

AMES NATIONAL CORP
Form 10-Q
November 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended September 30, 2014

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

(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 October 31, 2014)

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AMES NATIONAL CORPORATION

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	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$25,685,197	\$24,270,031
Interest bearing deposits in financial institutions	41,529,118	23,628,117
Securities available-for-sale	568,103,061	580,039,080
Loans receivable, net	615,701,355	564,501,547
Loans held for sale	447,423	295,618
Bank premises and equipment, net	15,984,355	11,892,329
Accrued income receivable	8,589,329	7,437,673
Other real estate owned	10,187,794	8,861,107
Deferred income taxes	1,662,407	5,027,103
Core deposit intangible, net	1,843,857	1,029,564
Goodwill	6,732,216	5,600,749
Other assets	1,695,913	501,242
Total assets	\$1,298,162,025	\$1,233,084,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$175,656,528	\$179,946,472
NOW accounts	294,207,846	299,788,852
Savings and money market	315,650,511	289,307,102
Time, \$100,000 and over	98,705,314	97,077,717
Other time	155,565,574	145,683,035
Total deposits	1,039,785,773	1,011,803,178
Securities sold under agreements to repurchase and federal funds purchased	68,194,012	39,616,644
Federal Home Loan Bank (FHLB) advances	16,986,152	14,540,526
Other borrowings	13,000,000	20,000,000
Dividend payable	1,675,964	1,489,746
Accrued expenses and other liabilities	4,550,116	3,527,882
Total liabilities	1,144,192,017	1,090,977,976

STOCKHOLDERS' EQUITY

Common stock, \$2 par value, authorized 18,000,000 shares; issued 9,432,915 shares as of September 30, 2014 and December 31, 2013; outstanding 9,310,913 shares as of September 30, 2014 and December 31, 2013	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	109,239,104	102,154,498
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	5,230,350	451,132
Treasury stock, at cost; 122,002 shares at September 30, 2014 and December 31, 2013	(2,016,498)	(2,016,498)
Total stockholders' equity	153,970,008	142,106,184
Total liabilities and stockholders' equity	\$1,298,162,025	\$1,233,084,160

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,	
	2014	2013	2014	2013
Interest income:				
Loans, including fees	\$6,722,179	\$6,569,005	\$19,708,190	\$18,874,279
Securities:				
Taxable	1,792,258	1,357,658	5,407,157	4,137,431
Tax-exempt	1,538,531	1,737,687	4,857,733	5,212,498
Interest bearing deposits and federal funds sold	67,183	86,126	213,259	304,172
Total interest income	10,120,151	9,750,476	30,186,339	28,528,380
Interest expense:				
Deposits	803,098	924,219	2,557,799	2,919,660
Other borrowed funds	299,434	315,116	897,781	905,966
Total interest expense	1,102,532	1,239,335	3,455,580	3,825,626
Net interest income	9,017,619	8,511,141	26,730,759	24,702,754
Provision for loan losses	55,145	92,388	130,020	165,962
Net interest income after provision for loan losses	8,962,474	8,418,753	26,600,739	24,536,792
Noninterest income:				
Wealth management income	686,955	532,709	2,108,150	1,631,478
Service fees	426,588	402,062	1,194,862	1,179,889
Securities gains, net	79,501	204,738	214,582	637,979
Gain on sale of loans held for sale	224,554	268,658	473,733	969,578
Merchant and card fees	281,766	271,485	831,405	884,583
Gain on the sale of premises and equipment, net	-	-	1,242,209	-
Other noninterest income	129,326	140,081	443,505	448,214
Total noninterest income	1,828,690	1,819,733	6,508,446	5,751,721
Noninterest expense:				
Salaries and employee benefits	3,513,375	3,288,760	10,235,563	9,736,156
Data processing	656,715	581,301	1,823,635	1,781,152
Occupancy expenses, net	366,258	358,739	1,185,066	1,103,920

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FDIC insurance assessments	164,535	173,878	490,231	506,629
Professional fees	332,988	313,174	963,876	853,202
Business development	303,026	255,899	726,503	649,283
Other real estate owned, net	(19,908)	(14,436)	(198)	653,302
Core deposit intangible amortization	76,959	65,751	203,707	207,949
Other operating expenses, net	272,474	207,437	776,248	696,195
Total noninterest expense	5,666,422	5,230,503	16,404,631	16,187,788
Income before income taxes	5,124,742	5,007,983	16,704,554	14,100,725
Provision for income taxes	1,393,256	1,295,916	4,592,054	3,524,028
Net income	\$3,731,486	\$3,712,067	\$12,112,500	\$10,576,697
Basic and diluted earnings per share	\$0.40	\$0.40	\$1.30	\$1.14
Dividends declared per share	\$0.18	\$0.16	\$0.54	\$0.48

See Notes to Consolidated Financial Statements.

