

AMES NATIONAL CORP
Form 10-Q
May 07, 2015
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, 2015

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 (I. R. S. Employer
Incorporation or Organization) Identification Number)

405 FIFTH STREET

AMES, IOWA 50010

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

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

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

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

COMMON STOCK, \$2.00 PAR VALUE 9,310,913
(Class) (Shares Outstanding at April 30, 2015)

AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$24,944,438	\$23,730,257
Federal funds sold	-	6,000
Interest bearing deposits in financial institutions	62,209,248	31,463,382
Securities available-for-sale	554,649,829	542,502,381
Loans receivable, net	660,790,412	658,440,998
Loans held for sale	352,200	704,850
Bank premises and equipment, net	15,798,836	15,956,989
Accrued income receivable	7,518,141	7,471,023
Other real estate owned	7,365,534	8,435,885
Deferred income taxes	1,364,975	2,633,177
Core deposit intangible, net	1,616,608	1,730,231
Goodwill	6,732,216	6,732,216
Other assets	1,388,911	1,223,328
Total assets	\$1,344,731,348	\$1,301,030,717
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$191,229,947	\$188,725,609
NOW accounts	308,945,497	298,581,556
Savings and money market	348,930,524	321,700,422
Time, \$250,000 and over	33,398,309	36,169,601
Other time	200,285,917	206,946,069
Total deposits	1,082,790,194	1,052,123,257
Securities sold under agreements to repurchase	58,801,317	51,265,011
Federal Home Loan Bank (FHLB) advances	14,449,174	14,467,737
Other borrowings	22,944,947	23,000,000
Dividend payable	1,862,183	1,675,964
Accrued expenses and other liabilities	5,237,675	3,824,330
Total liabilities	1,186,085,490	1,146,356,299

STOCKHOLDERS' EQUITY

Common stock, \$2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of March 31, 2015 and December 31, 2014	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728
Retained earnings	112,474,593	110,701,847
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	6,670,711	4,472,017
Total stockholders' equity	158,645,858	154,674,418
Total liabilities and stockholders' equity	\$1,344,731,348	\$1,301,030,717

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended	
	March 31,	
	2015	2014
Interest income:		
Loans, including fees	\$7,399,690	\$6,409,431
Securities:		
Taxable	1,566,398	1,763,603
Tax-exempt	1,486,360	1,674,108
Interest bearing deposits and federal funds sold	93,378	73,139
Total interest income	10,545,826	9,920,281
Interest expense:		
Deposits	762,396	892,010
Other borrowed funds	338,163	294,486
Total interest expense	1,100,559	1,186,496
Net interest income	9,445,267	8,733,785
Provision for loan losses	77,300	39,231
Net interest income after provision for loan losses	9,367,967	8,694,554
Noninterest income:		
Wealth management income	687,910	696,819
Service fees	394,559	357,479
Securities gains, net	4,949	135,081
Gain on sale of loans held for sale	213,986	98,653
Merchant and card fees	314,594	259,389
Gain (loss) on the sale of premises and equipment, net	(1,132)	1,256,924
Other noninterest income	151,353	141,439
Total noninterest income	1,766,219	2,945,784
Noninterest expense:		
Salaries and employee benefits	3,724,934	3,291,452
Data processing	664,535	571,350
Occupancy expenses, net	526,087	469,220

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FDIC insurance assessments	182,996	162,344
Professional fees	292,438	282,447
Business development	232,844	207,861
Other real estate owned expense, net	148,063	704
Core deposit intangible amortization	113,623	65,748
Other operating expenses, net	253,337	277,976
Total noninterest expense	6,138,857	5,329,102
Income before income taxes	4,995,329	6,311,236
Provision for income taxes	1,360,400	1,785,145
Net income	\$3,634,929	\$4,526,091
Basic and diluted earnings per share	\$0.39	\$0.49
Dividends declared per share	\$0.20	\$0.18

