consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
December 31, 2002, 2001 and 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 33,952,550	$ 29,354,505	$ 28,316,047
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	4,125,655	5,679,082	5,502,224
Provision for loan losses	2,369,634	1,964,050	2,397,750
Premium amortization, net of discount accretion	2,077,358	1,662,108	1,359,124
Loss (gain) on sale of assets	42,890	(52,815)	(540,304)
Deferred federal income tax expense (benefit)	350,415	(188,982)	(304,240)
(Increase) decrease in other assets	(1,508,089)	3,565,172	(2,567,832)
Increase (decrease) in other liabilities	2,695,533	(1,778,326)	1,026,945
Total adjustments	10,153,396	10,850,289	6,873,667
Net cash provided by operating activities	44,105,946	40,204,794	35,189,714
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in interest-bearing deposits in banks	(950,140)	(1,269,947)	(100,258)
Payment for stock of City Bancshares, Inc., net of cash acquired	-	(6,848,231)	-
Activity in available-for-sale securities:			
Sales	30,077,478	57,925,815	530,097
Maturities	814,880,024	660,484,725	21,660,247
Purchases	(972,026,050)	(854,748,980)	(41,804,532)
Activity in held-to-maturity securities:			
Maturities	90,203,464	176,972,321	87,167,939
Purchases	(2,360,727)	(76,102,656)	(57,628,266)
Net increase in loans	(26,012,420)	(31,639,533)	(63,728,244)
Purchases of bank premises and equipment	(2,913,886)	(5,151,260)	(2,507,214)
Proceeds from sale of other assets	526,065	200,461	392,305
Net cash used in investing activities	(68,576,192)	(80,177,285)	(56,017,926)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in noninterest-bearing deposits	36,066,687	41,179,967	(4,236,804)
Net (decrease) increase in interest-bearing deposits	(9,667,069)	41,583,909	(593,942)
Net increase (decrease) in securities sold under agreements to repurchase	6,861,927	(6,317,292)	16,526,625
Common stock transactions:			
Acquisition of treasury stock	-	(315,050)	(3,925,069)
Proceeds of stock issuances	573,116	356,670	161,919
Dividends paid	(16,052,983)	(13,921,211)	(12,543,863)
Net cash provided by (used in) financing activities	17,781,678	62,566,993	(4,611,134)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,688,569)	22,594,502	(25,439,346)
CASH AND CASH EQUIVALENTS, beginning of year	185,125,214	162,530,712	187,970,058
CASH AND CASH EQUIVALENTS, end of year	$ 178,436,645	$ 185,125,214	$ 162,530,712

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations

First Financial Bankshares, Inc. (a Texas corporation) ("Bankshares") is a financial holding company which owns (through its wholly-owned Delaware subsidiary) all of the capital stock of ten banks located in Texas as of December 31, 2002. Those subsidiary banks are First National Bank of Abilene; Hereford State Bank; First National Bank, Sweetwater; Eastland National Bank; First Financial Bank, National Association, Cleburne; Stephenville Bank & Trust Co.; San Angelo National Bank; Weatherford National Bank; First Financial Bank, National Association, Southlake and City National Bank, Mineral Wells. Each subsidiary bank's primary source of revenue is providing loans and banking services to consumers and commercial customers in the market area in which the subsidiary is located.

A summary of significant accounting policies of Bankshares and subsidiaries (collectively, the "Company") applied in the preparation of the accompanying consolidated financial statements follows. The accounting principles followed by the Company and the methods of applying them are in conformity with both accounting principles generally accepted in the United States of America and prevailing practices of the banking industry.

Use of Estimates in Preparation of Financial Statements

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 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 in the near term relate to the determination of the allowance for loan losses, the valuations of foreclosed real estate, deferred income tax assets, and the fair value of financial instruments.

Consolidation

The accompanying consolidated financial statements include the accounts of Bankshares and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

Investment Securities

Management classifies debt and equity securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with unrealized gains and losses, net of deferred income taxes, excluded from earnings and reported in a separate component of shareholders' equity. Securities classified as trading are recorded at estimated fair value, with unrealized gains and losses included in earnings. The Company had no trading securities at December 31, 2002, 2001, or 2000.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Unearned income on installment loans is recognized in income over the terms of the loans in decreasing amounts using a method which approximates the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company expenses its net loan origination costs, a method which does not materially differ from deferring and amortizing such amounts as an adjustment to yield. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectibility of the principal is unlikely.

The allowance is an amount that management believes will be adequate to absorb estimated inherent losses on existing loans that are deemed uncollectible based upon management's review and evaluation of the loan portfolio. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on general economic conditions, the financial condition of the borrower, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

The Company's policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price. At December 31, 2002 and 2001, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

Other Real Estate

Other real estate is foreclosed property held pending disposition and is valued at the lower of its fair value or the recorded investment in the related loan. At foreclosure, if the fair value, less estimated costs to sell, of the real estate acquired is less than the Company's recorded investment in the related loan, a write-down is recognized through a charge to the allowance for loan losses. Any subsequent reduction in value is recognized by a charge to income. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in noninterest expense.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed principally on a straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized over the life of the respective lease or the estimated useful lives of the improvements, whichever is shorter.

