Buckeye GP Holdings L.P.
Form 8-K
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): **May 7, 2009**

Buckeye GP Holdings L.P.

(Exact Name of Registrant Specified in Charter)

Delaware	**001-32963**	**11-3776228**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

Five TEK Park **9999 Hamilton Blvd.** **Breinigsville, Pennsylvania**	**18031**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(610) 904-4000**

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b) On May 7, 2009, Mr. Vance E. Powers advised MainLine Management LLC (MainLine Management), the general partner of Buckeye GP Holdings L.P. (BGH), of his intention to resign his position as Vice President, Finance and Controller of MainLine Management, effective as of May 15, 2009. Mr. Powers also indicated his intention to resign a similar position at Buckeye GP LLC (Buckeye GP), the general partner of Buckeye Partners, L.P. (NYSE: BPL). BGH owns and controls Buckeye GP. Mr. Powers will continue as an employee of Buckeye Pipe Line Services Company for a transition period.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BUCKEYE GP HOLDINGS L.P.

By: MAINLINE MANAGEMENT LLC,
its General Partner

By: WILLIAM H. SCHMIDT, JR.
William H. Schmidt, Jr.
Vice President, General Counsel and Secretary

Dated: May 11, 2009

OM: black 2px solid; TEXT-ALIGN: left"> 2,660,000 501,000 952,000 764,000 233,000 7,029,000
Balance December 31, 2011
$793,000 $1,402,000 $2,859,000 $501,000 $1,352,000 $764,000 $234,000 $7,905,000

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Loans receivable disaggregated on the basis of impairment analysis method as of March 31, 2012 and December 31, 2011 is as follows:

2012

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$2,420,000	$2,213,000	$2,656,000	$-	$588,000	$-	$-	$7,877,00
Collectively evaluated for impairment	24,092,000	89,254,000	149,204,000	32,324,000	80,764,000	50,508,000	18,263,000	444,409,
Balance March 31, 2012	$26,512,000	$91,467,000	$151,860,000	$32,324,000	$81,352,000	$50,508,000	$18,263,000	$452,286,

2011

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	$2,163,000	$2,346,000	$2,703,000	$-	$590,000	$-	$1,000	$7,803,00
Collectively evaluated for impairment	21,468,000	91,916,000	144,797,000	32,503,000	75,368,000	52,179,000	20,753,000	438,984,
Balance December 31, 2011	$23,631,000	$94,262,000	$147,500,000	$32,503,000	$75,958,000	$52,179,000	$20,754,000	$446,787,

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A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Company will apply its normal loan review procedures to identify loans that should be evaluated for impairment. The following is a recap of impaired loans, on a disaggregated basis, at March 31, 2012 and December 31, 2011:

2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no specific reserve recorded:			
Real estate - construction	$1,826,000	$1,826,000	$-
Real estate - 1 to 4 family residential	1,900,000	1,900,000	-
Real estate - commercial	931,000	931,000	-
Real estate - agricultural	-	-	-
Commercial	-	-	-
Agricultural	-	-	-
Consumer and other	-	-	-
Total loans with no specific reserve:	4,657,000	4,657,000	-
With an allowance recorded:			
Real estate - construction	594,000	594,000	165,000
Real estate - 1 to 4 family residential	313,000	313,000	112,000
Real estate - commercial	1,725,000	1,725,000	168,000
Real estate - agricultural	-	-	-
Commercial	588,000	588,000	409,000
Agricultural	-	-	-
Consumer and other	-	-	-
Total loans with specific reserve:	3,220,000	3,220,000	854,000
Total			
Real estate - construction	2,420,000	2,420,000	165,000
Real estate - 1 to 4 family residential	2,213,000	2,213,000	112,000
Real estate - commercial	2,656,000	2,656,000	168,000
Real estate - agricultural	-	-	-
Commercial	588,000	588,000	409,000
Agricultural	-	-	-
Consumer and other	-	-	-
	$7,877,000	$7,877,000	$854,000

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2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no specific reserve recorded:			
Real estate - construction	$1,493,000	$1,493,000	$-
Real estate - 1 to 4 family residential	2,030,000	2,030,000	-
Real estate - commercial	951,000	951,000	-
Real estate - agricultural	-	-	-
Commercial	-	-	-
Agricultural	-	-	-
Consumer and other	-	-	-
Total loans with no specific reserve:	4,474,000	4,474,000	-
With an allowance recorded:			
Real estate - construction	670,000	670,000	165,000
Real estate - 1 to 4 family residential	316,000	316,000	111,000
Real estate - commercial	1,752,000	1,752,000	199,000
Real estate - agricultural	-	-	-
Commercial	590,000	590,000	400,000
Agricultural	-	-	-
Consumer and other	1,000	1,000	1,000
Total loans with specific reserve:	3,329,000	3,329,000	876,000
Total			
Real estate - construction	2,163,000	2,163,000	165,000
Real estate - 1 to 4 family residential	2,346,000	2,346,000	111,000
Real estate - commercial	2,703,000	2,703,000	199,000
Real estate - agricultural	-	-	-
Commercial	590,000	590,000	400,000
Agricultural	-	-	-
Consumer and other	1,000	1,000	1,000
	$7,803,000	$7,803,000	$876,000

There are no significant differences between nonaccrual and impaired loan balances at March 31, 2012 and December 31, 2011.

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The following is a recap of the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2012 and 2011:

	2012		2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:				
Real estate - construction	$1,660,000	$-	$1,220,000	$-
Real estate - 1 to 4 family residential	1,965,000	5,000	674,000	-
Real estate - commercial	941,000	-	227,000	-
Real estate - agricultural	-	-	-	-
Commercial	-	-	45,000	-
Agricultural	-	-	-	-
Consumer and other	-	-	5,000	-
Total loans with no specific reserve:	4,566,000	5,000	2,171,000	-
With an allowance recorded:				
Real estate - construction	632,000	-	2,821,000	-
Real estate - 1 to 4 family residential	315,000	-	546,000	-
Real estate - commercial	1,739,000	-	658,000	-
Real estate - agricultural	-	-	-	-
Commercial	589,000	-	-	-
Agricultural	-	-	-	-
Consumer and other	1,000	-	19,000	-
Total loans with specific reserve:	3,276,000	-	4,044,000	-
Total				
Real estate - construction	2,292,000	-	4,041,000	-
Real estate - 1 to 4 family residential	2,280,000	5,000	1,220,000	-
Real estate - commercial	2,680,000	-	885,000	-
Real estate - agricultural	-	-	-	-
Commercial	589,000	-	45,000	-
Agricultural	-	-	-	-
Consumer and other	1,000	-	24,000	-
	$7,842,000	$5,000	$6,215,000	$-

The interest foregone on nonaccrual loans for the three months ended March 31, 2012 and 2011 was approximately $116,000 and $102,000, respectively.

