

AMES NATIONAL CORP  
Form 10-Q  
August 09, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended June 30, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-32637

AMES NATIONAL CORPORATION  
(Exact Name of Registrant as Specified in Its Charter)

IOWA  
(State or Other Jurisdiction of Incorporation or Organization)

42-1039071  
(I. R. S. Employer Identification Number)

405 FIFTH STREET  
AMES, IOWA 50010  
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (515) 232-6251

NOT APPLICABLE  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

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filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK, \$2.00 PAR VALUE	9,310,913
(Class)	(Shares Outstanding at July 27, 2012)

## AMES NATIONAL CORPORATION

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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(unaudited)

ASSETS	June 30, 2012	December 31, 2011
Cash and due from banks	\$22,610,045	\$ 22,829,291
Interest bearing deposits in financial institutions	47,084,933	33,741,406
Securities available-for-sale	561,082,556	508,624,622
Loans receivable, net	487,437,889	438,650,837
Loans held for sale	1,881,226	1,212,620
Bank premises and equipment, net	12,038,794	11,362,626
Accrued income receivable	6,829,553	6,467,509
Other real estate owned	8,661,061	9,538,440
Core deposit intangible, net	1,450,816	-
Goodwill	5,600,749	-
Other assets	3,046,378	3,136,482
<b>Total assets</b>	<b>\$1,157,724,000</b>	<b>\$ 1,035,563,833</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits		
Demand, noninterest bearing	\$ 149,898,320	\$ 126,059,239
NOW accounts	276,405,263	229,810,463
Savings and money market	254,983,000	216,768,048
Time, \$100,000 and over	100,817,049	107,944,525
Other time	162,960,408	138,123,116
<b>Total deposits</b>	<b>945,064,040</b>	<b>818,705,391</b>
Securities sold under agreements to repurchase	31,541,867	41,696,585
Federal Home Loan Bank (FHLB) advances	14,645,456	15,179,335
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,396,637	1,210,419
Deferred income taxes	1,517,571	885,433
Accrued expenses and other liabilities	3,523,482	3,329,285
<b>Total liabilities</b>	<b>1,017,689,053</b>	<b>901,006,448</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,310,913 shares as of June 30, 2012 and December 31, 2011	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	89,623,377	85,564,078
Accumulated other comprehensive income-net unrealized gain on securities available-for-sale	10,911,016	9,492,753
	(2,016,498 )	(2,016,498 )

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Treasury stock, at cost; 122,002 shares at June 30, 2012 and December 31, 2011, respectively

Total stockholders' equity	140,034,947	134,557,385
Total liabilities and stockholders' equity	\$1,157,724,000	\$ 1,035,563,833

See Notes to Consolidated Financial Statements.

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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans, including fees	\$6,245,560	\$5,999,888	\$12,056,317	\$11,740,320
Securities:				
Taxable	1,593,490	1,796,068	3,218,134	3,458,537
Tax-exempt	1,698,430	1,630,994	3,349,145	3,267,959
Interest bearing deposits and federal funds sold	132,926	116,767	258,179	224,693
Total interest income	9,670,406	9,543,717	18,881,775	18,691,509
Interest expense:				
Deposits	1,153,164	1,382,703	2,322,482	2,753,614
Other borrowed funds	319,638	354,265	649,136	732,907
Total interest expense	1,472,802	1,736,968	2,971,618	3,486,521
Net interest income	8,197,604	7,806,749	15,910,157	15,204,988
Provision for loan losses	64,412	404,788	115,705	404,788
Net interest income after provision for loan losses	8,133,192	7,401,961	15,794,452	14,800,200
Noninterest income:				
Trust services income	530,942	557,156	1,035,714	1,071,700
Service fees	393,773	364,660	731,212	694,218
Securities gains, net	10,535	164,971	318,068	586,126
Gain on sale of loans held for sale	356,855	207,523	641,894	428,388
Merchant and ATM fees	239,292	195,623	536,250	371,494
Other noninterest income	199,535	151,349	368,382	306,896
Total noninterest income	1,730,932	1,641,282	3,631,520	3,458,822
Noninterest expense:				
Salaries and employee benefits	3,200,188	2,955,348	6,180,807	5,721,856
Data processing	564,874	481,003	1,074,204	926,818
Occupancy expenses	348,071	322,307	707,755	716,465
FDIC insurance assessments	164,755	205,754	319,216	478,496
Other real estate owned, net	342,415	120,001	440,793	166,136
Core deposit intangible amortization	49,184	-	49,184	-
Other operating expenses, net	825,441	676,957	1,561,752	1,331,548
Total noninterest expense	5,494,928	4,761,370	10,333,711	9,341,319
Income before income taxes	4,369,196	4,281,873	9,092,261	8,917,703
Provision for income taxes	1,059,780	1,038,501	2,239,687	2,201,810