Business Combinations, Goodwill and Other Intangible Assets

Goodwill, relating to acquisitions of certain subsidiary banks, was amortized by the straight-line method over periods of 15 and 40 years during the years ended December 31, 2001 and 2000.

In June 2001, Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") were issued. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but rather be tested at least annually for impairment. SFAS No. 142 was effective January 1, 2002 for calendar year companies; however, acquired goodwill or intangible assets recorded in our acquisition of City Bancshares, Inc. closed subsequent to June 30, 2001 were subject immediately to its provisions.

On January 1, 2002, goodwill amounting to $23,765,896 was not subject to further amortization as a result of SFAS No. 142. The Company conducted its initial impairment test in 2002, with no reduction of recorded goodwill resulting from the test. A reconciliation adjusting comparative net earnings and earnings per share for the years ended December 31, 2001 and 2000, to show the effect of no longer amortizing the Company's goodwill, follows:

	2001	2000
Reported net earnings	$ 29,354,505	$ 28,316,047
Add back: goodwill amortization		
Goodwill amortization, before income tax	1,641,367	1,641,367
Income tax benefit	(420,000)	(420,000)
Adjusted net earnings	$ 30,575,872	$ 29,537,414
Basic earnings per share:		
Reported net earnings	$ 2.38	$ 2.28
Goodwill amortization, net of income tax benefit	.10	.10
Adjusted net earnings	$ 2.48	$ 2.38
Earnings per share, assuming dilution:		
Reported net earnings	$ 2.37	$ 2.27
Goodwill amortization, net of income tax benefit	.10	.10
Adjusted net earnings	$ 2.47	$ 2.37

Goodwill arising from acquisitions of assets and liabilities, rather than acquisitions of stock, amounting to $13,000,000, is deductible for federal income tax purposes.

Other identifiable intangible assets recorded by the Company represent the future benefit associated with the acquisition of the core deposits of City Bancshares, Inc. (Note 17) and is being amortized over seven years utilizing a method that approximates the expected attrition of the deposits.

Securities Sold Under Agreements To Repurchase

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of the cash received in connection with the transaction. The Company may be required to provide additional collateral based on the estimated fair value of the underlying securities.

Segment Reporting

The Company has determined that it operates one line of business (community banking) located in a single geographic area (Texas).

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold.

Accounting for Income Taxes

The Company's provision for income taxes is based on income before income taxes adjusted for permanent differences between financial reporting and taxable income. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Stock Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Had compensation cost for the plan been determined consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings and earnings per share would have been reduced by insignificant amounts on a pro forma basis for the years ended December 31, 2002, 2001 and 2000. Note 15 provides additional information on the Company's stock option plan.

Stock Repurchase

On July 25, 2000, the Company approved a stock repurchase plan, authorizing the repurchase of up to 740,690 shares of the Company's common stock. During the years ended December 31, 2001 and 2000, the Company repurchased 9,900 and 126,100 shares, respectively. The treasury shares were purchased for $4,240,119, which represented an average purchase price of $31.18 per share. The treasury shares were retired in 2001.

Per Share Data

Net earnings per share ("EPS") are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. The Company calculates dilutive EPS assuming all outstanding options to purchase common stock have been exercised at the beginning of the year (or the time of issuance, if later.) The dilutive effect of the outstanding options is reflected by application of the treasury stock method, whereby the proceeds from the exercised options are assumed to be used to purchase common stock at the average market price during the period. The following table reconciles the computation of basic EPS to dilutive EPS:

	Net Earnings	Weighted Average Shares	Per Share Amount
For the year ended December 31, 2002:			
Net earnings per share, basic	$33,952,550	12,359,966	$ 2.75
Effect of stock options	-	47,523	
Net earnings per share, assuming dilution	$33,952,550	12,409,489	$ 2.74
For the year ended December 31, 2001:			
Net earnings per share, basic	$29,354,505	12,318,346	$ 2.38
Effect of stock options	-	45,323	
Net earnings per share, assuming dilution	$29,354,505	12,363,669	$ 2.37
For the year ended December 31, 2000:			
Net earnings per share, basic	$28,316,047	12,426,344	$ 2.28
Effect of stock options	-	28,355	
Net earnings per share, assuming dilution	$28,316,047	12,454,699	$ 2.27

Reclassifications

Certain 2001 and 2000 amounts have been reclassified to conform to the 2002 presentation.

2. CASH AND INVESTMENT SECURITIES:

The amortized cost, estimated fair values, and gross unrealized gains and losses of the Company's investment securities as of December 31, 2002 and 2001, are as follows:

	December 31, 2002			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$110,939,173	$ 6,868,716	$ -	$117,807,889
Obligations of state and political subdivisions	60,835,676	3,214,571	-	64,050,247
Corporate bonds	498,936	41,064	-	540,000
Mortgage-backed securities	28,175,999	1,288,594	(578)	29,464,015
Total debt securities held-to-maturity	$200,449,784	$11,412,945	$ (578)	$211,862,151
Securities available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$164,090,045	$ 7,545,917	$ (16,670)	$171,619,292
Obligations of state and political subdivisions	104,800,319	5,952,505	(12,189)	110,740,635
Corporate bonds	49,234,116	2,577,468	-	51,811,584
Mortgage-backed securities	228,489,406	4,066,253	(449,560)	232,106,099
Total debt securities available-for-sale	546,613,886	20,142,143	(478,419)	566,277,610
Other securities	5,453,100	75,919	-	5,529,019
Total securities available-for-sale	$552,066,986	$20,218,062	$(478,419)	$571,806,629

