AMES NATIONAL CORP
Form 10-Q
August 09, 2011

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 June 30, 2011

| | |
|---|---|
| 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<br>(State or Other Jurisdiction of Incorporation or Organization) | 42-1039071<br>(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 | 9,410,882 |
| (Class) | (Shares Outstanding at July 29, 2011) |

AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

| ASSETS | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Cash and due from banks | $17,409,710 | $ 15,478,133 |
| Federal funds sold | 32,000 | 3,000,000 |
| Interest bearing deposits in financial institutions | 28,273,377 | 19,229,814 |
| Securities available-for-sale | 496,471,059 | 469,907,901 |
| Loans receivable, net | 424,979,404 | 418,093,571 |
| Loans held for sale | 1,553,454 | 1,993,108 |
| Bank premises and equipment, net | 11,411,585 | 11,538,588 |
| Accrued income receivable | 6,215,233 | 6,098,535 |
| Deferred income taxes | 540,007 | 3,305,983 |
| Other real estate owned | 10,159,075 | 10,538,883 |
| Other assets | 3,511,492 | 3,790,329 |
| | | |
| Total assets | $1,000,556,396 | $ 962,974,845 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| LIABILITIES | | |
| Deposits | | |
| Demand, noninterest bearing | $108,530,544 | $ 105,513,143 |
| NOW accounts | 216,436,716 | 201,230,880 |
| Savings and money market | 214,625,416 | 199,017,213 |
| Time, $100,000 and over | 101,262,795 | 94,858,053 |
| Other time | 140,919,842 | 143,242,355 |
| Total deposits | 781,775,313 | 743,861,644 |
| | | |
| Federal funds purchased and securities sold under agreements to repurchase | 46,820,461 | 54,858,701 |
| Other short-term borrowings | 915,180 | 2,047,175 |
| Federal Home Loan Bank advances | 16,212,679 | 16,745,497 |
| Other long-term borrowings | 20,000,000 | 20,000,000 |
| Dividend payable | 1,226,279 | 1,037,621 |
| Accrued expenses and other liabilities | 3,329,092 | 3,061,183 |
| Total liabilities | 870,279,004 | 841,611,821 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,410,882 shares as of June 30, 2011 and 9,432,915 shares as of December 31, 2010 | 18,865,830 | 18,865,830 |
| Additional paid-in capital | 22,651,222 | 22,651,222 |
| Retained earnings | 80,782,828 | 76,519,493 |
| Treasury stock, at cost; 22,033 shares and no shares at June 30, 2011 and December 31, 2010, respectively | (374,533 ) | - |

| | | |
|---|---|---|
| Accumulated other comprehensive income-net unrealized gain on securities available-for-sale | 8,352,045 | 3,326,479 |
| Total stockholders' equity | 130,277,392 | 121,363,024 |
| | | |
| Total liabilities and stockholders' equity | $ 1,000,556,396 | $ 962,974,845 |