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Net income	\$3,309,416	\$3,243,372	\$6,852,574	\$6,715,893
Basic and diluted earnings per share	\$0.36	\$0.34	\$0.74	\$0.71
Dividends declared per share	\$0.15	\$0.13	\$0.30	\$0.26

See Notes to Consolidated Financial Statements.



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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$3,309,416	\$3,243,372	\$6,852,574	\$6,715,893
Other comprehensive income, before tax:				
Unrealized gains on securities without other than temporary impairment before tax:				
Unrealized holding gains arising during the period	1,610,451	6,347,579	2,569,279	8,563,217
Less: reclassification adjustment for gains realized in net income	10,535	164,971	318,068	586,126
Other comprehensive income before tax	1,599,916	6,182,608	2,251,211	7,977,091
Tax expense related to other comprehensive income	(591,968 )	(2,287,565)	(832,948 )	(2,951,525 )
Other comprehensive income, net of tax	1,007,948	3,895,043	1,418,263	5,025,566
Comprehensive income	\$4,317,364	\$7,138,415	\$8,270,837	\$11,741,459

See Notes to Consolidated Financial Statements.

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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

Six Months Ended June 30, 2012 and 2011

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2010	\$ 18,865,830	\$ 22,651,222	\$ 76,519,493	\$ 3,326,479	\$ -	\$ 121,363,024
Net income	-	-	6,715,893	-	-	6,715,893
Other comprehensive income	-	-	-	5,025,566	-	5,025,566
Cash dividends declared, \$0.26 per share	-	-	(2,452,558 )	-	-	(2,452,558 )
Purchase of 22,033 shares of treasury stock	-	-	-	-	(374,533 )	(374,533 )
Balance, June 30, 2011	18,865,830	22,651,222	80,782,828	8,352,045	(374,533 )	130,277,392
Balance, December 31, 2011	18,865,830	22,651,222	85,564,078	9,492,753	(2,016,498 )	\$ 134,557,385
Net income	-	-	6,852,574	-	-	6,852,574
Other comprehensive income	-	-	-	1,418,263	-	1,418,263
Cash dividends declared, \$0.30 per share	-	-	(2,793,275 )	-	-	(2,793,275 )
Balance, June 30, 2012	\$ 18,865,830	\$ 22,651,222	\$ 89,623,377	\$ 10,911,016	\$ (2,016,498 )	\$ 140,034,947

See Notes to Consolidated Financial Statements.