	December 31, 2001			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities held-to-maturity:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$172,879,974	$5,039,045	$ (47,536)	$177,871,483
Obligations of state and political subdivisions	75,959,059	1,670,635	(134,439)	77,495,255
Corporate bonds	498,483	13,867	-	512,350
Mortgage-backed securities	41,332,974	1,354,710	(978)	42,686,706
Other securities	4,000	-	-	4,000
Total debt securities held-to-maturity	$290,674,490	$8,078,257	$ (182,953)	$298,569,794
Securities available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$93,150,557	$2,025,482	$(257,163)	$94,918,876
Obligations of state and political subdivisions	82,545,879	1,140,522	(835,320)	82,851,081
Corporate bonds	56,553,112	2,000,708	(31,141)	58,522,679
Mortgage-backed securities	189,421,296	2,982,733	(684,161)	191,719,868
Total debt securities available-for-sale	421,670,844	8,149,445	(1,807,785)	428,012,504
Other securities	3,006,701	-	-	3,006,701
Total securities available-for-sale	$424,677,545	$8,149,445	$(1,807,785)	$431,019,205

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at December 31, 2002 and 2001, were computed by using scheduled amortization of balances and historical prepayment rates. At December 31, 2002 and 2001, the Company did not hold any CMOs that entail higher risks than standard mortgage-backed securities.

The amortized cost and estimated fair value of debt securities at December 31, 2002, by contractual and expected maturity, are shown below.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost Basis	Estimated Fair Value	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 55,959,878	$ 57,124,507	$ 46,281,321	$ 47,124,793
Due after one year through five years	121,052,000	129,421,284	377,002,918	390,627,675
Due after five years through ten years	9,305,724	10,071,540	63,803,688	65,913,832
Due after ten years	14,132,182	15,244,820	59,525,959	62,611,310
Total debt securities	$200,449,784	$211,862,151	$546,613,886	$566,277,610

Securities, carried at approximately $239,971,000 and $243,316,000 at December 31, 2002 and 2001, respectively, were pledged as collateral for public or trust fund deposits and for other purposes required or permitted by law.

During 2002 and 2001, sales of investment securities that were classified as available-for-sale totaled $30,077,478 and $57,925,815, respectively. Gross realized gains and losses from sales in 2002 were $23,773 and $7,400, respectively. Gross realized gains and losses from 2001 sales were $104,779 and $36,990, respectively. Gross realized gains from 2000 sales were $530,097. The specific identification method was used to determine cost in computing the realized gains and losses.

Certain subsidiary banks are required to maintain reserve balances with the Federal Reserve Bank. During 2002 and 2001, such average balances totaled approximately $12,776,000 and $9,017,000, respectively.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES:

Major classifications of loans are as follows:

	December 31,	
	2002	2001
Commercial, financial, and agricultural	$311,743,212	$312,053,042
Real estate - construction	50,911,156	47,173,297
Real estate - mortgage	375,255,678	350,381,887
Consumer	226,140,626	230,616,297
	964,050,672	940,224,523
Unearned income	(10,899)	(93,548)
Total loans	$964,039,773	$940,130,975

The Company's recorded investment in impaired loans and the related valuation allowance are as follows:

December 31, 2002		December 31, 2001	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$3,734,261	$ 752,385	$3,817,683	$ 926,636

The average recorded investment in impaired loans for the years ended December 31, 2002 and 2001, was approximately $3,776,000 and $3,773,000, respectively. The Company had approximately $4,266,000 and $4,824,000 in nonperforming assets at December 31, 2002 and 2001, respectively. No additional funds are committed to be advanced in connection with impaired loans.

Interest payments received on impaired loans are recorded as interest income unless collections of the remaining recorded investment are doubtful, at which time payments received are recorded as reductions of principal. The Company recognized interest income on impaired loans of approximately $111,000, $136,000 and $213,000 during the years ended December 31, 2002, 2001, and 2000, respectively, of which approximately $2,000, $9,000 and $16,000 represented cash interest payments received and recorded as interest income. If interest on impaired loans had been recognized on a full accrual basis during the years ended December 31, 2002, 2001, and 2000, respectively, such income would have approximated $317,000, $399,000 and $449,000.

The allowance for loan losses as of December 31, 2002 and 2001, is presented below. Management has evaluated the adequacy of the allowance for loan losses by estimating the losses in various categories of the loan portfolio which are identified below:

	2002	2001
Allowance for loan losses provided for:		
Loans specifically evaluated as impaired	$ 752,385	$ 926,636
Remaining portfolio	10,466,344	9,675,783
Total allowance for loan losses	$11,218,729	$10,602,419

Changes in the allowance for loan losses are summarized as follows:

	December 31,		
	2002	2001	2000
Balance at beginning of year	$10,602,419	$ 9,887,646	$ 8,937,542
Add:			
Provision for loan losses	2,369,634	1,964,050	2,397,750
Loan recoveries	834,150	968,535	1,545,080
Allowance established at acquisition	-	407,129	-
Deduct:			
Loan charge-offs	(2,587,474)	(2,624,941)	(2,992,726)
Balance at end of year	$11,218,729	$10,602,419	$ 9,887,646

An analysis of the changes in loans to officers, directors, principal shareholders, or associates of such persons for the years ended December 31, 2002 and 2001 (determined as of each respective year-end) follows:

	Beginning Balance	Additional Loans	Payments	Ending Balance
Year ended December 31, 2002	$44,426,313	$27,349,995	$44,235,855	$27,540,453
Year ended December 31, 2001	$35,575,573	$51,556,164	$42,970,581	$44,161,156

In the opinion of management, those loans are on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unaffiliated persons.