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, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans, including fees | $5,999,888 | $6,023,730 | $11,740,320 | $12,123,209 |
| Securities: | | | | |
| Taxable | 1,796,068 | 1,770,707 | 3,458,537 | 3,598,228 |
| Tax-exempt | 1,630,994 | 1,429,568 | 3,267,959 | 2,795,150 |
| Interest bearing deposits and federal funds sold | 116,767 | 129,198 | 224,693 | 259,311 |
| Total interest income | 9,543,717 | 9,353,203 | 18,691,509 | 18,775,898 |
| | | | | |
| Interest expense: | | | | |
| Deposits | 1,382,703 | 1,563,610 | 2,753,614 | 3,225,964 |
| Other borrowed funds | 354,265 | 402,304 | 732,907 | 805,462 |
| Total interest expense | 1,736,968 | 1,965,914 | 3,486,521 | 4,031,426 |
| | | | | |
| Net interest income | 7,806,749 | 7,387,289 | 15,204,988 | 14,744,472 |
| | | | | |
| Provision for loan losses | 404,788 | 170,416 | 404,788 | 494,214 |
| | | | | |
| Net interest income after provision for loan losses | 7,401,961 | 7,216,873 | 14,800,200 | 14,250,258 |
| | | | | |
| Noninterest income: | | | | |
| Trust department income | 557,156 | 465,298 | 1,071,700 | 996,014 |
| Service fees | 364,660 | 435,365 | 694,218 | 835,188 |
| Securities gains, net | 164,971 | 134,830 | 586,126 | 671,813 |
| Gain on sale of loans held for sale | 207,523 | 171,453 | 428,388 | 324,989 |
| Merchant and ATM fees | 195,623 | 195,137 | 371,494 | 360,524 |
| Other noninterest income | 242,283 | 209,460 | 427,490 | 380,780 |
| Total noninterest income | 1,732,216 | 1,611,543 | 3,579,416 | 3,569,308 |
| | | | | |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 2,955,348 | 2,706,545 | 5,721,856 | 5,304,584 |
| Data processing | 481,003 | 494,681 | 926,818 | 945,645 |
| Occupancy expenses | 322,307 | 364,955 | 716,465 | 766,109 |
| FDIC insurance assessments | 205,754 | 278,109 | 478,496 | 591,466 |
| Other real estate owned | 210,935 | 62,954 | 286,730 | 119,307 |
| Other operating expenses, net | 676,957 | 728,405 | 1,331,548 | 1,441,477 |
| Total noninterest expense | 4,852,304 | 4,635,649 | 9,461,913 | 9,168,588 |
| | | | | |
| Income before income taxes | 4,281,873 | 4,192,767 | 8,917,703 | 8,650,978 |
| | | | | |
| Provision for income taxes | 1,038,501 | 1,066,761 | 2,201,810 | 2,255,372 |

| | | | | |
|---|---|---|---|---|
| Net income | $3,243,372 | $3,126,006 | $6,715,893 | $6,395,606 |
| Basic and diluted earnings per share | $0.34 | $0.33 | $0.71 | $0.68 |
| Dividends declared per share | $0.13 | $0.11 | $0.26 | $0.22 |
| Comprehensive income | $7,138,415 | $4,413,196 | $11,741,459 | $8,433,251 |

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2011 and 2010
(unaudited)

| | 2011 | 2010 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $6,715,893 | $6,395,606 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 404,788 | 494,214 |
| Provision for off-balance sheet commitments | 5,000 | 13,000 |
| Amortization, net | 2,461,727 | 1,389,789 |
| Depreciation | 336,162 | 381,534 |
| Provision (credit) for deferred income taxes | (185,547) | 157,636 |
| Securities gains, net | (586,126) | (671,813) |
| Impairment of other real estate owned | 163,443 | 14,900 |
| Gain on sale of other real estate owned | (98,833) | (35,922) |
| Change in assets and liabilities: | | |
| Decrease (increase) in loans held for sale | 439,654 | (1,487,058) |
| Increase in accrued income receivable | (116,698) | (208,065) |
| Decrease in other assets | 274,117 | 560,326 |
| Increase in accrued expenses and other liabilities | 262,909 | 244,506 |
| Net cash provided by operating activities | 10,076,489 | 7,248,653 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of securities available-for-sale | (125,856,535) | (109,570,798) |
| Proceeds from sale of securities available-for-sale | 20,926,918 | 16,353,562 |
| Proceeds from maturities and calls of securities available-for-sale | 84,465,457 | 77,459,834 |
| Net increase in interest bearing deposits in financial institutions | (9,041,073) | (580,942) |
| Net decrease in federal funds sold | 2,968,000 | - |
| Net decrease (increase) in loans | (7,504,207) | 3,805,797 |
| Net proceeds from the sale of other real estate owned | 576,252 | 571,028 |
| Purchase of bank premises and equipment, net | (204,439) | (131,960) |
| Other changes in other real estate owned | (47,468) | 1,601 |
| Net cash used in investing activities | (33,717,095) | (12,091,878) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in deposits | 37,913,669 | (6,959,248) |
| Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase | (8,038,240) | 9,790,097 |
| Payments from other short-term borrowings, net | (1,131,995) | (132,055) |
| Proceeds from FHLB and other long-term borrowings | - | 2,500,000 |
| Payments on FHLB and other long-term borrowings | (532,818) | (500,000) |
| Purchase of treasury stock | (374,533) | - |
| Dividends paid | (2,263,900) | (1,980,913) |
| Net cash provided by financing activities | 25,572,183 | 2,717,881 |

| | | |
|---|---|---|
| Net increase (decrease) in cash and due from banks | 1,931,577 | (2,125,344) |
| | | |
| CASH AND DUE FROM BANKS | | |
| Beginning | 15,478,133 | 18,796,664 |
| Ending | $17,409,710 | $16,671,320 |