The Company had troubled debt restructurings of $3,483,000 as of March 31, 2012, of which $2,796,000 was included in impaired loans and $687,000 was on accrual status. The Company had troubled debt restructurings of $3,602,000 as of December 31, 2011, of which $2,545,000 was included in impaired loans and $1,057,000 was on accrual status.

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An aging analysis of the recorded investments in loans, on a disaggregated basis, as of March 31, 2012 and December 31, 2011, is as follows:

2012

	30-89 Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Greater Than 90 Days Accruing
Real estate - construction	$-	$ -	$-	$26,512,000	$26,512,000	$ -
Real estate - 1 to 4 family residential	1,028,000	1,990,000	3,018,000	88,449,000	91,467,000	-
Real estate - commercial	-	182,000	182,000	151,678,000	151,860,000	5,000
Real estate - agricultural	134,000	-	134,000	32,190,000	32,324,000	-
Commercial	195,000	5,000	200,000	81,152,000	81,352,000	-
Agricultural	39,000	-	39,000	50,469,000	50,508,000	-
Consumer and other	66,000	-	66,000	18,197,000	18,263,000	-
	$1,462,000	$ 2,177,000	$3,639,000	$448,647,000	$452,286,000	$ 5,000

2011

	30-89 Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Greater Than 90 Days Accruing
Real estate - construction	$34,000	$ -	$34,000	$23,597,000	$23,631,000	$ -
Real estate - 1 to 4 family residential	273,000	2,275,000	2,548,000	91,714,000	94,262,000	112,000
Real estate - commercial	105,000	113,000	218,000	147,282,000	147,500,000	-
Real estate - agricultural	-	-	-	32,503,000	32,503,000	-
Commercial	1,342,000	23,000	1,365,000	74,593,000	75,958,000	-
Agricultural	-	-	-	52,179,000	52,179,000	-
Consumer and other	98,000	17,000	115,000	20,639,000	20,754,000	40,000
	$1,852,000	$ 2,428,000	$4,280,000	$442,507,000	$446,787,000	$ 152,000

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The credit risk profile by internally assigned grade, on a disaggregated basis, at March 31, 2012 and December 31, 2011 is as follows:

2012

	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	$14,316,000	$99,607,000	$28,984,000	$66,554,000	$47,474,000	$256,935,000
Watch \ Special Mention	2,825,000	44,902,000	2,599,000	12,124,000	2,564,000	65,014,000
Substandard	6,951,000	4,695,000	741,000	2,086,000	470,000	14,943,000
Substandard-Impaired	2,420,000	2,656,000	-	588,000	-	5,664,000
	$26,512,000	$151,860,000	$32,324,000	$81,352,000	$50,508,000	$342,556,000

2011

	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	$9,942,000	$94,820,000	$29,534,000	$65,502,000	$49,489,000	$249,287,000
Watch \ Special Mention	4,087,000	43,201,000	2,441,000	7,667,000	2,190,000	59,586,000
Substandard	7,439,000	6,776,000	528,000	2,199,000	500,000	17,442,000
Substandard-Impaired	2,163,000	2,703,000	-	590,000	-	5,456,000
	$23,631,000	$147,500,000	$32,503,000	$75,958,000	$52,179,000	$331,771,000

The credit risk profile based on payment activity, on a disaggregated basis, at March 31, 2012 and December 31, 2011 is as follows:

2012

	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	$ 89,254,000	$ 18,263,000	$ 107,517,000
Non-performing	2,213,000	-	2,213,000
	$ 91,467,000	$ 18,263,000	$ 109,730,000

2011

	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	$ 91,804,000	$ 20,713,000	$ 112,517,000
Non-performing	2,458,000	41,000	2,499,000
	$ 94,262,000	$ 20,754,000	$ 115,016,000

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9. Subsequent Events

Management evaluated subsequent events through the date the financial statements were issued. On April 27, 2012, Reliance State Bank, formerly known as Randall-Story State Bank purchased certain assets, including loans and assumed certain liabilities, including deposits from Liberty Bank, F.S.B. (“Liberty”). Reliance State Bank paid Liberty a deposit premium of $5,400,000 as of April 27, 2012. Financial information is not currently available, but is expected to be available as of June 30, 2012. There were no other significant events or transactions occurring after March 31, 2012, but prior to May 9, 2012, that provided additional evidence about conditions that existed at March 31, 2012. There were no significant events or transactions that provided evidence about conditions that did not exist at March 31, 2012.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Ames National Corporation (the “Company”) is a bank holding company established in 1975 that owns and operates five bank subsidiaries in central Iowa (the “Banks”). The following discussion is provided for the consolidated operations of the Company and its Banks, First National Bank, Ames, Iowa (First National), State Bank & Trust Co. (State Bank), Boone Bank & Trust Co. (Boone Bank), Reliance State Bank, formerly known as Randall-Story State Bank (Reliance Bank) and United Bank & Trust NA (United Bank). The purpose of this discussion is to focus on significant factors affecting the Company's financial condition and results of operations.

The Company does not engage in any material business activities apart from its ownership of the Banks. Products and services offered by the Banks are for commercial and consumer purposes including loans, deposits and trust services. The Banks also offer investment services through a third-party broker-dealer. The Company employs eleven individuals to assist with financial reporting, human resources, audit, compliance, marketing, technology systems and the coordination of management activities, in addition to 177 full-time equivalent individuals employed by the Banks.

The Company’s primary competitive strategy is to utilize seasoned and competent Bank management and local decision making authority to provide customers with faster response times and more flexibility in the products and services offered. This strategy is viewed as providing an opportunity to increase revenues through creating a competitive advantage over other financial institutions. The Company also strives to remain operationally efficient to provide better profitability while enabling the Company to offer more competitive loan and deposit rates.