4. BANK PREMISES AND EQUIPMENT:

The following is a summary of bank premises and equipment:

	Useful Life	December 31, 2002	December 31, 2001
Land	–	$ 7,362,814	$ 7,104,759
Buildings	20 to 40 years	50,560,723	49,885,954
Furniture and equipment	3 to 10 years	26,347,819	27,249,965
Leasehold improvements	Lesser of lease term or 5 to 15 years	4,385,288	4,105,350
		88,656,644	88,346,028
Less- accumulated depreciation and amortization		(48,051,243)	(46,333,597)
		$40,605,401	$42,012,431

Depreciation expense for the years ended December 31, 2002, 2001 and 2000 amounted to $4,284,473, $3,755,878, and $3,700,474, respectively and is included in the captions net occupancy expense and equipment expense in the accompanying consolidated statements of earnings.

The Company is lessor for portions of its banking premises. Total rental income for all leases included in net occupancy expense is approximately $1,578,000, $1,432,000 and $1,387,000, for the years ended December 31, 2002, 2001, and 2000, respectively.

5. TIME DEPOSITS

Time deposits of $100,000 or more totaled approximately $195,754,000 and $196,905,000 at December 31, 2002 and 2001, respectively. Interest expense on these deposits was approximately $11,559,000, $10,163,000, and $10,022,000 during 2002, 2001, and 2000, respectively.

At December 31, 2002, the scheduled maturities of time deposits were, as follows:

Year ending December 31,	
2003	$466,285,411
2004	42,007,875
2005	12,232,334
2006	2,222,764
2007	10,878,020
	$533,626,404

6. LINE OF CREDIT

The Company has a line of credit with a nonaffiliated bank under which it could borrow up to $25,000,000. The line of credit is unsecured and matures on June 30, 2003. Bankshares paid no fee to secure the unused line of credit and, accordingly, did not estimate a fair value of the unused line of credit at December 31, 2002 and 2001. The line of credit carries an interest rate of the London Interbank Offering Rate plus 1.0%. There was no outstanding balance under the line of credit as of December 31, 2002 and 2001.

7. INCOME TAXES:

The Company files a consolidated federal income tax return. Income tax expense (benefit) is comprised of the following:

	Year Ended December 31,		
	2002	2001	2000
Current federal income tax	$14,280,038	$13,016,053	$12,966,837
Deferred federal income tax expense (benefit)	350,415	(188,982)	(304,240)
Income tax expense	$14,630,453	$12,827,071	$12,662,597

Income tax expense, as a percentage of pretax earnings, differs from the statutory federal income tax rate as follows:

	As a Percent of Pretax Earnings		
	2002	2001	2000
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
Reductions in tax rate resulting from interest income exempt from federal income tax	(5.6)%	(5.2)%	(4.9)%
Other	0.7 %	0.6 %	0.8 %
Effective income tax rate	30.1 %	30.4 %	30.9 %

The approximate effects of each type of difference that gave rise to the Company's deferred tax assets and liabilities at December 31, 2002 and 2001, are as follows:

	2002	2001
Deferred tax assets-		
Tax basis of loans in excess of financial statement basis	$ 3,940,576	$3,766,408
Minimum liability in defined benefit plan	775,537	-
Recognized for financial reporting purposes but not for tax purposes-		
Deferred compensation	686,098	590,462
Write-downs and adjustments to other real estate owned and repossessed assets	133,000	112,000
Other deferred tax assets	343,527	258,448
Total deferred tax assets	5,878,738	4,727,318
Deferred tax liabilities-		
Financial statement basis of fixed assets in excess of tax basis	1,442,962	1,334,565
Intangible asset amortization deductible for tax purposes, but not for financial reporting purposes	832,527	-
Recognized for financial reporting purposes but not for tax purposes:		
Accretion on investment securities	437,660	385,191
Pension plan contributions	497,869	610,869
Net unrealized gain on investment securities available-for-sale	6,908,875	2,219,581
Other deferred tax liabilities	71,334	225,429
Total deferred tax liabilities	10,191,227	4,775,635
Net deferred tax liability	$(4,312,489)	$ (48,317)

8. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company is required to disclose the estimated fair value of its financial instrument assets and liabilities. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

Estimated fair values have been determined by the Company using the best available data, as generally provided in the Company's regulatory reports, and an estimation methodology suitable for each category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate the carrying value.

