

AMES NATIONAL CORP
Form 10-Q
May 09, 2013

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 March 31, 2013

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
(Class)

9,310,913
(Shares Outstanding at April 26, 2013)

AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

ASSETS	March 31, 2013	December 31, 2012
Cash and due from banks	\$22,695,730	\$34,805,371
Interest bearing deposits in financial institutions	76,070,883	44,639,033
Securities available-for-sale	608,303,937	588,417,037
Loans receivable, net	507,833,509	510,125,880
Loans held for sale	1,453,982	1,030,180
Bank premises and equipment, net	12,073,335	12,233,464
Accrued income receivable	7,161,067	7,173,703
Other real estate owned	9,595,828	9,910,825
Core deposit intangible, net	1,229,491	1,303,264
Goodwill	5,600,749	5,600,749
Other assets	2,511,842	2,452,593
Total assets	\$1,254,530,353	\$1,217,692,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$166,911,150	\$182,033,279
NOW accounts	314,063,659	287,294,015
Savings and money market	302,870,203	279,774,197
Time, \$100,000 and over	97,819,266	99,925,619
Other time	152,552,623	155,705,340
Total deposits	1,034,216,901	1,004,732,450
Securities sold under agreements to repurchase	34,722,165	27,088,660
Federal Home Loan Bank (FHLB) advances	12,593,618	14,611,035
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,489,747	1,396,627
Deferred income taxes	1,039,518	1,632,560
Accrued expenses and other liabilities	4,696,722	3,495,032
Total liabilities	1,108,758,671	1,072,956,364
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,310,913 shares as of March 31, 2013 and December 31, 2012	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	96,256,026	94,159,839
Accumulated other comprehensive income-net unrealized gain on securities available-for-sale	10,015,102	11,075,342

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Treasury stock, at cost; 122,002 shares at March 31, 2013 and December 31, 2012	(2,016,498)	(2,016,498)
Total stockholders' equity	145,771,682	144,735,735
Total liabilities and stockholders' equity	\$ 1,254,530,353	\$ 1,217,692,099

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended March 31, 2013 and 2012

	2013	2012
Interest income:		
Loans, including fees	\$6,158,513	\$5,810,757
Securities:		
Taxable	1,379,962	1,624,644
Tax-exempt	1,728,433	1,650,715
Interest bearing deposits and federal funds sold	109,733	125,253
Total interest income	9,376,641	9,211,369
Interest expense:		
Deposits	995,840	1,169,318
Other borrowed funds	295,911	329,498
Total interest expense	1,291,751	1,498,816
Net interest income	8,084,890	7,712,553
Provision for loan losses	13,574	51,293
Net interest income after provision for loan losses	8,071,316	7,661,260
Noninterest income:		
Trust services income	487,254	504,772
Service fees	375,825	337,439
Securities gains, net	68,991	307,533
Gain on sale of loans held for sale	355,543	285,039
Merchant and ATM fees	340,486	296,958
Other noninterest income	214,869	168,847
Total noninterest income	1,842,968	1,900,588
Noninterest expense:		
Salaries and employee benefits	3,216,082	2,980,619
Data processing	572,635	509,330
Occupancy expenses	405,724	359,684
FDIC insurance assessments	160,308	154,461
Professional fees	272,455	317,473
Business development	191,351	181,116
Other real estate owned (income) expense, net	(5,181)	98,378
Core deposit intangible amortization	73,773	-
Other operating expenses, net	231,949	237,722
Total noninterest expense	5,119,096	4,838,783
Income before income taxes	4,795,188	4,723,065

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Provision for income taxes	1,209,254	1,179,907
Net income	\$3,585,934	\$3,543,158
Basic and diluted earnings per share	\$0.39	\$0.38
Dividends declared per share	\$0.16	\$0.15

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$3,585,934	\$3,543,158
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities before tax:		
Unrealized holding gains (losses) arising during the period	(1,613,929)	958,828
Less: reclassification adjustment for gains realized in net income	68,991	307,533
Other comprehensive income (loss) before tax	(1,682,920)	651,295
Tax effect related to other comprehensive income (loss)	622,680	(240,980)
Other comprehensive income (loss), net of tax	(1,060,240)	410,315
Comprehensive income	\$2,525,694	\$3,953,473

