

AMES NATIONAL CORP
Form 10-Q
November 06, 2018

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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, 2018

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(1) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ 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 9,310,913

(Class)

(Shares Outstanding at October 31, 2018)

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AMES NATIONAL CORPORATION

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	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$25,318,944	\$26,397,550
Interest bearing deposits in financial institutions	38,048,525	43,021,953
Securities available-for-sale	474,442,299	495,321,664
Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, at cost	2,946,100	3,021,200
Loans receivable, net	859,830,015	771,549,655
Loans held for sale	279,940	-
Bank premises and equipment, net	16,071,119	15,399,146
Accrued income receivable	9,485,035	8,382,391
Other real estate owned	729,795	385,509
Bank-owned life insurance	2,757,310	-
Deferred income taxes, net	4,803,300	2,542,533
Intangible assets, net	2,842,085	1,091,462
Goodwill	9,618,621	6,732,216
Other assets	1,079,179	1,214,371
Total assets	\$1,448,252,267	\$1,375,059,650

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES**

Deposits		
Demand, noninterest bearing	\$220,806,001	\$227,332,347
NOW accounts	369,779,264	322,392,945
Savings and money market	414,057,574	389,630,180
Time, \$250,000 and over	42,849,563	38,838,782
Other time	168,268,111	156,196,433
Total deposits	1,215,760,513	1,134,390,687
Securities sold under agreements to repurchase	48,858,900	37,424,619
Federal Home Loan Bank (FHLB) advances	8,400,000	13,500,000
Other borrowings	-	13,000,000
Dividends payable	2,141,510	2,048,401
Accrued expenses and other liabilities	4,461,535	3,942,801
Total liabilities	1,279,622,458	1,204,306,508

STOCKHOLDERS' EQUITY

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Common stock, \$2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of September 30, 2018 and December 31, 2017	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728
Retained earnings	135,828,253	131,684,961
Accumulated other comprehensive (loss) - net unrealized (loss) on securities available-for-sale	(6,698,998)	(432,373)
Total stockholders' equity	168,629,809	170,753,142
Total liabilities and stockholders' equity	\$1,448,252,267	\$1,375,059,650

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,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$9,557,527	\$8,729,702	\$27,442,604	\$25,345,116
Securities:				
Taxable	1,545,541	1,557,872	4,638,503	4,637,498
Tax-exempt	1,085,131	1,210,510	3,451,084	3,819,380
Interest bearing deposits and federal funds sold	272,358	114,820	721,417	365,346
Total interest income	12,460,557	11,612,904	36,253,608	34,167,340
Interest expense:				
Deposits	1,740,579	1,169,296	4,736,455	3,204,115
Other borrowed funds	134,017	292,054	533,870	862,798
Total interest expense	1,874,596	1,461,350	5,270,325	4,066,913
Net interest income	10,585,961	10,151,554	30,983,283	30,100,427
Provision for loan losses	100,000	57,277	192,978	1,221,620
Net interest income after provision for loan losses	10,485,961	10,094,277	30,790,305	28,878,807
Noninterest income:				
Wealth management income	877,146	747,634	2,534,510	2,180,941
Service fees	363,993	401,237	1,036,841	1,126,122
Securities gains, net	-	37,881	-	498,560
Gain on sale of loans held for sale	207,856	179,553	576,441	544,095
Merchant and card fees	358,816	348,847	1,035,338	1,017,362
Gain on foreclosure of other real estate owned	162,862	-	162,862	-
Other noninterest income	191,130	144,953	570,685	598,791
Total noninterest income	2,161,803	1,860,105	5,916,677	5,965,871
Noninterest expense:				
Salaries and employee benefits	4,331,976	4,026,932	13,216,844	12,058,903
Data processing	838,414	807,419	2,506,804	2,481,331
Occupancy expenses, net	536,004	527,071	1,490,395	1,546,657
FDIC insurance assessments	99,934	111,987	308,002	326,958
Professional fees	423,172	307,484	1,123,577	919,157
Business development	327,985	262,408	821,344	722,869
Intangible asset amortization	94,883	89,861	266,337	280,837

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Data conversion costs	167,815	-	167,815	-
Other operating expenses, net	167,649	162,826	664,914	835,414
Total noninterest expense	6,987,832	6,295,988	20,566,032	19,172,126
Income before income taxes	5,659,932	5,658,394	16,140,950	15,672,552
Provision for income taxes	1,201,100	1,729,987	3,328,100	4,661,687
Net income	\$4,458,832	\$3,928,407	\$12,812,850	\$11,010,865
Basic and diluted earnings per share	\$0.48	\$0.42	\$1.38	\$1.18
Dividends declared per share	\$0.23	\$0.22	\$0.94	\$0.66

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$4,458,832	\$3,928,407	\$12,812,850	\$11,010,865
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities before tax:				
Unrealized holding gains (losses) arising during the period	(2,171,391)	(270,853)	(8,245,692)	5,828,684
Less: reclassification adjustment for gains realized in net income	-	37,881	-	498,560
Other comprehensive income (loss), before tax	(2,171,391)	(308,734)	(8,245,692)	5,330,124
Tax effect related to other comprehensive income (loss)	542,848	114,233	2,061,767	(1,972,145)
Other comprehensive income (loss), net of tax	(1,628,543)	(194,501)	(6,183,925)	3,357,979
Comprehensive income	\$2,830,289	\$3,733,906	\$6,628,925	\$14,368,844

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)

Three Months Ended September 30, 2018 and 2017

				Accumulated	
	Common	Additional	Retained	Other	Total
	Stock	Paid-	Earnings	Comprehensive	Stockholders'
		in Capital		Income (Loss),	Equity
				Net of Taxes	
Balance, June 30, 2017	\$18,621,826	\$20,878,728	\$129,167,032	\$2,975,793	\$171,643,379
Net income	-	-	3,928,407	-	3,928,407
Other comprehensive income	-	-	-	(194,501)	(194,501)
Cash dividends declared, \$0.22 per share	-	-	(2,048,401)	-	(2,048,401)
Balance, September 30, 2017	\$18,621,826	\$20,878,728	\$131,047,038	\$2,781,292	\$173,328,884
Balance, June 30, 2018	\$18,621,826	\$20,878,728	\$133,510,931	\$(5,070,455)	\$167,941,030
Net income	-	-	4,458,832	-	4,458,832
Other comprehensive (loss)	-	-	-	(1,628,543)	(1,628,543)
Cash dividends declared, \$0.23 per share	-	-	(2,141,510)	-	(2,141,510)
Balance, September 30, 2018	\$18,621,826	\$20,878,728	\$135,828,253	\$(6,698,998)	\$168,629,809

Nine Months Ended September 30, 2018 and 2017

				Accumulated	
	Common	Additional	Retained	Other	Total
	Stock	Paid-	Earnings	Comprehensive	Stockholders'
		in Capital		Income (Loss),	Equity
				Net of Taxes	
Balance, December 31, 2016	\$18,621,826	\$20,878,728	\$126,181,376	\$(576,687)	\$165,105,243

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Net income	-	-	11,010,865	-	11,010,865
Other comprehensive income	-	-	-	3,357,979	3,357,979
Cash dividends declared, \$0.66 per share	-	-	(6,145,203)	-	(6,145,203)
Balance, September 30, 2017	\$ 18,621,826	\$ 20,878,728	\$ 131,047,038	\$ 2,781,292	\$ 173,328,884
Balance, December 31, 2017	\$ 18,621,826	\$ 20,878,728	\$ 131,684,961	\$ (432,373)	\$ 170,753,142
Net income	-	-	12,812,850	-	12,812,850
Other comprehensive (loss)	-	-	-	(6,183,925)	(6,183,925)
The cumulative effect from change in accounting policy (1)	-	-	82,700	(82,700)	-
Cash dividends declared, \$0.94 per share	-	-	(8,752,258)	-	(8,752,258)
Balance, September 30, 2018	\$ 18,621,826	\$ 20,878,728	\$ 135,828,253	\$ (6,698,998)	\$ 168,629,809

(1) The cumulative effect for the nine months ended September 30, 2018, reflects adoption in first quarter 2018 of ASU 2018-02.

See Notes to Consolidated Financial Statements.

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	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,812,850	\$ 11,010,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	192,978	1,221,620
Provision for off-balance sheet commitments	9,000	4,000
Amortization, net	1,583,534	2,129,648
Amortization of intangible asset	266,337	280,837
Depreciation	845,163	861,700
Deferred income taxes	(24,000)	(303,999)
Securities gains, net	-	(498,560)
(Gain) on sales of loans held for sale	(576,441)	(544,095)
Proceeds from loans held for sale	23,480,924	22,668,307
Originations of loans held for sale	(23,184,423)	(22,161,394)
Loss on sale of premises and equipment, net	11,479	56,168
(Gain) on sale and foreclosure of other real estate owned, net	(226,054)	(14,648)
Change in assets and liabilities:		
(Increase) in accrued income receivable	(239,749)	(654,349)
(Increase) decrease in other assets	133,639	(377,095)
Increase (decrease) in accrued expenses and other liabilities	385,983	(126,404)
Net cash provided by operating activities	15,471,220	13,552,601
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(24,209,779)	(46,766,543)
Proceeds from sale of securities available-for-sale	-	11,756,963
Proceeds from maturities and calls of securities available-for-sale	52,143,244	48,326,502
Purchase of FHLB stock	(3,070,400)	(4,505,400)
Proceeds from the redemption of FHLB stock	3,275,100	4,261,600
Net (increase) decrease in interest bearing deposits in financial institutions	6,448,428	(3,749,025)
Net (increase) in loans	(12,239,005)	(13,190,423)
Net proceeds from the sale of other real estate owned		