The principal sources of Company revenues and cash flow are: (i) interest and fees earned on loans made by the Company and Banks; (ii) interest on fixed income investments held by the Company and Banks; (iii) fees on trust services provided by those Banks exercising trust powers; (iv) service charges on deposit accounts maintained at the Banks and (v) securities gains. The Company’s principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) provision for loan losses; (iii) salaries and employee benefits; (iv) data processing costs associated with maintaining the Banks’ loan and deposit functions; (v) occupancy expenses for maintaining the Banks’ facilities; and (vi) Federal Deposit Insurance Corporation (“FDIC”) insurance assessments. The largest component contributing to the Company’s net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest bearing liabilities (primarily deposits and other borrowings). One of management’s principal functions is to manage the spread between interest earned on earning assets and interest paid on interest bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

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The Company had net income of $3,543,000, or $0.38 per share, for the three months ended March 31, 2012, compared to net income of $3,473,000, or $0.37 per share, for the three months ended March 31, 2011. Total equity capital as of March 31, 2012 totaled $137.1 million or 12.5% of total assets.

Change in the quarterly earnings can be primarily attributed lower interest expense on deposits, lower FDIC insurance assessments and an increase in merchant and ATM fees, offset in part by an increase in salaries and employee benefits.

Net loan recoveries for the quarter totaled $10,000, compared to net loan recoveries of $6,000 in the first quarter of 2011. The provision for loan losses for the first quarter of 2012 totaled $51,000. There was no provision for loan losses for the first quarter of 2011.

The following management discussion and analysis will provide a review of important items relating to:

- Challenges
- Key Performance Indicators and Industry Results
- Critical Accounting Policies
- Income Statement Review
- Balance Sheet Review
- Asset Quality and Credit Risk Management
- Liquidity and Capital Resources
- Forward-Looking Statements and Business Risks

Challenges

Management has identified certain events or circumstances that may negatively impact the Company's financial condition and results of operations in the future and is attempting to position the Company to best respond to those challenges.

- Interest rates are likely to increase as the economy continues its gradual recovery and the increasing interest rate environment may present a challenge to the Company. Increases in interest rates may negatively impact the Company's net interest margin if interest expense increases more quickly than interest income. The Company's earning assets (primarily its loan and investment portfolio) have longer maturities than its interest bearing liabilities (primarily deposits and other borrowings); therefore, in a rising interest rate environment, interest expense may increase more quickly than interest income as the interest bearing liabilities reprice more quickly than earning assets. In response to this challenge, the Banks model quarterly the changes in income that would result from various changes in interest rates. Management believes Banks' earning assets have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.

- The Company's market in central Iowa has numerous banks, credit unions, and investment and insurance companies competing for similar business opportunities. This competitive environment will continue to compress the Banks' net interest margins and thus affect profitability. Strategic planning efforts at the Company and Banks continue to focus on capitalizing on the Banks' strengths in local markets while working to identify opportunities for improvement to gain competitive advantages.

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- Other real estate owned amounted to $9.6 million and $9.5 million as of March 31, 2012 and December 31, 2011, respectively. Other real estate owned costs amounted to $98,000 and $46,000 for the three months ended March 31, 2012 and 2011, respectively. Management obtains independent appraisals or performs evaluations to determine that these properties are carried at the lower of the new cost basis or fair value less cost to sell. It is at least reasonably possible that change in fair values will occur in the near term and that such changes could have a negative impact on the Company's earnings.

The Company operates in a highly regulated environment and is subject to extensive regulation, supervision and examination. The compliance burden and impact on the Company's operations and profitability is significant. On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and, among many other things, establishes the new federal Consumer Finance Protection Bureau ("CFPB"), requires the CFPB and other federal agencies are continuing to implement many new and significant rules and regulations. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact the Company's and the Banks' business. Compliance with the new law and regulations may result in additional costs, which could be significant, and could adversely impact the Company's results of operations, financial condition or liquidity. The Company cannot predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that any changes may have on future business and earnings prospects. The cost of compliance with regulatory requirements may adversely affect the Company's net income.

Key Performance Indicators and Industry Results

Certain key performance indicators for the Company and the industry are presented in the following chart. The industry figures are compiled by the FDIC and are derived from 7,357 commercial banks and savings institutions insured by the FDIC. Management reviews these indicators on a quarterly basis for purposes of comparing the Company's performance from quarter to quarter against the industry as a whole.

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Selected Indicators for the Company and the Industry

	Quarter Ended March 31,	Year Ended December 31,					
	2012	2011		2010		2009	
	Company	Company	Industry*	Company	Industry	Company	Industry
Return on assets	1.33 %	1.38 %	0.88 %	1.40 %	0.66 %	1.02 %	0.09 %
Return on equity	10.37 %	10.82 %	7.86 %	10.91 %	5.99 %	8.31 %	0.90 %
Net interest margin	3.41 %	3.60 %	3.60 %	3.74 %	3.76 %	3.78 %	3.47 %
Efficiency ratio	50.34 %	49.80 %	61.37 %	50.12 %	57.22 %	63.72 %	55.53 %
Capital ratio	12.79 %	12.75 %	9.09 %	12.80 %	8.90 %	12.32 %	8.65 %

*Latest available data

Key performances indicators include:

- Return on Assets

This ratio is calculated by dividing net income by average assets. It is used to measure how effectively the assets of the Company are being utilized in generating income. The Company's annualized return on average assets was 1.33% and 1.40%, respectively, for the three month periods ending March 31, 2012 and 2011. The decrease in this ratio in 2012 from the previous period is primarily the result of an increase in average assets.

- Return on Equity

This ratio is calculated by dividing net income by average equity. It is used to measure the net income or return the Company generated for the shareholders' equity investment in the Company. The Company's return on average equity was 10.37% and 11.31%, respectively for the three month periods ending March 31, 2012 and 2011. The decrease in this ratio in 2012 from the previous period is primarily the result of higher average equity.

- Net Interest Margin

The net interest margin for the three months ended March 31, 2012 and 2011 was 3.41% and 3.53%, respectively. The ratio is calculated by dividing net interest income by average earning assets. Earning assets are primarily made up of loans and investments that earn interest. This ratio is used to measure how well the Company is able to maintain interest rates on earning assets above those of interest-bearing liabilities, which is the interest expense paid on deposits and other borrowings. The decrease in this ratio in 2012 is primarily the result of lower market yields on interest earning assets.

- Efficiency Ratio

This ratio is calculated by dividing noninterest expense by net interest income and noninterest income. The ratio is a measure of the Company's ability to manage noninterest expenses. The Company's efficiency ratio was 50.34% and

49.70% for the three months ended March 31, 2012 and 2011, respectively. The change in the efficiency ratio in 2012 from the previous period is primarily the result of increased noninterest expense, offset in part by higher net interest income.

