2011 ANNUAL REPORT
AMERIBANCSHARES, INC.

Strength
In Numbers

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It is said that there is strength in numbers and we agree. In 1976 we opened our doors with 6 employees. Since then, American National Bank has grown to 154 employees with $450 million in assets in 6 locations serving the communities of Wichita Falls, Iowa Park, Archer City and Flower Mound.

But, while numbers may look great on paper, our true strength is in our employees. Helpful people ready with a smile and a genuine interest in our customers and the communities we serve.

Dwight L. Berry
President and CEO

As was true for the past three years, 2011 proved to be challenging in the world of banking. Increased regulations, negligible returns on investments, shrinking loan demand and the task of reducing troubled assets during anemic economic conditions, has provided unlimited opportunities for banks to prove their adeptness to operate in a profitable manner. I am pleased to announce that American National Bank was able to take on these challenges resulting in another profitable year.

American National Bank experienced a profit of $3.09 million for the year ended December 31, 2011. This accomplishment has driven stockholder's equity to $39.2 million, which represents a 10.8% increase for 2011. Return on assets was .68 and return on equity 8.28%. Both of these bench mark ratios are very respectable considering the banking climate that we operate today. Capital ratios are very strong and certainly exceed mandated levels. Management curbed expenses, where possible, while strategically planning methods to increase income and earnings per share.

The majority of banks in our region experienced a suppressed loan demand in 2011 and American National Bank was no exception. However, as loan demand weakened, demand deposit levels were at a high as customers opted to stay highly liquid while waiting for market volatility to subside and a more secure investment arena to present itself.

With this decreased loan demand, alternative investment options were employed, at reduced rates as compared to normal lending levels. With a reduction in interest income, management has taken an inexorable path of finding means of reducing expenses in as many categories as possible. Concerted efforts continue to reduce classified assets to nominal levels and liquidate real estate assets which have been foreclosed. We are proud of our long history of minimal losses while being heavily concentrated in commercial real estate. It is also noteworthy that loan loss reserves far exceed needed levels to offset experienced losses or those anticipated in the future.

As was true for the past three years, 2011 proved to be challenging in the world of banking. I am pleased to announce that American National Bank was able to take on these challenges resulting in another profitable year.

Profitability from ancillary departments continues to enhance earnings. In addition to normal banking operations our Mortgage Loan Department, Trust Department, Leasing Company and Title Company are a vital part of our business and provide significant income support for the bank. We are indeed unique as our diversity in operations allows us to rise to the level of the major banks in our product offerings.

The Board and Senior Management completed their yearly Strategic Planning meeting in December 2011, resulting in a newly adopted plan that will set the stage for our future growth. Expanding the banks presence in the north Dallas area in 2012 is a primary goal. This will be achieved by increasing our mortgage lending staff, trust personnel and commercial C&I lending function in our Flower Mound branch. Other primary objectives are to remain on the cutting edge of technology offering complete internet banking services, mobile banking and remote capture while maintaining a responsive, highly trained customer service area to support these products in the communities we serve.

Primary objectives are to remain on the cutting edge of technology while maintaining a responsive, highly trained customer service area to support our products in the communities we serve.

Our Board of Directors also had significant changes in 2011. On September 2, our community and bank mourned the loss of one of our most beloved Directors with the passing of Frank Gibson. Frank was a founding Director and provided countless hours of direction and support for the bank. He offered his keen mind to mentor as he participated in the orchestration of the direction that the bank has taken since its existence. His jovial demeanor yet pragmatic approach provided a fun and very enriching learning experience for all of us that had the opportunity to work with him. He will be fondly remembered and dearly missed.

Changes in our Board were significant in 2011 with the passing of Director Frank Gibson (left) and the retirement of John B. "Bo" Stahler, President and CEO (below)

John B. "Bo" Stahler, an original employee of the bank, serving as President and CEO for over thirty years, also retired in 2011. Bo was instrumental in directing the bank to the current level as the largest independent bank in our area. The bank prospered greatly under his leadership and we all wish him well in his retirement.

Long-standing Director Bill Rowland retires after 23 years

Another long-standing Director, Bill Rowland, is choosing to retire at this time. For 23 years, Bill has worked diligently using his experience and contacts to solicit business for the bank. He has been a true ambassador for the bank and we have benefited substantially as a result of his efforts.

After Bo's retirement, I assumed the duties of President while John Kable was promoted to Executive Vice President. For 22 years, John has served us well as a senior commercial lender and his expertise and leadership skills are extraordinary. I would like to take this opportunity to thank the Board of Directors and you as a stockholder for allowing me to serve in this capacity. I welcome the challenge to perform my new duties in a manner so that American National bank remains a safe and profitable investment for you.

Executive Vice President John Kable and Dwight Berry, President & CEO

Looking forward to 2012, our budget numbers are strong with an anticipated increase in profit of 8%. It is doubtful that interest rates will rise in the near future, but if they do, profits will increase substantially. Governmental compliance continues to be a task that is both time consuming and extremely expensive. Management is working diligently to ensure that proper policies and procedures are in place to guarantee adherence to any regulatory requirements that may be placed upon our industry.

Thank you for your trust and investment in American National Bank. It is management's pledge to operate in a manner that is not only secure and profitable for you as a stockholder, but also as an institution that offers banking services in a manner that instills pride in ownership.

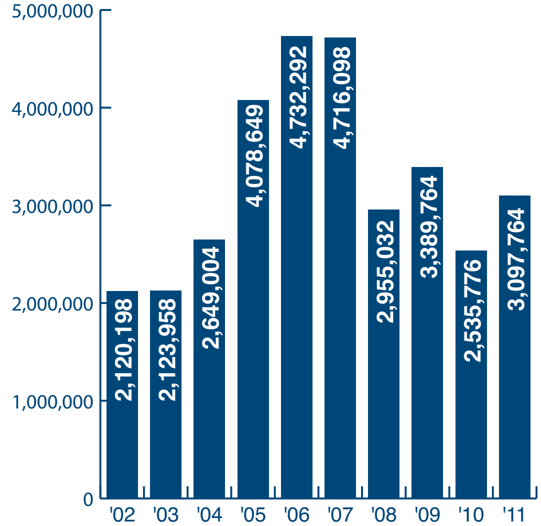
Dwight Berry

Dwight Berry
President and CEO

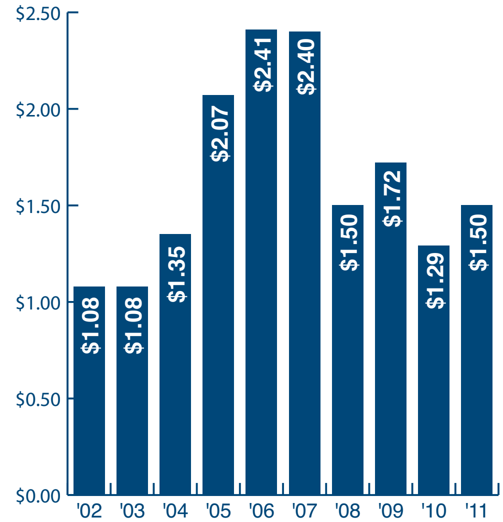
Financial Highlights

	Year Ended December 31, 2011	2010	% Change
Earnings			
Net Interest Income	14,861,288	15,239,650	- 2.5
Provision For Loan Losses	387,000	2,117,000	- 81.7
Non-Interest Income	8,719,182	9,028,024	- 3.4
Non-Interest Expense	18,941,988	18,790,737	+ 0.8
Net Income	3,097,764	2,535,776	+ 22.2
Share Data			
Net Income	1.50	1.29	+ 16.3
Dividends Paid	0.00	.68	- 100.0
Book Value	19.01	17.15	+ 10.9
Returns			
Return on Average Assets	.68	.52	+ 30.8
Return on Average Equity	8.28	7.24	+ 14.4
Financial Position at Year End			
Total Assets	468,477,419	465,727,926	+ 0.6
Loans (Net)	257,906,316	303,977,783	- 15.2
Reserve for Loan Losses	5,818,488	5,738,372	+ 1.4
Deposits	400,613,311	400,421,708	+ 0.1
Equity	39,258,243	35,427,574	+ 10.8