The estimated fair values, and carrying values at December 31, 2002 and 2001, were as follows:

	2002		2001	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and due from banks	$108,436,645	$108,436,645	$112,150,214	$112,150,214
Federal funds sold	70,000,000	70,000,000	72,975,000	72,975,000
Interest-bearing deposits in banks	2,324,425	2,324,425	1,374,285	1,374,285
Investment securities	772,256,413	783,668,780	721,693,695	729,588,999
Net loans	952,821,044	964,782,729	929,528,556	938,431,998
Accrued interest receivable	15,360,833	15,360,833	17,636,608	17,636,608
Deposits with stated maturities	541,031,072	544,575,352	575,069,375	580,467,556
Deposits with no stated maturities	1,170,531,144	1,170,531,144	1,110,093,223	1,110,093,223
Securities sold under agreements to repurchase	26,708,994	26,708,994	19,847,067	19,847,067
Accrued interest payable	2,150,309	2,150,309	3,475,555	3,475,555

Financial instruments actively traded in a secondary market have been valued using quoted available market prices. Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Financial instrument assets with variable rates and financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value. Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

The Company's remaining assets and liabilities, which are not considered financial instruments, have not been valued differently than customary with historical cost accounting.

There is no material difference between the carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit which are generally priced at market at the time of funding.

Reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

9. COMMITMENTS AND CONTINGENCIES:

The Company is engaged in legal actions arising from the normal course of business. In management's opinion, the Company has adequate legal defenses with respect to these actions, and the resolution of these matters will have no material adverse effects upon the results of operations or financial condition of the Company.

The Company leases a portion of its bank premises and equipment under operating leases. At December 31, 2002, future minimum lease commitments are not significant.

10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unfunded lines of credit, commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	Contract or Notional Amount at December 31, 2002
Financial instruments whose contract amounts represent credit risk:	
Unfunded lines of credit	$123,803,128
Commitments to extend credit	62,092,132
Standby letters of credit	6,067,787

Unfunded lines of credit and commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit exceeds the contract amount.

The Company has no other off-balance sheet arrangements or transactions that would expose the Company to liability that is not reflected on the face of the financial statements.

11. CONCENTRATION OF CREDIT RISK:

The Company grants commercial, retail, agriculture, and residential loans to customers primarily in North Central and West Texas. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon this local economic sector.

12. PENSION AND PROFIT SHARING PLANS:

The Company has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and a percentage of the employee's qualifying compensation during the final years of employment. The Company's funding policy is to contribute annually the amount necessary to satisfy the Internal Revenue Service's funding standards. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table provides a reconciliation of the plan's benefit obligations and fair value of plan assets for the years ended December 31, 2002 and 2001, and a statement of the funded status as of December 31, 2002 and 2001:

	2002	2001
Reconciliation of benefit obligations:		
Benefit obligation at January 1	$ 14,183,582	$ 11,885,661
Service cost – benefits earned during the period	994,630	847,620
Interest cost on projected benefit obligation	983,977	970,710
Actuarial loss	45,731	1,117,567
Benefits paid	(667,523)	(637,976)
Benefit obligation at December 31	15,540,397	14,183,582
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	12,631,250	12,864,027
Actual return on plan assets	(1,031,005)	(337,724)
Employer contributions	726,989	742,923
Benefits paid	(667,523)	(637,976)
Fair value of plan assets at December 31	11,659,711	12,631,250
Funded status	$ (3,880,686)	$ (1,552,332)
Reconciliation of funded status to accrued pension (liability) asset:		
Funded status at December 31	$ (3,880,686)	$ (1,552,332)
Unrecognized loss from past experience different than that assumed and effects of changes in assumptions	5,109,193	3,268,617
Additional minimum liability recorded	(2,409,795)	-
Unrecognized prior-service cost	193,975	211,935
Other	(36,644)	-
Accrued pension (liability) asset	$ (1,023,957)	$ 1,928,220

The Company recorded an additional minimum liability in the year ended December 31, 2002 to reflect the underfunded status of the plan. The accrued pension liability at December 31, 2002 represents the difference between the fair value of plan assets and the accumulated benefit obligation. The accumulated benefit obligation is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from the projected benefit obligation in that it assumes no increase in future compensation. The following table details the financial statement captions affected by recording the minimum liability:

	2002	2001
Prepaid pension asset before adjustment	$ 1,385,838	$1,928,220
Intangible asset recorded (included in other assets)	(193,975)	-
Minimum liability adjustment	(2,215,820)	-
Accrued pension (liability) asset	$(1,023,957)	$1,928,220

Net periodic pension cost for the years ended December 31, 2002, 2001, and 2000, included:

	Year Ended December 31,		
	2002	2001	2000
Service cost - benefits earned during the period	$ 994,630	$ 847,620	$ 845,372
Interest cost on projected benefit obligation	983,977	970,710	816,583
Expected return on plan assets	(880,562)	(1,153,733)	(1,058,787)
Amortization of unrecognized net loss	116,722	-	-
Amortization of prior-service cost	17,960	17,961	17,961
Other	(59,405)	(58,954)	58,779
Net periodic pension cost	$1,173,322	$ 623,604	$ 679,908

The following table sets forth the rates used in the actuarial calculations of the present value of benefit obligations and the rate of return on plan assets:

	2002	2001	2000
Weighted average discount rate	6.9%	6.9%	7.5%
Rate of increase in future compensation levels	4%	4%	4%
Expected long-term rate of return on assets	6.5%	8.5%	8.5%

As of December 31, 2002 and 2001, the fair value of the plan's assets included Company common stock valued at approximately $468,000 and $297,000, respectively.

