AMES NATIONAL CORP
Form 10-Q
November 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

o 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	42-1039071
(State or Other Jurisdiction of Incorporation or Organization)	(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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated 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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

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 October 26, 2012)

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS	September 30, 2012	December 31, 2011
Cash and due from banks	$23,542,568	$22,829,291
Interest bearing deposits in financial institutions	35,759,545	33,741,406
Securities available-for-sale	573,557,196	508,624,622
Loans receivable, net	488,426,392	438,650,837
Loans held for sale	1,570,621	1,212,620
Bank premises and equipment, net	12,040,379	11,362,626
Accrued income receivable	8,041,189	6,467,509
Other real estate owned	9,939,706	9,538,440
Core deposit intangible, net	1,377,040	-
Goodwill	5,600,749	-
Other assets	8,022,953	3,136,482
Total assets	$1,167,878,338	$1,035,563,833
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	$150,811,637	$126,059,239
NOW accounts	276,439,976	229,810,463
Savings and money market	257,844,279	216,768,048
Time, $100,000 and over	99,310,392	107,944,525
Other time	157,815,497	138,123,116
Total deposits	942,221,781	818,705,391
Securities sold under agreements to repurchase	38,974,691	41,696,585
Federal Home Loan Bank (FHLB) advances	14,628,314	15,179,335
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,396,637	1,210,419
Deferred income taxes	2,441,988	885,433
Accrued expenses and other liabilities	4,161,343	3,329,285
Total liabilities	1,023,824,754	901,006,448
STOCKHOLDERS' EQUITY		
Common stock, $2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,310,913 shares as of September 30, 2012 and December 31, 2011	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	92,087,734	85,564,078
	12,465,296	9,492,753

Accumulated other comprehensive income-net unrealized gain on securities available-for-sale		
Treasury stock, at cost; 122,002 shares at September 30, 2012 and December 31, 2011, respectively	(2,016,498)	(2,016,498)
Total stockholders' equity	144,053,584	134,557,385
Total liabilities and stockholders' equity	$1,167,878,338	$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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Loans, including fees	$6,413,866	$5,905,777	$18,470,183	$17,646,097
Securities:				
Taxable	1,441,987	1,906,708	4,660,121	5,365,245
Tax-exempt	1,697,690	1,624,310	5,046,835	4,892,269
Interest bearing deposits and federal funds sold	113,149	112,929	371,328	337,622
Total interest income	9,666,692	9,549,724	28,548,467	28,241,233
Interest expense:				
Deposits	1,097,372	1,323,083	3,419,854	4,076,697
Other borrowed funds	322,887	353,739	972,023	1,086,646
Total interest expense	1,420,259	1,676,822	4,391,877	5,163,343
Net interest income	8,246,433	7,872,902	24,156,590	23,077,890
Provision for loan losses	35,664	4,904	151,369	409,692
Net interest income after provision for loan losses	8,210,769	7,867,998	24,005,221	22,668,198
Noninterest income:				
Trust services income	491,943	547,917	1,527,657	1,619,617
Service fees	429,958	401,055	1,161,170	1,095,273
Securities gains, net	220,230	361,444	538,298	947,570
Gain on sale of loans held for sale	440,232	252,163	1,082,126	680,551
Merchant and ATM fees	273,514	183,987	809,764	555,481
Other noninterest income	202,627	152,115	571,009	459,011
Total noninterest income	2,058,504	1,898,681	5,690,024	5,357,503
Noninterest expense:				
Salaries and employee benefits	3,112,396	2,945,361	9,293,203	8,667,217
Data processing	558,314	524,602	1,632,518	1,451,420
Occupancy expenses	362,217	349,918	1,069,972	1,066,383
FDIC insurance assessments	158,745	129,289	477,961	607,785
Other real estate owned, net	31,330	252,039	472,123	418,175
Core deposit intangible amortization	73,776	-	122,960	-
Other operating expenses, net	745,781	670,714	2,307,533	2,002,262
Total noninterest expense	5,042,559	4,871,923	15,376,270	14,213,242
Income before income taxes	5,226,714	4,894,756	14,318,975	13,812,459

Provision for income taxes	1,365,719	1,304,882	3,605,406	3,506,692
Net income	$3,860,995	$3,589,874	$10,713,569	$10,305,767
Basic and diluted earnings per share	$0.41	$0.38	$1.15	$1.09
Dividends declared per share	$0.15	$0.13	$0.45	$0.39

