AMES NATIONAL CORP
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

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

For the transition period from ____________ to ____________

Commission File Number 0-32637

AMES NATIONAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

IOWA	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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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

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

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

COMMON STOCK, $2.00 PAR VALUE	9,432,915
(Class)	(Shares Outstanding at July 30, 2010)

AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS	June 30, 2010	December 31, 2009
Cash and due from banks	$16,671,320	$18,796,664
Interest bearing deposits in financial institutions	25,357,030	24,776,088
Securities available-for-sale	436,928,802	418,655,018
Loans receivable, net	410,432,696	415,434,236
Loans held for sale	2,510,258	1,023,200
Bank premises and equipment, net	11,666,390	11,909,404
Accrued income receivable	5,918,291	5,710,226
Deferred income taxes	2,513,174	3,867,523
Other real estate owned	10,630,371	10,480,449
Other assets	4,350,105	4,916,991
Total assets	$926,978,437	$915,569,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	$91,706,784	$99,918,848
NOW accounts	208,779,142	197,393,459
Savings and money market	179,879,101	184,631,343
Time, $100,000 and over	86,614,339	87,054,194
Other time	148,225,335	153,166,105
Total deposits	715,204,701	722,163,949
Federal funds purchased and securities sold under agreements to repurchase	50,279,602	40,489,505
Short-term borrowings	6,819	138,874
FHLB advances and other long-term borrowings	38,500,000	36,500,000
Dividend payable	1,037,620	943,292
Accrued expenses and other liabilities	3,251,797	2,994,291
Total liabilities	808,280,539	803,229,911
STOCKHOLDERS' EQUITY		
Common stock, $2 par value, authorized 18,000,000 shares; 9,432,915 shares issued and outstanding	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	72,024,066	67,703,701
Accumulated other comprehensive income-net unrealized gain on securities available-for-sale	5,156,780	3,119,135
Total stockholders' equity	118,697,898	112,339,888
Total liabilities and stockholders' equity	$926,978,437	$915,569,799

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income
(unaudited)

	Three Months Ended June 30,		Six Month Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans, including fees	$6,023,730	$6,389,627	$12,123,209	$13,000,802
Securities:				
Taxable	1,770,707	2,055,441	3,598,228	4,166,936
Tax-exempt	1,429,568	1,291,796	2,795,150	2,570,452
Federal funds sold	-	8,253	-	19,328
Interest bearing deposits	129,198	81,151	259,311	186,222
Total interest and dividend income	9,353,203	9,826,268	18,775,898	19,943,740
Interest expense:				
Deposits	1,563,610	2,183,150	3,225,964	4,624,680
Other borrowed funds	402,304	476,498	805,462	944,882
Total interest expense	1,965,914	2,659,648	4,031,426	5,569,562
Net interest income	7,387,289	7,166,620	14,744,472	14,374,178
Provision for loan losses	170,416	326,670	494,214	556,324
Net interest income after provision for loan losses	7,216,873	6,839,950	14,250,258	13,817,854
Noninterest income:				
Trust department income	465,298	390,882	996,014	773,434
Service fees	435,365	449,382	835,188	870,832
Securities gains (losses), net	134,830	255,088	671,813	(95,587)
Gain on loans held for sale	171,453	256,776	324,989	519,682
Merchant and ATM fees	195,137	153,159	360,524	299,169
Other	209,460	223,337	380,780	367,066
Total noninterest income	1,611,543	1,728,624	3,569,308	2,734,596
Noninterest expense:				
Salaries and employee benefits	2,706,545	2,703,106	5,304,584	5,049,865
Data processing	494,681	541,678	945,645	1,020,313
Occupancy expenses	364,955	302,240	766,109	695,044
FDIC insurance assessments	278,109	557,091	591,466	1,037,002
Other real estate owned	62,954	727,793	119,307	1,154,637
Other operating expenses	728,405	705,236	1,441,477	1,406,703

Total noninterest expense	4,635,649	5,537,144	9,168,588	10,363,564
Income before income taxes	4,192,767	3,031,430	8,650,978	6,188,886
Provision for income taxes	1,066,761	622,525	2,255,372	1,338,841
Net income	$3,126,006	$2,408,905	$6,395,606	$4,850,045
Basic and diluted earnings per share	$0.33	$0.26	$0.68	$0.51
Declared dividends per share	$0.11	$0.10	$0.22	$0.20
Comprehensive income	$4,413,196	$4,360,628	$8,433,251	$5,406,674

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$6,395,606	$4,850,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	494,214	556,324
Provision (credit) for off-balance sheet commitments	13,000	(5,000)
Amortization and (accretion), net	1,389,789	184,623
Depreciation	381,534	432,738
Provision for deferred taxes	157,636	1,316,262
Securities losses (gains), net	(671,813)	95,587
Other-than-temporary impairment of investment securities	-	29,565
Impairment of other real estate owned	14,900	931,533
(Gain) loss on sale of other real estate owned	(35,922)	1,096
Change in assets and liabilities:		
Increase in loans held for sale	(1,487,058)	(1,505,549)
(Increase) decrease in accrued income receivable	(208,065)	1,171,957
Decrease in other assets	560,326	449,373
Increase in accrued expenses and other liabilities	244,506	427,866
Net cash provided by operating activities	7,248,653	8,936,420
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(109,570,798)	(136,151,556)
Proceeds from sale of securities available-for-sale	16,353,562	33,751,830
Proceeds from maturities and calls of securities available-for-sale	77,459,834	46,069,180
Net increase in interest bearing deposits in financial institutions	(580,942)	(26,902,623)
Net decrease in federal funds sold	-	16,533,000
Net decrease in loans	3,805,797	28,563,420
Net proceeds for the sale of other real estate owned	571,028	702,137
Purchase of bank premises and equipment, net	(131,960)	(65,221)
Improvements in other real estate owned	1,601	2,250
Net cash used in investing activities	(12,091,878)	(37,497,583)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(6,959,248)	19,326,615
Increase in federal funds purchased and securities sold under agreements to repurchase	9,790,097	7,951,847
Payments on short-term borrowings, net	(132,055)	(738,587)
Proceeds from FHLB advances	2,500,000	2,500,000
Payments on FHLB advances	(500,000)	(5,500,000)
Dividends paid	(1,980,913)	(3,584,507)
Net cash provided by financing activities	2,717,881	19,955,368

Net decrease in cash and cash equivalents	(2,125,344)	(8,605,795)
CASH AND DUE FROM BANKS		
Beginning	18,796,664	24,697,591
Ending	$16,671,320	$16,091,796

Continued

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments (receipt) for:		
Interest	$4,128,891	$5,809,507
Income taxes	2,107,614	(566,065)
SUPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans to other real estate owned	$701,529	$1,499,411

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

The consolidated financial statements for the three and six month periods ended June 30, 2010 and 2009 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, 2009 (the “Annual Report”). The consolidated financial statements include the accounts of the Company and its wholly-owned banking subsidiaries (the “Banks”). All significant intercompany balances and transactions have been eliminated in consolidation. Certain immaterial reclassifications have been made to previously presented financial statements to conform to the 2010 presentation.

Fair value of financial instruments: The following methods and assumptions were used by the Company in estimating fair value disclosures:

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

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

Deposit liabilities: Fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW 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.

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

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Short-term borrowings: The carrying amounts of 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 interest payable approximate fair value.

New Accounting Pronouncements

On December 23, 2009 the FASB issued guidance which modifies certain aspects contained in the Transfers and Servicing topic of FASB ASC 860. This standard enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This standard was effective for the Company as of January 1, 2010 with adoption applied prospectively for transfers that occur on or after that date. The adoption of this standard did not have a material impact on the Company’s financial position or results of operations.

In January, 2010, the FASB issued guidance which modifies certain aspects contained in the Fair Value Measurements and Disclosure topic of FAS ASC 820. This standard enhances information reported to users of the financial statements by providing additional and enhanced disclosures about the fair value measurements. This standard was effective for the company as of January 1, 2010; except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which will be effective on January 1, 2011. The adoption of this standard did not have a material impact on the Company’s financial position or results of operations.

In July, 2010, the FASB issued Accounting Standards Update 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The new guidance will increase disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures will provide additional information about the nature of credit risk inherent in the Company’s loans, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The requirements will be effective for the Company’s year ending December 31, 2010. The company has not yet determined the impact the requirements will have on the consolidated financial statements.

2. Dividends

On May 12, 2010, the Company declared a cash dividend on its common stock, payable on August 16, 2010 to stockholders of record as of August 2, 2010, equal to $0.11 per share.

3. Earnings Per Share

Earnings per share amounts were calculated using the weighted average shares outstanding during the periods presented. The weighted average outstanding shares for the three and six months ended June 30, 2010 and 2009 were 9,432,915. The Company had no potentially dilutive securities outstanding during the periods presented.

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4. Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. No material changes in the Company's off-balance sheet arrangements have occurred since December 31, 2009.

5. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments (as described in Note 1) were as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$16,671,320	$16,671,000	$18,796,664	$18,797,000
Interest-bearing deposits	25,357,030	25,357,000	24,776,088	24,766,000
Securities available-for-sale	436,928,802	436,929,000	418,655,018	418,655,000
Loans receivable, net	410,432,696	413,659,000	415,434,236	411,344,000
Loans held for sale	2,510,258	2,510,000	1,023,200	1,023,000
Accrued income receivable	5,918,291	5,918,000	5,710,226	5,710,000
Financial liabilities:				
Deposits	$715,204,701	$717,737,000	$722,163,949	$725,840,000
Federal funds purchased and securities sold under agreements to repurchase	50,279,602	50,280,000	40,489,505	40,490,000
Other short-term borrowings	6,819	7,000	138,874	139,000
Long-term borrowings	38,500,000	41,902,000	36,500,000	41,504,000
Accrued interest payable	994,726	995,000	1,092,191	1,092,000

The methodology used to determine fair value as of June 30, 2010 did not change from the methodology used in the Annual Report.

6. Fair Value Measurements

Assets and liabilities carried at fair value are required to be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

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.

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Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of June 30, 2010 and December 31, 2009:

Description	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
U.S. treasury	$515,000	$515,000	$-	$ -
U.S. government agencies	104,562,000	-	104,562,000	-
U.S. government mortgage-backed securities	102,376,000	-	102,376,000	-
State and political subdivisions	201,881,000	-	201,881,000	-
Corporate bonds	20,822,000	-	20,822,000	-
Equity securities, financial industry common stock	2,310,000	2,310,000	-	-
Equity securities, other	4,463,000	1,230,000	3,233,000	-
	$436,929,000	$4,055,000	$432,874,000	$ -
December 31, 2009				
U.S. treasury	$525,000	$525,000	$-	$ -
U.S. government agencies	106,640,000	-	106,640,000	-
U.S. government mortgage-backed securities	101,589,000	-	101,589,000	-
State and political subdivisions	178,052,000	-	178,052,000	-
Corporate bonds	24,300,000	-	24,300,000	-
Equity securities, financial industry common stock	2,347,000	2,347,000	-	-
Equity securities, other	5,202,000	2,023,000	3,179,000	-
	$418,655,000	$4,895,000	$413,760,000	$ -

(a) Securities available for sale are recorded at fair value on a recurring basis. 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. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include U.S. government agency securities, mortgage-backed securities (including pools and collateralized mortgage obligations), municipal bonds, and corporate debt securities. There were no transfers between level one and two classifications. The Company’s policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer.

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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 required valuation hierarchy as of June 30, 2010 and December 31, 2009:

Description	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010				
Loans	$4,380,000	$-	$-	$ 4,380,000
Other real estate owned	10,630,000	-	-	10,630,000
Total	$15,010,000	$-	$-	$ 15,010,000
December 31, 2009				
Loans	$4,807,000	$-	$-	$ 4,807,000
Other real estate owned	10,480,000	-	-	10,480,000
Total	$15,287,000	$-	$-	$ 15,287,000

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

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7. Debt and Equity Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2010:				
U.S. treasury	$499,420	$15,594	$-	$515,014
U.S. government agencies	102,844,632	1,759,112	(41,529)	104,562,215
U.S. government mortgage-backed securities	99,300,541	3,123,017	(47,661)	102,375,897
State and political subdivisions	198,372,229	3,739,900	(231,582)	201,880,547
Corporate bonds	19,600,975	1,235,709	(14,269)	20,822,415
Equity securities, financial industry common stock	3,402,389	-	(1,092,388)	2,310,001
Equity securities, other	4,723,251	2,300	(262,838)	4,462,713
	$428,743,437	$9,875,632	$(1,690,267)	$436,928,802

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2009:				
U.S. treasury	$498,972	$26,219	$-	$525,191
U.S. government agencies	105,903,470	969,583	(233,169)	106,639,884
U.S. government mortgage-backed securities	100,106,597	1,724,922	(242,033)	101,589,486
State and political subdivisions	175,298,674	3,109,322	(355,571)	178,052,425
Corporate bonds	23,094,417	1,253,157	(47,880)	24,299,694
Equity securities, financial industry common stock	3,402,389	-	(1,056,088)	2,346,301
Equity securities, other	5,399,493	58,400	(255,856)	5,202,037
	$413,704,012	$7,141,603	$(2,190,597)	$418,655,018

Non-interest income for the three months ended June 30, 2010 and 2009 was primarily impacted by net security gains of approximately $135,000 and $255,000, respectively. Non-interest income for the six months ended June 30, 2010 and 2009 was primarily impacted by net security gains (losses) of approximately $672,000 and ($96,000), respectively.

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Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2010 and December 31, 2009, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010:						
Securities available for sale:						