The Company also provides a profit sharing plan, which covers substantially all full-time employees. The profit sharing plan is a defined contribution plan and allows employees to contribute up to 5% of their base annual salary. Employees are fully vested to the extent of their contributions and become fully vested in the Company's contributions over a seven-year vesting period. Costs related to the Company's defined contribution plan totaled approximately $2,681,000, $1,858,000 and $1,874,000 in 2002, 2001 and 2000, respectively, and are included in salaries and employee benefits in the accompanying consolidated statements of earnings. As of December 31, 2002 and 2001, the fair value of the plan's assets included Company common stock valued at approximately $14,323,000 and $10,881,000, respectively.

13. DIVIDENDS FROM SUBSIDIARIES:

At December 31, 2002, approximately $20,728,000 was available for the declaration of dividends by the Company's subsidiary banks without the prior approval of regulatory agencies.

14. REGULATORY MATTERS:

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, each of Bankshares' subsidiaries must meet specific capital guidelines that involve quantitative measures of the subsidiaries' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The subsidiaries' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Bankshares and each of its subsidiaries to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined), to average assets (as defined). Management believes as of December 31, 2002 and 2001, that Bankshares and each of its subsidiaries meet all capital adequacy requirements to which they are subject.

As of December 31, 2002 and 2001, the most recent notification from each respective subsidiaries' primary regulator categorized each of Bankshares' subsidiaries as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the subsidiaries must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table.

There are no conditions or events since that notification that management believes have changed the institutions' categories. Bankshares' and its significant subsidiaries' actual capital amounts and ratios are presented in the table below:

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$213,725,000	20%	≥$ 87,579,000	≥ 8%	N/A	N/A
First National Bank of Abilene	$ 68,874,000	17%	≥$ 32,153,000	≥ 8%	≥$ 40,191,000	≥ 10%
San Angelo National Bank	$ 16,039,000	12%	≥$ 10,816,000	≥ 8%	≥$ 13,520,000	≥ 10%
Weatherford National Bank	$ 19,758,000	18%	≥$ 8,802,000	≥ 8%	≥$ 11,002,000	≥ 10%
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$202,507,000	18%	≥$ 43,790,000	≥ 4%	N/A	N/A
First National Bank of Abilene	$ 64,971,000	16%	≥$ 16,077,000	≥ 4%	≥$ 24,115,000	≥ 6%
San Angelo National Bank	$ 14,703,000	11%	≥$ 5,408,000	≥ 4%	≥$ 8,112,000	≥ 6%
Weatherford National Bank	$ 18,757,000	17%	≥$ 4,401,000	≥ 4%	≥$ 6,601,000	≥ 6%
Tier I Capital (to Average Assets):						
Consolidated	$202,507,000	11%	≥$ 57,856,000	≥ 3%	N/A	N/A
First National Bank of Abilene	$ 64,971,000	9%	≥$ 20,626,000	≥ 3%	≥$ 34,377,000	≥ 5%
San Angelo National Bank	$ 14,703,000	5%	≥$ 8,410,000	≥ 3%	≥$ 14,016,000	≥ 5%
Weatherford National Bank	$ 18,757,000	10%	≥$ 5,884,000	≥ 3%	≥$ 9,807,000	≥ 5%

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2001:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	$195,422,000	18%	≥$ 86,380,000	≥ 8%	N/A	N/A
First National Bank of Abilene	$ 65,676,000	17%	≥$ 31,594,000	≥ 8%	≥$ 39,492,000	≥ 10%
San Angelo National Bank	$ 27,945,000	20%	≥$ 10,925,000	≥ 8%	≥$ 13,656,000	≥ 10%
Weatherford National Bank	$ 18,931,000	18%	≥$ 8,624,000	≥ 8%	≥$ 10,780,000	≥ 10%
Tier I Capital (to Risk-Weighted Assets):						
Consolidated	$184,820,000	17%	≥$ 43,190,000	≥ 4%	N/A	N/A
First National Bank of Abilene	$ 61,895,000	16%	≥$ 15,797,000	≥ 4%	≥$ 23,695,000	≥ 6%
San Angelo National Bank	$ 26,672,000	20%	≥$ 4,312,000	≥ 4%	≥$ 8,194,000	≥ 6%
Weatherford National Bank	$ 18,019,000	17%	≥$ 5,462,000	≥ 4%	≥$ 6,468,000	≥ 6%
Tier I Capital (to Average Assets):						
Consolidated	$184,820,000	10%	≥$ 56,060,000	≥ 3%	N/A	N/A
First National Bank of Abilene	$ 61,895,000	9%	≥$ 19,728,000	≥ 3%	≥$ 32,880,000	≥ 5%
San Angelo National Bank	$ 26,672,000	9%	≥$ 8,800,000	≥ 3%	≥$ 14,667,000	≥ 5%
Weatherford National Bank	$ 18,019,000	9%	≥$ 5,788,000	≥ 3%	≥$ 9,647,000	≥ 5%

15. STOCK OPTION PLAN:

The Company has an incentive stock plan to provide for the granting of options to senior management of the Company at prices not less than market at the date of grant. At December 31, 2002, the Company had allocated 740,690 shares of stock for issuance under the plan. The plan provides that options granted are exercisable after two years from date of grant at a rate of 20% each year cumulatively during the 10-year term of the option. An analysis of stock option activity for the years ended December 31, 2002, 2001, and 2000, is presented in the table and narrative below:

