

AMES NATIONAL CORP
Form 10-Q
August 09, 2016
Table Of Contents

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 June 30, 2016

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

Edgar Filing: AMES NATIONAL CORP - Form 10-Q

(Address of Principal Executive Offices)

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

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

COMMON STOCK, \$2.00 PAR VALUE 9,310,913
(Class) (Shares Outstanding at July 29, 2016)

Table Of Contents

AMES NATIONAL CORPORATION

INDEX

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets at June 30, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015</u>	5
<u>Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2016 and 2015</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	49
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	49
Item 1.A. <u>Risk Factors</u>	49
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 3. <u>Defaults Upon Senior Securities</u>	50
Item 4. <u>Mine Safety Disclosures</u>	50
Item 5. <u>Other Information</u>	50

Item 6.	<u>Exhibits</u>	51
	<u>Signatures</u>	52

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS***(unaudited)*

	June 30,	December 31,
ASSETS	2016	2015
Cash and due from banks	\$20,299,644	\$24,005,801
Interest bearing deposits in financial institutions	31,235,295	26,993,091
Securities available-for-sale	528,801,262	537,632,990
Loans receivable, net	712,940,747	701,328,171
Loans held for sale	1,645,090	539,370
Bank premises and equipment, net	16,590,627	17,007,798
Accrued income receivable	7,384,529	7,565,791
Other real estate owned	1,053,923	1,249,915
Deferred income taxes	-	1,276,571
Core deposit intangible, net	1,122,017	1,308,731
Goodwill	6,732,216	6,732,216
Other assets	1,041,651	1,106,698
Total assets	\$1,328,847,001	\$1,326,747,143
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$192,096,304	\$202,542,011
NOW accounts	298,819,035	298,227,493
Savings and money market	365,932,378	354,026,475
Time, \$250,000 and over	35,089,704	36,956,653
Other time	173,427,209	182,440,490
Total deposits	1,065,364,630	1,074,193,122
Securities sold under agreements to repurchase	41,945,656	54,289,915
Federal funds purchased	959,000	-
Federal Home Loan Bank (FHLB) advances	29,800,000	18,542,203
Other borrowings	13,000,000	13,000,000
Deferred income taxes	1,498,380	-
Dividend payable	1,955,292	1,862,183
Accrued expenses and other liabilities	4,236,546	3,609,663

Total liabilities	1,158,759,504	1,165,497,086
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of June 30, 2016 and December 31, 2015	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728
Retained earnings	122,263,655	118,267,767
Accumulated other comprehensive income - net unrealized gain on securities available-for-sale	8,323,288	3,481,736
Total stockholders' equity	170,087,497	161,250,057
Total liabilities and stockholders' equity	\$1,328,847,001	\$1,326,747,143

See Notes to Consolidated Financial Statements.

Table Of Contents

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest income:				
Loans, including fees	\$8,030,602	\$7,712,057	\$15,888,572	\$15,111,747
Securities:				
Taxable	1,471,926	1,566,298	2,967,236	3,132,696
Tax-exempt	1,388,791	1,479,726	2,788,822	2,966,086
Interest bearing deposits and federal funds sold	114,353	100,669	210,056	194,047
Total interest income	11,005,672	10,858,750	21,854,686	21,404,576
Interest expense:				
Deposits	755,377	768,650	1,505,498	1,531,046
Other borrowed funds	258,339	302,611	521,709	640,774
Total interest expense	1,013,716	1,071,261	2,027,207	2,171,820
Net interest income	9,991,956	9,787,489	19,827,479	19,232,756
Provision for loan losses	14,070	921,513	206,084	998,813
Net interest income after provision for loan losses	9,977,886	8,865,976	19,621,395	18,233,943
Noninterest income:				
Wealth management income	738,213	681,347	1,525,321	1,369,257
Service fees	404,614	444,798	801,705	839,357
Securities gains, net	29,500	492,355	231,193	497,304
Gain on sale of loans held for sale	257,254	285,312	434,011	499,298
Merchant and card fees	356,817	351,879	700,890	666,473
Other noninterest income	139,235	151,296	331,985	301,517
Total noninterest income	1,925,633	2,406,987	4,025,105	4,173,206
Noninterest expense:				
Salaries and employee benefits	3,854,417	3,810,977	7,906,201	7,535,911
Data processing	780,732	704,596	1,541,864	1,369,131
Occupancy expenses, net	407,989	467,509	1,011,426	993,596