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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Six Months Ended June 30, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$6,852,574	\$6,715,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	115,705	404,788
Provision for off-balance sheet commitments	6,000	5,000
Amortization, net of securities available for sale	3,036,365	2,461,727
Amortization of core deposit intangible asset	49,184	-
Depreciation	363,147	336,162
Credit for deferred income taxes	(200,810 )	(185,547 )
Securities gains, net	(318,068 )	(586,126 )
Impairment of other real estate owned	296,141	163,443
Loss (gain) on sale of other real estate owned, net	46,867	(98,833 )
Change in assets and liabilities:		
Decrease (increase) in loans held for sale	(668,606 )	439,654
Decrease (increase) in accrued income receivable	152,716	(116,698 )
Decrease in other assets	82,645	274,117
Increase in accrued expenses and other liabilities	68,587	262,909
Net cash provided by operating activities	9,882,447	10,076,489
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available-for-sale	(130,819,189)	(125,856,535)
Proceeds from sale of securities available-for-sale	10,032,564	20,926,918
Proceeds from maturities and calls of securities available-for-sale	67,701,604	84,465,457
Net increase in interest bearing deposits in financial institutions	(13,343,527 )	(9,041,073 )
Net decrease in federal funds sold	-	2,968,000
Net increase in loans	(2,972,374 )	(7,504,207 )
Net proceeds from the sale of other real estate owned	796,407	576,252
Purchase of bank premises and equipment, net	(167,356 )	(204,439 )
Other changes in other real estate owned	-	(47,468 )
Cash aquired, net of cash paid, for aquired bank offices	44,303,137	-
Net cash used in investing activities	(24,468,734 )	(33,717,095 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in deposits	27,662,695	37,913,669
Decrease in federal funds purchased and securities sold under agreements to repurchase	(10,154,718 )	(8,038,240 )
Payments from other short-term borrowings, net	-	(1,131,995 )
Payments on FHLB borrowings	(533,879 )	(532,818 )
Purchase of treasury stock	-	(374,533 )
Dividends paid	(2,607,057 )	(2,263,900 )
Net cash provided by financing activities	14,367,041	25,572,183

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Net increase (decrease) in cash and due from banks	(219,246	)	1,931,577
<b>CASH AND DUE FROM BANKS</b>			
Beginning	22,829,291		15,478,133
Ending	\$22,610,045		\$17,409,710

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## AMES NATIONAL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Six Months Ended June 30, 2012 and 2011

	2012	2011
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for:		
Interest	\$2,999,826	\$3,456,462
Income taxes	2,515,403	2,345,541
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>		
Transfer of loans to other real estate owned	\$262,036	\$213,586
<b>Business Combination:</b>		
Fair value of loans receivable acquired	\$46,103,022	\$-
Fair value of bank premises and equipment acquired	864,500	-
Fair value of other tangible assets acquired	514,760	-
Goodwill	5,600,749	-
Core deposit intangible asset	1,500,000	-
Deposits assumed	98,766,558	-
Other liabilities assumed	119,610	-

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

The consolidated financial statements for the three and six month periods ended June 30, 2012 and 2011 are unaudited. In the opinion of the management of Ames National Corporation (the "Company"), these financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary to present fairly these consolidated financial statements. The results of operations for the interim periods are not necessarily indicative of results which may be expected for an entire year. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the requirements for interim financial statements. The interim financial statements and notes thereto should be read in conjunction with the year-end audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the "Annual Report"). The consolidated financial statements include the accounts of the Company and its wholly-owned banking subsidiaries (the "Banks"). All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill and core deposit intangible asset: Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. At June 30, 2012, the Company believes there is not any potential impairment due to the proximity of the acquisition to June 30, 2012.

The only other significant intangible asset is a core deposit intangible. The core deposit intangible asset is determined to have a definite life and is amortized over the estimated useful life. The core deposit intangible asset is customer based relationships valuation attributed to the expectation of a lower cost versus alternative funds. The core deposit intangible asset is reviewed for impairment whenever events occur or circumstances indicate that the carrying amount may not be recoverable.

Fair value of financial instruments: The following methods and assumptions were used by the Company in estimating fair value disclosures:

Cash and due from banks and interest bearing deposits in financial institutions: The recorded amount of these assets approximates fair value.

Securities available-for-sale: Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the securities credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as

required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

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Loans held for sale: The fair value of loans held for sale is based on prevailing market prices.