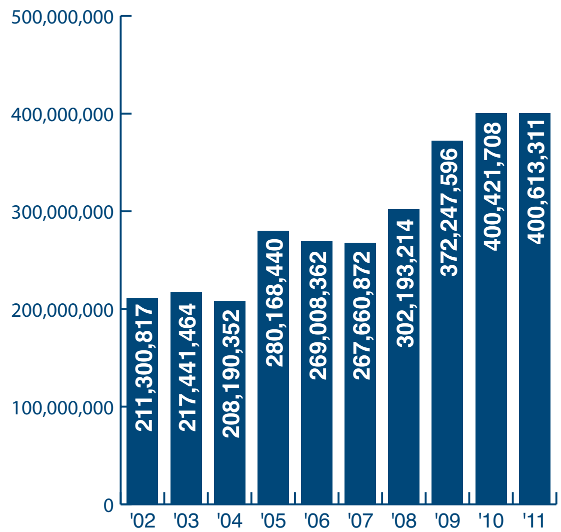
Consolidated Net Income



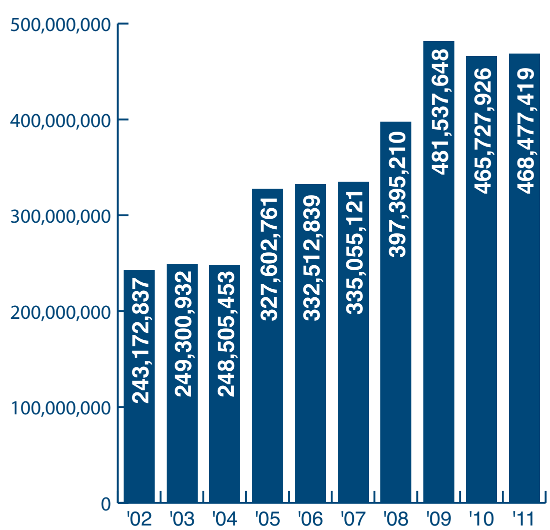
Earnings Per Share



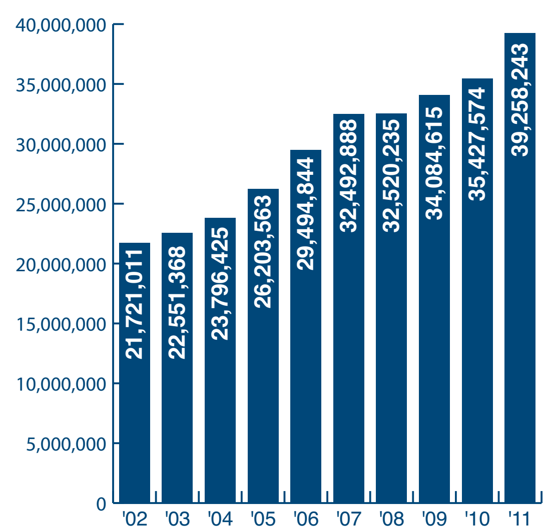
Year End Deposits



Year End Assets



Stockholders' Equity



Independent Auditor's Report

To the Board of Directors and Stockholders
of AmeriBancShares, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of AmeriBancShares, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriBancShares, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules presented following the Notes to Consolidated Financial Statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued reports dated December 2, 2011 on our consideration of AmeriBancShares, Inc. and Subsidiaries' internal control, its compliance with specific requirements applicable to major HUD programs, and its compliance with laws, regulations and contracts. These reports are an integral part of the audits performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Payne & Smith, LLC

Payne & Smith, LLC

Wichita Falls, Texas
February 17, 2012

Consolidated Balance Sheets

December 31, 2011 and 2010

ASSETS	2011	2010
Cash and due from banks	$ 16,965,683	$ 8,707,299
Interest bearing deposits in banks	40,459,795	21,786,185
Total cash and cash equivalents	57,425,478	30,493,484
Securities available for sale	105,643,113	81,099,006
Other securities (approximate market value of $1,273,350 in 2011 and $2,584,550 in 2010)	1,273,350	2,584,550
Total investment securities	106,916,463	83,683,556
Mortgage loans held for sale	3,330,820	3,380,052
Loans	264,226,240	310,046,473
Less: Unearned discount	(501,436)	(330,318)
Allowance for loan losses	(5,818,488)	(5,738,372)
Loans, net	257,906,316	303,977,783
Premises and equipment, net	15,608,975	16,095,739
Accrued interest receivable	1,637,393	2,065,806
Goodwill	4,219,975	4,219,475
Intangible assets		195,384
Other assets	21,431,999	21,616,647
Total assets	$ 468,477,419	$ 465,727,926

LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 27,323,471	$ 21,901,873
Savings deposits	156,415,802	146,680,304
Money market and NOW accounts	97,928,760	79,186,043
Time certificates of deposit	118,945,278	152,653,488
Total deposits	400,613,311	400,421,708
Federal funds purchased	500,000	500,000
Repurchase agreements	4,595,607	2,488,378
Other borrowed funds	9,468,125	12,342,399
Junior subordinated debentures	7,217,000	7,217,000
Accrued interest payable	132,291	272,517
Other liabilities	6,692,842	7,058,350
Total liabilities	429,219,176	430,300,352
Commitments and contingencies		
Stockholders' equity:		
Common stock (par value $2.50; 5,000,000 shares authorized, 2,114,430 issued and 2,065,430 outstanding at 2011 and 2010)	5,286,075	5,286,075
Surplus	13,036,584	13,059,785
Undivided profits and capital reserves	22,344,676	19,246,912
Treasury stock at cost (49,000 shares)	(882,000)	(882,000)
Unearned KSOP shares	(1,085,657)	(1,302,828)
Accumulated other comprehensive income (loss):		
Net unrealized depreciation on derivatives used for cash flow hedges, net of tax ($93,781) in 2011 and ($158,606) in 2010	(182,045)	(307,882)
Net unrealized appreciation on securities available for sale, net of tax of $381,526 in 2011 and $168,720 in 2010	740,610	327,512
Total stockholders' equity	39,258,243	35,427,574
Total liabilities and stockholders' equity	$ 468,477,419	$ 465,727,926

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

Consolidated Statements of Income

For the Years Ended December 31, 2011 and 2010

	2011	2010
Interest income:		
Interest and fees on loans	$ 15,700,569	$ 17,254,927
Interest on investment securities	1,994,472	2,354,556
Interest on interest bearing deposits in banks	141,262	139,366
Total interest income	17,836,303	19,748,849
Interest expense:		
Interest on deposits:		
Savings	133,533	320,946
Money market and NOW accounts	240,867	481,052
Time	1,759,166	2,417,370
Total interest on deposits	2,133,566	3,219,368
Interest on federal funds purchased	231	1,287
Interest on repurchase agreements	5,625	7,285
Interest on other borrowed funds	438,149	883,814
Interest on Junior Subordinated Debentures	397,444	397,445
Total interest expense	2,975,015	4,509,199
Net interest income	14,861,288	15,239,650
Provision for loan losses	387,000	2,117,000
Net interest income after provision for loan losses	14,474,288	13,122,650
Other operating income:		
Service charges on deposit accounts	568,690	516,893
Trust fee income	3,858,116	3,771,806
Gain on sale of mortgage loans	1,231,983	1,430,953
Gain on sale of other real estate owned	123,447	169,603
Gain on sale of securities	4,106	80,058
Rent income	858,450	935,052
Other, net	2,074,390	2,123,659
Total other operating income	8,719,182	9,028,024
Other operating expenses:		
Salaries and bonuses	6,829,695	6,843,485
Employee benefits	3,365,614	3,070,301
Premises and equipment	2,353,809	2,624,861
Advertising	261,141	381,868
Data processing expense	617,732	573,538
Printing, stationery and supplies	232,401	263,632
Professional fees	327,050	242,251
Other operating expenses	4,954,546	4,790,801
Total other operating expenses	18,941,988	18,790,737
Income before income taxes	4,251,482	3,359,937
Provision for income taxes	1,153,718	824,161
Net income	$ 3,097,764	$ 2,535,776
Net income per share of common stock	$ 1.50	$ 1.29

