

AMES NATIONAL CORP
Form 10-Q
May 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended March 31, 2011

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
(State or Other Jurisdiction of Incorporation or Organization)

42-1039071
(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

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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 (Class)	9,432,915 (Shares Outstanding at April 29, 2011)
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AMES NATIONAL CORPORATION

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2011	December 31, 2010
Cash and due from banks	\$ 18,580,475	\$ 15,478,133
Federal funds sold	1,100,000	3,000,000
Interest bearing deposits in financial institutions	35,945,642	19,229,814
Securities available-for-sale	494,296,844	469,907,901
Loans receivable, net	417,087,088	418,093,571
Loans held for sale	975,296	1,993,108
Bank premises and equipment, net	11,408,888	11,538,588
Accrued income receivable	6,726,176	6,098,535
Deferred income taxes	2,707,025	3,305,983
Other real estate owned	10,472,356	10,538,883
Other assets	4,431,503	3,790,329
Total assets	\$ 1,003,731,293	\$ 962,974,845
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$ 101,688,858	\$ 105,513,143
NOW accounts	222,146,501	201,230,880
Savings and money market	215,151,239	199,017,213
Time, \$100,000 and over	99,776,899	94,858,053
Other time	141,099,064	143,242,355
Total deposits	779,862,561	743,861,644
Federal funds purchased and securities sold under agreements to repurchase		
	57,072,064	54,858,701
Other short-term borrowings	402,556	2,047,175
Federal Home Loan Bank advances	16,229,153	16,745,497
Other long-term borrowings	20,000,000	20,000,000
Dividend payable	1,226,279	1,037,621
Accrued expenses and other liabilities	4,198,891	3,061,183
Total liabilities	878,991,504	841,611,821
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	78,765,735	76,519,493
Accumulated other comprehensive income-net unrealized gain on securities available-for-sale	4,457,002	3,326,479
Total stockholders' equity	124,739,789	121,363,024

Total liabilities and stockholders' equity	\$	1,003,731,293	\$	962,974,845
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See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended March 31, 2011 and 2010

	2011	2010
Interest income:		
Loans, including fees	\$ 5,740,432	\$ 6,099,479
Securities:		
Taxable	1,662,469	1,827,521
Tax-exempt	1,636,965	1,365,582
Interest bearing deposits and federal funds sold	107,926	130,113
Total interest income	9,147,792	9,422,695
Interest expense:		
Deposits	1,370,911	1,662,354
Other borrowed funds	378,642	403,158
Total interest expense	1,749,553	2,065,512
Net interest income	7,398,239	7,357,183
Provision for loan losses	-	323,798
Net interest income after provision for loan losses	7,398,239	7,033,385
Noninterest income:		
Trust department income	514,544	530,716
Service fees	329,558	399,823
Securities gains, net	421,155	536,983
Gain on sale of loans held for sale	220,865	153,536
Merchant and ATM fees	175,871	165,387
Other noninterest income	185,207	171,320
Total noninterest income	1,847,200	1,957,765
Noninterest expense:		
Salaries and employee benefits	2,766,508	2,598,039
Data processing	445,815	450,964
Occupancy expenses	394,158	401,154
FDIC insurance assessments	272,742	313,357
Other real estate owned	75,795	56,353
Other operating expenses, net	654,591	713,072
Total noninterest expense	4,609,609	4,532,939
Income before income taxes	4,635,830	4,458,211
Provision for income taxes	1,163,309	1,188,611
Net income	\$ 3,472,521	\$ 3,269,600

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Basic and diluted earnings per share	\$ 0.37	\$ 0.35
Dividends declared per share	\$ 0.13	\$ 0.11
Comprehensive income	\$ 4,603,044	\$ 4,020,055

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,472,521	\$ 3,269,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	323,798
Provision for off-balance sheet commitments	5,000	13,000
Amortization, net	1,241,499	636,519
Depreciation	167,371	181,712
Provision (credit) for deferred income taxes	(65,000)	198,735
Securities gains, net	(421,155)	(536,983)
Gain on sale of other real estate owned	(13,224)	(11,754)
Change in assets and liabilities:		
Decrease (increase) in loans held for sale	1,017,812	(685,165)
Increase in accrued income receivable	(627,641)	(740,688)
Decrease (increase) in other assets	(643,534)	346,202
Increase in accrued expenses and other liabilities	1,132,708	323,760
Net cash provided by operating activities	5,266,357	3,318,736
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(72,419,765)	(48,046,365)
Proceeds from sale of securities available-for-sale	13,083,096	11,881,313
Proceeds from maturities and calls of securities available-for-sale	35,919,373	36,859,140
Net increase in interest bearing deposits in financial institutions	(16,713,338)	(9,321,194)
Net decrease in federal funds sold	1,900,000	-
Net decrease in loans	882,614	5,502,745
Net proceeds from the sale of other real estate owned	230,606	51,216
Purchase of bank premises and equipment, net	(35,311)	(49,940)
Other changes in other real estate owned	(26,986)	1,833
Net cash used in investing activities	(37,179,711)	(3,121,252)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	36,000,917	1,341,364
Increase in federal funds purchased and securities sold under agreements to repurchase	2,213,363	4,067,675
Payments from other short-term borrowings, net	(1,644,619)	(37,339)
Proceeds from long-term borrowings	-	2,500,000
Payments on long-term borrowings	(516,344)	(500,000)
Dividends paid	(1,037,621)	(943,292)
Net cash provided by financing activities	35,015,696	6,428,408

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Net increase in cash and cash equivalents	3,102,342	6,625,892
CASH AND DUE FROM BANKS		
Beginning	15,478,133	18,796,664
Ending	\$ 18,580,475	\$ 25,422,556

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 Three Months Ended March 31, 2011 and 2010

	2011	2010
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$1,759,140	\$2,116,133
Income taxes	167,716	696,462
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans to other real estate owned	\$123,869	\$701,529

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 month periods ended March 31, 2011 and 2010 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, 2010 (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 2011 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, interest bearing deposits in financial institutions and federal funds sold: 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 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.

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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.

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.

Pending Accounting Pronouncements

In April, 2011 the Financial Accounting Standards Board (“FASB”) issued guidance which modifies certain aspects contained in the Receivables topic of FASB Accounting Standards Codification (“ASC”) 310. The standard clarifies the guidance on evaluating whether a restructuring constitutes a troubled debt restructuring. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The Company is currently evaluating the impact of this guidance on the Company’s financial position and results of operations.

New Accounting Pronouncements

In January 2010, the FASB issued guidance for improving disclosures about fair value measurements, which requires additional disclosure in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). A reporting entity should separately presented information about purchases, sales, issuances and settlements. The adoption of this guidance did not have a material impact on the Company’s financial statements.

In July 2010, the FASB issued guidance for improving disclosures about an entity’s credit quality and risk exposures of its loans and the allowance for loan losses. These enhanced disclosures were effective for the Company for reporting periods ending on or after December 15, 2010. In January 2011, the FASB temporarily delayed the effective date of the disclosures required for troubled debt restructurings. The amendment to the original pronouncement did not delay any of the other required disclosures. The adoption of this guidance did not have a material impact on the Company’s financial statements, and the Company made all applicable required disclosures.

2. Dividends

On February 9, 2011, the Company declared a cash dividend on its common stock, payable on May 16, 2011 to stockholders of record as of May 2, 2011, equal to \$0.13 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 months ended March 31, 2011 and 2010 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, 2010.

5. Fair Value of Financial Instruments

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

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 18,580,475	\$ 18,580,000	\$ 15,478,133	\$ 15,478,000
Federal funds sold	1,100,000	1,100,000	3,000,000	3,000,000
Interest bearing deposits	35,945,642	35,946,000	19,229,814	19,230,000
Securities available-for-sale	494,296,844	494,297,000	469,907,901	469,908,000
Loans receivable, net	417,087,088	415,206,000	418,093,571	415,833,000
Loans held for sale	975,296	975,000	1,993,108	1,993,000
Accrued income receivable	6,726,176	6,726,000	6,098,535	6,099,000
Financial liabilities:				
Deposits	\$ 779,862,561	\$ 782,039,000	\$ 743,861,644	\$ 746,401,000
Federal funds purchased and securities sold under agreements to repurchase	57,072,064	57,072,000	54,858,701	54,859,000
Other short-term borrowings	402,556	403,000	2,047,175	2,047,000
FHLB and other long-term borrowings	36,229,153	38,714,000	36,745,497	39,303,000
Accrued interest payable	860,868	861,000	870,455	870,000

The methodology used to determine fair value as of March 31, 2011 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 March 31, 2011 and December 31, 2010:

Description	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2011				
U.S. government agencies	90,760,000	-	90,760,000	-
U.S. government mortgage-backed securities	142,300,000	-	142,300,000	-
State and political subdivisions	235,198,000	-	235,198,000	-
Corporate bonds	20,197,000	-	20,197,000	-
Equity securities, financial industry common stock	2,822,000	2,822,000	-	-
Equity securities, other	3,020,000	-	3,020,000	-
	\$494,297,000	\$2,822,000	\$491,475,000	\$ -
December 31, 2010				
U.S. treasury	\$503,000	\$503,000	\$-	\$ -
U.S. government agencies	87,413,000	-	87,413,000	-
U.S. government mortgage-backed securities	127,349,000	-	127,349,000	-
State and political subdivisions	228,373,000	-	228,373,000	-
Corporate bonds	20,372,000	-	20,372,000	-
Equity securities, financial industry common stock	2,814,000	2,814,000	-	-
Equity securities, other	3,084,000	18,000	3,066,000	-
	\$469,908,000	\$3,335,000	\$466,573,000	\$ -

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. Level 2 securities include U.S. government agency securities, mortgage-backed securities (including pools and collateralized mortgage obligations), municipal bonds, and corporate debt securities.

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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 March 31, 2011 and December 31, 2010:

Description	Total	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2011				
Loans	\$3,540,000	\$-	\$-	\$ 3,540,000
Other real estate owned	10,472,000	-	-	10,472,000
Total	\$ 14,012,000	\$-	\$-	\$ 14,012,000
December 31, 2010				
Loans	\$3,660,000	\$-	\$-	\$ 3,660,000
Other real estate owned	10,539,000	-	-	10,539,000
Total	\$ 14,199,000	\$-	\$-	\$ 14,199,000

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 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	Fair Value
March 31, 2011:				
U.S. government agencies	\$ 89,854,420	\$ 1,076,850	\$ (171,695)	\$ 90,759,575
U.S. government mortgage-backed securities	140,474,927	2,308,406	(483,379)	142,299,954
State and political subdivisions	231,581,155	4,175,642	(558,331)	235,198,466
Corporate bonds	18,919,947	1,283,292	(6,411)	20,196,828
Equity securities, financial industry common stock	3,402,389	-	(580,768)	2,821,621
Equity securities, other	2,989,400	31,000	-	3,020,400
	\$ 487,222,238	\$ 8,875,190	\$ (1,800,584)	\$ 494,296,844

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010:				
U.S. treasury	\$ 499,885	\$ 3,265	\$ -	\$ 503,150
U.S. government agencies	86,336,578	1,190,768	(114,727)	87,412,619
U.S. government mortgage-backed securities	125,740,846	2,237,443	(629,668)	127,348,621
State and political subdivisions	226,352,715	3,254,157	(1,234,045)	228,372,827
Corporate bonds	19,220,366	1,183,213	(31,575)	20,372,004
Equity securities, financial industry common stock	3,402,389	-	(588,208)	2,814,181
Equity securities, other	3,074,999	9,500	-	3,084,499
	\$ 464,627,778	\$ 7,878,346	\$ (2,598,223)	\$ 469,907,901

Non-interest income for the three months ended March 31, 2011 and 2010 was primarily impacted by net security gains of approximately \$421,000 and \$537,000, 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 March 31, 2011 and December 31, 2010, 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
March 31, 2011:						
Securities available for sale:						
U.S. government agencies	\$25,237,050	\$(171,695)	\$-	\$-	\$25,237,050	\$(171,695)
U.S. government mortgage-backed securities	40,336,186	(458,186)	1,897,485	(25,193)	42,233,671	(483,379)
State and political subdivisions	39,853,787	(557,328)	510,128	(1,003)	40,363,915	(558,331)
Corporate obligations	243,589	(6,411)	-	-	243,589	(6,411)
Equity securities, financial industry common stock	-	-	2,821,621	(580,768)	2,821,621	(580,768)
	\$105,670,612	\$(1,193,620)	\$5,229,234	\$(606,964)	\$110,899,846	\$(1,800,584)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2010:						
Securities available for sale:						
U.S. government agencies	\$15,321,189	\$(107,139)	\$372,404	\$(7,588)	\$15,693,593	\$(114,727)
U.S. government mortgage-backed securities	43,327,689	(629,668)	-	-	43,327,689	(629,668)
State and political subdivisions	53,299,308	(1,218,282)	497,051	(15,763)	53,796,359	(1,234,045)
Corporate obligations	2,022,914	(31,575)	-	-	2,022,914	(31,575)
Equity securities, financial industry common stock	-	-	2,814,181	(588,208)	2,814,181	(588,208)
	\$113,971,100	\$(1,986,664)	\$3,683,636	\$(611,559)	\$117,654,736	\$(2,598,223)

At March 31, 2011, debt securities have unrealized losses of \$1,219,816. These losses are generally due to changes in interest rates or general market conditions. In analyzing an issuers' financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond ratings agencies have occurred and industry analysts' reports. Unrealized losses on equity securities totaled \$580,768 as of March 31, 2011. Management analyzed the financial condition of the equity issuers and considered the general market conditions and other factors in concluding that the unrealized losses on equity securities were not other-than-temporary. Due to potential changes in conditions, it is at least reasonably possible changes in fair values and management's assessments will occur in the near term and that such changes could lead to additional impairment charges, thereby materially affecting the amounts reported in the Company's financial statements.

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8. Credit Disclosures

Changes in the allowance for loan losses for the three months ended March 31, 2011 and 2010 is as follows:

Three Months Ended March 31, 2011				
Construction	1-4 Family Residential	Commercial	Agricultural	Consumer
Real Estate				