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended	
	March 31,	
	2015	2014
Net income	\$3,634,929	\$4,526,091
Other comprehensive income, before tax:		
Unrealized gains on securities before tax:		
Unrealized holding gains arising during the period	3,494,946	3,676,974
Less: reclassification adjustment for gains realized in net income	4,949	135,081
Other comprehensive income before tax	3,489,997	3,541,893
Tax effect related to other comprehensive income	(1,291,303)	(1,310,499)
Other comprehensive income, net of tax	2,198,694	2,231,394
Comprehensive income	\$5,833,623	\$6,757,485

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)

Three Months Ended March 31, 2015 and 2014

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	\$ 18,865,830	\$ 22,651,222	\$ 102,154,498	\$ 451,132	\$(2,016,498)	\$ 142,106,184
Net income	-	-	4,526,091	-	-	4,526,091
Other comprehensive income	-	-	-	2,231,394	-	2,231,394
Cash dividends declared, \$0.18 per share	-	-	(1,675,964)	-	-	(1,675,964)
Balance, March 31, 2014	\$ 18,865,830	\$ 22,651,222	\$ 105,004,625	\$ 2,682,526	\$(2,016,498)	\$ 147,187,705
Balance, December 31, 2014	\$ 18,621,826	\$ 20,878,728	\$ 110,701,847	\$ 4,472,017	\$-	\$ 154,674,418
Net income	-	-	3,634,929	-	-	3,634,929
Other comprehensive income	-	-	-	2,198,694	-	2,198,694
Cash dividends declared, \$0.20 per share	-	-	(1,862,183)	-	-	(1,862,183)
Balance, March 31, 2015	\$ 18,621,826	\$ 20,878,728	\$ 112,474,593	\$ 6,670,711	\$-	\$ 158,645,858

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Three Months Ended March 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$3,634,929	\$4,526,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	77,300	39,231
Provision for off-balance sheet commitments	-	35,000
Amortization, net	887,871	1,099,195
Amortization of core deposit intangible asset	113,623	65,748
Depreciation	259,680	187,611
Debit (credit) for deferred income taxes	(23,101)	667,448
Securities gains, net	(4,949)	(135,081)
(Gain) loss on sale of premises and equipment, net	1,132	(1,256,924)
Impairment of other real estate owned	27,453	-
Loss on sale of other real estate owned, net	55,742	-
Change in assets and liabilities:		
Decrease in loans held for sale	352,650	295,618
(Increase) decrease in accrued income receivable	(47,118)	5,171
(Increase) in other assets	(167,275)	(150,386)
Increase in accrued expenses and other liabilities	1,413,345	1,128,595
Net cash provided by operating activities	6,581,282	6,507,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(23,877,871)	(35,980,382)
Proceeds from sale of securities available-for-sale	517,076	3,478,851
Proceeds from maturities and calls of securities available-for-sale	13,761,096	14,209,166
Net (increase) in interest bearing deposits in financial institutions	(30,745,866)	(16,738,691)
Decrease in federal funds sold	6,000	
Net (increase) decrease in loans	(2,390,660)	15,939,754
Net proceeds from the sale of other real estate owned	987,156	-
Net proceeds from the sale of bank premises and equipment	-	1,746,444
Purchase of bank premises and equipment, net	(100,967)	(34,163)
Other	-	(2,750)
Net cash (used in) investing activities	(41,844,036)	(17,381,771)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	30,690,209	16,028,464
Increase in securities sold under agreements to repurchase and federal funds purchased	7,536,306	293,530

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Payments on FHLB borrowings and other borrowings	(73,616)	(17,980)
Proceeds from short-term FHLB borrowings, net	-	2,200,000
Dividends paid	(1,675,964)	(1,489,746)
Net cash provided by financing activities	36,476,935	17,014,268
Net increase in cash and due from banks	1,214,181	6,139,814
CASH AND DUE FROM BANKS		
Beginning	23,730,257	24,270,031
Ending	\$24,944,438	\$30,409,845

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Three Months Ended March 31, 2015 and 2014

	2015	2014
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$1,179,859	\$1,275,692
Income taxes	44,982	48,701
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	\$-	\$16,610

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (*unaudited*)

1. Significant Accounting Policies

The consolidated financial statements for the three months ended March 31, 2015 and 2014 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 accounting principles generally accepted in the United States of America 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, 2014 (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: 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, 2015, Company management has performed a goodwill impairment analysis and determined goodwill was not impaired.

2. Branch Acquisition

On August 29, 2014, First National Bank (FNB) completed the purchase of three bank branches of First Bank located in West Des Moines and Johnston, Iowa (the "Acquisition"). The Acquisition was consistent with the Bank's strategy to strengthen and expand its Iowa market share. The acquired assets and liabilities were recorded at fair value at the date

of acquisition and were reflected in the September 30, 2014 financial statements as such. These branches were purchased for cash consideration of \$4.1 million. As a result of the acquisition, the Company recorded a core deposit intangible asset of \$1,018,000 and goodwill of \$1,131,000. The results of operations for this acquisition have been included since the transaction date of August 29, 2014. The fair value of credit deteriorated purchased loans related to this Acquisition is \$1,507,000. These purchase loans are included in the impaired loan category in the financial statements.

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 August 29, 2014, the effective date of the transaction.

Cash consideration transferred	\$4,147,680
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and Due from Banks	\$20,576,661
Interest bearing deposits in financial institutions	5,719,000
Securities available-for-sale	10,602,454
Loans receivable	44,620,021
Accrued interest receivable	230,332
Bank premises and equipment	3,864,900
Other real estate owned	1,267,720
Core deposit intangible asset	1,018,000
Other assets	748,511
Deposits	(81,962,650)
Securities sold under agreements to repurchase	(2,815,297)
Accrued interest payable and other liabilities	(853,439)
Total identifiable net assets	\$3,016,213
Goodwill	\$1,131,467

On August 29, 2014, the contractual balance of loans receivable acquired was \$45,584,000 and the contractual balance of the deposits assumed was \$81,841,000. Loans receivable acquired include commercial real estate, 1-4 family real estate, commercial operating and consumer loans.

The acquired loans at contractual values as of August 29, 2014 were determined to be risk rated as follows:

Pass	\$29,840,000
Watch	6,659,000
Special Mention	1,478,000
Substandard	5,460,000
Deteriorated credit	2,147,000
Total loans acquired at book value	\$45,584,000

Loans acquired as deteriorated credit loans will be included with impaired loans.

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

The excess cash in the transaction has been utilized through reductions in federal funds purchased and other borrowings at FNB. Going forward any excess cash will be used in the form of investment and or loan growth.

3. Dividends

On February 11, 2015, the Company declared a cash dividend on its common stock, payable on May 15, 2015 to stockholders of record as of May 1, 2015, equal to \$0.20 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, 2015 and 2014 were 9,310,913. 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, 2014.

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, 2015 and December 31, 2014. *(in thousands)*

Description	Total	Level 1	Level 2	Level 3
2015				
U.S. government treasuries	\$1,472	\$1,472	\$-	\$ -
U.S. government agencies	100,856	-	100,856	-
U.S. government mortgage-backed securities	115,948	-	115,948	-
State and political subdivisions	284,033	-	284,033	-
Corporate bonds	48,600	-	48,600	-
Equity securities, common stock	745	745	-	-
Equity securities, other	2,996	-	2,996	-
	\$554,650	\$2,217	\$552,433	\$ -

2014

U.S. government treasuries	\$1,447	\$1,447	\$-	\$ -
U.S. government agencies	87,307	-	87,307	-
U.S. government mortgage-backed securities	120,985	-	120,985	-
State and political subdivisions	281,776	-	281,776	-
Corporate bonds	47,320	-	47,320	-
Equity securities, common stock	758	758	-	-
Equity securities, other				