Deposit liabilities: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW and money market accounts, are equal to the amount payable on demand as of the respective balance sheet date. Fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other long-term borrowings: Fair values of FHLB advances and other long-term borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and interest payable approximate fair value.

New Accounting Pronouncements:

In June, 2011, the FASB issued guidance on comprehensive income to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the guidance requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The guidance is effective for annual periods beginning after December 15, 2011, and did not have a significant impact on the Company's financial statements.

In April, 2011, the FASB issued guidance which modifies certain aspects contained in the Receivables topic of FASB ASC 310. The standard clarifies the guidance on evaluating whether a receivable term modification constitutes a troubled debt restructuring (TDR). The amendments in this guidance was effective for the first interim or annual period beginning on or after June 15, 2011, and was applied retrospectively to the beginning of the annual period of adoption. The adoption did not have a material impact on the Company's consolidated financial statements.

In May, 2011, the FASB issued amended guidance which eliminates terminology difference between U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS") on the measurement of fair value and the related fair value disclosures. While largely consistent with existing fair value measurement principles and disclosures, the changes were made as part of the continuing efforts to converge GAAP and IFRS. The adoption of this guidance was effective for annual periods beginning after December 15, 2011, and did not have a significant impact on the Company's financial statements.

## 2. Branch Acquisition

On April 27, 2012 Reliance State Bank (RSB) completed the purchase of two bank branches of Liberty Bank, F.S.B. located in Garner and Klemme, Iowa. This acquisition was consistent with the Bank's strategy to strengthen and expand its Iowa market share. The acquired assets and liabilities were recorded at fair value at the date of acquisition and were reflected in the June 30, 2012 financial statements as such. These branches were purchased for cash consideration of \$5.4 million. As a result of the acquisition, the Company recorded a core deposit intangible asset of



\$1,500,000 and goodwill of \$5,601,000. The results of operations for this acquisition have been included since the transaction date of April 27, 2012. None of these purchased loans have shown evidence of credit deterioration since origination. Non-routine expenses associated with this transaction were approximately \$200,000 for the six months ended June 30, 2012.

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The following table summarizes the fair value of the total consideration transferred as a part of the acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

	April 27, 2012
Cash consideration transferred	\$ 5,400,000
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 49,703,137
Loans receivable	46,103,022
Accrued interest receivable	514,760
Bank premises and equipment	864,500
Core deposit intangible asset	1,500,000
Deposits	(98,766,558)
Accrued interest payable and other liabilities	(119,610 )
Total identifiable net liabilities	\$ (200,749 )
Goodwill	\$ 5,600,749

On April 27, 2012, the contractual balance of loans receivable acquired was \$46,972,000 and the contractual balance of the deposits assumed was \$98,109,000. Loans receivable acquired include agricultural real estate, commercial real estate, 1-4 family real estate, commercial operating, agricultural operating and consumer loans determined to be pass rated.

The core deposit intangible asset is amortized to expense on a declining basis over a period of seven years. The loan market valuation is accreted to income on a declining basis over a nine year period. The time deposits market valuation is amortized to expense on a declining basis over a three year period.

The excess cash in the transaction has been utilized through purchases within RSB's investment portfolio. Going forward any excess cash will be used in the form of continued investment growth and to fund loan growth.

### 3. Dividends

On May 9, 2012, the Company declared a cash dividend on its common stock, payable on August 15, 2012 to stockholders of record as of August 1, 2012, equal to \$0.15 per share.

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## 4. Earnings Per Share

Earnings per share amounts were calculated using the weighted average shares outstanding during the periods presented. The weighted average outstanding shares for the three months ended June 30, 2012 and 2011 were 9,310,913 and 9,427,711, respectively. The weighted average outstanding shares for the six months ended June 30, 2012 and 2011 were 9,310,913 and 9,430,362, respectively. The Company had no potentially dilutive securities outstanding during the periods presented.