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- Capital Ratio

The average capital ratio is calculated by dividing average total equity capital by average total assets. It measures the level of average assets that are funded by shareholders' equity. Given an equal level of risk in the financial condition of two companies, the higher the capital ratio, generally the more financially sound the company. The Company's capital ratio is significantly higher than the industry average.

Industry Results

The FDIC Quarterly Banking Profile reported the following results for the fourth quarter of 2011:

Quarterly Net Income Posts Tenth Consecutive Year-Over-Year Gain

Lower provisions for loan losses, reflecting an improving trend in asset quality, lifted fourth-quarter net income of FDIC-insured commercial banks and savings institutions. Fourth-quarter earnings totaled $26.3 billion, an increase of $4.9 billion (23.1%) compared with the same period of 2010. The year-over-year improvement in profits comprised a majority of insured institutions. Almost two out of every three banks (63.2%) reported higher quarterly net income than a year ago, and only 18.9% were unprofitable, compared with 27.1% in fourth quarter 2010. The average return on assets (ROA) rose to 0.76%, from 0.64% a year earlier.

Earnings Benefit Further from Lower Provisions for Loan Losses

Insured institutions set aside $19.5 billion in provisions for loan losses in the fourth quarter, a decline of $13.1 billion (40.1%) from fourth quarter 2010. Provisions represented 12.1% of the industry's net operating revenue (the sum of net interest income and total noninterest income), down from 19.7% a year ago, and well below the 51.7% peak level in this cycle registered in fourth quarter 2008. Loss provisions have fallen, year over year, for nine consecutive quarters. The trend of reduced provisioning was relatively broad: more than half of all institutions (54.6%) reported lower quarterly provisions than a year ago.

Overall Revenues Continue to Exhibit Weakness

For the third time in the last four quarters, net operating revenue posted a year-over-year decline. The $3.8 billion (2.3%) drop was caused by a $4.4 billion (7.4%) reduction in noninterest income. Gains on loan sales were $1.9 billion (53%) below the level of a year ago, servicing income was $1.4 billion (29.9%) lower, and trading income fell by $812 million (23.5%). Increases in the market values of some large bank liabilities produced accounting losses in the fourth quarter that reversed some of the related gains in noninterest income that occurred in third quarter 2011. Net interest income increased year over year for the first time in four quarters, rising by $609 million (0.6%).

Full-Year Net Income Rises to Five-Year High

For all of 2011, net income totaled $119.5 billion, an increase of $34 billion (39.8%) from full-year 2010 earnings. This is the highest annual net income total since the industry earned $145.2 billion in 2006. More than two out of every three banks (66.9%) reported improved earnings in 2011, and only 15.5% reported a net loss for the year. In 2010, 22.1% of all banks reported full-year net losses. The average ROA was 0.88%, up from 0.65% in 2010. The improvement in full-year net income was made possible by an $81.1 billion reduction in loan loss provisions.

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Full-Year Operating Revenues Are Lower than in 2010

Both net interest income and noninterest income were lower than in 2010, as full-year net operating revenue declined for only the second time since 1938 (the only other decline occurred in 2008). Net interest income posted its first full-year decline since 1971, falling by $7.5 billion (1.7%). The average net interest margin in 2011 was 3.6%, down from 3.76% in 2010. Interest-bearing assets increased by 4.4% in 2011, but more than a third of this growth (35.7%) consisted of low-yielding balances with Federal Reserve Banks. Total noninterest income fell for a second consecutive year and the fourth time in the last five years, declining by $5.3 billion (2.3%). Income from trust operations and trading income were higher than in 2010 (by $1.6 billion and $2.2 billion, respectively), but these improvements were outweighed by lower servicing income (down $8 billion), reduced gains on loan sales (down $4.8 billion), and lower income from service charges on deposit accounts, which fell by $2.1 billion (5.9%). Realized gains on securities and other assets were $3.6 billion (39.5%) lower than in 2010. Insured institutions paid $77.9 billion in dividends during 2011, an increase of $24 billion (44.5%) from 2010, but below the record level of $110.3 billion paid out in 2007.

Loan Losses Fall to Lowest Level in 15 Quarters

Net charge-offs totaled $25.4 billion in the fourth quarter, a decline of $17.1 billion (40.2%) from a year ago. The fourth-quarter total represents the lowest level for quarterly charge-offs since first quarter 2008. This is the sixth consecutive quarter in which charge-offs have posted a year-over-year decline. Improvements occurred across all major loan types. The largest declines were in credit cards (down $5.4 billion, or 42.2%), real estate construction and land development loans (down $3.3 billion, or 62.4%), residential mortgage loans (down $2.4 billion, or 31.8%) and loans to commercial and industrial (C&I) borrowers (down $2 billion, or 43.5%).

Noncurrent Loan Balances Decline in Most Major Loan Categories

The amount of loan balances that were noncurrent (90 days or more past due or in nonaccrual status) declined for the seventh quarter in a row, falling by $4.3 billion (1.4%). The decline was led by real estate construction and land development loans, where noncurrent balances fell by $4.9 billion (13.2%), C&I loans, where noncurrents declined by $1.8 billion (9.5%), and nonfarm nonresidential real estate loans, where noncurrent balances fell by $1.6 billion (4%). The only significant increase in noncurrent loans occurred in residential mortgage portfolios, where noncurrent balances rose by $5.2 billion (3.1%). This increase reflected the addition of $6.3 billion in rebooked “GNMA loans” that were 90 days or more past due.

Reductions in Reserves Continue to Track Declines in Noncurrent Loans

Loan-loss reserves fell for a seventh consecutive quarter, declining by $6.3 billion (3.2%), as net charge-offs of $25.4 billion exceeded loss provisions of $19.5 billion. As has been the case throughout the recent period of reserve reductions, most of the declines have been concentrated among large institutions. Half of all banks increased their reserves during the fourth quarter, whereas 70% of the 50 largest banks reduced their reserves. The industry’s “coverage ratio” of reserves to noncurrent loans and leases declined slightly, from 63.7% to 62.5% during the quarter.

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Equity Capital Registers a Small Decline

Lower unrealized gains on available-for-sale securities and other financial instruments contributed to a $7.7 billion (0.5%) decline in the industry's total equity capital during the fourth quarter. Unrealized gains are not included in regulatory capital, and tier 1 leverage capital increased by $2.4 billion (0.2%). This is the smallest quarterly increase in leverage capital in the past 13 quarters. Retained earnings contributed $3.7 billion to capital growth in the quarter, as banks paid $22.6 billion of their $26.3 billion in quarterly earnings in dividends.