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

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2011 and 2010

	Common Stock Number of Shares	Common Stock Amount	Surplus	Undivided Profits and Capital Reserves	Treasury Stock	Unearned KSOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2010	2,016,000	$ 5,040,000	$ 10,878,386	$ 20,509,446	($ 882,000)	($1,520,000)	$ 58,783	$ 34,084,615
Comprehensive income:								
Net income				2,535,776				2,535,776
Other comprehensive income (loss):								
Net change in fair value of derivatives used for cash flow hedges, net of taxes of ($30,529)							(59,262)	(59,262)
Net change in unrealized appreciation on securities available for sale, net of taxes of $10,359							20,109	20,109
Total comprehensive income								2,496,623
Unearned KSOP shares released			(33,276)			217,172		183,896
Stock dividends	98,430	246,075	2,214,675	(2,460,750)				
Cash dividends, $.68 per common share				(1,337,560)				(1,337,560)
Balance December 31, 2010	2,114,430	$ 5,286,075	$ 13,059,785	$ 19,246,912	($ 882,000)	($1,302,828)	$ 19,630	$ 35,427,574
Comprehensive income:								
Net income				3,097,764				3,097,764
Other comprehensive income (loss):								
Net change in fair value of derivatives used for cash flow hedges, net of taxes of $64,825							125,837	125,837
Net change in unrealized appreciation on securities available for sale, net of taxes of $212,808							413,098	413,098
Total comprehensive income								3,636,699
Unearned KSOP shares released			(23,201)			217,171		193,970
Stock dividends								
Balance December 31, 2011	2,114,430	$ 5,286,075	$ 13,036,584	$ 22,344,676	($ 882,000)	($1,085,657)	$ 558,565	$ 39,258,243

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 3,097,764	$ 2,535,776
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,681,423	1,645,382
Amortization of intangibles	195,384	195,385
Provision for loan losses	387,000	2,117,000
Provision for other real estate owned losses	324,826	277,750
Provision for (benefit from) deferred taxes	360,697	(622,898)
Gain on sale of securities available for sale	(4,106)	(80,058)
Gain on sale of mortgage loans	(1,231,983)	(1,430,953)
Gain on sale of other real estate owned	(123,447)	(169,603)
Gain on disposal of premises and equipment	(17,330)	(2,830)
Amortization of premium on investment securities	579,594	378,359
Accretion of discount on investment securities	(67,730)	(27,305)
Proceeds from sales of mortgage loans	65,406,370	80,244,505
Mortgage loans funded	(64,113,650)	(80,089,044)
(Increase) decrease in:		
Prepaid expenses	736,710	600,889
Accrued interest receivable	428,413	(25,397)
Income taxes receivable	(26,738)	16,861
Miscellaneous other assets	(174,404)	(472,664)
Increase (decrease) in:		
Accrued interest payable	(140,226)	(86,267)
Other taxes payable	21,614	(243,401)
Other accrued expenses	(196,452)	330,470
Net cash provided by operating activities	7,123,729	5,091,957
Cash flows from investing activities:		
Proceeds from maturities of securities available for sale	37,780,618	57,947,802
Proceeds from sale of securities available for sale	8,085,090	16,094,036
Proceeds from sale of other securities	1,317,500	498,800
Purchase of securities available for sale	(70,291,669)	(81,123,547)
Purchase of other securities	(6,300)	
Purchase of cash value life insurance	(508,539)	(645,777)
Net decrease in loans	38,393,547	2,255,043
Purchase of premises and equipment	(1,831,464)	(2,409,706)
Proceeds from sale of premises and equipment	630,548	492,649
Proceeds from sale of other real estate owned	6,620,405	2,631,613
Net cash provided by (used in) investing activities	20,189,736	(4,259,087)
Cash flows from financing activities:		
Net increase in deposits	191,603	28,174,112
Net increase (decrease) in repurchase agreements	2,107,229	(1,396,176)
Net decrease in other borrowed funds	(2,680,303)	(43,837,524)
Dividends paid		(1,337,560)
Net cash used in financing activities	(381,471)	(18,397,148)
Net increase (decrease) in cash and cash equivalents	26,931,994	(17,564,278)
Cash and cash equivalents at beginning of period	30,493,484	48,057,762
Cash and cash equivalents at end of period	$ 57,425,478	$ 30,493,484

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

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The accounting and reporting policies of AmeriBancShares, Inc. and Subsidiaries ("the Company") conform to generally accepted accounting principles and prevailing practices within the banking industry. The Company carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Nature of Operations: The Company provides a variety of financial services to individual and business customers through its locations in Wichita Falls, Iowa Park, Archer City and Flower Mound, Texas. The Company's primary deposit products are demand deposits, savings deposits, and certificates of deposit, and the primary lending products are commercial, real estate mortgages, and installment loans. The Company also provides trust services, real estate title services and vehicle and equipment leasing services to individual and business customers through its locations in Wichita Falls, Texas and Flower Mound, Texas.

Basis of Presentation: The accompanying consolidated financial statements include the accounts of AmeriBancShares, Inc. and its wholly-owned subsidiaries, ANB Realty Corp. and AmeriBancShares of Delaware, Inc. The financial statements also include American National Bank, which is a wholly-owned subsidiary of AmeriBancShares of Delaware, Inc. and American National Leasing Company and Archer Title of Texas, Inc., which are wholly owned subsidiaries of American National Bank. All significant intercompany transactions have been eliminated. The consolidated statements of income, changes in stockholders' equity, and cash flows include operations for the years ended December 31, 2011 and 2010.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the real estate industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Cash and Due From Banks: Included in cash and due from banks are legal reserve requirements which must be maintained on an average basis in the form of cash and balances due from the Federal Reserve and other banks.

Securities: Investment securities are classified into three categories: held-to-maturity (HTM), available-for-sale (AFS) and trading.

Securities classified as held-to-maturity, which are those the Company has the positive intent and ability to hold to maturity, are reported at amortized cost. Securities classified as available-for-sale may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Available-for-sale securities are reported at fair value and include securities not classified as held-to-maturity or trading. Trading securities are those held principally for the purpose of selling in the near future and are carried at fair value. The Company currently has no trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as a separate component of stockholders' equity. Realized gains and losses are reported in earnings based on the adjusted cost of the specific security sold.

Mortgage Loans Held for Sale: The mortgage loans held for sale are stated at the lower of cost or market. Such mortgage loans are aggregated by type for the purpose of valuation. Allowances which are necessary to reflect a reduction of the portfolio to the lower of cost or market are charged against income in the current period.

Loans and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Impaired loans are generally placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received and are accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual.

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

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

Servicing: Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Other Real Estate Owned: Other real estate owned consists of real property acquired through foreclosure or deed in lieu of foreclosure. Other real estate owned, in the amount of $5,653,930 and $5,196,299 at December 31, 2011 and 2010, respectively, is carried at the lower of fair value minus estimated selling costs or cost. When property is acquired, the asset is recorded at its fair value and an allowance for estimated selling costs is provided. The allowance for other real estate owned is adjusted for increases or declines in the fair value of the assets; however, the allowance may not be reduced below zero.

Premises and Equipment, and Depreciation: Premises and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed, while expenditures for significant renewals and betterments are capitalized. When property is disposed of, the cost of the property and the related accumulated depreciation are removed from the accounts. The Company has elected to provide for depreciation on the straight-line method for financial reporting purposes and accelerated method for tax purposes.

Income Taxes: The Company files a consolidated income tax return with its wholly-owned subsidiaries and their wholly-owned subsidiaries. Federal income tax expense or benefit has been allocated on a separate return basis.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of accumulated depreciation and the allowance for loan losses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Goodwill: During 2002, the Company eliminated the amortization of goodwill and now performs an annual impairment test for goodwill.

Intangible Assets: Intangible assets with a finite life are amortized over their estimated useful life. Intangible assets include core deposit intangibles acquired in acquisitions and are being amortized on a straight-line basis over ten years.

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

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

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

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

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

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

Net Income Per Common Share: Net income per common share is based on the weighted average number of common shares outstanding during the period.

Reclassification: For comparability, certain amounts in the 2010 financial statements have been reclassified, where appropriate, to conform with the financial presentation used in 2011.

Cash and Cash Equivalents: For purposes of recording cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Comprehensive Income: Comprehensive income is included in the statement of changes in stockholders' equity and reported for all periods. Comprehensive income includes both net income and other comprehensive income (loss), which includes the change in unrealized gains and losses on securities available for sale and the change in fair value of derivatives used for cash flow hedges.

