

“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