Loan Balances Post Largest Real Growth in Four Years

Total assets of insured institutions increased by $76.1 billion (0.6%) in the fourth quarter, as loan balances rose by $130.1 billion (1.8%). This is the third consecutive quarter in which total loan balances have increased and, apart from first quarter 2010 when accounting rule changes caused a $221 billion increase in reported balances, it represents the largest quarterly increase since fourth quarter 2007. As in the prior two quarters, overall loan growth was led by C&I loans, which rose by $62.8 billion (4.9%), accounting for almost half of the total increase in loans and leases during the quarter. C&I loans have increased in each of the last six quarters. Additionally, C&I loans to small businesses (C&I loans in original amounts of $1 million or less) increased by $2.8 billion (1%). This is the first time in the seven quarters for which data on quarterly changes in these loans are available that small C&I loan balances have increased. Residential mortgage loans increased by $26 billion (1.4%), following a $23.6 billion increase in the third quarter. Credit card balances posted a seasonal increase of $21.3 billion (3.2%). Real estate construction and development loans declined for a 15th consecutive quarter, falling by $14.7 billion (5.8%). Investment securities portfolios increased by $61.6 billion (2.2%), with mortgage-backed securities rising by $45.0 billion (2.8%), and state, county, and municipal securities increasing by $13.3 billion (6.5%). Assets in trading accounts declined by $36 billion (4.8%), while interest-bearing balances due from depository institutions fell by $34.9 billion (3.3%).

Money Continues to Flow into Fully Insured Deposit Accounts

Deposit balances registered strong growth for a sixth consecutive quarter, as large-denomination transaction accounts that offer unlimited insurance coverage through the end of 2012 continue to attract new depositors. Total deposits at insured institutions increased by $183.2 billion (1.8%). Over the last six quarters, deposits at FDIC-insured institutions have risen by more than $1 trillion. Most of the growth has consisted of large-denomination noninterest-bearing transaction deposits that are fully insured until the end of 2012. Balances in these accounts increased by $191.2 billion (13.7%) during the fourth quarter, and totaled $1.58 trillion at the end of the year. In contrast, nondeposit liabilities declined by $99.5 billion (4.5%), while deposits in foreign offices fell by $66.6 billion (4.5%).

"Problem List" Shrinks for Third Consecutive Quarter

The number of institutions reporting financial results fell from 7,437 to 7,357 in the fourth quarter. During the quarter, 54 institutions were merged into other institutions, and 18 insured institutions failed. There were two institutions whose December financial reports had not been received at the time this publication was prepared. The number of institutions on the FDIC's "Problem List" declined from 844 to 813 during the quarter, and total assets of "problem" institutions fell from $339 billion to $319.4 billion. For the full year, the number of reporting institutions declined by 314, as 3 new reporters were added, 92 institutions failed, and 198 were absorbed by mergers. During 2011, the number of full-time-equivalent employees at insured institutions increased from 2,088,579 to 2,107,976.

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Critical Accounting Policies

The discussion contained in this Item 2 and other disclosures included within this report are based, in part, on the Company's audited consolidated financial statements. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained in these statements is, for the most part, based on the financial effects of transactions and events that have already occurred. However, the preparation of these statements requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

The Company's significant accounting policies are described in the "Notes to Consolidated Financial Statements" contained in the Company's Annual Report. Based on its consideration of accounting policies that involve the most complex and subjective estimates and judgments, management has identified its most critical accounting policies to be those related to the allowance for loan losses, valuation of other real estate owned and the assessment of other-than-temporary impairment of certain securities available-for-sale.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses that is treated as an expense and charged against earnings. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans and other factors. Qualitative factors include the general economic environment in the Company's market area. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or lesser than future charge-offs. Due to potential changes in conditions, it is at least reasonably possible that change in estimates will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

Other Real Estate Owned

Real estate properties acquired through or in lieu of foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Independent appraisals or evaluations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost basis or fair value less cost to sell. These appraisals or evaluations are inherently subjective and require estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in the Company's financial statements.

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Other-Than-Temporary Impairment of Available-for-Sale Securities

Declines in the fair value of securities available-for-sale below their cost that are deemed to be other-than-temporary are generally reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers: (1) the intent to sell the investment securities and the more likely than not requirement that the Company will be required to sell the investment securities prior to recovery; (2) the length of time and the extent to which the fair value has been less than cost; and (3) the financial condition and near-term prospects of the issuer. Due to potential changes in conditions, it is at least reasonably possible that change in management's assessment of other-than-temporary impairment will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

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Income Statement Review for the Three Months ended March 31, 2012

The following highlights a comparative discussion of the major components of net income and their impact for the three month periods ended March 31, 2012 and 2011:

AVERAGE BALANCES AND INTEREST RATES

The following two tables are used to calculate the Company's net interest margin. The first table includes the Company's average assets and the related income to determine the average yield on earning assets. The second table includes the average liabilities and related expense to determine the average rate paid on interest bearing liabilities. The net interest margin is equal to the interest income less the interest expense divided by average earning assets.

AVERAGE BALANCE SHEETS AND INTEREST RATES

	Three Months ended March 31,					
	2012			2011		
ASSETS (dollars in thousands)	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
Interest-earning assets						
Loans 1						
Commercial	$78,983	$973	4.93 %	$78,458	$1,003	5.11 %
Agricultural	48,196	657	5.45 %	41,509	574	5.53 %
Real estate	303,330	3,918	5.17 %	280,676	3,883	5.53 %
Consumer and other	19,713	262	5.32 %	21,809	280	5.14 %
Total loans (including fees)	450,222	5,810	5.16 %	422,452	5,740	5.44 %
Investment securities						
Taxable	268,106	1,625	2.42 %	261,582	1,662	2.54 %
Tax-exempt 2	233,346	2,539	4.35 %	217,675	2,517	4.63 %
Total investment securities	501,452	4,164	3.32 %	479,257	4,179	3.49 %
Interest bearing deposits with banks and federal funds sold	58,398	125	0.86 %	35,451	108	1.22 %
Total interest-earning assets	1,010,072	$10,099	4.00 %	937,160	$10,027	4.28 %
Noninterest-earning assets	58,730			51,677		
TOTAL ASSETS	$1,068,802			$988,837		

1 Average loan balance includes nonaccrual loans, if any. Interest income collected on nonaccrual loans has been included.