Edgar Filing: AMES NATIONAL CORP - Form 10-Q

FDIC insurance assessments	161,531	167,274	325,519	350,270
Professional fees	325,085	312,732	593,001	605,170
Business development	220,956	232,088	456,116	464,932
Other real estate owned expense, net	23,225	562,147	3,609	710,210
Core deposit intangible amortization	91,466	109,375	186,714	222,998
Other operating expenses, net	255,286	325,454	530,961	578,791
Total noninterest expense	6,120,687	6,692,152	12,555,411	12,831,009
Income before income taxes	5,782,832	4,580,811	11,091,089	9,576,140
Provision for income taxes	1,683,451	1,216,001	3,184,617	2,576,401
Net income	\$4,099,381	\$3,364,810	\$7,906,472	\$6,999,739
Basic and diluted earnings per share	\$0.44	\$0.36	\$0.85	\$0.75
Dividends declared per share	\$0.21	\$0.20	\$0.42	\$0.40

See Notes to Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$4,099,381	\$3,364,810	\$7,906,472	\$6,999,739
Other comprehensive income (loss), before tax:				
Unrealized gains (losses) on securities before tax:				
Unrealized holding gains (losses) arising during the period	3,952,639	(5,188,994)	7,916,196	(1,694,048)
Less: reclassification adjustment for gains realized in net income	29,500	492,355	231,193	497,304
Other comprehensive income (loss), before tax	3,923,139	(5,681,349)	7,685,003	(2,191,352)
Tax effect related to other comprehensive income (loss)	(1,451,561)	2,102,102	(2,843,451)	810,799
Other comprehensive income (loss), net of tax	2,471,578	(3,579,247)	4,841,552	(1,380,553)
Comprehensive income (loss)	\$6,570,959	\$(214,437)	\$12,748,024	\$5,619,186

See Notes to Consolidated Financial Statements.

Table Of Contents

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(unaudited)

Six Months Ended June 30, 2016 and 2015

	Common Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total Stockholders' Equity
Balance, December 31, 2014	\$18,621,826	\$ 20,878,728	\$ 110,701,847	\$ 4,472,017	\$ 154,674,418
Net income	-	-	6,999,739	-	6,999,739
Other comprehensive (loss)	-	-	-	(1,380,553)	(1,380,553)
Cash dividends declared, \$0.40 per share	-	-	(3,724,366)	-	(3,724,366)
Balance, June 30, 2015	\$18,621,826	\$ 20,878,728	\$ 113,977,220	\$ 3,091,464	\$ 156,569,238
Balance, December 31, 2015	\$18,621,826	\$ 20,878,728	\$ 118,267,767	\$ 3,481,736	\$ 161,250,057
Net income	-	-	7,906,472	-	7,906,472
Other comprehensive income	-	-	-	4,841,552	4,841,552
Cash dividends declared, \$0.42 per share	-	-	(3,910,584)	-	(3,910,584)
Balance, June 30, 2016	\$18,621,826	\$ 20,878,728	\$ 122,263,655	\$ 8,323,288	\$ 170,087,497

See Notes to Consolidated Financial Statements.

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(unaudited)***Six Months Ended June 30, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$7,906,472	\$6,999,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	206,084	998,813
Provision for off-balance sheet commitments	32,000	30,000
Amortization, net	1,533,920	1,741,585
Amortization of core deposit intangible asset	186,714	222,998
Depreciation	572,632	531,182
Deferred income taxes	(68,500)	272,200
Securities gains, net	(231,193)	(497,304)
Loss on sale of premises and equipment, net	-	1,132
Impairment of other real estate owned	-	590,453
(Gain) loss on sale of other real estate owned, net	(4,642)	44,340
Change in assets and liabilities:		
(Increase) decrease in loans held for sale	(1,105,720)	239,850
Decrease in accrued income receivable	181,262	35,775
(Increase) decrease in other assets	62,076	(417,699)
Increase in accrued expenses and other liabilities	594,883	7,775
Net cash provided by operating activities	9,865,988	10,800,839
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available-for-sale	(36,400,109)	(66,691,223)
Proceeds from sale of securities available-for-sale	12,886,350	15,380,232
Proceeds from maturities and calls of securities available-for-sale	38,639,280	43,267,099
Net (increase) decrease in interest bearing deposits in financial institutions	(4,242,204)	1,778,270
Decrease in federal funds sold	-	6,000
Net (increase) in loans	(11,748,177)	(19,761,533)
Net proceeds from the sale of other real estate owned	200,634	3,243,022
Purchase of bank premises and equipment, net	(152,490)	(945,636)
Net cash (used in) investing activities	(816,716)	(23,723,769)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(8,810,492)	27,327,445