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

Three Months Ended March 31, 2013 and 2012

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2011	\$ 18,865,830	\$ 22,651,222	\$ 85,564,078	\$ 9,492,753	\$(2,016,498)	\$ 134,557,385
Net income	-	-	3,543,158	-	-	3,543,158
Other comprehensive income	-	-	-	410,315	-	410,315
Cash dividends declared, \$0.15 per share	-	-	(1,396,637)	-	-	(1,396,637)
Balance, March 31, 2012	\$ 18,865,830	\$ 22,651,222	\$ 87,710,599	\$ 9,903,068	\$(2,016,498)	\$ 137,114,221
Balance, December 31, 2012	\$ 18,865,830	\$ 22,651,222	\$ 94,159,839	\$ 11,075,342	\$(2,016,498)	\$ 144,735,735
Net income	-	-	3,585,934	-	-	3,585,934
Other comprehensive loss	-	-	-	(1,060,240)	-	(1,060,240)
Cash dividends declared, \$0.16 per share	-	-	(1,489,747)	-	-	(1,489,747)
Balance, March 31, 2013	\$ 18,865,830	\$ 22,651,222	\$ 96,256,026	\$ 10,015,102	\$(2,016,498)	\$ 145,771,682

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Three Months Ended March 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,585,934	\$3,543,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	13,574	51,293
Provision for off-balance sheet commitments	14,000	6,000
Amortization, net, securities available-for-sale	1,649,643	1,575,550
Amortization of core deposit intangible asset	73,773	-
Depreciation	190,428	174,664
Provision (credit) for deferred income taxes	29,639	(152,800)
Securities gains, net	(68,991)	(307,533)
Impairment of other real estate owned	-	22,475
Loss (gain) on sale of other real estate owned, net	(25,351)	8,674
Change in assets and liabilities:		
Increase in loans held for sale	(423,802)	(168,231)
Decrease in accrued income receivable	12,636	33,620
Decrease (increase) in other assets	(62,459)	101,016
Increase in accrued expenses and other liabilities	1,187,690	1,358,096
Net cash provided by operating activities	6,176,714	6,245,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(48,732,167)	(58,422,193)
Proceeds from sale of securities available-for-sale	1,701,395	8,648,317
Proceeds from maturities and calls of securities available-for-sale	23,698,932	32,018,132
Net increase in interest bearing deposits in financial institutions	(31,431,850)	(37,197,365)
Net decrease in federal funds sold	-	(700,000)
Net decrease (increase) in loans	2,398,188	(5,810,130)
Net proceeds from the sale of other real estate owned	334,068	106,466
Purchase of bank premises and equipment, net	(27,089)	(110,346)
Net cash used in investing activities	(52,058,523)	(61,467,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	29,552,707	61,026,139
Increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	7,633,505	(5,612,053)
Payments on FHLB borrowings	(2,017,417)	(516,872)
Dividends paid	(1,396,627)	(1,210,419)
Net cash provided by financing activities	33,772,168	53,686,795
Net decrease in cash and due from banks	(12,109,641)	(1,534,342)
CASH AND DUE FROM BANKS		

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Beginning	34,805,371	22,829,291
Ending	\$22,695,730	\$21,294,949

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Three Months Ended March 31, 2013 and 2012

	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$1,394,056	\$1,508,085
Income taxes	55,440	272,147
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	\$5,205	\$152,500

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 month periods ended March 31, 2013 and 2012 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, 2012 (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 March 31, 2013, Company management has performed a goodwill impairment analysis and determined goodwill was not impaired.

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. No such events have occurred and Company management continues to amortize over the original estimated useful life.

2. Office Acquisition

On April 27, 2012, Reliance State Bank (Reliance Bank) completed the purchase of two bank offices located in Garner and Klemme, Iowa (the "Acquisition"). 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 offices 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.

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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 Reliance Bank's investment portfolio. In the future, any excess cash will be used in the form of continued investment growth and to fund loan growth.

3. Dividends

On February 13, 2013, the Company declared a cash dividend on its common stock, payable on May 15, 2013 to stockholders of record as of May 1, 2013, equal to \$0.16 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 March 31, 2013 and 2012 were 9,310,913. The Company had no potentially dilutive securities outstanding during the periods presented.

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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, 2012.

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.

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 process 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 March 31, 2013 and December 31, 2012.

Description	Total	Level 1	Level 2	Level 3
2013				
U.S. government agencies	\$51,181,000	\$-	\$51,181,000	\$-
U.S. government mortgage-backed securities	193,728,000	-	193,728,000	-
State and political subdivisions	324,841,000	-	324,841,000	-
Corporate bonds	35,166,000	-	35,166,000	-
Equity securities, financial industry common stock	694,000	694,000	-	-
Equity securities, other	2,694,000	-	2,694,000	-
	\$608,304,000	\$694,000	\$607,610,000	\$-
2012				
U.S. government agencies	\$48,687,000	\$-	\$48,687,000	\$-
U.S. government mortgage-backed securities	191,957,000	-	191,957,000	-
State and political subdivisions	309,573,000	-	309,573,000	-
Corporate bonds	34,761,000	-	34,761,000	-
Equity securities, financial industry common stock	630,000	630,000	-	-
Equity securities, other	2,809,000	-	2,809,000	-
	\$588,417,000	\$630,000	\$587,787,000	\$-

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 March 31, 2013 and December 31, 2012.

Description	Total	Level 1	Level 2	Level 3
2013				
Loans receivable	\$3,612,000	\$-	\$-	\$3,612,000
Other real estate owned	9,596,000	-	-	9,596,000
Total	\$13,208,000	\$-	\$-	\$13,208,000
2012				
Loans receivable	\$2,732,000	\$-	\$-	\$2,732,000
Other real estate owned	9,911,000	-	-	9,911,000
Total	\$12,643,000	\$-	\$-	\$12,643,000

Loans Receivable: 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 value measurements as 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.

Fair value of financial instruments:

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases in which quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the

Company.

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The following disclosures represent financial instruments in which the ending balances at March 31, 2013 and December 31, 2012 are not carried at fair value in their entirety on the consolidated balance sheets.

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

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.

Deposit liabilities: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, 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 and other short-term borrowings: The carrying amounts of securities sold under agreements to repurchase and other short-term borrowings 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 accrued interest payable approximate fair value.

Commitments to extend credit and standby letters of credit: The fair values of commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and credit worthiness of the counterparties. The carry value and fair value of the commitments to extend credit and standby letters of credit are not considered significant.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

		March 31, 2013		December 31, 2012	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and due from banks	Level 1	\$ 22,695,730	\$ 22,696,000	\$ 34,805,371	\$ 34,805,000
Interest bearing deposits	Level 1	76,070,883	76,071,000	44,639,033	44,639,000
Securities available-for-sale	See previous table	608,303,937	608,304,000	588,417,037	588,417,000
Loans receivable, net	Level 2	507,833,509	511,637,000	510,125,880	514,047,000
Loans held for sale	Level 2	1,453,982	1,454,000	1,030,180	1,030,000
Accrued income receivable	Level 1	7,161,067	7,161,000	7,173,703	7,174,000
Financial liabilities:					
Deposits	Level 2	\$ 1,034,216,901	\$ 1,036,712,000	\$ 1,004,732,450	\$ 1,008,013,000
Securities sold under agreements to repurchase	Level 1	34,722,165	34,722,000	27,088,660	27,089,000
FHLB advances	Level 2	12,593,618	13,864,000	14,611,035	15,997,000
Other long-term borrowings	Level 2	20,000,000	22,263,000	20,000,000	22,404,000
Accrued interest payable	Level 1	718,376	718,000	752,425	752,000

The methodology used to determine fair value as of March 31, 2013 did not change from the methodology used in the December 31, 2012 Annual Report.

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7. 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
March 31, 2013:				
U.S. government agencies	\$48,938,063	\$2,258,815	\$(15,736)	\$51,181,142
U.S. government mortgage-backed securities	189,197,448	4,695,291	(165,058)	193,727,681
State and political subdivisions	316,296,601	9,203,882	(659,132)	324,841,351
Corporate bonds	34,651,039	1,144,912	(629,888)	35,166,063
Equity securities, financial industry common stock	629,700	63,900	-	693,600
Equity securities, other	2,694,100	-	-	2,694,100
	\$592,406,951	\$17,366,800	\$(1,469,814)	\$608,303,937

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012:				
U.S. government agencies	\$46,264,590	\$2,422,445	\$-	\$48,687,035
U.S. government mortgage-backed securities	187,174,681	4,947,586	(165,076)	191,957,191
State and political subdivisions	300,025,960	9,963,545	(416,544)	309,572,961
Corporate bonds	33,933,600	1,098,168	(270,218)	34,761,550
Equity securities, financial industry common stock	629,700	-	-	629,700
Equity securities, other	2,808,600	-	-	2,808,600
	\$570,837,131	\$18,431,744	\$(851,838)	\$588,417,037

The proceeds, gains and losses from securities available-for-sale for the three months ended March 31, 2013 and 2012 are summarized below:

	Three Months Ended March 31,	
	2013	2012
Proceeds from sales of securities available-for-sale	\$1,701,395	\$8,648,317
Gross realized gains on securities available-for-sale	70,502	307,763
Gross realized losses on securities available-for-sale	1,511	230
Tax provision applicable to net realized gains on securities available-for-sale	26,000	115,000

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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 March 31, 2013 and December 31, 2012, 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
2013:						
Securities available-for-sale:						
U.S. government agencies	\$4,342,660	\$(15,736)	\$-	\$-	\$4,342,660	\$(15,736)
U.S. government mortgage-backed securities	\$24,397,002	\$(165,058)	\$-	\$-	\$24,397,002	\$(165,058)
State and political subdivisions	44,975,134					