2 Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental tax rate of 35%.

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AVERAGE BALANCE SHEETS AND INTEREST RATES

	Three Months ended March 31,					
	2012			2011		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
LIABILITIES AND STOCKHOLDERS' EQUITY (dollars in thousands)						
Interest-bearing liabilities						
Deposits						
NOW, savings accounts and money markets	$469,684	$271	0.23 %	$420,696	$327	0.31 %
Time deposits > $100,000	107,880	366	1.36 %	99,138	412	1.66 %
Time deposits < $100,000	137,262	533	1.55 %	142,050	632	1.78 %
Total deposits	714,826	1,170	0.65 %	661,884	1,371	0.83 %
Other borrowed funds	75,506	329	1.75 %	96,038	379	1.58 %
Total Interest-bearing liabilities	790,332	1,499	0.76 %	757,922	1,750	0.92 %
Noninterest-bearing liabilities						
Demand deposits	134,985			102,884		
Other liabilities	6,824			5,179		
Stockholders' equity	136,661			122,852		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,068,802			$988,837		
Net interest income		$8,600	3.41 %		$8,277	3.53 %
Spread Analysis						
Interest income/average assets	$10,099	3.78 %		$10,027	4.06 %	
Interest expense/average assets	$1,499	0.56 %		$1,750	0.71 %	
Net interest income/average assets	$8,600	3.22 %		$8,277	3.35 %	

Net Interest Income

For the three months ended March 31, 2012 and 2011, the Company's net interest margin adjusted for tax exempt income was 3.41% and 3.53%, respectively. Net interest income, prior to the adjustment for tax-exempt income, for the three months ended March 31, 2012 totaled $7,713,000 compared to $7,398,000 for the three months ended March 31, 2011.

For the three months ended March 31, 2012, interest income increased $64,000 or 0.7% when compared to the same period in 2011. The increase from 2011 was primarily attributable to higher average balance of investment securities

and loans, offset in part by lower average yields on loans and investment securities.

Interest expense decreased $251,000 or 14.3% for the three months ended March 31, 2012 when compared to the same period in 2011. The lower interest expense for the period is primarily attributable to lower average rates paid on deposits, offset in part by a higher average balance on deposits.

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Provision for Loan Losses

The Company's provision for loan losses for the three months ended March 31, 2012 was $51,000. The Company did not have a provision for loan losses for the three months ended March 31, 2011. Net loan recoveries of $10,000 were realized in the three months ended March 31, 2012 and compare to net loan recoveries of $6,000 for the three months ended March 31, 2011.

Non-interest Income and Expense

Non-interest income increased $83,000 or 4.6% for the three months ended March 31, 2012 compared to the same period in 2011. The increase in non-interest income is primarily due to merchant and ATM fees and gain on the loans held for sale, offset in part by a decrease in security gains. Excluding net security gains for the three months ending March 31, 2012 and 2011, non-interest income increased $197,000, or 14.1%.

Non-interest expense increased $259,000 or 5.7% for the three months ended March 31, 2012 compared to the same period in 2011 primarily as a result of higher costs of salaries and employee benefits and data processing costs, offset in part by a decrease in FDIC insurance assessments. The higher salaries and employee benefit costs are primarily due to normal salary increases and higher incentive pay. The higher 2012 data processing costs are due primarily to increased costs associated with equipment upgrades, Internet and mobile banking costs. The lower FDIC insurance assessments are due primarily to lower assessment rates.

Income Taxes

The provision for income taxes expense for the three months ended March 31, 2012 and 2011 was $1,180,000 and $1,163,000, representing an effective tax rate of 25% and 25%, respectively. The increase in income tax expense was due primarily to higher pretax earnings in 2012.

Balance Sheet Review

As of March 31, 2012, total assets were $1,094,656,000, a $59,093,000 increase compared to December 31, 2011. The increase in interest bearing deposits in financial institutions, securities available-for-sale and loans were funded primarily by an increase in deposits.

Investment Portfolio

The investment portfolio totaled $525,764,000 as of March 31, 2012, an increase of $17,139,000 or 3.4% from the December 31, 2011 balance of $508,625,000. The increase in the investment portfolio was primarily due to an increase in U.S. government mortgage-backed securities and state and political subdivisions bonds, offset in part by a decrease in U.S. government agency securities.

On a quarterly basis, the investment portfolio is reviewed for other-than-temporary impairment. As of March 31, 2012, gross unrealized losses of $944,000, are considered to be temporary in nature due to the general economic conditions and other factors. As a result of the Company's favorable liquidity position, the Company does not have the intent to sell impaired securities and management believes it is more likely than not that the Company will hold these securities until recovery of their cost basis to avoid considering an impairment to be other-than-temporary.

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Loan Portfolio

The loan portfolio, net of the allowance for loan losses, totaled $444,257,000 as of March 31, 2012, an increase of $5,606,000 or 1.3% from the December 31, 2011 balance of $438,651,000. The increase in the loan portfolio is primarily due to increases in the commercial and commercial real estate loan portfolios.

Deposits

Deposits totaled $879,732,000 as of March 31, 2012, an increase of $61,026,000 or 7.5% from the December 31, 2011 balance of $818,705,000. The increase in deposits occurred in demand, NOW, savings, money market and time deposit accounts $100,000 and over and the increases occurred in public, commercial and retail types of deposit accounts.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase totaled $36,085,000 as of March 31, 2012, a decrease of $5,612,000 or 13.5% from the December 31, 2011 balance of $41,697,000.

FHLB Advances and Other Long-Term Borrowings

FHLB advances and other long-term borrowings totaled $34,662,000 and $35,179,000 as of March 31, 2012 and December 31, 2011, respectively. During the three months ended March 31, 2012, the decrease in FHLB advances and other borrowings are due to payments on FHLB advances amounting to $517,000.

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. No material changes in the Company’s off-balance sheet arrangements have occurred since December 31, 2011.