	2002		2001		2000	
	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price	Shares	Wtd. Avg. Ex. Price
Outstanding, beginning of year	150,057	$21.60	174,959	$20.51	137,354	$20.18
Granted	2,000	30.50	3,700	29.82	60,597	20.80
Exercised	(30,949)	18.52	(24,480)	14.57	(10,809)	14.98
Canceled	(6,828)	23.48	(4,122)	24.95	(12,183)	24.02
Outstanding, end of year	114,280	$22.47	150,057	$21.60	174,959	$20.51
Exercisable at end of year	57,825	$21.15	66,210	$18.94	70,872	$16.37
Weighted average fair value of options granted at date of issue	$6.06		$6.13		$4.44	

The options outstanding at December 31, 2002, have exercise prices between $14.90 and $30.50 with a weighted average remaining contractual life of 5 years. Stock options have been adjusted retroactively for the effects of stock dividends and splits.

The Company accounts for this plan under APB 25 under which no compensation cost has been recognized for options granted. The fair value of the options granted in 2002, 2001 and 2000, was estimated using the Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 4.75%, 5.23% and 6.33% respectively; expected dividend yield of 4.43%, 3.89% and 5.18% respectively; expected life of 6.0, 6.0 and 6.0 years, respectively; and expected volatility of 26.9%, 26.5% and 28.3%, respectively.

16. CONDENSED FINANCIAL INFORMATION - PARENT COMPANY:

Condensed Balance Sheets-December 31, 2002 and 2001

ASSETS	2002	2001
Cash in subsidiary bank	$ 903,319	$ 579,686
Interest-bearing deposits in subsidiary banks	22,212,064	13,796,338
Total cash and cash equivalents	23,115,383	14,376,024
Investment in subsidiaries, at equity	219,947,550	202,758,981
Intangible assets	917,350	723,375
Other assets	950,708	932,986
Total assets	$244,930,991	$218,791,366
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total liabilities	$ 6,163,346	$ 5,137,353
Shareholders' equity:		
Common stock	123,642,010	123,332,520
Capital surplus	58,087,687	57,824,061
Retained earnings	45,647,522	28,375,353
Accumulated other comprehensive earnings	11,390,426	4,122,079
Total shareholders' equity	238,767,645	213,654,013
Total liabilities and shareholders' equity	$244,930,991	$218,791,366

Condensed Statements of Earnings-
For the Years Ended December 31, 2002, 2001, and 2000

	2002	2001	2000
Income:			
Cash dividends from subsidiary banks	$ 26,550,000	$ 25,500,000	$ 21,000,000
Excess of earnings over dividends of subsidiary banks	8,479,939	4,582,993	7,383,516
Gain on sale of investment securities available-for-sale	-	-	530,097
Other income	944,911	1,092,375	1,325,613
	35,974,850	31,175,368	30,239,226
Expenses:			
Salaries and employee benefits	1,451,136	1,160,903	1,067,664
Other operating expenses	1,142,832	1,015,184	1,288,508
	2,593,968	2,176,087	2,356,172
Earnings before income taxes	33,380,882	28,999,281	27,883,054
Income tax benefit	571,668	355,224	432,993
Net earnings	$33,952,550	$29,354,505	$28,316,047

Condensed Statements of Cash Flows-
For the Years Ended December 31, 2002, 2001, and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net earnings	$33,952,550	$29,354,505	$28,316,047
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Excess of earnings over dividends of subsidiary banks	(8,479,939)	(4,582,993)	(7,383,516)
Depreciation	54,219	32,658	26,222
Discount accretion, net of premium amortization	-	(4,667)	(12,133)
Amortization of excess of cost over fair value of assets acquired	-	55,576	55,576
Gain on sale of securities	-	-	(530,097)
(Increase) decrease in other assets	(215,435)	559,515	(178,092)
(Decrease) increase in liabilities	(1,041,688)	186,391	448,225
Net cash provided by operating activities	24,269,707	25,600,985	20,742,232
Cash flows from investing activities:			
Purchases of bank premises and equipment	(50,481)	(157,291)	(2,266)
Activity in available-for-sale securities:			
Sales	-	-	530,097
Maturities	-	10,000,000	-
Purchases	-	-	(9,983,200)
Cash payment for stock acquisition	-	(16,500,000)	-
Net cash used in investing activities	(50,481)	(6,657,291)	(9,455,369)
Cash flows from financing activities:			
Proceeds of stock issuances	573,116	356,670	161,919
Acquisition of treasury stock	-	(315,050)	(3,925,069)
Cash dividends paid	(16,052,983)	(13,921,211)	(12,543,863)
Net cash used in financing activities	(15,479,867)	(13,879,591)	(16,307,013)
Net increase (decrease) in cash and cash equivalents	8,739,359	5,064,103	(5,020,150)
Cash and cash equivalents, beginning of year	14,376,024	9,311,921	14,332,071
Cash and cash equivalents, end of year	$23,115,383	$14,376,024	$ 9,311,921

17. BUSINESS COMBINATION:

In July 2001, the Company purchased all of the outstanding stock of City Bancshares, Inc. ("City") and its subsidiary, City National Bank for $16,500,000 in cash. The total purchase price exceeded the estimated fair market value of net assets acquired by approximately $7,800,000, of which approximately $950,000 was assigned to an identifiable intangible asset with the balance recorded by the Company as goodwill. The identifiable intangible asset represents the future benefit associated with the acquisition of the core deposits of City and is being amortized over seven years utilizing a method that approximates the expected attrition of the deposits.