Edgar Filing: AMES NATIONAL CORP - Form 10-Q

(Decrease) in securities sold under agreements to repurchase and federal funds purchased	(11,385,259)	(7,786,609)
Payments on FHLB borrowings and other borrowings	(1,542,203)	(6,099,370)
Proceeds from short-term FHLB borrowings, net	12,800,000	5,600,000
Dividends paid	(3,817,475)	(3,538,147)
Net cash provided by (used in) financing activities	(12,755,429)	15,503,319
Net increase (decrease) in cash and due from banks	(3,706,157)	2,580,389
CASH AND DUE FROM BANKS		
Beginning	24,005,801	23,730,257
Ending	\$20,299,644	\$26,310,646

Table Of Contents

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited)

Six Months Ended June 30, 2016 and 2015

	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$2,054,551	\$2,317,338
Income taxes	2,524,913	2,921,262
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Transfer of loans receivable to other real estate owned	\$-	\$29,613

See Notes to Consolidated Financial Statements.

Table Of Contents

AMES NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (*unaudited*)

1. Significant Accounting Policies

The consolidated financial statements for the three and six months ended June 30, 2016 and 2015 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, 2015 (the "Annual Report"). The consolidated financial statements include the accounts of the Company and its wholly-owned banking subsidiaries (the "Banks"). All significant intercompany balances and transactions have been eliminated in consolidation.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill resulting from acquisitions is not amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than not that an impairment loss has occurred. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. The second step, if necessary, measures the amount of impairment, if any.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. At June 30, 2016, Company management has performed a goodwill impairment assessment and determined goodwill was not impaired.

Current Accounting Developments: In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles ("GAAP"), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of

leases by recognized on the balance sheet. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2018. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Among other items the ASC requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The effect of the adoption of this guidance has not yet been determined by the Company.

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. The effect of the adoption of this guidance has not yet been determined by the Company.

Table Of Contents

2. Dividends

On May 11, 2016, the Company declared a cash dividend on its common stock, payable on August 15, 2016 to stockholders of record as of August 1, 2016, equal to \$0.21 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, 2016 and 2015 were 9,310,913. The Company had no potentially dilutive securities outstanding during the periods presented.

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, 2015.

5. 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 prices 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.

Table Of Contents

The following table presents the balances of assets measured at fair value on a recurring basis by level as of June 30, 2016 and December 31, 2015. *(in thousands)*

Description	Total	Level 1	Level 2	Level 3
2016				
U.S. government treasuries	\$1,512	\$1,512	\$-	\$ -
U.S. government agencies	110,124	-	110,124	-
U.S. government mortgage-backed securities	91,498	-	91,498	-
State and political subdivisions	268,046	-	268,046	-
Corporate bonds	54,158	-	54,158	-
Equity securities, other	3,463	-	3,463	-
	\$528,801	\$1,512	\$527,289	\$ -
2015				
U.S. government treasuries	\$1,467	\$1,467	\$-	\$ -
U.S. government agencies	106,445	-	106,445	-
U.S. government mortgage-backed securities	98,079	-	98,079	-
State and political subdivisions	277,597	-	277,597	-
Corporate bonds	50,889	-	50,889	-
Equity securities, other	3,156	-	3,156	-
	\$537,633	\$1,467	\$536,166	\$ -

Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. U.S government mortgage-backed securities, state and political subdivisions, most corporate bonds and other equity securities 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.

The Company's policy is to recognize transfers between levels at the end of each reporting period, if applicable. There were no transfers between levels of the fair value hierarchy during the six months ended June 30, 2016.

Table Of Contents

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 within the valuation hierarchy as of June 30, 2016 and December 31, 2015. (*in thousands*)

Description	Total	Level 1	Level 2	Level 3
2016				
Loans receivable	\$994	\$ -	\$ -	\$994
Other real estate owned	1,054	-	-	1,054
Total	\$2,048	\$ -	\$ -	\$2,048
2015				
Loans receivable	\$603	\$ -	\$ -	\$603
Other real estate owned	1,250	-	-	1,250
Total	\$1,853	\$ -	\$ -	\$1,853

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 allowance 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, with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs, with any impairment amount recorded as a noninterest expense. 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 \$675,000 as of June 30, 2016 and \$681,000 as of December 31, 2015. The Company considers these fair value measurements as level 3.

Table Of Contents

The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis as of June 30, 2016 and December 31, 2015 are as follows: (*in thousands*)

	2016				
	Estimated	Valuation	Unobservable	Range	
	Fair Value	Techniques	Inputs	(Average)	
Impaired Loans	\$ 994	Evaluation of collateral	Estimation of value	NM*	
Other real estate owned	\$ 1,054	Appraisal	Appraisal adjustment	3% - 10%	(6%)
	2015				
	Estimated	Valuation	Unobservable	Range	
	Fair Value	Techniques	Inputs	(Average)	
Impaired Loans	\$ 603	Evaluation of collateral	Estimation of value	NM*	
Other real estate owned	\$ 1,250	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.

Accounting principles generally accepted in the United States of America (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 June 30, 2016 and December 31, 2015 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.

Table Of Contents

Securities available-for-sale: Fair value measurement for Level 1 securities is based upon quoted prices. Fair value measurement for Level 2 securities are based upon quoted prices, if available. If quoted prices are not available, 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. Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. U.S government mortgage-backed securities, state and political subdivisions, some corporate bonds and other equity securities are reported at fair value utilizing Level 2 inputs.

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.

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

FHLB advances and other borrowings: Fair values of FHLB advances and other 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 carrying 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.

Table Of Contents

The estimated fair values of the Company's financial instruments as described above as of June 30, 2016 and December 31, 2015 are as follows: *(in thousands)*

	Fair Value Hierarchy Level	2016 Carrying Amount	Estimated Fair Value	2015 Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and due from banks	Level 1	\$20,300	\$20,300	\$24,006	\$24,006
Interest bearing deposits	Level 1	31,235	31,235	26,993	26,993
Securities available-for-sale	See previous table	528,801	528,801	537,633	537,633
Loans receivable, net	Level 2	712,941	712,117	701,328	702,438
Loans held for sale	Level 2	1,646	1,646	539	539
Accrued income receivable	Level 1	7,385	7,385	7,566	7,566
Financial liabilities:					
Deposits	Level 2	\$1,065,364	\$1,066,803	\$1,074,193	\$1,075,289
Securities sold under agreements to repurchase	Level 1	41,946	41,946	54,290	54,290
Federal funds purchased	Level 1	959	959	-	-
FHLB advances	Level 2	29,800	30,203	18,542	19,017
Other borrowings	Level 2	13,000	13,653	13,000	13,807
Accrued interest payable	Level 1	404	404	413	413

The methodologies used to determine fair value as of June 30, 2016 did not change from the methodologies described in the December 31, 2015 Annual Financial Statements.

Table Of Contents

6. Debt and Equity Securities

The amortized cost of securities available-for-sale and their fair values as of June 30, 2016 and December 31, 2015 are summarized below: *(in thousands)*

2016:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries	\$ 1,451	\$ 61	\$ -	\$ 1,512
U.S. government agencies	106,870	3,304	(50)	110,124
U.S. government mortgage-backed securities	88,626	2,880	(8)	91,498
State and political subdivisions	262,024	6,262	(240)	268,046
Corporate bonds	53,156	1,078	(76)	54,158
Equity securities, other	3,463	-	-	3,463
	\$ 515,590	\$ 13,585	\$ (374)	\$ 528,801

2015:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries	\$ 1,444	\$ 23	\$ -	\$ 1,467
U.S. government agencies	105,948	797	(300)	106,445
U.S. government mortgage-backed securities	96,373	1,828	(123)	98,078
State and political subdivisions	273,771	4,359	(533)	277,597
Corporate bonds	51,414	227	(751)	50,890
Equity securities, other	3,156	-	-	3,156
	\$ 532,106	\$ 7,234	\$ (1,707)	\$ 537,633

The proceeds, gains and losses from securities available-for-sale are summarized as follows: *(in thousands)*

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Proceeds from sales of securities available-for-sale	\$ 521	\$ 14,863	\$ 12,886	\$ 15,380

Edgar Filing: AMES NATIONAL CORP - Form 10-Q

Gross realized gains on securities available-for-sale	29	492	237	497
Gross realized losses on securities available-for-sale	-	-	(6)	-
Tax provision applicable to net realized gains on securities available-for-sale	10	183	81	185

16

Table Of Contents

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 of June 30, 2016 and December 31, 2015 are as follows: (*in thousands*)