Asset Quality Review and Credit Risk Management

The Company’s credit risk is historically centered in the loan portfolio, which on March 31, 2012 totaled $444,257,000 compared to $438,651,000 as of December 31, 2011. Net loans comprise 40.6% of total assets as of March 31, 2012. The object in managing loan portfolio risk is to reduce the risk of loss resulting from a customer’s failure to perform according to the terms of a transaction and to quantify and manage credit risk on a portfolio basis. The Company’s level of problem loans (consisting of non-accrual loans and loans past due 90 days or more) as a percentage of total loans was 1.74% at March 31, 2012, as compared to 1.70% at December 31, 2011 and 1.42% at March 31, 2011. The Company’s level of problem loans as a percentage of total loans at March 31, 2012 of 1.74% is lower than the Company’s peer group (303 bank holding companies with assets of $1 billion to $3 billion) of 2.95% as of December 31, 2011.

Impaired loans, net of specific reserves, totaled $7,023,000 as of March 31, 2012 and were relatively unchanged as compared to impaired loans of $6,927,000 as of December 31, 2011 and higher than impaired loans of $5,553,000 as of March 31, 2011. The increase in impaired loans from March 31, 2011 is due primarily to deterioration in cash flows on two borrowers with commercial real estate properties.

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A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Company applies its normal loan review procedures to identify loans that should be evaluated for impairment.

We monitor and report our troubled debt restructuring on a quarterly basis. Certain troubled debt restructurings are on nonaccrual status at the time of restructuring. These borrowings are typically returned to accrual status after sustained repayment performance in accordance with the restructuring agreement for a reasonable period of at least six months and management is reasonably assured of future performance. If the troubled debt restructuring meets these performance criteria and the interest rate granted at the modification is equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, then the loan will return to performing status.

For troubled debt restructurings that were on nonaccrual status before the modification, a specific reserve may already be recorded. In periods subsequent to modification, the Company will continue to evaluate all troubled debt restructurings for possible impairment and, as necessary recognizes impairment through the allowance. The Company had no charge-offs related to modifying troubled debt restructurings for the three months ended March 31, 2012.

The Company had troubled debt restructurings of $3,483,000 as of March 31, 2012, of which $2,796,000 was included in impaired loans and $687,000 was on accrual status. The Company had troubled debt restructurings of $3,602,000 as of December 31, 2011, of which $2,545,000 was included in impaired loans and $1,057,000 was on accrual status.

We review 90 days past due loans that are still accruing interest no less frequently than quarterly to determine if there is a strong reason that the credit should not be placed on non-accrual. As of March 31, 2012, non-accrual loans totaled $7,860,000; loans past due 90 days and still accruing totaled $5,000. This compares to non-accrual loans of $7,915,000 and loans past due 90 days and still accruing of $152,000 on December 31, 2011. Other real estate owned totaled $9,553,000 as of March 31, 2012 and $9,538,000 as of December 31, 2011.

The allowance for loan losses as a percentage of outstanding loans as of March 31, 2012 and December 31, 2011 was 1.76% and 1.77%, respectively. The allowance for loan losses totaled $7,966,000 and $7,905,000 as of March 31, 2012 and December 31, 2011, respectively. Net recoveries of loans for the three months ended March 31, 2012 totaled $10,000, compared to net recoveries of loans of $6,000 for the three months ended March 31, 2011.

The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Factors considered in establishing an appropriate allowance include: an assessment of the financial condition of the borrower, a realistic determination of value and adequacy of underlying collateral, the condition of the local economy and the condition of the specific industry of the borrower, an analysis of the levels and trends of loan categories and a review of delinquent and classified loans.

Liquidity and Capital Resources

Liquidity management is the process by which the Company, through its Banks' Asset and Liability Committees (ALCO), ensures that adequate liquid funds are available to meet its financial commitments on a timely basis, at a reasonable cost and within acceptable risk tolerances. These commitments include funding credit obligations to borrowers, funding of mortgage originations pending delivery to the secondary market, withdrawals by depositors, maintaining adequate collateral for pledging for public funds, trust deposits and borrowings, paying dividends to shareholders, payment of operating expenses, funding capital expenditures and maintaining deposit reserve

requirements.

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Liquidity is derived primarily from core deposit growth and retention; principal and interest payments on loans; principal and interest payments, sale, maturity and prepayment of investment securities; net cash provided from operations; and access to other funding sources. Other funding sources include federal funds purchased lines, FHLB advances and other capital market sources.

As of March 31, 2012, the level of liquidity and capital resources of the Company remain at a satisfactory level. Management believes that the Company's liquidity sources will be sufficient to support its existing operations for the foreseeable future.

The liquidity and capital resources discussion will cover the following topics:

- Review of the Company’s Current Liquidity Sources
- Review of Statements of Cash Flows
- Company Only Cash Flows
- Review of Commitments for Capital Expenditures, Cash Flow Uncertainties and Known Trends in Liquidity and Cash Flows Needs
- Capital Resources

Review of the Company’s Current Liquidity Sources

Liquid assets of cash and due from banks and interest-bearing deposits in financial institutions as of March 31, 2012 and December 31, 2011 totaled $92,934,000 and $56,571,000, respectively, and provide a level of liquidity.

Other sources of liquidity available to the Banks as of March 31, 2012 include outstanding lines of credit with the Federal Home Loan Bank of Des Moines, Iowa of $79,238,000, with $14,662,000 of outstanding FHLB advances at March 31, 2012. Federal funds borrowing capacity at correspondent banks was $102,402,000, with no outstanding federal fund balances as of March 31, 2012. The Company had securities sold under agreements to repurchase totaling $36,085,000 and long-term repurchase agreements of $20,000,000 as of March 31, 2012.

Total investments as of March 31, 2012 were $525,764,000 compared to $508,625,000 as of December 31, 2011. These investments provide the Company with a significant amount of liquidity since all of the investments are classified as available-for-sale as of March 31, 2012.

The investment portfolio serves an important role in the overall context of balance sheet management in terms of balancing capital utilization and liquidity. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment, liquidity and credit considerations. The portfolio’s scheduled maturities represent a significant source of liquidity.

Review of Statements of Cash Flows

Net cash provided by operating activities for the three months ended March 31, 2012 totaled $6,246,000 compared to the $5,266,000 provided by the three months ended March 31, 2011. The increase of $980,000 in net cash provided by operating activities was primarily related to changes in accrued interest receivable, other assets and amortization, offset in part by the change in loans held for sale.

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Net cash used in investing activities for the three months ended March 31, 2012 was $61,467,000 and compares to $37,180,000 for the three months ended March 31, 2011. The increase of $24,287,000 in net cash used in investing activities was primarily due to changes in interest bearing cash in financial institutions and loans, offset in part by changes in securities available-for-sale.