The primary purpose of the acquisition was to expand the Company's market share in areas with close proximity to Dallas/Ft. Worth, Texas. Factors that contributed to a purchase price resulting in goodwill include City's historically stable record of earnings, capable management and its geographic location, which complements the Company's existing service locations. Subsequent to the acquisition, the Company liquidated the stock of City and City National Bank is operating as a subsidiary of the Company. The results of operations of City National Bank are included in the consolidated earnings of the Company commencing July 1, 2001.

The following is a condensed consolidated balance sheet disclosing the preliminary estimated fair value amounts assigned to the major asset and liability captions at the acquisition date.

ASSETS	
Cash and cash equivalents	$ 9,651,769
Investment securities	29,717,834
Loans, net	51,061,735
Goodwill	6,891,959
Identifiable intangible asset	946,073
Other assets	1,465,727
Total assets	$ 99,735,097
LIABILITIES AND SHAREHOLDER'S EQUITY	
Noninterest-bearing deposits	$ 11,949,766
Interest-bearing deposits	70,575,256
Other liabilities	710,075
Shareholders' equity	16,500,000
Total liabilities and shareholder's equity	$ 99,735,097

Goodwill recorded in the acquisition of City has been accounted for in accordance with SFAS No. 142. Accordingly, goodwill has not been amortized, rather it has been tested for impairment. The goodwill and identifiable intangible asset recorded are not deductible for federal income tax purposes. The proforma impact of City is insignificant to the Company's financial statements.

Cash flow information relative to the acquisition of City is, as follows:

Fair value of assets acquired	$ 99,735,097
Cash paid for the capital stock of City	16,500,000
Liabilities assumed	$ 83,235,097

18. CASH FLOW INFORMATION:

Supplemental information on cash flows and noncash transactions is as follows:

	Year Ended December 31,		
	2002	2001	2000
Supplemental cash flow information:			
Interest paid	$25,704,950	$46,243,602	$48,123,200
Federal income taxes paid	14,682,343	13,227,101	13,227,192
Schedule of noncash investing and financing activities:			
Assets acquired through foreclosure	553,840	628,797	285,195
Retirement of treasury stock	-	4,240,119	-

Corporate Information

Officers

Kenneth T. Murphy
Chairman of the Board

F. Scott Dueser
President and Chief Executive Officer

Curtis R. Harvey
Executive Vice President and Chief Financial Officer

J. Bruce Hildebrand
Executive Vice President

Robert S. Patterson
Senior Vice President, Trust Services

Gary S. Gragg
Senior Vice President

William A. Rowe
Vice President, Investment Securities

Sandy Lester
Secretary-Treasurer

June D. Wideman
Administrative Officer

Directors

Kenneth T. Murphy
Chairman of the Board

Joseph E. Canon
Executive Director, Dodge Jones Foundation

Mac A. Coalson
Real Estate and Ranching

David Copeland
President, Shelton Family Foundation

F. Scott Dueser
President and Chief Executive Officer

Derrell Johnson
President, American Council of Engineering Companies Life Health Trust

Kade Matthews
Ranching and Investments

Raymond A. McDaniel, Jr.
Investments

Bynum Miers
Ranching

James Parker
President, Parker Properties, Inc.

Jack D. Ramsey, M.D.
Physician

Craig Smith
Chairman, Hereford State Bank

Dian Graves Stai
Investments

F.L. (Steve) Stephens
Retired Chairman and Chief Executive Officer, Town & Country Food Stores, Inc.

Annual Meeting

Tuesday, April 22, 2003
Abilene Civic Center
1100 N. Sixth Street
Abilene, Texas 79601

Corporate Offices

400 Pine Street
Abilene, Texas 79601
325.627.7155
ffin@abilene.com
http://www.ffin.com

Corporate Mailing Address

P.O. Box 701
Abilene, Texas 79604

Common Stock Listing

The NASDAQ Stock Market®
Symbol: FFIN

For Financial Information, Contact:

J. Bruce Hildebrand
Executive Vice President
325.627.7167

Transfer Agent

The Bank of New York
1.866.828.8173

Address Shareholder Inquiries to:
Shareholder Relations Dept.
P.O. Box 11258
Church Street Station
New York, NY 10286

E-mail Address:
shareowner-svcs@bankofny.com

The Bank of New York Stock Transfer Website:
http://www.stockbny.com

Send Certificates for Transfer and Address Changes to:
Receive and Deliver Dept.
P.O. Box 11002
Church Street Station
New York, NY 10286

Independent Public Auditors

Ernst & Young LLP

Common Stock Market Value and Dividend Data

	QUARTER	HIGH	LOW	CLOSE	DIVIDENDS
2002	Fourth	$42.00	$34.65	$38.00	$0.350
	Third	41.73	34.85	36.44	0.350
	Second	43.00	33.00	41.84	0.350
	First	34.30	29.30	33.21	0.300
2001	Fourth	$31.88	$27.20	$30.10	$0.300
	Third	32.91	27.00	29.03	0.300
	Second	31.44	25.00	31.00	0.300
	First	27.15	23.40	26.60	0.264

FIRST FINANCIAL BANKSHARES INC. NA

400 Pine Street, Abilene, Texas 79601
www.ffin.com