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$3,731,486	\$3,712,067	\$12,112,500	\$10,576,697
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities before tax:				
Unrealized holding gains (losses) arising during the period	(572,017)	4,563,574	7,800,643	(14,424,859)
Less: reclassification adjustment for gains realized in net income	79,501	204,738	214,582	637,979
Other comprehensive income (loss) before tax	(651,518)	4,358,836	7,586,061	(15,062,838)
Tax effect related to other comprehensive income (loss)	241,062	(1,612,769)	(2,806,843)	5,573,250
Other comprehensive income (loss), net of tax	(410,456)	2,746,067	4,779,218	(9,489,588)
Comprehensive income	\$3,321,030	\$6,458,134	\$16,891,718	\$1,087,109

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, 2014 and 2013

	Common Stock	Additional Paid- in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	\$ 18,865,830	\$ 22,651,222	\$ 94,159,839	\$ 11,075,342	\$(2,016,498)	\$ 144,735,735
Net income	-	-	10,576,697	-	-	10,576,697
Other comprehensive (loss)	-	-	-	(9,489,588)	-	(9,489,588)
Cash dividends declared, \$0.48 per share	-	-	(4,469,239)	-	-	(4,469,239)
Balance, September 30, 2013	\$ 18,865,830	\$ 22,651,222	\$ 100,267,297	\$ 1,585,754	\$(2,016,498)	\$ 141,353,605
Balance, December 31, 2013	\$ 18,865,830	\$ 22,651,222	\$ 102,154,498	\$ 451,132	\$(2,016,498)	\$ 142,106,184
Net income	-	-	12,112,500	-	-	12,112,500
Other comprehensive income	-	-	-	4,779,218	-	4,779,218
Cash dividends declared, \$0.54 per share	-	-	(5,027,894)	-	-	(5,027,894)
Balance, September 30, 2014	\$ 18,865,830	\$ 22,651,222	\$ 109,239,104	\$ 5,230,350	\$(2,016,498)	\$ 153,970,008

See Notes to Consolidated Financial Statements.

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(unaudited)***Nine Months Ended September 30, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,112,500	\$ 10,576,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	130,020	165,962
Provision for off-balance sheet commitments	53,000	25,700
Amortization, net, securities available-for-sale	3,133,065	4,881,915
Amortization of core deposit intangible asset	203,707	207,949
Depreciation	605,100	588,729
Debit (credit) for deferred income taxes	557,853	(162,516)
Securities gains, net	(214,582)	(637,979)
(Gain) on sale of premises and equipment, net	(1,242,209)	-
Impairment of other real estate owned	-	670,000
(Gain) on sale of other real estate owned, net	(7,175)	(32,601)
Change in assets and liabilities:		
(Increase) decrease in loans held for sale	(151,805)	402,426
(Increase) in accrued income receivable	(921,324)	(917,171)
(Increase) decrease in other assets	(452,695)	1,893,136
Increase in accrued expenses and other liabilities	115,795	330,819
Net cash provided by operating activities	13,921,250	17,993,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(61,818,547)	(133,272,394)
Proceeds from sale of securities available-for-sale	31,688,263	28,314,668
Proceeds from maturities and calls of securities available-for-sale	57,120,089	90,110,257
Net (increase) decrease in interest bearing deposits in financial institutions	(12,182,001)	10,383,741
Net (increase) in loans	(6,705,707)	(18,638,285)
Net proceeds from the sale of other real estate owned	78,990	493,360
Net proceeds from the sale of bank premises and equipment	1,746,444	-
Purchase of bank premises and equipment, net	(1,329,925)	(419,973)
Cash acquired, net of cash paid, for acquired bank offices	16,428,981	-
Other	(19,673)	-
Net cash provided by (used in) investing activities	25,006,914	(23,028,626)

CASH FLOWS FROM FINANCING ACTIVITIES

(Decrease) in deposits	(53,879,019)	(27,567,314)
Increase in securities sold under agreements to repurchase and federal funds purchased	25,762,071	4,884,943
Proceeds from FHLB borrowings	-	2,000,000
Payments on FHLB borrowings and other borrowings	(7,054,374)	(2,052,671)
Proceeds from short-term FHLB borrowings, net	2,500,000	23,000,000
Dividends paid	(4,841,676)	(4,376,120)
Net cash used in financing activities	(37,512,998)	(4,111,162)
Net increase (decrease) in cash and due from banks	1,415,166	(9,146,722)

CASH AND DUE FROM BANKS

Beginning	24,270,031	34,805,371
Ending	\$25,685,197	\$25,658,649

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)***(unaudited)***Nine Months Ended September 30, 2014 and 2013**

	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$3,602,255	\$4,169,666
Income taxes	4,147,836	3,580,854
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	\$111,109	\$213,749
Business Combination:		
Fair value of interest bearing deposits in financial institutions acquired	\$5,719,000	\$-
Fair value of securities available-for-sale acquired	10,602,454	-
Fair value of loans receivable acquired	44,620,021	-
Fair value of bank premises and equipment acquired	3,864,900	-
Fair value of accrued interest receivable acquired	230,332	-
Fair value of other real estate owned acquired	1,267,720	-
Fair value of other tangible assets acquired	748,511	-
Goodwill	1,131,467	-
Core deposit intangible	1,018,000	-
Deposits assumed	81,962,650	-
Securities sold under repurchase agreements to repurchase assumed	2,815,297	-
Other liabilities assumed	853,439	-

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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 months ended September 30, 2014 and 2013 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, 2013 (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 September 30, 2014, Company management has performed a goodwill impairment analysis and determined goodwill was not impaired.

New Accounting Pronouncements: In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. The update clarifies when an in substance foreclosure occurs, that is, when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. This is the point when

the consumer mortgage loan should be derecognized and the real property recognized. For public companies, this update will be effective for interim and annual periods beginning after December 31, 2014 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The amendments in the ASU also require expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for public companies for the first interim or annual period beginning after December 15, 2014. The adoption of this ASU may result in additional disclosures but is not expected to impact significantly the Company's consolidated financial statements.

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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. Non-routine expenses associated with this transaction were approximately \$123,000 for the nine months ended September 30, 2014.

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.

Cash consideration transferred	\$4,147,680
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and Due from Banks	\$20,576,661