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

Risks and Uncertainties: Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. In July 2010, U.S. Congress enacted the Dodd-Frank Act, which comprehensively reformed the regulation of financial institutions and their products and services. Among other things, the Dodd-Frank Act established the Consumer Financial Protection Bureau with the authority to prescribe rules for all depository institutions governing the protection of consumer financial products and services. The creation of this independent bureau is likely to raise the cost of regulatory compliance. In addition, new regulations mandated by the Dodd-Frank Act could require changes in regulatory capital requirements, loan loss provisioning practices and compensation packages. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact such rulemaking will have on the Company, its customers or the financial industry. Changes to statutes regulations, or regulatory policies, including changes in interpretation of implementation of statutes, regulations, or policies could affect the Company in substantial and unpredictable ways. Such change could subject the Company to additional costs, limit the types of financial services and products the Company offers and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a direct material adverse effect of the Company's business, financial condition, and results of operations. While management believes it has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Subsequent Events: The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

Note 2
INVESTMENT SECURITIES

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

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$ 81,762,045	$ 662,320	($ 35,525)	$ 82,388,840
Obligations of states and political subdivisions	17,163,731	808,927	(214,460)	17,758,198
Corporate bonds	5,227,975		(105,475)	5,122,500
Mortgage-backed securities	52,776	6,349		59,125
Equity securities	314,450			314,450
Totals	$ 104,520,977	$ 1,477,596	($ 355,460)	$ 105,643,113
Other securities	$ 1,273,350	$	$	$ 1,273,350

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Available For Sale				
United States Agency securities	$ 56,249,810	$ 629,600	($ 213,237)	$ 56,666,173
Obligations of states and political subdivisions	14,655,682	136,804	(51,670)	14,740,816
Corporate bonds	8,319,636		(30,757)	8,288,879
Mortgage-backed securities	811,885	25,492		837,377
Equity securities	565,761			565,761
Totals	$ 80,602,774	$ 791,896	($ 295,664)	$ 81,099,006
Other securities	$ 2,584,550	$	$	$ 2,584,550

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

The amortized cost and estimated market value of debt securities at December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available for Sale		Securities to be Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Due in one year or less	$ 7,010,920	$ 7,077,550	$	$
Due after one year through five years	84,064,100	84,490,075		
Due after five years through ten years	3,879,210	3,987,657		
Due after ten years	9,199,521	9,714,256		
	104,153,751	105,269,538		
Mortgage-backed securities	52,776	59,125		
Equity securities	314,450	314,450		
Totals	$ 104,520,977	$ 105,643,113	$	$

Proceeds from sales of available for sale securities for the years ended December 31, 2011 and 2010 were approximately $8,085,090 and $16,094,036, respectively. Gross gains of $4,106 and $80,058 were realized on sales of available for sale securities during 2011 and 2010, respectively. No gross losses were realized on sales of available for sale securities during 2011 or 2010.

Investment securities with a recorded value of approximately $70,727,046 and $71,102,643 at December 31, 2011 and 2010, respectively, were pledged to secure deposits and for other purposes as required by law.

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2011 are summarized as follows:

	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale				
United States Agency securities	$ 15,321,650	($ 35,525)	$	($)
State and political obligations	6,533,665	(214,460)		
Corporate bonds	5,122,500	(105,475)		
	$ 26,977,815	($ 355,460)	$	($)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. At December 31, 2011 and 2010, certain securities have unrealized losses with aggregate depreciation from the Company's amortized cost basis. These unrealized losses are generally due to changes in interest rates. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the intent and ability to hold debt securities until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other than temporary.

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan categories is as follows:

	December 31, 2011	December 31, 2010
Real estate		
1-4 family construction	$ 1,574,106	$ 9,426,524
Construction, land development and other land	10,307,979	19,958,338
Revolving 1-4 family residential	797,392	793,832
1-4 family residential	47,505,045	51,876,074
Multi-family residential	2,750,028	5,520,034
Nonfarm nonresidential - owner occupied	44,936,419	58,354,749
Nonfarm nonresidential - nonowner occupied	109,083,441	101,197,036
Farmland	2,607,026	8,347,164
Commercial and industrial	21,665,714	28,048,573
Consumer	10,378,836	15,385,361
All other loans	7,230,019	7,199,934
Lease financing receivable	5,367,446	3,913,337
Overdrafts	22,789	25,517
Total loans	$ 264,226,240	$ 310,046,473

Note 3

LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

At December 31, 2011 and 2010, the Company had total commercial real estate loans of $168,651,973 and $194,456,681, respectively. Included in these amounts, the Company had construction, land development, and other land loans representing 26% and 69%, respectively, of total risk based capital at December 31, 2011 and 2010. The Company had non-owner occupied commercial real estate loans representing 272% and 322%, respectively, of total risk based capital at December 31, 2011 and 2010. Sound risk management practices and appropriate levels of capital are essential elements of a sound commercial real estate lending program (CRE). Concentrations of CRE exposures add a dimension of risk that compounds the risk inherent in individual loans. Interagency guidance on CRE concentrations describe sound risk management practices which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. Management believes it has implemented these practices in order to monitor its CRE. An institution which has reported loans for construction, land development, and other land loans representing 100% or more of total risk based capital, or total non-owner occupied commercial real estate loans representing 300% or more of the institutions total risk-based capital and the outstanding balance of commercial real estate loan portfolio has increased by 50% or more during the prior 36 months, may be identified for further supervisory analysis by regulators to assess the nature and risk posed by the concentration.

The Company extends commercial and consumer credit primarily to customers in the state of Texas. At December 31, 2011 and 2010 the majority of the Company's loans were collateralized with real estate. The real estate collateral provides an alternate source of repayment in the event of default by the borrower, and may deteriorate in value during the time the credit is extended. The weakening of real estate markets may have an adverse effect on the Company's profitability and asset quality. If the Company were required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, earnings and capital could be adversely affected. Additionally, the Company has loans secured by inventory, accounts receivable, equipment, marketable securities, or other assets. The debtors' ability to honor their contracts on all loans is substantially dependent upon the general economic conditions of the region.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others was $142,517,067 and $121,849,507 at December 31, 2011 and 2010, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately $684,362 and $445,341 at December 31, 2011 and 2010, respectively.

Originated mortgage servicing rights capitalized at December 31, 2011 and 2010, are $1,136,605 and $997,263, respectively, and are included in other assets. The fair values of these rights were $1,152,393 and $1,094,452 at December 31, 2011 and 2010, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 11.59% and 10.578% for 2011 and 2010, respectively, and a weighted average prepayment speed of 14.184% and 15.951% for 2011 and 2010, respectively.

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

		2011		2010
Balance at beginning of year	$	997,263	$	734,218
Originations		317,349		389,429
Amortization	(	178,007)	(	126,384)
Impairments				
Balance at end of year	$	1,136,605	$	997,263

Loan maturities and rate sensitivity of the loan portfolio at December 31, 2011 and 2010, including mortgage loans held for resale less loans on nonaccrual, are as follows:

	2011	2010
Fixed rate loans with a remaining maturity of:		
Three months or less	$ 21,036,135	$ 24,785,752
Over three months through twelve months	30,944,655	41,139,924
Over one year through five years	124,903,322	127,241,796
Over five years	39,835,281	44,188,205
Total fixed rate loans	$ 216,719,393	$ 237,355,677
Variable rate loans with a repricing frequency of:		
Quarterly or more frequently	$ 36,126,890	$ 62,249,187
Annually or more frequently, but less frequently than quarterly	2,756,867	3,190,977
Every five years or more frequently, but less frequently than annually	7,468,303	4,566,897
Less frequently than every five years	95,759	
Total variable rate loans	$ 46,447,819	$ 70,007,061

An analysis of the allowance for loan losses for the years ended December 31, 2011 and 2010 is as follows:

	Beginning Balance	Provision	Charge-Offs	Recoveries	Ending Balance
Real estate					
1-4 family construction	$ 395,927	($ 149,134)	($ 323,780)	$ 160,100	$ 83,113
Construction, land development and other land		103,582			103,582
Revolving 1-4 family residential					
1-4 family residential	334,093	(151,927)	(138,258)	17,564	61,472
Multi-family residential					
Nonfarm nonresidential - owner occupied					
Nonfarm nonresidential - nonowner occupied		560,870			560,870
Farmland					
Commercial and industrial	88,003	(70,671)			17,332
Consumer	9,231	4,727	(16,136)	13,587	11,409
All other loans					
Lease financing receivable	27,784	25,992	(21,969)	2,008	33,815
Overdrafts					
Unallocated	4,883,334	63,561			4,946,895
Balances for year ended December 31, 2011	$ 5,738,372	$ 387,000	($ 500,143)	$ 193,259	$ 5,818,488
Balances for year ended December 31, 2010	$ 3,695,862	$ 2,117,000	($ 79,205)	$ 4,715	$ 5,738,372

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2011 follows:

	Loan Impairment Evaluation			ALLL Impairment Allocations		
	Individually	Collectively	Total Loans	Individually	Collectively	Total ALLL
Real estate						
1-4 family construction	$	$ 1,574,106	$ 1,574,106	$	$ 83,113	$ 83,113
Construction, land development and other land	1,114,266	9,193,713	10,307,979	103,582		103,582
Revolving 1-4 family residential		797,392	797,392			
1-4 family residential	1,512,882	45,992,163	47,505,045	6,281	55,191	61,472
Multi-family residential		2,750,028	2,750,028			
Nonfarm nonresidential - owner occupied	1,152,961	43,783,458	44,936,419			
Nonfarm nonresidential - nonowner occupied	7,473,055	101,610,386	109,083,441	560,870		560,870
Farmland		2,607,026	2,607,026			
Commercial and industrial		21,665,714	21,665,714		17,332	17,332
Consumer	7,172	10,371,664	10,378,836		11,409	11,409
All other loans		7,230,019	7,230,019			
Lease financing receivable		5,367,446	5,367,446		33,815	33,815
Overdrafts		22,789	22,789			
Unallocated					4,946,895	4,946,895
	$ 11,260,336	$ 252,965,904	$ 264,226,240	$ 670,733	$ 5,147,755	$ 5,818,488

The following is a summary of past due and non-accrual loans at December 31, 2011:

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Non-accrual	Total Past Due
Real estate:				
1-4 family construction	$	$		$
Construction, land development and other land	120,170	657,909	730,135	1,508,214
Revolving 1-4 family				
1-4 family residential	890,705	56,527	328,931	1,276,163
Multi-family residential				
Nonfarm nonresidential - owner occupied			1,152,961	1,152,961
Nonfarm nonresidential - nonowner occupied			2,166,425	2,166,425
Farmland				
Commercial	13,618			13,618
Consumer	661,213		11,396	672,609
All other loans				
Lease financing receivable				
Overdrafts				
	$ 1,685,706	$ 714,436	$ 4,389,848	$ 6,789,990

The following is a summary of information pertaining to impaired and non-accrual loans at December 31, 2011 and 2010 is as follows:

	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance		
	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal	Related Allowance
Real estate						
1-4 family construction	$	$	$	$	$	$
Construction, land development and other land	811,882	811,882	103,582	302,384	302,384	
1-4 family residential	1,512,882	1,512,882	6,281			
Multi-family residential						
Nonfarm nonresidential - owner occupied				1,152,961	1,152,961	
Nonfarm nonresidential - nonowner occupied	5,306,630	5,306,630	560,870	2,166,425	2,166,425	
Commercial and industrial						
Consumer			0	7,172	7,172	
All other loans						
Lease financing receivable						
Overdrafts						
Balance at December 31, 2011	$ 7,631,394	$ 7,631,394	$ 670,733	$3,628,942	$ 3,628,942	$
Balance at December 31, 2010	$ 6,623,161	$ 6,623,161	$ 743,816	$7,081,494	$ 7,081,494	$

Additional information pertaining to impaired loans is as follows:

	2011	2010
Average impaired loans	$ 6,335,743	$ 5,592,495
Interest income recognized on impaired loans	$ 287,520	$ 142,000
Additional interest income that would have been recognized if the loans had been on the accrual basis	$ 463,115	$ 120,000

Note 3
LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information

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

Pass

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

Special Mention

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

Substandard

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

Doubtful

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

As of December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
1-4 family construction	$ 1,503,456	$	$ 70,650	$	$ 1,574,106
Construction, land development and other land	7,231,036	387,847	2,689,096		10,307,979
Revolving 1-4 family	797,392				797,392
1-4 family residential	43,687,255	263,249	3,554,541		47,505,045
Multi-family residential	2,750,028				2,750,028
Nonfarm nonresidential - owner occupied	43,783,458		1,152,961		44,936,419
Nonfarm nonresidential - nonowner occupied	95,442,280	441,425	13,199,736		109,083,441
Farmland	2,607,026				2,607,026
Commerical and industrial	20,671,246	958,468	36,000		21,665,714
Consumer	10,345,605		33,231		10,378,836
All other loans	7,230,019				7,230,019
Lease financing receivable	5,367,446				5,367,446
Overdrafts	22,789				22,789
	$ 241,439,036	$ 2,050,989	$ 20,736,215	$	$ 264,226,240

Note 4
PREMISES AND EQUIPMENT

A summary of premises, equipment and land improvements and related accumulated depreciation is as follows:

	Estimated Useful Lives	December 31, 2011	December 31, 2010
Land		$ 2,370,579	$ 2,365,578
Premises	5-40 years	11,153,532	10,973,771
Furniture, fixtures and equipment	3-10 years	8,173,572	8,213,291
Land improvements	5-20 years	463,355	463,355
Lease equipment	3 - 5 years	3,863,779	3,987,211
		26,024,817	26,003,206
Less accumulated depreciation		10,415,842	9,907,467
Totals		$ 15,608,975	$ 16,095,739

Depreciation expense amounted to $1,681,423 and $1,645,382 in 2011 and 2010, respectively.

A portion of the banking premises which the Company occupies was leased to certain tenants under month-to-month leases during 2010. There was no rental income in 2011. Rental income totaled approximately $49,022 for the year ended December 31, 2010.

Note 5
GOODWILL

Goodwill in the amount of $4,219,475 at December 31, 2011 and 2010, is included in the accompanying consolidated financial statements. In accordance with generally accepted accounting principles, the Company performs an annual impairment test for goodwill. At December 31, 2011 and 2010 management has determined that there is no impairment of goodwill.

Prior to the year ended December 31, 2002, goodwill was amortized over its estimated useful life. Accordingly, the amounts reflected for goodwill in the accompanying financial statements have been reduced by the relating accumulated amortization of $507,484.

Note 6
INTANGIBLE ASSETS

Intangible assets consist of core deposit intangibles acquired in a branch acquisition and are being amortized using the straight-line method over a period of 10 years. Assigned costs and accumulated amortization at December 31, 2011 and 2010 consisted of the following amounts:

	2011	2010
Gross amount	$ 1,138,163	$ 1,138,163
Accumulated amortization	(1,138,163)	(942,779)
	$ 0	$ 195,384

Changes in the carrying amount of intangibles during 2011 and 2010 are summarized as follows:

	2011	2010
Net intangible at January 1	$ 195,384	$ 390,769
Amortization expense	(195,384)	(195,385)
Net intangible at December 31	$ 0	$ 195,384

Note 7
DEPOSITS

Included in time deposits are certificates of deposit in amounts of $100,000 or more. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000, was $72,025,804 and $59,061,737 at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, the scheduled maturities of certificates of deposit are as follows:

	December 31, 2011	December 31, 2010
Less than three months	$ 34,077,179	$ 40,220,871
Four to twelve months	46,743,771	56,754,195
One to five years	38,124,328	55,678,422
Totals	$ 118,945,278	$ 152,653,488

During 2006, the Company entered into a program in which certain eligible transaction deposits could be reclassed to savings deposits for regulatory reporting purposes and therefore reduce its reserve requirement with the Federal Reserve Bank. At December 31, 2011 the Company has reclassed $72,251,272 demand deposits and $69,804,935 NOW and Money Market deposits to savings deposits. At December 31, 2010 the Company has reclassed $63,135,734 demand deposits and $70,864,613 NOW and Money Market deposits to savings deposits for regulatory reporting in connection with this program.

Note 8
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase amounted to $4,595,607 and $2,488,378 at December 31, 2011 and 2010, respectively. The agreements are secured by U.S. Government Agency securities with a fair value of $4,689,836 at 2011 and $2,541,185 at 2010. The weighted average interest rate on these agreements was 0.15% and 0.25% at December 31, 2011 and 2010, respectively. The agreements of $4,595,607 at December 31, 2011 mature on January 3, 2012 and are renewed daily as necessary under normal operations.

Note 9
OTHER BORROWED FUNDS

Included in other borrowed funds at December 31, 2011 and 2010, respectively, are the following:

	2011	2010
Advances from the Federal Home Loan Bank	$ 8,325,992	$ 11,006,295
KSOP note payable	1,142,133	1,336,104
	$ 9,468,125	$ 12,342,399

Advances from the Federal Home Loan Bank

Advances from the Federal Home Loan Bank amounted to $8,325,992 and $11,006,295, respectively, at December 31, 2011 and 2010. These borrowings are collateralized by one-to-four family residences. The Federal Home Loan Bank advances have fixed rates ranging from 3.63% to 5.63%. The advances were used to fund fixed interest rate loans to customers. As of December 31, 2011, aggregate annual scheduled repayments of Federal Home Loan Bank advances were as follows:

2012	$ 2,253,950
2013	2,251,848
2014	197,990
2015	209,432
2016	221,534
Thereafter	3,191,238
	$ 8,325,992

KSOP Note Payable

At December 31, 2011 and 2010, the Company's KSOP had a note payable in the amount of $1,142,133 and $1,336,104 respectively, with First National Bank of Chillicothe (a related party through a common director). The note was renewed on April 29, 2009 and currently bears interest at a rate of 5.50%. Seven annual payments of principal and interest in the amount of $267,496.33 are due beginning April 29, 2010. The note is secured by 45,000 shares of the Company's stock and matures on April 29, 2016.

Note 10
JUNIOR SUBORDINATED DEBENTURES

The junior subordinated debentures of $7,217,000 at December 31, 2011 and 2010 represent amounts payable to a Special Purpose Entity (SPE) in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $7,000,000 in trust preferred securities and $217,000 in common stock (wholly-owned by the Company) at December 31, 2011 and 2010. Both the junior subordinated debentures and the related trust preferred securities yield an annual distribution rate of 3-month LIBOR plus 1.80% ($2.35% at December 31, 2011 and 2.10% at December 31, 2010), are redeemable at various dates beginning in June, 2010 and mature in June, 2035.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier I capital for the Company. Distributions on these securities are included as interest expense on other borrowed funds. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The preferred trust securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust preferred securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restrictive core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I capital.

Note 11
INCOME TAXES

The provision for income taxes consists of the following:

	December 31, 2011	December 31, 2010
Current income tax expense:		
Federal and state	$ 793,021	$ 1,447,059
Deferred income tax expense (benefit) arising from:		
Excess of tax over financial accounting depreciation	160,909	185,210
Accounting for bad debt expense	(27,239)	(694,454)
Federal Home Loan Bank stock dividends	2,142	2,754
Deferred compensation benefits	100,400	(159,498)
Deferred loan fee income	23,897	20,141
Goodwill amortization	105,373	105,484
Write down of other real estate owned	(4,785)	(82,535)
	360,697	(622,898)
Total income tax expense	$ 1,153,718	$ 824,161

The difference between the consolidated financial statement income tax expense and amounts computed by applying the statutory federal income tax rate of 34% to consolidated income before taxes is primarily attributable to investments in tax-exempt securities, tax-exempt increases in cash surrender value of life insurance, and certain other transactions.

Note 11
INCOME TAXES (Continued)

As of December 31, 2011 and 2010, there are no unused net operating losses or tax credits available for carryover to future periods for either financial reporting or tax reporting purposes.

A net deferred federal income tax asset of $813,346 and $1,451,675 at December 31, 2011 and 2010 respectively, is included in other assets. The accumulated tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

	December 31, 2011	December 31, 2010
Deferred tax assets:		
Excess of tax cost over financial cost for fixed assets	$ 108,914	$ 98,173
Allowance for loan losses	1,740,969	1,713,730
Deferred compensation benefits	1,691,950	1,792,350
Deferred loan fee income	58,974	82,871
Write down of other real estate owned	138,320	133,535
Net unrealized depreciation on derivatives used for cash flow hedges	93,781	158,606
Total deferred tax assets	3,832,908	3,979,265
Deferred tax liabilities:		
Depreciation	(1,400,455)	(1,228,805)
Federal Home Loan Bank stock dividends	(176,358)	(174,216)
Amortization	(1,061,223)	(955,850)
Net unrealized appreciation on securities available for sale	(381,526)	(168,720)
Total deferred tax liabilities	(3,019,562)	(2,527,591)
Total net deferred tax asset	$ 813,346	$ 1,451,674

Federal income taxes currently receivable of $305,713 and $278,975 at December 31, 2011 and 2010, respectively, are included in other assets.

Note 12
EMPLOYEE BENEFITS

KSOP PLAN

The Company maintains a leveraged employee stock ownership 401(k) plan ("KSOP"). The KSOP periodically borrows from unrelated lenders to acquire stock for future allocation to KSOP participants. The KSOP provides for voluntary employee salary reduction contributions, voluntary employee after-tax contributions, discretionary employer salary reduction matching contributions, and additional discretionary employer contributions which the Company uses to pay interest on KSOP debt and KSOP debt principal reductions as the Company desires to release unallocated KSOP shares to the KSOP participants.

As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares. KSOP expense for 2011 and 2010 was $377,459 and $361,076, respectively. Employee salary reduction contributions of $396,366 and $439,195 were made in 2011 and 2010, respectively.

DEFERRED COMPENSATION PLANS

The Company maintains individually designed supplemental income plan agreements ("agreements") with certain designated employees and directors. The agreements provide a deferred compensation benefit payable at retirement or death.

The liability under the agreements is recorded based upon the present value of the deferred compensation benefits. At December 31, 2011 and 2010, the Company's accrued liability under the agreements was $4,976,325 and $5,271,618, respectively.

In connection with the funding of the agreements, the Company has purchased life insurance policies that it believes will fund the benefits payable pursuant to the agreements. The Company is owner and beneficiary of the life insurance policies. Other assets at December 31, 2011 and 2010, respectively, include $9,440,078 and $8,998,790 in cash value of these life insurance policies.

Note 13
ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Financial Instruments

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

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

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

Risk Management Policies – Hedging Instruments

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

Interest Rate Risk Management – Cash Flow Hedging Instruments

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

At December 31, 2011 and 2010, the information pertaining to outstanding interest rate swap agreements used to hedge variable rate debt is as follows:

	December 31, 2011	December 31, 2010
Notional amount	$ 7,000,000	$ 7,000,000
Weighted average pay rate	5.60%	5.60%
Weighted average receive rate	2.35%	2.10%
Weighted average maturity in years	1.25	2.25
Unrealized loss relating to interest rate swaps	$ 275,826	$ 466,488

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

At December 31, 2011 and 2010, the unrealized loss relating to interest rate swaps was recorded in other liabilities. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings. The net amount of other comprehensive income reclassified into interest expense during the year ended December 31, 2011 and 2010, was $248,320 and $245,880, respectively.

Risk management results for the year ended December 31, 2011 and 2010 related to the balance sheet hedging of long-term debt indicate that the hedges were 100 percent effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

Note 14
RELATED-PARTY TRANSACTIONS

At December 31, 2011 and 2010, certain officers and directors, and companies in which they have a 10 percent or more beneficial ownership, were indebted to the Company in the aggregate amount of approximately $15,537,760 and $9,699,300, respectively. During 2011, $9,338,381 of new loans were originated and repayments totaled $3,499,921. All such loans were made in the ordinary course of business. All loans included in such transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of loss or present other unfavorable features.

Note 15
COMMITMENTS AND CONTINGENT LIABILITIES

The Company's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Company's commitments and contingent liabilities at December 31, 2011 and 2010, are as follows:

	December 31, 2011	December 31, 2010
Commitments to extend credit	$ 32,638,711	$ 43,470,681
Standby letters of credit	3,463,869	2,493,254
Total	$ 36,102,580	$ 45,963,935

Commitments to extend credit, and standby letters of credit all include exposure to some credit loss in the event of nonperformance of the customer. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. Because these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. The Company has not incurred any significant losses on its commitments in either 2011 or 2010.

The Company is a party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

Note 16
CONCENTRATIONS OF CREDIT

Substantially all of the Company's loans, commitments, credit card arrangements and standby letters of credit have been granted to customers in the Company's market area. Most customers are depositors of the Company. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The Company occasionally maintains deposits and federal funds sold in excess of federally insured limits.

At December 31, 2011 the Company had $14,407,556 in due from banks and federal funds sold in excess of federally insured amounts. At December 31, 2010 the Company had $5,797,483 in due from banks and federal funds sold in excess of federally insured amounts. The risk is managed by maintaining all deposits in high quality financial institutions.

At December 31, 2011 and 2010, total deposits include $68,469,415 and $69,632,596, respectively, from four customers. The customers' deposits are under no contractual obligation to the Company other than the maturity durations for various time certificates of deposit.

Note 17
FAIR VALUE DISCLOSURES

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

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

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques and at least one significant model assumption is unobservable. Level 3 financial instruments also include those for which the determination of fair values requires significant management judgment or estimation.

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

Assets and liabilities measured at fair value at December 31, 2011 and 2010 are as follows:

December 31, 2011	Level 1	Level 2	Level 3
Available for sale securities (1)	$	$105,643,113	$
Impaired loans (2) (3)			6,960,661
Interest Rate Swap (1)		(275,826)	

December 31, 2010	Level 1	Level 2	Level 3
Available for sale securities (1)	$	$ 81,099,006	$
Impaired loans (2) (3)			5,879,345
Interest Rate Swap (1)		(466,488)	

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

Note 17
FAIR VALUE DISCLOSURES (Continued)

The estimated fair values of the Company's financial instruments at December 31, 2011 and 2010, are as follows:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and short-term investments	$ 57,425,478	$ 57,455,000	$ 30,493,484	$ 30,469,000
Investment securities	106,916,463	106,916,463	83,683,556	83,683,556
Mortgage loans held for sale	3,330,820	3,330,820	3,380,052	3,380,052
Loans, net of unearned discount	263,724,804	270,818,000	309,716,155	308,773,000
Less allowance for loan losses	(5,818,488)	(5,818,488)	(5,738,372)	(5,738,372)
Loans, net of allowance	257,906,316	264,999,512	303,977,783	303,034,628
Accrued interest receivable	1,637,393	1,637,393	2,065,806	2,065,806
Financial liabilities:				
Deposits	400,613,311	401,894,000	400,421,708	401,872,000
Federal funds purchased	500,000	500,000	500,000	500,000
Repurchase agreements	4,595,607	4,595,607	2,488,378	2,488,378
Other borrowed funds	9,468,125	10,396,000	12,342,399	13,350,000
Junior Subordinated Debentures	7,217,000	7,217,000	7,217,000	7,217,000
Accrued interest payable	132,291	132,291	272,517	272,517
On-balance sheet derivative financial instruments:				
Interest rate swap agreements:				
Assets				
Liabilities	275,826	275,826	466,488	466,488
Off-balance sheet credit related financial instruments:				
Commitments to extend credit	0	0	0	0
Standby letters of credit	0	0	0	0

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as disclosed herein. The values are for disclosure purposes only and have not affected the carrying values of the assets and liabilities on the balance sheet.

Cash and Short-Term Investments

For those short-term investments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For debt securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loan Receivables

For certain homogeneous categories of loans, such as some residential mortgages, credit card receivables, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Other Borrowed Funds

The fair value of federal funds purchased is the amount payable upon demand at the reporting date. The fair value of the Federal Home Loan Bank advance is estimated by discounting the future cash flows using the current rates at which similar advances would be made to banks with similar credit ratings for the same remaining maturities.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between the current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

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

The following table presents other real estate that was remeasured during 2011 and 2010 and reported at fair value:

	2011	2010
Other real estate remeasured at initial acquisition:		
Carrying value prior to measurement	$ 7,617,853	$ 2,898,393
Charge-offs recognized in the allowance for loan losses	(462,038)	(6,700)
	$ 7,155,815	$ 2,891,693
Other real estate remeasured subsequent to initial acquisition:		
Carrying value prior to measurement	$ 2,603,572	$ 1,732,976
Write-downs included in other non-interest expense	(324,826)	(277,750)
	$ 2,278,746	$ 1,455,226

Note 18
REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. As discussed in Note 19, the Bank may not pay dividends without the prior approval of the Comptroller of the Currency.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011 and 2010, that the Bank meets all capital adequacy requirements to which it is subject.

Note 18
REGULATORY MATTERS (Continued)

As of December 31, 2011, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below, and is not subject to any written agreement, order or capital directive, or prompt corrective action directive issued by the OCC pursuant to section 8 of the FDI Act, the International Lending Supervision Act of 1983, or section 38 of the FDI Act, or any regulation thereunder, to meet and maintain a specific capital level for any capital measure. As discussed in Note 19, the Bank is currently under a written formal agreement which requires it to maintain specific capital levels for Tier 1 leverage capital at least equal to 8% of adjusted total assets and total risk based capital at least equal to 12% of risk weighted assets.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Total capital (to risk-weighted assets)						
American National Bank	$ 45,423,799	15.2%	≥ 24,147,920	≥ 8.0%	≥ 30,184,900	≥ 10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	41,650,686	13.9%	≥ 12,073,960	≥ 4.0%	≥ 18,110,940	≥ 6.0%
Tier I capital (to average assets)						
American National Bank	41,650,686	9.3%	≥ 17,911,486	≥ 4.0%	≥ 22,389,358	≥ 5.0%
As of December 31, 2010:						
Total capital (to risk-weighted assets)						
American National Bank	$ 42,313,126	12.6%	≥ $26,907,840	≥ 8.0%	≥ $33,634,800	≥ 10.0%
Tier I capital (to risk-weighted assets)						
American National Bank	38,108,776	11.3%	≥13,453,920	≥ 4.0%	≥20,180,880	≥ 6.0%
Tier I capital (to average assets)						
American National Bank	38,108,776	7.9%	≥ 19,255,040	≥ 4.0%	≥ 24,068,800	≥ 5.0%

Note 19
FORMAL AGREEMENT

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

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

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

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

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

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

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

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

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

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

The Agreement requires the Board of Directors to submit quarterly progress reports to the Assistant Deputy Comptroller of the OCC. The Board of Directors' intent is to pursue vigorously full adherence with the articles of the Agreement.

Note 20
STATEMENT OF CASH FLOWS

The Company reports on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans.

The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information for the years ended December 31, 2011 and 2010 is presented as follows:

	December 31, 2011	December 31, 2010
Cash transactions:		
Interest expense paid	$ 3,115,241	$ 4,595,467
Federal income taxes paid	$ 774,759	$ 1,408,520
Noncash transactions:		
Net change in fair value of derivatives used for cash flow hedges	$ 192,662	($ 89,791)
Net unrealized appreciation on securities available for sale	$ 625,905	$ 30,468

Consolidating Balance Sheet

AmeriBancShares, Inc. and Subsidiaries, December 31, 2011

ASSETS	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash and due from banks, noninterest bearing	$ 314,080	$ 41,587	$ 16,421,960
Interest bearing deposits in banks			40,459,795
Total cash and cash equivalents	314,080	41,587	56,881,755
Securities available for sale			105,328,663
Other securities			2,957,716
Total investment securities			108,286,379
Mortgage loans held for sale			3,330,820
Loans	5,367,447		263,146,074
Less: Unearned discount	(501,436)		
Allowance for loan losses	(70,936)		(5,747,552)
Loans, net	4,795,075		257,398,522
Premises and equipment, net	2,661,151	1,155,210	11,792,614
Accrued interest receivable			3,529,618
Goodwill		20,115	4,199,860
Intangible assets			
Other assets	77,845	4,229	20,230,667
Total assets	$ 7,848,151	$ 1,221,141	$ 465,650,235
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Demand deposits	$	$	$ 27,692,860
Savings deposits			156,415,802
Money market and NOW accounts			97,928,760
Time certificates of deposit			118,945,278
Total deposits			400,982,700
Federal funds purchased			500,000
Repurchase agreements			4,595,607
Other borrowed funds	3,972,280	315,001	8,325,992
Junior Subordinated Debentures			
Accrued interest payable	1,775,112	117,671	132,291
Other liabilities	958,164	29,698	4,388,713
Total liabilities	6,705,556	462,370	418,925,303
Stockholders' equity:			
Common stock	1,000	1,000	1,680,000
Surplus			7,090,826
Undivided profits and capital reserves	1,141,595	757,771	37,213,496
Treasury stock at cost			
Unearned KSOP shares			
Accumulated other comprehensive income (loss):			
Net unrealized depreciation on derivatives used for cash flow hedges			
Net unrealized appreciation on securities available for sale			740,610
Total stockholders' equity	1,142,595	758,771	46,724,932
Total liabilities and stockholders' equity	$ 7,848,151	$ 1,221,141	$ 465,650,235

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 3,723	$ 1,000	$ 552,722	($ 369,389)	$ 16,965,683
				40,459,795
3,723	1,000	552,722	(369,389)	57,425,478
		314,450		105,643,113
46,724,932		46,946,655	(95,355,953)	1,273,350
46,724,932		47,261,105	(95,355,953)	106,916,463
				3,330,820
			(4,287,281)	264,226,240
				(501,436)
				(5,818,488)
			(4,287,281)	257,906,316
				15,608,975
		558	(1,892,783)	1,637,393
				4,219,975
		93,781	1,025,477	21,431,999
$ 46,728,655	$ 1,000	$ 47,908,166	($ 100,879,929)	$ 468,477,419
$	$	$	($ 369,389)	$ 27,323,471
				156,415,802
				97,928,760
				118,945,278
			(369,389)	400,613,311
				500,000
				4,595,607
		1,142,133	(4,287,281)	9,468,125
		7,217,000		7,217,000
			(1,892,783)	132,291
		290,790	1,025,477	6,692,842
		8,649,923	(5,523,976)	429,219,176
7,500	1,000	5,286,075	(1,690,500)	5,286,075
20,910,885	256,373	13,036,584	(28,258,084)	13,036,584
25,069,660	(256,373)	22,344,676	(63,926,149)	22,344,676
		(882,000)		(882,000)
		(1,085,657)		(1,085,657)
		(182,045)		(182,045)
740,610		740,610	(1,481,220)	740,610
46,728,655	1,000	39,258,243	(95,355,953)	39,258,243
$ 46,728,655	$ 1,000	$ 47,908,166	($ 100,879,929)	$ 468,477,419

Consolidating Statement of Income

AmeriBancShares, Inc. and Subsidiaries, December 31, 2011

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Interest income:			
Interest and fees on loans	$ 267,843	$	$ 15,468,642
Interest on investment securities			1,993,886
Interest on interest bearing deposits in banks			141,262
Total interest income	267,843		17,603,790
Interest expense:			
Interest on deposits:			
Savings			133,533
Money market and NOW accounts			240,867
Time			1,759,166
Total interest on deposits			2,133,566
Interest on federal funds purchased			231
Interest on repurchase agreements			5,625
Interest on other borrowed funds	33,067	2,849	438,149
Interest on Junior Subordinated Debentures			
Total interest expense	33,067	2,849	2,577,571
Net interest income	234,776	(2,849)	15,026,219
Provision for loan losses	12,000		375,000
Net interest income after provision for loan losses	222,776	(2,849)	14,651,219
Other operating income:			
Service charges on deposit accounts			568,690
Trust fee income			3,859,459
Gain on sale of mortgage loans			1,231,983
Gain on sale of other real estate owned			193,507
Gain on sale of securities			4,106
Rent income			
Earnings from subsidiary			267,281
Other, net	894,600	954,636	1,138,564
Total other operating income	894,600	954,636	7,263,590
Other operating expenses:			
Salaries and bonuses	183,281	341,374	6,305,040
Employee benefits	38,362	86,813	3,240,439
Premises and equipment	18,070	64,617	2,326,082
Advertising	5,403	25,739	229,999
Data processing expense			617,732
Printing, stationery and supplies	1,278	12,960	218,163
Professional fees	3,110		323,940
Other operating expenses	704,260	250,874	4,068,892
Total other operating expenses	953,764	782,377	17,330,287
Income before income taxes	163,612	169,410	4,584,522
Provision for income taxes	10,835	54,906	1,223,562
Net income	$ 152,777	$ 114,504	$ 3,360,960

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$	$	$	($ 35,916)	$ 15,700,569
		586		1,994,472
				141,262
		586	(35,916)	17,836,303
				133,533
				240,867
				1,759,166
				2,133,566
				231
				5,625
			(35,916)	438,149
		397,444		397,444
		397,444	(35,916)	2,975,015
		(396,858)		14,861,288
				387,000
		(396,858)		14,474,288
				568,690
			(1,343)	3,858,116
				1,231,982
			(70,060)	123,447
				4,106
			858,450	858,450
3,360,960		3,360,577	(6,988,818)	
			(913,410)	2,074,391
3,360,960		3,360,577	(7,115,181)	8,719,182
				6,829,695
				3,365,614
			(54,960)	2,353,809
				261,141
				617,732
				232,401
				327,050
580		1,343	(71,403)	4,954,546
580		1,343	(126,363)	18,941,988
3,360,380		2,962,376	(6,988,818)	4,251,482
(197)		(135,388)		1,153,718
$ 3,360,577	$	$ 3,097,764	($ 6,988,818)	$ 3,097,764

Consolidating Statement of Cash Flows

AmeriBancShares, Inc. and Subsidiaries, December 31, 2011

	American National Leasing Co.	Archer Title of Texas, Inc.	American National Bank
Cash flows from operating activities:			
Net income	$ 152,777	$ 114,504	$ 3,360,960
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:			
Depreciation	680,092	19,028	982,303
Amortization of intangibles			195,384
Provision for loan losses	12,000		375,000
Provision for other real estate owned losses			324,826
Provision for deferred taxes	165,211	336	195,150
Gain on sale of securities available for sale			(4,106)
Gain on sale of mortgage loans			(1,231,983)
Gain on sale of other real estate owned			(123,447)
Gain on disposal of premises and equipment	(15,903)		(1,427)
Amortization of premium on investment securities			579,594
Accretion of discount on investment securities			(67,730)
Proceeds from sales of mortgage loans			65,406,370
Mortgage loans funded			(64,113,650)
Unconsolidated earnings from subsidiaries			(267,281)
(Increase) decrease in:			
Prepaid expenses	1,407	2,679	732,624
Accrued interest receivable			392,965
Income taxes receivable			(26,727)
Miscellaneous other assets	(12,214)	(128)	(162,062)
Increase (decrease) in:			
Accrued interest payable	33,067	2,849	(140,226)
Other taxes payable			18,535
Other accrued expenses	164,472	9,090	(370,014)
Net cash provided by (used in) operating activities	1,180,909	148,358	6,055,058
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale			37,780,618
Proceeds from sales of securities available for sale			7,833,747
Proceeds from sales of other securities			1,317,500
Purchase of securities available for sale			(70,291,637)
Purchase of other securities			(6,300)
Purchase of cash value life insurance			(508,539)
Net (increase) decrease in loans	(1,302,954)		39,046,501
Purchase of premises and equipment	(1,194,910)	(233,869)	(402,685)
Proceeds from sale of premises and equipment	582,848		47,700
Proceeds from sale of other real estate owned			6,620,405
Net cash provided by (used in) investing activities	(1,915,016)	(233,869)	21,437,310
Cash flows from financing activities:			
Net increase in deposits			13,083
Net increase in repurchase agreements			2,107,229
Net increase (decrease) in other borrowed funds	650,000		(2,680,303)
Net cash provided by (used in) financing activities	650,000		(559,991)
Net increase (decrease) in cash and cash equivalents	(84,107)	(85,511)	26,932,377
Cash and cash equivalents at beginning of period	398,187	127,098	29,949,378
Cash and cash equivalents at end of period	$ 314,080	$ 41,587	$ 56,881,755

AmeriBancShares of Delaware, Inc.	ANB Realty Corp.	AmeriBancShares, Inc.	Reclassification and Elimination Entries	Consolidated
$ 3,360,577	$	$ 3,097,764	($ 6,988,818)	$ 3,097,764
				1,681,423
				195,384
				387,000
				324,826
				360,697
				(4,106)
				(1,231,983)
				(123,447)
				(17,330)
				579,594
				(67,730)
				65,406,370
				(64,113,650)
(3,360,960)		(3,360,577)	6,988,818	
				736,710
		(468)	35,916	428,413
		(11)		(26,738)
				(174,404)
			(35,916)	(140,226)
		3,079		21,614
				(196,452)
(383)		(260,213)		7,123,729
				37,780,618
		251,343		8,085,090
				1,317,500
		(32)		(70,291,669)
				(6,300)
				(508,539)
			650,000	38,393,547
				(1,831,464)
				630,548
				6,620,405
		251,311	650,000	20,189,736
			178,520	191,603
				2,107,229
			(650,000)	(2,680,303)
			(471,480)	(381,471)
(383)		(8,902)	178,520	26,931,994
4,106	1,000	561,624	(547,909)	30,493,484
$ 3,723	$ 1,000	$ 552,722	($ 369,389)	$ 57,425,478

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Of American National Bank

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Natalie Eubanks
Assistant Vice President

John R. Johnston
Assistant Vice President

Chris Rogers
Assistant Vice President

Angela Haisten
Banking Officer

Rebecca Lammers
Banking Officer

Platinum Circle

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Coordinator/Administrative Officer

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Mike Cuba
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Marva Pieratt
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Archer City Office

Amos Deerinwater
Branch Manager

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Vice President/Mortgage Loans

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*Advisory Director

Strength and Stability

Thanks to you and our customers, American National Bank has been a strong, stable, and trusted part of this community for over 35 years and we look forward to a future of strength and stability in the communities we serve.

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AmeriBancShares, Inc.
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