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$3,860,995	$3,589,874	$10,713,569	$10,305,767
Other comprehensive income, before tax:				
Unrealized gains on securities without other than temporary impairment before tax:				
Unrealized holding gains arising during the period	2,643,541	2,867,399	5,212,820	11,430,616
Less: reclassification adjustment for gains realized in net income	220,230	361,444	538,298	947,570
Other comprehensive income before tax	2,423,311	2,505,955	4,674,522	10,483,046
Tax expense related to other comprehensive income	(869,031)	(927,203)	(1,701,979)	(3,878,728)
Other comprehensive income, net of tax	1,554,280	1,578,752	2,972,543	6,604,318
Comprehensive income	$5,415,275	$5,168,626	$13,686,112	$16,910,085

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
Nine Months Ended September 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	-	-	10,305,767	-	-	10,305,767
Other comprehensive income	-	-	-	6,604,318	-	6,604,318
Cash dividends declared, $0.39 per share	-	-	(3,667,363)	-	-	(3,667,363)
Purchase of 66,231 shares of treasury stock	-	-	-	-	(1,089,975)	(1,089,975)
Balance, September 30, 2011	$18,865,830	$ 22,651,222	$83,157,897	$ 9,930,797	$ (1,089,975)	$133,515,771
Balance, December 31, 2011	$18,865,830	$ 22,651,222	$85,564,078	$ 9,492,753	$ (2,016,498)	$134,557,385
Net income	-	-	10,713,569	-	-	10,713,569
Other comprehensive income	-	-	-	2,972,543	-	2,972,543
Cash dividends declared, $0.45 per share	-	-	(4,189,913)	-	-	(4,189,913)
Balance, September 30, 2012	$18,865,830	$ 22,651,222	$92,087,734	$ 12,465,296	$ (2,016,498)	$144,053,584

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
Nine Months Ended September 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$10,713,569	$10,305,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	151,369	409,692
Provision for off-balance sheet commitments	19,000	5,000
Amortization, net of securities available for sale	4,649,555	3,639,781
Amortization of core deposit intangible asset	122,960	-
Depreciation	568,080	557,477
Provision (credit) for deferred income taxes	(189,224)	586,954
Securities gains, net	(538,298)	(947,570)
Impairment of other real estate owned	303,588	335,048
Loss (gain) on sale of other real estate owned, net	46,867	(76,178)
Change in assets and liabilities:		
Decrease (increase) in loans held for sale	(358,001)	689,283
Increase in accrued income receivable	(1,058,920)	(1,222,157)
Increase in other assets	(4,897,038)	(444,821)
Increase in accrued expenses and other liabilities	693,448	747,713
Net cash provided by operating activities	10,226,955	14,585,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(175,323,766)	(156,980,283)
Proceeds from sale of securities available-for-sale	19,612,753	23,684,117
Proceeds from maturities and calls of securities available-for-sale	91,016,839	110,908,297
Net increase in interest bearing deposits in financial institutions	(2,018,139)	(15,349,664)
Net decrease in federal funds sold	-	3,000,000
Net increase in loans	(5,205,943)	(10,894,139)
Net proceeds from the sale of other real estate owned	840,725	657,766
Purchase of bank premises and equipment, net	(370,766)	(437,973)
Other changes in other real estate owned	-	(49,785)
Cash aquired, net of cash paid, for aquired bank offices	44,303,137	-
Net cash used in investing activities	(27,145,160)	(45,461,664)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	24,908,092	56,374,821
Decrease in federal funds purchased and securities sold under agreements to repurchase	(2,721,894)	(14,770,679)
Payments from other short-term borrowings, net	-	(1,046,161)
Proceeds from FHLB borrowings	-	4,000,000
Payments on FHLB borrowings	(551,021)	(1,550,021)
Purchase of treasury stock	-	(1,089,975)
Dividends paid	(4,003,695)	(3,487,315)

Net cash provided by financing activities	17,631,482	38,430,670
Net increase in cash and due from banks	713,277	7,554,995
CASH AND DUE FROM BANKS		
Beginning	22,829,291	15,478,133
Ending	$23,542,568	$23,033,128

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(unaudited)
Nine Months Ended September 30, 2012 and 2011

	2012	2011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$4,606,845	$5,189,947
Income taxes	3,599,844	3,204,391
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans to other real estate owned	$1,592,446	$213,586
Business Combination:		
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 nine month periods ended September 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 September 30, 2012, the Company believes there is not any potential impairment due to the proximity of the acquisition to September 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 a customer based relationship valuation attributed to the expectation of a lower net cost of these deposits versus alternative sources of 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.

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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.

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.

Federal funds purchased and securities sold under agreements to repurchase: The carrying amounts of federal funds purchased and 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 and Pending 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.