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Six Months Ended June 30, 2011 and 2010
(unaudited)

| | 2011 | 2010 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash payments for: | | |
| Interest | $3,456,462 | $4,128,891 |
| Income taxes | 2,345,541 | 2,107,614 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES | | |
| Transfer of loans to other real estate owned | $213,586 | $701,529 |

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, 2011 and 2010 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, 2010 (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. Certain immaterial reclassifications have been made to previously presented financial statements to conform to the 2011 presentation.

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, interest bearing deposits in financial institutions and federal funds sold: 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.

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.

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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.

Short-term borrowings: The carrying amounts of short-term borrowings approximate fair value because of the generally short-term nature of the instruments.

Federal Home Loan Bank advances and other long-term borrowings: Fair values of Federal Home Loan Bank ("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 April, 2011 the Financial Accounting Standards Board ("FASB") issued guidance which modifies certain aspects contained in the Receivables topic of FASB Accounting Standards Codification ("ASC") 310. The standard clarifies the guidance on evaluating whether a restructuring constitutes a troubled debt restructuring, The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption is not expected to have a significant impact on the Company's financial statements.

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 is not expected to have a significant impact on the Company's 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 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

2. Dividends

On May 11, 2011, the Company declared a cash dividend on its common stock, payable on August 15, 2011 to stockholders of record as of August 1, 2011, equal to $0.13 per share.

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3. 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, 2011 and 2010 were 9,427,711 and 9,432,915, respectively. The weighted average outstanding shares for the six months ended June 30, 2011 and 2010 were 9,430,362 and 9,432,915, respectively. The Company had no potentially dilutive securities outstanding during the periods presented.

4. 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, 2010.

5. 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, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | $17,409,710 | $17,410,000 | $15,478,133 | $15,478,000 |
| Federal funds sold | 32,000 | 32,000 | 3,000,000 | 3,000,000 |
| Interest bearing deposits | 28,273,377 | 28,273,000 | 19,229,814 | 19,230,000 |
| Securities available-for-sale | 496,471,059 | 496,471,000 | 469,907,901 | 469,908,000 |
| Loans receivable, net | 424,979,404 | 425,811,000 | 418,093,571 | 415,833,000 |
| Loans held for sale | 1,553,454 | 1,553,000 | 1,993,108 | 1,993,000 |
| Accrued income receivable | 6,215,233 | 6,215,000 | 6,098,535 | 6,099,000 |
| Financial liabilities: | | | | |
| Deposits | $781,775,313 | $783,212,000 | $743,861,644 | $746,401,000 |
| Federal funds purchased and securities sold under agreements to repurchase | 46,820,461 | 46,820,000 | 54,858,701 | 54,859,000 |
| Other short-term borrowings | 915,180 | 915,000 | 2,047,175 | 2,047,000 |
| FHLB and other long-term borrowings | 36,212,679 | 38,998,000 | 36,745,497 | 39,303,000 |
| Accrued interest payable | 900,514 | 901,000 | 870,455 | 870,000 |

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

6. 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.

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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; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are 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.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of June 30, 2011 and December 31, 2010:

| Description | Total | Quoted Prices in Active markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| June 30, 2011 | | | | |
| U.S. government agencies | $ 81,117,000 | $ - | $ 81,117,000 | $ - |
| U.S. government mortgage-backed securities | 154,829,000 | - | 154,829,000 | - |
| State and political subdivisions | 234,363,000 | - | 234,363,000 | - |
| Corporate bonds | 20,344,000 | - | 20,344,000 | - |
| Equity securities, financial industry common stock | 2,709,000 | 2,709,000 | - | - |
| Equity securities, other | 3,109,000 | 71,000 | 3,038,000 | - |
| | $ 496,471,000 | $ 2,780,000 | $ 493,691,000 | $ - |
| December 31, 2010 | | | | |
| U.S. treasury | $ 503,000 | $ 503,000 | $ - | $ - |
| U.S. government agencies | 87,413,000 | - | 87,413,000 | - |
| U.S. government mortgage-backed securities | 127,349,000 | - | 127,349,000 | - |
| State and political subdivisions | 228,373,000 | - | 228,373,000 | - |
| Corporate bonds | 20,372,000 | - | 20,372,000 | - |
| Equity securities, financial industry common stock | 2,814,000 | 2,814,000 | - | - |
| Equity securities, other | 3,084,000 | 18,000 | 3,066,000 | - |
| | $ 469,908,000 | $ 3,335,000 | $ 466,573,000 | $ - |