## 5. Off-Balance Sheet Arrangements

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

## 6. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments as described in Note 1 were as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and due from banks	\$22,610,045	\$22,610,000	\$22,829,291	\$22,829,000
Interest bearing deposits	47,084,933	47,085,000	33,741,406	33,741,000
Securities available-for-sale	561,082,556	561,083,000	508,624,622	508,625,000
Loans receivable, net	487,437,889	494,340,000	438,650,837	445,240,000
Loans held for sale	1,881,226	1,881,000	1,212,620	1,213,000
Accrued income receivable	6,829,553	6,830,000	6,467,509	6,468,000
<b>Financial liabilities:</b>				
Deposits	\$945,064,040	\$948,638,000	\$818,705,391	\$821,979,000
Securities sold under agreements to repurchase	31,541,867	31,542,000	41,696,585	41,697,000
FHLB and other long-term borrowings	34,645,456	37,997,000	35,179,335	38,705,000
Accrued interest payable	774,639	775,000	802,847	803,000

The methodology used to determine fair value as of June 30, 2012 did not change from the methodology used in the December 31, 2011 Annual Report.

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7. Fair Value Measurements

Assets and liabilities carried at fair value are required to be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatility, prepayment speeds, credit risk); or inputs derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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The following table presents the balances of assets measured at fair value on a recurring basis by level as of June 30, 2012 and December 31, 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
U.S. government agencies	\$48,072,000	\$-	\$48,072,000	\$-
U.S. government mortgage-backed securities	202,663,000	-	202,663,000	-
State and political subdivisions	283,509,000	-	283,509,000	-
Corporate bonds	23,364,000	-	23,364,000	-
Equity securities, financial industry common stock	625,000	625,000	-	-
Equity securities, other	2,850,000	-	2,850,000	-
	\$561,083,000	\$625,000	\$560,458,000	\$-
2011				
U.S. government agencies	\$63,200,000	\$-	\$63,200,000	\$-
U.S. government mortgage-backed securities	159,855,000	-	159,855,000	-
State and political subdivisions	259,393,000	-	259,393,000	-
Corporate bonds	20,387,000	-	20,387,000	-
Equity securities, financial industry common stock	2,810,000	2,810,000	-	-
Equity securities, other	2,980,000	-	2,980,000	-
	\$508,625,000	\$2,810,000	\$505,815,000	\$-

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Other securities available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

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Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the balance sheet (after specific reserves) by caption and by level with the valuation hierarchy as of June 30, 2012 and December 31, 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
Loans receivable	\$3,054,000	\$-	\$-	\$3,054,000
Other real estate owned	8,661,000	-	-	8,661,000
<b>Total</b>	<b>\$11,715,000</b>	<b>\$-</b>	<b>\$-</b>	<b>\$11,715,000</b>
2011				
Loans receivable	\$2,453,000	\$-	\$-	\$2,453,000
Other real estate owned	9,538,000	-	-	9,538,000
<b>Total</b>	<b>\$11,991,000</b>	<b>\$-</b>	<b>\$-</b>	<b>\$11,991,000</b>

**Loans:** Loans in the tables above consist of impaired credits held for investment. In accordance with the loan impairment guidance, impairment was measured based on the fair value of collateral less estimated selling costs for collateral dependent loans. Fair value for impaired loans is based upon appraised values of collateral adjusted for trends observed in the market. A valuation allowance was recorded for the excess of the loan's recorded investment over the amounts determined by the collateral value method. This valuation is a component of the allowance for loan losses. The Company considers these fair values Level 3.

**Other Real Estate Owned:** Other real estate owned in the table above consists of real estate obtained through foreclosure. Other real estate owned is recorded at fair value less estimated selling costs, at the date of transfer. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of other real estate owned is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. A valuation allowance was recorded for the excess of the asset's recorded investment over the amount determined by the fair value, less estimated selling costs. This valuation allowance is a component of the allowance for other real estate owned. The Company considers these fair values Level 3.