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In July, 2012, the FASB amended guidance on the impairment testing for indefinite-lived intangible assets contained in subtopic 350-30, the Intangibles-Goodwill and Other-General Intangibles Other than Goodwill. The objectives of the amendments in this ASU are to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by providing the entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived asset is impaired to determine whether the entity should perform a qualitative impairment test. The amendments in this guidance will be effective for annual periods beginning after September 15, 2012, and is not expected to have a material effect on the Company's financial statements.

2. Branch Acquisition

On April 27, 2012, Reliance State Bank (RSB) completed the purchase of two bank offices 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. 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. Non-routine expenses associated with this transaction were approximately $232,000 for the nine months ended September 30, 2012.

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

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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.

Cash obtained as a part of this transaction has been invested in securities available-for-sale.

3. Dividends

On August 8, 2012, the Company declared a cash dividend on its common stock, payable on November 15, 2012 to stockholders of record as of November 1, 2012, equal to $0.15 per share.

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 September 30, 2012 and 2011 were 9,310,913 and 9,399,336, respectively. The weighted average outstanding shares for the nine months ended September 30, 2012 and 2011 were 9,310,913 and 9,419,731, 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.

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6.Fair Value of Financial Instruments

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

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$23,542,568	$23,543,000	$22,829,291	$22,829,000
Interest bearing deposits	35,759,545	35,760,000	33,741,406	33,741,000
Securities available-for-sale	573,557,196	573,557,000	508,624,622	508,625,000
Loans receivable, net	488,426,392	494,916,000	438,650,837	445,240,000
Loans held for sale	1,570,621	1,571,000	1,212,620	1,213,000
Accrued income receivable	8,041,189	8,041,000	6,467,509	6,468,000
Financial liabilities:				
Deposits	$942,221,781	$944,920,000	$818,705,391	$821,979,000
Federal funds purchased and securities sold under agreements to repurchase	38,974,691	38,975,000	41,696,585	41,697,000
FHLB and other long-term borrowings	34,628,314	38,513,000	35,179,335	38,705,000
Accrued interest payable	746,139	746,000	802,847	803,000

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

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 September 30, 2012 and December 31, 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
U.S. government agencies	$49,630,000	$-	$49,630,000	$-
U.S. government mortgage-backed securities	201,645,000	-	201,645,000	-
State and political subdivisions	295,641,000	-	295,641,000	-
Corporate bonds	23,140,000	-	23,140,000	-
Equity securities, financial industry common stock	682,000	682,000	-	-
Equity securities, other	2,819,000	-	2,819,000	-
	$573,557,000	$682,000	$572,875,000	$-
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 September 30, 2012 and December 31, 2011:

Description	Total	Level 1	Level 2	Level 3
2012				
Loans receivable	$2,788,000	$-	$-	$2,788,000
Other real estate owned	9,940,000	-	-	9,940,000
Total	$12,728,000	$-	$-	$12,728,000
2011				
Loans receivable	$2,453,000	$-	$-	$2,453,000
Other real estate owned	9,538,000	-	-	9,538,000
Total	$11,991,000	$-	$-	$11,991,000

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
September 30, 2012:				
U.S. government agencies	$47,049,556	$2,581,111	$(480)	$49,630,187
U.S. government mortgage-backed securities	196,042,477	5,710,653	(107,839)	201,645,291
State and political subdivisions	285,007,382	10,824,325	(190,487)	295,641,220
Corporate bonds	21,963,047	1,180,421	(3,271)	23,140,197
Equity securities, financial industry common stock	889,552	-	(208,251)	681,301
Equity securities, other	2,819,000	-	-	2,819,000
	$553,771,014	$20,296,510	$(510,328)	$573,557,196

	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 nine months ended September 30, 2012 and 2011 are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from sales of securities available-for-sale	$9,580,189	$2,757,199	$19,612,753	$23,684,117
Gross realized gains on securities available-for-sale	222,096	361,452	540,394	952,386
Gross realized losses on securities available-for-sale	1,866	8	2,096	4,816
Tax provision applicable to net realized gains on securities available-for-sale	82,000	134,000	201,000	353,000

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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 September 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 agencies	$719,159	$(480)	$-	$-	$719,159	$(480)
U.S. government mortgage-backed securities	$20,482,575	$(105,694)	$447,619	$(2,145)	$20,930,194	$(107,839)
State and political subdivisions	21,147,812	(189,210)	210,466	(1,277)	21,358,278	(190,487)
Corporate bonds	276,840	(3,271)	-	-	276,840	(3,271)
Equity securities, financial industry common stock	-	-	889,552	(208,251)	889,552	(208,251)
	$42,626,386	$(298,655)	$1,547,637	$(211,673)	$44,174,023	$(510,328)

Less than 12 Months		12 Months or More		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses