

AMES NATIONAL CORP
Form 10-Q
November 08, 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 September 30, 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 42-1039071
(State or Other Jurisdiction of Incorporation or Organization) (I. R. S. Employer Identification Number)

405 FIFTH STREET
AMES, IOWA 50010
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (515) 232-6251

NOT APPLICABLE
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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:

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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, 2013)

AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$25,658,649	\$34,805,371
Interest bearing deposits in financial institutions	34,255,292	44,639,033
Securities available-for-sale	583,476,550	588,417,037
Loans receivable, net	528,706,450	510,125,880
Loans held for sale	627,754	1,030,180
Bank premises and equipment, net	12,072,845	12,233,464
Accrued income receivable	8,090,874	7,173,703
Other real estate owned	8,993,815	9,910,825
Deferred income taxes	4,103,206	-
Core deposit intangible, net	1,095,315	1,303,264
Goodwill	5,600,749	5,600,749
Other assets	551,320	2,452,593
Total assets	\$1,213,232,819	\$1,217,692,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$165,723,905	\$182,033,279
NOW accounts	287,015,885	287,294,015
Savings and money market	283,671,827	279,774,197
Time, \$100,000 and over	93,306,121	99,925,619
Other time	147,288,212	155,705,340
Total deposits	977,005,950	1,004,732,450
Securities sold under agreements to repurchase	31,973,603	27,088,660
Federal Home Loan Bank (FHLB) advances	37,558,364	14,611,035
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,489,746	1,396,627
Deferred income taxes	-	1,632,560
Accrued expenses and other liabilities	3,851,551	3,495,032
Total liabilities	1,071,879,214	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 September 30, 2013 and December 31, 2012	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	100,267,297	94,159,839
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	1,585,754	11,075,342

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Treasury stock, at cost; 122,002 shares at September 30, 2013 and December 31, 2012	(2,016,498)	(2,016,498)
Total stockholders' equity	141,353,605	144,735,735
Total liabilities and stockholders' equity	\$ 1,213,232,819	\$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	\$6,569,005	\$6,413,866	\$18,874,279	\$18,470,183
Securities:				
Taxable	1,357,658	1,441,987	4,137,431	4,660,121
Tax-exempt	1,737,687	1,697,690	5,212,498	5,046,835
Interest bearing deposits and federal funds sold	86,126	113,149	304,172	371,328
Total interest income	9,750,476	9,666,692	28,528,380	28,548,467
Interest expense:				
Deposits	924,219	1,097,372	2,919,660	3,419,854
Other borrowed funds	315,116	322,887	905,966	972,023
Total interest expense	1,239,335	1,420,259	3,825,626	4,391,877
Net interest income	8,511,141	8,246,433	24,702,754	24,156,590
Provision for loan losses	92,388	35,664	165,962	151,369
Net interest income after provision for loan losses	8,418,753	8,210,769	24,536,792	24,005,221
Noninterest income:				
Trust services income	473,471	491,943	1,459,414	1,527,657
Service fees	402,062	429,958	1,179,889	1,161,170
Securities gains, net	204,738	220,230	637,979	538,298
Gain on sale of loans held for sale	268,658	440,232	969,578	1,082,126
Merchant and card fees	271,485	273,514	884,583	809,764
Other noninterest income	199,319	202,627	620,278	571,009
Total noninterest income	1,819,733	2,058,504	5,751,721	5,690,024
Noninterest expense:				
Salaries and employee benefits	3,288,760	3,112,396	9,736,156	9,293,203
Data processing	581,301	558,314	1,781,152	1,632,518
Occupancy expenses	358,739	362,217	1,103,920	1,069,972
FDIC insurance assessments	173,878	158,745	506,629	477,961
Professional fees	313,174	303,209	853,202	933,602
Business development	255,899	209,138	649,283	600,203
Other real estate owned (income) expense, net	(14,436)	31,330	653,302	472,123
Core deposit intangible amortization	65,751	73,776	207,949	122,960
Other operating expenses, net	207,437	233,434	696,195	773,728
Total noninterest expense	5,230,503	5,042,559	16,187,788	15,376,270
Income before income taxes	5,007,983	5,226,714	14,100,725	14,318,975

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Provision for income taxes	1,295,916	1,365,719	3,524,028	3,605,406
Net income	\$3,712,067	\$3,860,995	\$10,576,697	\$10,713,569
Basic and diluted earnings per share	\$0.40	\$0.41	\$1.14	\$1.15
Dividends declared per share	\$0.16	\$0.15	\$0.48	\$0.45

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$3,712,067	\$3,860,995	\$10,576,697	\$10,713,569
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities before tax:				
Unrealized holding gains (losses) arising during the period	4,563,574	2,643,541	(14,424,859)	5,212,820
Less: reclassification adjustment for gains realized in net income	204,738	220,230	637,979	538,298
Other comprehensive income (loss) before tax	4,358,836	2,423,311	(15,062,838)	4,674,522
Tax effect related to other comprehensive income (loss)	(1,612,769)	(869,031)	5,573,250	(1,701,979)
Other comprehensive income (loss), net of tax	2,746,067	1,554,280	(9,489,588)	2,972,543
Comprehensive income	\$6,458,134	\$5,415,275	\$1,087,109	\$13,686,112

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, 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	-	-	10,713,569	-	-	10,713,569
Other comprehensive income	-	-	-	2,972,543	-	2,972,543
Cash dividends declared, \$0.45 per share	-	-	(4,189,913)	-	-	(4,189,913)
Balance, September 30, 2012	\$ 18,865,830	\$ 22,651,222	\$ 92,087,734	\$ 12,465,296	\$(2,016,498)	\$ 144,053,584
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

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Nine Months Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,576,697	\$ 10,713,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	165,962	151,369
Provision for off-balance sheet commitments	25,700	19,000
Amortization, net, securities available-for-sale	4,881,915	4,649,555
Amortization of core deposit intangible asset	207,949	122,960
Depreciation	588,729	568,080
Credit for deferred income taxes	(162,516)	(189,224)
Securities gains, net	(637,979)	(538,298)
Impairment of other real estate owned	670,000	303,588
Loss (gain) on sale of other real estate owned, net	(32,601)	46,867
Change in assets and liabilities:		
Increase (decrease) in loans held for sale	402,426	(358,001)
(Increase) in accrued income receivable	(917,171)	(1,058,920)
(Increase) decrease in other assets	1,893,136	(4,897,038)
Increase in accrued expenses and other liabilities	330,819	693,448
Net cash provided by operating activities	17,993,066	10,226,955
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(133,272,394)	(175,323,766)
Proceeds from sale of securities available-for-sale	28,314,668	19,612,753
Proceeds from maturities and calls of securities available-for-sale	90,110,257	91,016,839
Net (increase) decrease in interest bearing deposits in financial institutions	10,383,741	(2,018,139)
Net (increase) in loans	(18,638,285)	(5,205,943)
Net proceeds from the sale of other real estate owned	493,360	840,725
Purchase of bank premises and equipment, net	(419,973)	(370,766)
Cash acquired, net of cash paid, for acquired bank offices	-	44,303,137
Net cash used in investing activities	(23,028,626)	(27,145,160)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(27,567,314)	24,908,092
Increase (decrease) in securities sold under agreements to repurchase	4,884,943	(2,721,894)
Proceeds from FHLB borrowings	2,000,000	-
Payments on FHLB borrowings	(2,052,671)	(551,021)
Proceeds from short-term FHLB borrowings, net	23,000,000	-
Dividends paid	(4,376,120)	(4,003,695)
Net cash provided by (used in) financing activities	(4,111,162)	17,631,482
Net increase (decrease) in cash and due from banks	(9,146,722)	713,277

CASH AND DUE FROM BANKS

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Beginning	34,805,371	22,829,291
Ending	\$25,658,649	\$23,542,568

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Nine Months Ended September 30, 2013 and 2012

	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$4,169,666	\$4,606,845
Income taxes	3,580,854	3,599,844
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	\$213,749	\$1,592,446
Business Combination:		
Fair value of loans receivable acquired	\$-	\$46,103,022
Fair value of bank premises and equipment acquired	-	864,500
Fair value of other tangible assets acquired	-	514,760
Goodwill	-	5,600,749
Core deposit intangible asset	-	1,500,000
Deposits assumed	-	98,766,558
Other liabilities assumed	-	119,610

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

1. Significant Accounting Policies

The consolidated financial statements for the three and nine months ended September 30, 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 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, 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 September 30, 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.

3. Dividends

On August 14, 2013, the Company declared a cash dividend on its common stock, payable on November 15, 2013 to stockholders of record as of November 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 and nine months ended September 30, 2013 and 2012 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, 2012.

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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 September 30, 2013 and December 31, 2012.

Description	Total	Level 1	Level 2	Level 3
2013				
U.S. government agencies	\$54,040,000	\$-	\$54,040,000	\$ -
U.S. government mortgage-backed securities	164,187,000	-	164,187,000	-
State and political subdivisions	315,083,000	-	315,083,000	-
Corporate bonds	45,473,000	-	45,473,000	-
Equity securities, financial industry common stock	717,000	717,000	-	-
Equity securities, other	3,977,000	-	3,977,000	-
	\$583,477,000	\$717,000	\$582,760,000	\$ -
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 September 30, 2013 and December 31, 2012.

Description	Total	Level 1	Level 2	Level 3
2013				
Loans receivable	\$750,000	\$ -	\$ -	\$750,000
Other real estate owned	8,994,000	-	-	8,994,000
Total	\$9,744,000	\$ -	\$ -	\$9,744,000
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 valuation allowance was \$4,644,000 and \$4,004,000 as of September 30, 2013 and December 31, 2012, respectively. The Company considers these fair values level 3.

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The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2013 and December 31, 2013 are as follows:

	September 30, 2013			
	Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Impaired Loans	\$ 750,000	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	\$ 8,994,000	Appraisal	Appraisal adjustment	6%-10% (8%)

* Not Meaningful. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. The types of collateral vary widely and could include accounts receivables, inventory, a variety of equipment and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered included aging of receivables, condition of the collateral, potential market for the collateral and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range would not be meaningful.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

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.

The following disclosures represent financial instruments in which the ending balances at September 30, 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.

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Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

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: The carrying amounts of securities sold under agreements to repurchase approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other long-term borrowings: Fair values of FHLB advances and other long-term borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and 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:

		September 30, 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	\$25,658,649	\$25,659,000	\$34,805,371	\$34,805,000
Interest bearing deposits	Level 1	34,255,292	34,255,000	44,639,033	44,639,000
	See previous				
Securities available-for-sale	table	583,476,550	583,477,000	588,417,037	588,417,000
Loans receivable, net	Level 2	528,706,450	527,901,000	510,125,880	514,047,000
Loans held for sale	Level 2	627,754	628,000	1,030,180	1,030,000
Accrued income receivable	Level 1	8,090,874	8,091,000	7,173,703	7,174,000
Financial liabilities:					
Deposits	Level 2	\$977,005,950	\$979,425,000	\$1,004,732,450	\$1,008,013,000
Securities sold under agreements to repurchase	Level 1	31,973,603	31,974,000	27,088,660	27,089,000
FHLB advances	Level 2	37,558,364	38,399,000	14,611,035	15,997,000
Other long-term borrowings	Level 2	20,000,000	22,025,000	20,000,000	22,404,000
Accrued interest payable	Level 1	567,571	568,000	752,425	752,000

The methodologies used to determine fair value as of September 30, 2013 did not change from the methodologies 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
September 30, 2013:				
U.S. government agencies	\$53,751,511	\$1,387,809	\$(1,099,568)	\$54,039,752
U.S. government mortgage-backed securities	161,818,718	3,255,891	(887,542)	164,187,067
State and political subdivisions	313,930,908	5,207,832	(4,055,409)	315,083,331
Corporate bonds	46,851,545	746,382	(2,125,327)	45,472,600
Equity securities, financial industry common stock	629,700	87,000	-	716,700
Equity securities, other	3,977,100	-	-	3,977,100
	\$580,959,482	\$10,684,914	\$(8,167,846)	\$583,476,550

	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 are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Proceeds from sales of securities available-for-sale	\$12,696,659	\$9,580,189	\$28,314,668	\$19,612,753
Gross realized gains on securities available-for-sale	261,219	222,096	695,972	540,394
Gross realized losses on securities available-for-sale	56,481	1,866	57,993	2,096
Tax provision applicable to net realized gains on securities available-for-sale	76,000	82,000	238,000	201,000

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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 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
September 30, 2013:						
Securities available-for-sale:						
U.S. government agencies	\$19,755,860	\$(1,099,568)	\$-	\$-	\$19,755,860	\$(1,099,568)
U.S. government mortgage-backed securities	53,188,237	(887,542)	-	-	53,188,237	(887,542)
State and political subdivisions	113,736,391	(3,922,728)	3,223,879	(132,681)	116,960,270	(4,055,409)
Corporate bonds	28,706,996	(1,791,764)	3,775,824	(333,563)	32,482,820	(2,125,327)
	\$215,387,484	\$(7,701,602)	\$6,999,703	\$(466,244)	\$222,387,187	\$(8,167,846)
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012:						
Securities available-for-sale:						
U.S. government mortgage-backed securities	\$20,972,453	\$(165,076)	\$-	\$-	\$20,972,453	\$(165,076)
State and political subdivisions	30,651,869	(410,357)	578,145	(6,187)	31,230,014	(416,544)
Corporate bonds	13,979,171	(270,218)	-	-	13,979,171	(270,218)
	\$65,603,493	\$(845,651)	\$578,145	\$(6,187)	\$66,181,638	\$(851,838)

Gross unrealized losses on debt securities totaled \$8,167,846 as of September 30, 2013. These unrealized losses are generally due to changes in interest rates or general market conditions. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management concluded that the gross unrealized losses on debt securities were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and management's assessments will occur in the near term and that such changes could materially affect the amounts reported in the Company's financial statements.

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8. Loan Receivable and Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three and nine months ended September 30, 2013 and 2012 is as follows: (in thousands)

Three Months Ended September 30, 2013								
	1-4 Family Residential				Commercial Agricultural		Consumer and Other	Total
	Construction Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural		
Balance, June 30, 2013	\$332	\$ 1,456	\$ 3,002	\$ 591	\$ 1,343	\$ 921	\$ 174	\$7,819
Provision (credit) for loan losses	(111)	40	162	21	(78)	68	(10)	92
Recoveries of loans charged-off	-	2	17	-	1	-	4	24
Loans charged-off	-	(18)	-	-	-	-	(14)	(32)
Balance, September 30, 2013	\$221	\$ 1,480	\$ 3,181	\$ 612	\$ 1,266	\$ 989	\$ 154	\$7,903
Nine Months Ended September 30, 2013								
	1-4 Family Residential				Commercial Agricultural		Consumer and Other	Total
	Construction Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural		
Balance, December 31, 2012	\$375	\$ 1,433	\$ 2,859	\$ 523	\$ 1,461	\$ 945	\$ 177	\$7,773
Provision (credit) for loan losses	(154)	88	305	89	(198)	44	(8)	166
Recoveries of loans charged-off	-	40	17	-	3	-	12	72
Loans charged-off	-	(81)	-	-	-	-	(27)	(108)
Balance, September 30, 2013	\$221	\$ 1,480	\$ 3,181	\$ 612	\$ 1,266	\$ 989	\$ 154	\$7,903
Three Months Ended September 30, 2012								
	1-4 Family Residential				Commercial Agricultural		Consumer and Other	Total
	Construction Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural		
Balance, June 30, 2012	\$739	\$ 1,473	\$ 2,912	\$ 466	\$ 1,406	\$ 820	\$ 205	\$8,021
Provision (credit) for loan losses	(48)	50	48	10	(10)	(8)	(6)	36
Recoveries of loans charged-off	-	2	-	-	1	-	8	11
Loans charged-off	-	(40)	-	-	-	-	(19)	(59)
Balance, September 30, 2012	\$691	\$ 1,485	\$ 2,960	\$ 476	\$ 1,397	\$ 812	\$ 188	\$8,009

Nine Months Ended September 30, 2012

	1-4 Family Construction	Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, December 31, 2011	\$793	\$ 1,402	\$ 2,859	\$ 501	\$ 1,352	\$ 764	\$ 234	\$7,905
Provision (credit) for loan losses	(102)	127	101	(25)	51	48	(49)	151
Recoveries of loans charged-off	-	5	-	-	6	-	41	52
Loans charged-off	-	(49)	-	-	(12)	-	(38)	(99)
Balance, September 30, 2012	\$691	\$ 1,485	\$ 2,960	\$ 476	\$ 1,397	\$ 812	\$ 188	\$8,009

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Allowance for loan losses disaggregated on the basis of impairment analysis method as of September 30, 2013 and December 31, 2012 is as follows: (in thousands)

	1-4 Family Construction Real Estate Residential Real Estate Commercial Real Estate Agricultural Real Estate Commercial Agricultural Consumer and Other							Total
Individually evaluated for impairment	\$-	\$ 122	\$ 20	\$ -	\$ 330	\$ 5	\$ -	\$477
Collectively evaluated for impairment	221	1,358	3,161	612	936	984	154	7,426
Balance September 30, 2013	\$221	\$ 1,480	\$ 3,181	\$ 612	\$ 1,266	\$ 989	\$ 154	\$7,903

	1-4 Family Construction Real Estate Residential Real Estate Commercial Real Estate Agricultural Real Estate Commercial Agricultural Consumer and Other							Total
Individually evaluated for impairment	\$100	\$ 110	\$ 86	\$ -	\$ 400	\$ 6	\$ -	\$702
Collectively evaluated for impairment	275	1,323	2,773	523	1,061	939	177	7,071
Balance December 31, 2012	\$375	\$ 1,433	\$ 2,859	\$ 523	\$ 1,461	\$ 945	\$ 177	\$7,773

Loans receivable disaggregated on the basis of impairment analysis method as of September 30, 2013 and December 31, 2012 is as follows (in thousands):

	1-4 Family Construction Real Estate Residential Real Estate Commercial Real Estate Agricultural Real Estate Commercial Agricultural Consumer and Other							Total
Individually evaluated for impairment	\$736	\$ 781	\$ 541	\$ -	\$ 821	\$ 5	\$ 13	\$2,897
Collectively evaluated for impairment	12,920	108,140	205,981	46,394	74,606	71,477	14,218	533,736
Balance September 30, 2013	\$13,656	\$ 108,921	\$ 206,522	\$ 46,394	\$ 75,427	\$ 71,482	\$ 14,231	\$536,633

	1-4 Family Construction Real Estate Residential Real Estate Commercial Real Estate Agricultural Real Estate Commercial Agricultural Consumer and Other							Total
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Individually evaluated for impairment	\$1,493	\$1,121	\$3,280	\$ -	\$710	\$6	\$4	\$6,614
Collectively evaluated for impairment	15,584	103,147	175,380	43,868	79,554	77,477	16,336	511,346
Balance December 31, 2012	\$17,077	\$104,268	\$178,660	\$43,868	\$80,264	\$77,483	\$16,340	\$517,960

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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 September 30, 2013 and December 31, 2012: (in thousands)

	September 30, 2013			December 31, 2012		
	Unpaid			Unpaid		
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
With no specific reserve recorded:						
Real estate - construction	\$736	\$ 736	\$ -	\$1,060	\$ 1,060	\$ -
Real estate - 1 to 4 family residential	405	405	-	655	655	-
Real estate - commercial	495	495	-	1,381	1,381	-
Real estate - agricultural	-	-	-	-	-	-
Commercial	21	21	-	80	80	-
Agricultural	-	-	-	-	-	-
Consumer and other	13	13	-	4	4	-
Total loans with no specific reserve:	1,670	1,670	-	3,180	3,180	-
With an allowance recorded:						
Real estate - construction	-	-	-	433	433	100
Real estate - 1 to 4 family residential	376	376	122	466	466	110
Real estate - commercial	46	46	20	1,899	1,899	86
Real estate - agricultural	-	-	-	-	-	-
Commercial	800	800	330	630	630	400
Agricultural	5	5	5	6	6	6
Consumer and other	-	-	-	-	-	-
Total loans with specific reserve:	1,227	1,227	477	3,434	3,434	702
Total						
Real estate - construction	736	736	-	1,493	1,493	100
Real estate - 1 to 4 family residential	781	781	122	1,121	1,121	110
Real estate - commercial	541	541	20	3,280	3,280	86
Real estate - agricultural	-	-	-	-	-	-
Commercial	821	821	330	710	710	400
Agricultural	5	5	5	6	6	6
Consumer and other	13	13	-	4	4	-
	\$2,897	\$ 2,897	\$ 477	\$6,614	\$ 6,614	\$ 702