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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. Level 2 securities include U.S. government agency securities, mortgage-backed securities (including pools and collateralized mortgage obligations), municipal bonds, and corporate debt securities.

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, 2011 and December 31, 2010:

| Description | Total | Active markets for Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| June 30, 2011 | | | | |
| Loans receivable | $3,509,000 | $- | $- | $ 3,509,000 |
| Other real estate owned | 10,159,000 | - | - | 10,159,000 |
| Total | $13,668,000 | $- | $- | $ 13,668,000 |
| December 31, 2010 | | | | |
| Loans receivable | $3,660,000 | $- | $- | $ 3,660,000 |
| Other real estate owned | 10,539,000 | - | - | 10,539,000 |
| Total | $14,199,000 | $- | $- | $ 14,199,000 |

Loans receivable in the tables above consist of impaired credits held for investment. Impaired loans are valued by management based on collateral values underlying the loans. Other real estate owned in the table above consists of real estate obtained through foreclosure. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of loans receivable evaluated for impairment and other real estate owned.

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7. Debt and Equity Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| June 30, 2011: | | | | |
| U.S. government agencies | $78,915,332 | $2,203,428 | $(1,510) | $81,117,250 |
| U.S. government mortgage-backed securities | 150,714,340 | 4,129,172 | (14,414) | 154,829,098 |
| State and political subdivisions | 228,091,747 | 6,438,818 | (167,324) | 234,363,241 |
| Corporate bonds | 19,044,588 | 1,300,090 | (698) | 20,343,980 |
| Equity securities, financial industry common stock | 3,402,389 | - | (693,748) | 2,708,641 |
| Equity securities, other | 3,045,449 | 63,400 | - | 3,108,849 |
| | $483,213,845 | $14,134,908 | $(877,694) | $496,471,059 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2010: | | | | |
| U.S. treasury | $499,885 | $3,265 | $- | $503,150 |
| U.S. government agencies | 86,336,578 | 1,190,768 | (114,727) | 87,412,619 |
| U.S. government mortgage-backed securities | 125,740,846 | 2,237,443 | (629,668) | 127,348,621 |
| State and political subdivisions | 226,352,715 | 3,254,157 | (1,234,045) | 228,372,827 |
| Corporate bonds | 19,220,366 | 1,183,213 | (31,575) | 20,372,004 |
| Equity securities, financial industry common stock | 3,402,389 | - | (588,208) | 2,814,181 |
| Equity securities, other | 3,074,999 | 9,500 | - | 3,084,499 |
| | $464,627,778 | $7,878,346 | $(2,598,223) | $469,907,901 |

Non-interest income for the three months ended June 30, 2011 and 2010 was primarily impacted by net security gains of approximately $165,000 and $135,000, respectively. Non-interest income for the six months ended June 30, 2011 and 2010 was primarily impacted by net security gains of approximately $586,000 and $672,000, respectively.

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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, 2011 and December 31, 2010, 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 |
| June 30, 2011: | | | | | | |
| Securities available-for-sale: | | | | | | |
| U.S. government agencies | $500,875 | $(1,510) | $- | $- | $500,875 | $(1,510) |
| U.S. government mortgage-backed securities | 5,509,977 | (9,827) | 1,664,000 | (4,587) | 7,173,977 | (14,414) |
| State and political subdivisions | 12,043,107 | (166,505) | 303,144 | (819) | 12,346,251 | (167,324) |
| Corporate obligations | 108,656 | (698) | - | - | 108,656 | (698) |
| Equity securities, financial industry common stock | - | - | 2,708,641 | (693,748) | 2,708,641 | (693,748) |
| | $18,162,615 | $(178,540) | $4,675,785 | $(699,154) | $22,838,400 | $(877,694) |