Net cash provided by financing activities for the three months ended March 31, 2012 totaled $53,687,000 compares to net cash used in financing activities of $35,016,000 for the three months ended March 31, 2011. The increase of $18,671,000 in net cash provided by financing activities was primarily due to changes in deposits, offset in part by changes in securities sold under agreements to repurchase and federal funds purchased. As of March 31, 2012, the Company did not have any external debt financing, off-balance sheet financing arrangements, or derivative instruments linked to its stock.

Company Only Cash Flows

The Company's liquidity on an unconsolidated basis is heavily dependent upon dividends paid to the Company by the Banks. The Company requires adequate liquidity to pay its expenses and pay stockholder dividends. For the three months ended March 31, 2012, dividends paid by the Banks to the Company amounted to $1,532,000 compared to $1,321,000 for the same period in 2011. Various federal and state statutory provisions limit the amounts of dividends banking subsidiaries are permitted to pay to their holding companies without regulatory approval. Federal Reserve policy further limits the circumstances under which bank holding companies may declare dividends. For example, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. In addition, the Federal Reserve and the FDIC have issued policy statements, which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings. Federal and state banking regulators may also restrict the payment of dividends by order. The quarterly dividend declared by the Company increased to $0.15 per share in 2012 from $0.13 per share in 2011.

The Company, on an unconsolidated basis, has interest bearing deposits and marketable investment securities totaling $14,053,000 as of March 31, 2012 that are presently available to provide additional liquidity to the Banks. Subsequent to the end of the quarter, the Company made a capital contribution to Reliance State Bank of $13,400,000 in conjunction with acquisition of the Liberty branches in Klemme and Garner, Iowa . As of April 27, 2011, the Company has sufficient liquidity for its current cash flow needs.

Review of Commitments for Capital Expenditures, Cash Flow Uncertainties and Known Trends in Liquidity and Cash Flows Needs

Effective February 16, 2012, Reliance State Bank entered into a purchase and assumption agreement with Liberty to purchase certain assets, including loans, and assume certain liabilities, including deposit accounts, of branch banking offices of Liberty in Garner, Iowa and Klemme, Iowa. This transaction closed on April 27, 2012. These branches will be operated as branch offices as offices of Reliance State Bank. At closing, on April 27, 2012, Reliance State Bank paid Liberty a deposit premium of $5,400,000.

No other material capital expenditures or material changes in the capital resource mix are anticipated at this time. The primary cash flow uncertainty would be a sudden decline in deposits causing the Banks to liquidate securities. Historically, the Banks have maintained an adequate level of short-term marketable investments to fund the temporary declines in deposit balances. There are no known trends in liquidity and cash flow needs as of March 31, 2012 that are of concern to management.

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Capital Resources

The Company’s total stockholders’ equity as of March 31, 2012 totaled $137,114,000 and was higher than the $134,557,000 recorded as of December 31, 2011. At March 31, 2012 and December 31, 2011, stockholders’ equity as a percentage of total assets was 12.53% and 12.99%, respectively. The capital levels of the Company exceed applicable regulatory guidelines as of March 31, 2012.

Forward-Looking Statements and Business Risks

The Private Securities Litigation Reform Act of 1995 provides the Company with the opportunity to make cautionary statements regarding forward-looking statements contained in this Quarterly Report, including forward-looking statements concerning the Company’s future financial performance and asset quality. Any forward-looking statement contained in this Quarterly Report is based on management’s current beliefs, assumptions and expectations of the Company’s future performance, taking into account all information currently available to management. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to management. If a change occurs, the Company’s business, financial condition, liquidity, results of operations, asset quality, plans and objectives may vary materially from those expressed in the forward-looking statements. The risks and uncertainties that may affect the actual results of the Company include, but are not limited to, the following: economic conditions, particularly in the concentrated geographic area in which the Company and its affiliate banks operate; competitive products and pricing available in the marketplace; changes in credit and other risks posed by the Company’s loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; fiscal and monetary policies of the U.S. government; changes in governmental regulations affecting financial institutions (including regulatory fees and capital requirements); changes in prevailing interest rates; credit risk management and asset/liability management; the financial and securities markets; the availability of and cost associated with sources of liquidity; and other risks and uncertainties inherent in the Company’s business, including those discussed under the headings “Risk Factors” and “Forward-Looking Statements and Business Risks” in the Company’s Annual Report. Management intends to identify forward-looking statements when using words such as “believe”, “expect”, “intend”, “anticipate”, “estimate”, “should” or similar expressions. Undue reliance should not be placed on these forward-looking statements. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk is comprised primarily of interest rate risk arising from its core banking activities of lending and deposit taking. Interest rate risk results from the changes in market interest rates which may adversely affect the Company's net interest income. Management continually develops and applies strategies to mitigate this risk. Management does not believe that the Company's primary market risk exposure and how it has been managed year-to-date in 2012 changed significantly when compared to 2011.

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Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Based on that evaluation, the Company’s management, including the Principal Executive Officer and Principal Financial Officer, concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms.

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable

Item 1.A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In November, 2011, the Company approved a Stock Repurchase Plan which provided for the repurchase of up to 100,000 shares of the Company’s common stock. As of March 31, 2012, there were 56,220 shares remaining to be purchased under the plan.

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The following table provides information with respect to purchase made by or on behalf of the Company or any "affiliated purchases" (as defined in rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company's common stock during the three months ended March 31, 2012.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under The Plan
January 1, 2012 to January 31, 2012	-	$-	-	56,220
February 1, 2012 to February 29, 2012	-	$-	-	56,220
March 1, 2012 to March 31, 2012	-	$-	-	56,220
Total	-		-	

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other information

Not applicable

Item 6. Exhibits

31.1 Certification of Principal Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2 Certification of Principal Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS XBRL Instance Document (1)
101.SCH XBRL Taxonomy Extension Schema Document (1)
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.LAB XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (1)
101.DEF XBRL Taxonomy Extension Definition Linkbase Document (1)

(1) These interactive date files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act o f1933, as amended, or Section 18 of the Securities Exchange Act o f1934, as amended, or otherwise subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMES NATIONAL CORPORATION

DATE: May 9, 2012

By: /s/ Thomas H. Pohlman

Thomas H. Pohlman, President
(Principal Executive Officer)

By: /s/ John P. Nelson

John P. Nelson, Vice President
(Principal Financial Officer)

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EXHIBIT INDEX

The following exhibits are filed herewith:

Exhibit No.	Description
31.1	-Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	-Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
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