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## 8. Debt and Equity Securities

The amortized cost of securities available-for-sale and their fair values are summarized below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012:				
U.S. government agencies	\$ 45,588,393	\$ 2,483,758	\$ -	\$48,072,151
U.S. government mortgage-backed securities	198,366,067	4,441,212	(144,345 )	202,662,934
State and political subdivisions	273,353,650	10,413,275	(258,537 )	283,508,388
Corporate bonds	22,715,821	696,674	(48,613 )	23,363,882
Equity securities, financial industry common stock	889,552	-	(264,351 )	625,201
Equity securities, other	2,850,000	-	-	2,850,000
	\$ 543,763,483	\$ 18,034,919	\$ (715,846 )	\$561,082,556

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011:				
U.S. government agencies	\$ 60,868,023	\$ 2,341,093	\$ (8,720 )	\$63,200,396
U.S. government mortgage-backed securities	156,310,052	3,643,552	(99,143 )	159,854,461
State and political subdivisions	249,707,887	9,788,715	(103,279 )	259,393,323
Corporate bonds	20,288,210	465,331	(366,798 )	20,386,743
Equity securities, financial industry common stock	3,402,389	-	(592,889 )	2,809,500
Equity securities, other	2,980,199	-	-	2,980,199
	\$ 493,556,760	\$ 16,238,691	\$ (1,170,829 )	\$508,624,622

The proceeds, gains and losses from securities available-for-sale for the three and six months ended June 30, 2012 and 2011 are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Proceeds from sales of securities available-for-sale	\$1,384,247	\$7,843,822	\$10,032,564	\$20,926,918
Gross realized gains on securities available-for-sale	10,535	169,279	318,298	590,934
Gross realized losses on securities available-for-sale	-	4,308	230	4,808
Tax provision applicable to net realized gains on securities available-for-sale	4,000	62,000	119,000	219,000

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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 June 30, 2012 and December 31, 2011, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2012:						
Securities available-for-sale:						
U.S. government mortgage-backed securities	\$28,224,416	\$(144,345 )	\$-	\$-	\$28,224,416	\$(144,345 )
State and political subdivisions	26,633,752	(256,612 )	210,464	(1,925 )	26,844,216	(258,537 )
Corporate bonds	3,718,417	(48,613 )	-	-	3,718,417	(48,613 )
Equity securities, financial industry common stock	-	-	889,552	(264,351 )	889,552	(264,351 )
	\$58,576,585	\$(449,570 )	\$1,100,016	\$(266,276 )	\$59,676,601	\$(715,846 )

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011:						
Securities available-for-sale:						
U.S. government agencies	\$4,256,053	\$(8,720 )	\$-	\$-	\$4,256,053	\$(8,720 )
U.S. government mortgage-backed securities	20,579,759	(99,143 )	-	-	20,579,759	(99,143 )
State and political subdivisions	6,838,342	(102,718 )	454,850	(561 )	7,293,192	(103,279 )
Corporate bonds	6,571,481	(366,798 )	-	-	6,571,481	(366,798 )
Equity securities, financial industry common stock	-	-	2,809,500	(592,889 )	2,809,500	(592,889 )
	\$38,245,635	\$(577,379 )	\$3,264,350	\$(593,450 )	\$41,509,985	\$(1,170,829 )

Gross unrealized losses on debt securities totaled \$451,495 as of June 30, 2012. These unrealized losses are generally due to changes in interest rates or general market conditions. 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. Management concluded that the gross unrealized losses on debt securities were temporary. Gross unrealized losses on equity securities totaled \$264,351 as of June 30, 2012. Management analyzed the financial condition of the equity issuers and considered the general market conditions and other factors in concluding that the gross unrealized losses on equity securities were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and management's assessments will occur in the near term and that such changes could materially affect the amounts reported in the Company's financial statements.