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2010: | | | | | | |
| Securities available-for-sale: | | | | | | |
| U.S. government agencies | $15,321,189 | $(107,139) | $372,404 | $(7,588) | $15,693,593 | $(114,727) |
| U.S. government mortgage-backed securities | 43,327,689 | (629,668) | - | - | 43,327,689 | (629,668) |
| State and political subdivisions | 53,299,308 | (1,218,282) | 497,051 | (15,763) | 53,796,359 | (1,234,045) |
| Corporate obligations | 2,022,914 | (31,575) | - | - | 2,022,914 | (31,575) |
| Equity securities, financial industry common stock | - | - | 2,814,181 | (588,208) | 2,814,181 | (588,208) |
| | $113,971,100 | $(1,986,664) | $3,683,636 | $(611,559) | $117,654,736 | $(2,598,223) |

At June 30, 2011, debt securities have unrealized losses of $183,946.  These losses are generally due to changes in interest rates or general market conditions.  In analyzing an issuers' financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond ratings agencies have occurred and industry analysts' reports.  Unrealized losses on equity securities totaled $693,748 as of June 30, 2011.  Management analyzed the financial condition of the equity issuers and considered the general market conditions and other factors in concluding that the unrealized losses on equity securities were not other-than-temporary.  Due to potential changes in conditions, it is at least reasonably possible changes in fair values and management's assessments will occur in the near term and that such changes could lead to additional impairment charges, thereby materially affecting the amounts reported in the Company's financial statements.

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8. Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three and six months ended June 30, 2011 and 2010 is as follows:

Three Months Ended June 30, 2011

| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, March 31, 2011 | $766,000 | $1,421,000 | $2,728,000 | $516,000 | $1,120,000 | $702,000 | $274,000 | $7,527,000 |
| Provision (credit) for loan losses | (19,000) | 22,000 | 111,000 | 9,000 | 312,000 | 3,000 | (33,000) | 405,000 |
| 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 Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| 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 |

Three Months Ended June 30, 2010

| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, March 31, | $1,065,000 | $1,207,000 | $2,667,000 | $524,000 | $1,259,000 | $676,000 | $284,000 | $7,682,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | | |
| Provision (credit) for loan losses | 70,000 | 117,000 | 52,000 | 20,000 | (88,000 ) | 5,000 | (6,000 ) | 170,000 |
| Recoveries of loans charged-off | - | - | - | - | 3,000 | 9,000 | 13,000 | 25,000 |
| Loans charged-off | - | (1,000 ) | - | - | - | (13,000 ) | (13,000 ) | (27,000 ) |
| Balance, June 30, 2010 | $1,135,000 | $1,323,000 | $2,719,000 | $544,000 | $1,174,000 | $677,000 | $278,000 | $7,850,000 |

| | Six Months Ended June 30, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | Total |
| Balance, December 31, 2009 | $1,040,000 | $1,133,000 | $2,683,000 | $523,000 | $1,199,000 | $642,000 | $432,000 | $7,652,000 |
| Provision (credit) for loan losses | 117,000 | 306,000 | 56,000 | 21,000 | (29,000 ) | 40,000 | (17,000 ) | 494,000 |
| Recoveries of loans charged-off | - | - | - | - | 4,000 | 23,000 | 19,000 | 46,000 |
| Loans charged-off | (22,000 ) | (116,000 ) | (20,000 ) | - | - | (28,000 ) | (156,000) | (342,000 ) |
| Balance, June 30, 2010 | $1,135,000 | $1,323,000 | $2,719,000 | $544,000 | $1,174,000 | $677,000 | $278,000 | $7,850,000 |