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The following is a recap of the average recorded investment and interest income recognized on impaired loans for the three and nine months ended September 30, 2013 and 2012: (in thousands)

	Three Months Ended September 30,		2012	
	Average Interest Recorded	Investment Recognized	Average Interest Recorded	Investment Recognized
With no specific reserve recorded:				
Real estate - construction	\$805	\$ -	\$1,424	\$ 2
Real estate - 1 to 4 family residential	478	8	820	-
Real estate - commercial	1,382	207	599	-
Real estate - agricultural	-	-	-	-
Commercial	41	12	39	-
Agricultural	-	-	-	-
Consumer and other	7	-	-	-
Total loans with no specific reserve:	2,713	227	2,882	2
With an allowance recorded:				
Real estate - construction	195	93	530	-
Real estate - 1 to 4 family residential	334	-	659	-
Real estate - commercial	46	-	1,947	-
Real estate - agricultural	-	-	-	-
Commercial	813	-	634	-
Agricultural	5	-	3	-
Consumer and other	-	-	6	-
Total loans with specific reserve:	1,393	93	3,779	-
Total				
Real estate - construction	1,000	93	1,954	2
Real estate - 1 to 4 family residential	812	8	1,479	-
Real estate - commercial	1,428	207	2,546	-
Real estate - agricultural	-	-	-	-
Commercial	854	12	673	-
Agricultural	5	-	3	-
Consumer and other	7	-	6	-
	\$4,106	\$ 320	\$6,661	\$ 2

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	Nine Months Ended September 30,			
	2013		2012	
	Average Interest		Average Interest	
	Recorded Income		Recorded Income	
	Investment	Recognized	Investment	Recognized
With no specific reserve recorded:				
Real estate - construction	\$919	\$ -	\$1,542	\$ 4
Real estate - 1 to 4 family residential	569	8	1,393	14
Real estate - commercial	1,189	209	770	5
Real estate - agricultural	-	-	-	-
Commercial	58	12	20	-
Agricultural	-	-	-	-
Consumer and other	5	-	-	-
Total loans with no specific reserve:	2,740	229	3,725	23
With an allowance recorded:				
Real estate - construction	313	93	581	-
Real estate - 1 to 4 family residential	420	-	487	-
Real estate - commercial	1,147	-	1,843	-
Real estate - agricultural	-	-	-	-
Commercial	745	-	611	-
Agricultural	6	-	2	-
Consumer and other	-	-	3	-
Total loans with specific reserve:	2,631	93	3,527	-
Total				
Real estate - construction	1,232	93	2,123	4
Real estate - 1 to 4 family residential	989	8	1,880	14
Real estate - commercial	2,336	209	2,613	5
Real estate - agricultural	-	-	-	-
Commercial	803	12	631	-
Agricultural	6	-	2	-
Consumer and other	5	-	3	-

\$5,371 \$ 322 \$7,252 \$ 23

The interest foregone on nonaccrual loans for the three months ended September 30, 2013 and 2012 was approximately \$73,000 and \$89,000, respectively. The interest foregone on nonaccrual loans for the nine months ended September 30, 2013 and 2012 was approximately \$239,000 and \$322,000, respectively.

The Company had loans meeting the definition of a troubled debt restructuring (TDR) of \$1,635,000 as of September 30, 2013, of which all were included in impaired loans, \$1,445,000 was included as nonaccrual loans and \$190,000 was on accrual status. The Company had TDR of \$5,105,000 as of December 31, 2012, all of which were included in impaired loans, \$4,058,000 was included as nonaccrual loans and \$1,047,000 was on accrual status.

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The following table sets forth information on the Company's TDRs, on a disaggregated basis, occurring in the three and nine months ended September 30, 2013 and 2012: (dollars in thousands)

	Three Months Ended September 30, 2013		2012	
	Pre-Modification Outstanding	Post-Modification Outstanding	Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Recorded Contracts	Recorded Investment	Number of Recorded Contracts	Recorded Investment
Real estate - construction	-	\$ -	2	\$ 195