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## 9. Loan Receivable and Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three and six months ended June 30, 2012 and 2011 is as follows:

	Three Months Ended June 30 2012							Total
	Construction	1-4 Family	Commercial	Agricultural		Consumer	and Other	
	Real Estate	Residential Real Estate		Real Estate	Real Estate			
Balance, March 31, 2012	\$ 817,000	\$ 1,385,000	\$ 2,817,000	\$ 516,000	\$ 1,417,000	\$ 804,000	\$ 210,000	\$ 7,966,000
Provision (credit) for loan losses	(78,000 )	88,000	95,000	(50,000 )	-	16,000	(7,000 )	64,000
Recoveries of loans charged-off	-	-	-	-	1,000	-	12,000	13,000
Loans charged-off	-	-	-	-	(12,000 )	-	(10,000 )	(22,000 )
Balance, June 30, 2012	\$ 739,000	\$ 1,473,000	\$ 2,912,000	\$ 466,000	\$ 1,406,000	\$ 820,000	\$ 205,000	\$ 8,021,000

	Six Months Ended June 30 2012							Total
	Construction	1-4 Family	Commercial	Agricultural		Consumer	and Other	
	Real Estate	Residential Real Estate		Real Estate	Real Estate			
Balance, December 31, 2011	\$ 793,000	\$ 1,402,000	\$ 2,859,000	\$ 501,000	\$ 1,352,000	\$ 764,000	\$ 234,000	\$ 7,905,000
Provision (credit) for loan losses	(54,000 )	78,000	53,000	(35,000 )	61,000	56,000	(43,000 )	116,000
Recoveries of loans charged-off	-	3,000	-	-	5,000	-	33,000	41,000
Loans charged-off	-	(10,000 )	-	-	(12,000 )	-	(19,000 )	(41,000 )
Balance, June 30, 2012	\$ 739,000	\$ 1,473,000	\$ 2,912,000	\$ 466,000	\$ 1,406,000	\$ 820,000	\$ 205,000	\$ 8,021,000

	Three Months Ended June 30 2011							Total
	Construction	1-4 Family	Commercial	Agricultural		Consumer	and Other	
	Real Estate	Residential Real Estate		Real Estate	Real Estate			
Balance, March 31, 2011	\$ 766,000	\$ 1,421,000	\$ 2,728,000	\$ 516,000	\$ 1,120,000	\$ 702,000	\$ 274,000	\$ 7,527,000
	(19,000 )	22,000	111,000	9,000	312,000	3,000	(33,000 )	405,000

Provision (credit) for loan losses								
Recoveries of loans charged-off	-	-	-	-	1,000	4,000	4,000	9,000
Loans charged-off	-	(6,000 )	(51,000 )	-	-	(6,000 )	(2,000 )	(65,000 )
Balance, June 30, 2011	\$747,000	\$1,437,000	\$2,788,000	\$525,000	\$1,433,000	\$703,000	\$243,000	\$7,876,000

Six Months Ended June 30, 2011

	Construction 1-4 Family		Agricultural			Consumer		Total
	Real Estate	Residential Real Estate	Commercial Real Estate	Real Estate	Commercial	Agricultural	and Other	
Balance, December 31, 2010	\$731,000	\$1,404,000	\$2,720,000	\$486,000	\$1,152,000	\$735,000	\$293,000	\$7,521,000
Provision (credit) for loan losses	16,000	39,000	119,000	39,000	266,000	(29,000 )	(45,000 )	405,000
Recoveries of loans charged-off	-	-	-	-	15,000	7,000	7,000	29,000
Loans charged-off	-	(6,000 )	(51,000 )	-	-	(10,000 )	(12,000 )	(79,000 )
Balance, June 30, 2011	\$747,000	\$1,437,000	\$2,788,000	\$525,000	\$1,433,000	\$703,000	\$243,000	\$7,876,000

Allowance for loan losses disaggregated on the basis of impairment analysis method as of June 30, 2012 and December 31, 2011 is as follows:

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Allowance for loan losses disaggregated on the basis of impairment analysis method as of June 30, 2012 and December 31, 2011 is as follows:

2012	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	\$ 100,000	\$ 174,000	\$ 154,000	\$ -	\$ 438,000	\$ -	\$ 4,000	\$ 870,000
Collectively evaluated for impairment	639,000	1,299,000	2,758,000	466,000	968,000	820,000	201,000	7,151,000
Balance June 30 2012	\$ 739,000	\$ 1,473,000	\$ 2,912,000	\$ 466,000	\$ 1,406,000	\$ 820,000	\$ 205,000	\$ 8,021,000

2011	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	\$ 165,000	\$ 111,000	\$ 199,000	\$ -	\$ 400,000	\$ -	\$ 1,000	\$ 876,000
Collectively evaluated for impairment	628,000	1,291,000	2,660,000	501,000	952,000	764,000	233,000	7,029,000
Balance December 31, 2011	\$ 793,000	\$ 1,402,000	\$ 2,859,000	\$ 501,000	\$ 1,352,000	\$ 764,000	\$ 234,000	\$ 7,905,000

Loans receivable disaggregated on the basis of impairment analysis method as of June 30, 2012 and December 31, 2011 is as follows:

2012	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Individually evaluated for impairment	\$ 2,176,000	\$ 2,087,000	\$ 2,607,000	\$ -	\$ 712,000	\$ -	\$ 7,000	\$ 7,582,000
Collectively evaluated for impairment	25,177,000	98,099,000	157,927,000	38,500,000	83,542,000	66,838,000	17,853,000	489,936,000
Balance June 30, 2012	\$ 27,353,000	\$ 100,186,000	\$ 160,534,000	\$ 38,500,000	\$ 84,254,000	\$ 66,838,000	\$ 17,860,000	\$ 495,525,000
2011	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total

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	Real Estate	Residential Real Estate	Real Estate	Real Estate			and Other	
Individually evaluated for impairment	\$2,163,000	\$2,346,000	\$2,703,000	\$-	\$590,000	\$-	\$1,000	\$7,8
Collectively evaluated for impairment	21,468,000	91,916,000	144,797,000	32,503,000	75,368,000	52,179,000	20,753,000	43
Balance December 31, 2011	\$23,631,000	\$94,262,000	\$147,500,000	\$32,503,000	\$75,958,000	\$52,179,000	\$20,754,000	\$44

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A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Company will apply its normal loan review procedures to identify loans that should be evaluated for impairment. The following is a recap of impaired loans, on a disaggregated basis, at June 30, 2012 and December 31, 2011:

2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no specific reserve recorded:			
Real estate - construction	\$ 1,587,000	\$ 1,587,000	\$ -
Real estate - 1 to 4 family residential	1,439,000	1,439,000	-
Real estate - commercial	639,000	639,000	-
Real estate - agricultural	-	-	-
Commercial	-	-	-
Agricultural	-	-	-
Consumer and other	-	-	-
Total loans with no specific reserve:	3,665,000	3,665,000	-
With an allowance recorded:			
Real estate - construction	589,000	589,000	100,000
Real estate - 1 to 4 family residential	648,000	648,000	174,000
Real estate - commercial	1,968,000	1,968,000	154,000
Real estate - agricultural	-	-	-
Commercial	712,000	712,000	438,000
Agricultural	-	-	-
Consumer and other	7,000	7,000	4,000
Total loans with specific reserve:	3,924,000	3,924,000	870,000
Total			
Real estate - construction	2,176,000	2,176,000	100,000
Real estate - 1 to 4 family residential	2,087,000	2,087,000	174,000
Real estate - commercial	2,607,000	2,607,000	154,000
Real estate - agricultural	-	-	-
Commercial	712,000	712,000	438,000
Agricultural	-	-	-
Consumer and other	7,000	7,000	4,000
	\$ 7,589,000	\$ 7,589,000	\$ 870,000

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2011

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