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Allowance for loan losses disaggregated on the basis of impairment analysis method as of June 30, 2011 and December 31, 2010 is as follows:

| | June 30, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | T |
| Individually evaluated for impairment | $196,000 | $130,000 | $11,000 | $- | $400,000 | $- | $11,000 | $748, |
| Collectively evaluated for impairment | 551,000 | 1,307,000 | 2,777,000 | 525,000 | 1,033,000 | 703,000 | 232,000 | 7,12 |
| Balance June 30, 2011 | $747,000 | $1,437,000 | $2,788,000 | $525,000 | $1,433,000 | $703,000 | $243,000 | $7,87 |

| | December 31, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | T |
| Individually evaluated for impairment | $223,000 | $158,000 | $42,000 | $- | $- | $- | $22,000 | $445, |
| Collectively evaluated for impairment | 508,000 | 1,246,000 | 2,678,000 | 486,000 | 1,152,000 | 735,000 | 271,000 | 7,07 |
| Balance December 31, 2010 | $731,000 | $1,404,000 | $2,720,000 | $486,000 | $1,152,000 | $735,000 | $293,000 | $7,52 |

Loans receivable disaggregated on the basis of impairment analysis method as of June 30, 2011 and December 31, 2010 is as follows:

| | June 30, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction Real Estate | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial | Agricultural | Consumer and Other | T |
| Individually evaluated for impairment | $2,501,000 | $2,333,000 | $852,000 | $- | $630,000 | $- | $13,000 | $6,32 |
| Collectively evaluated for impairment | 17,960,000 | 86,988,000 | 149,816,000 | 32,158,000 | 74,374,000 | 45,421,000 | 19,872,000 | 426, |
| Balance June 30, 2011 | $20,461,000 | $89,321,000 | $150,668,000 | $32,158,000 | $75,004,000 | $45,421,000 | $19,885,000 | $432, |

| | December 31, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | 1-4 Family | Commercial | Agricultural | Commercial | Agricultural | Consumer | T |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate | Residential Real Estate | Real Estate | Real Estate | | | and Other | |
| Individually evaluated for impairment | $4,156,000 | $1,395,000 | $802,000 | $- | $45,000 | $- | $34,000 | $6,43 |
| Collectively evaluated for impairment | 15,441,000 | 87,538,000 | 138,568,000 | 31,931,000 | 78,128,000 | 45,630,000 | 22,018,000 | 419, |
| Balance December 31, 2010 | $19,597,000 | $88,933,000 | $139,370,000 | $31,931,000 | $78,173,000 | $45,630,000 | $22,052,000 | $425, |

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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, 2011 and December 31, 2010 and the average recorded investment and interest income recognized on these loans for the three and six months ended June 30, 2011:

| | June 30, 2011 | | |
|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no specific reserve recorded: | | | |
| Real estate - construction | $ - | $ - | $ - |
| Real estate - 1 to 4 family residential | 1,855,000 | 1,855,000 | - |
| Real estate - commercial | 217,000 | 217,000 | - |
| Real estate - agricultural | - | - | - |
| Operating - commercial | - | - | - |
| Operating - agricultural | - | - | - |
| Consumer and other | - | - | - |
| Total loans with no specific reserve: | 2,072,000 | 2,072,000 | - |
| | | | |
| With an allowance recorded: | | | |
| Real estate - construction | 2,501,000 | 2,501,000 | 196,000 |
| Real estate - 1 to 4 family residential | 478,000 | 478,000 | 130,000 |
| Real estate - commercial | 635,000 | 635,000 | 11,000 |
| Real estate - agricultural | - | - | - |
| Operating - commercial | 630,000 | 630,000 | 400,000 |
| Operating - agricultural | - | - | - |
| Consumer and other | 13,000 | 13,000 | 11,000 |
| Total loans with specific reserve: | 4,257,000 | 4,257,000 | 748,000 |
| | | | |
| Total | | | |
| Real estate - construction | 2,501,000 | 2,501,000 | 196,000 |
| Real estate - 1 to 4 family residential | 2,333,000 | 2,333,000 | 130,000 |
| Real estate - commercial | 852,000 | 852,000 | 11,000 |
| Real estate - agricultural | - | - | - |
| Operating - commercial | 630,000 | 630,000 | 400,000 |
| Operating - agricultural | - | - | - |
| Consumer and other | 13,000 | 13,000 | 11,000 |
| | | | |
| | $ 6,329,000 | $ 6,329,000 | $ 748,000 |

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| | Three Months ended June 30, 2011 | | Six Months Ended June 30, 2011 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| With no specific reserve recorded: | | | | |