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
2016:						
Securities available-for-sale:						
U.S. government agencies	\$4,158	\$ (50)	\$ -	\$ -	\$4,158	\$ (50)
U.S. government mortgage-backed securities	1,954	(8)	-	-	1,954	(8)
State and political subdivisions	10,482	(233)	3,279	(7)	13,761	(240)
Corporate bonds	-	-	5,404	(76)	5,404	(76)
	\$16,594	\$ (291)	\$8,683	\$ (83)	\$25,277	\$ (374)
2015:						
Securities available-for-sale:						
U.S. government agencies	\$30,245	\$ (253)	\$3,121	\$ (47)	\$33,366	\$ (300)
U.S. government mortgage-backed securities	22,842	(123)	-	-	22,842	(123)
State and political subdivisions	38,202	(414)	11,096	(119)	49,298	(533)
Corporate bonds	22,091	(249)	14,614	(502)	36,705	(751)
	\$113,380	\$ (1,039)	\$28,831	\$ (668)	\$142,211	\$ (1,707)

Gross unrealized losses on debt securities totaled \$374,000 as of June 30, 2016. 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, state or political subdivision, or corporations. Management then determines whether downgrades by bond rating agencies have occurred, and reviews industry analysts' reports. The Company's procedures for evaluating investments in states, municipalities and political subdivisions include but are not limited to reviewing the offering statement and the most current available financial information, comparing yields to yields of bonds of similar credit quality, confirming capacity to repay, assessing operating and financial performance, evaluating the stability of tax revenues, considering debt profiles and local demographics, and for revenue bonds, assessing the source and strength of revenue structures for municipal authorities. These procedures, as applicable, are utilized for all municipal purchases and are utilized in whole or in part for monitoring the portfolio of municipal holdings. The Company does not utilize third party credit rating agencies as a primary component of determining if the municipal issuer has an adequate capacity to meet the financial commitments under the security for the projected life of the investment, and, therefore, does not compare internal assessments to those of the credit rating agencies. Credit rating downgrades are utilized as an additional indicator of

credit weakness and as a reference point for historical default rates. 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.

Table Of Contents

7. Loans Receivable and Credit Disclosures

Activity in the allowance for loan losses, on a disaggregated basis, for the three and six months ended June 30, 2016 and 2015 is as follows: *(in thousands)*

Three Months Ended June 30, 2016

	1-4 Construction		Commercial Agricultural		Commercial Agricultural		Consumer	Total
	Real Estate	Residential Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	
Balance, March 31, 2016	\$ 787	\$ 1,757	\$ 3,763	\$ 817	\$ 1,400	\$ 1,322	\$ 256	\$ 10,102
Provision (credit) for loan losses	(44)	(15)	127	17	34	(103)	(2)	14
Recoveries of loans charged-off	15	-	-	-	5	-	4	24
Loans charged-off	-	-	-	-	-	-	(5)	(5)
Balance, June 30, 2016	\$ 758	\$ 1,742	\$ 3,890	\$ 834	\$ 1,439	\$ 1,219	\$ 253	\$ 10,135

Six Months Ended June 30, 2016

	1-4 Construction		Commercial Agricultural		Commercial Agricultural		Consumer	Total
	Real Estate	Residential Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	
Balance, December 31, 2015	\$ 999	\$ 1,806	\$ 3,557	\$ 760	\$ 1,371	\$ 1,256	\$ 239	\$ 9,988
Provision (credit) for loan losses	(256)	(66)	333	74	139	(37)	19	206
Recoveries of loans charged-off	15	2	-	-	6	-	5	28
Loans charged-off	-	-	-	-	(77)	-	(10)	(87)
Balance, June 30, 2016	\$ 758	\$ 1,742	\$ 3,890	\$ 834	\$ 1,439	\$ 1,219	\$ 253	\$ 10,135

Three Months Ended June 30, 2015

	Construction	Family	Commercial	Agricultural	Commercial	Agricultural	Consumer	Total
--	--------------	--------	------------	--------------	------------	--------------	----------	-------

Edgar Filing: AMES NATIONAL CORP - Form 10-Q

	Real Estate	Residential Real Estate	Real Estate	Real Estate			and Other	
Balance, March 31, 2015	\$536	\$ 1,752	\$ 3,238	\$ 769	\$ 1,137	\$ 1,297	\$ 197	\$8,926
Provision for loan losses	272	64	352	43	126	41	24	922
Recoveries of loans charged-off	15	16	-	-	-	-	5	36
Loans charged-off	-	(6)	-	-	-	-	(6)	(12)
Balance, June 30, 2015	\$823	\$ 1,826	\$ 3,590	\$ 812	\$ 1,263	\$ 1,338	\$ 220	\$9,872

Six Months Ended June 30, 2015

	Construction	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial Agricultural	Consumer and Other	Total
Balance, December 31, 2014	\$495	\$ 1,648	\$ 3,214	\$ 737	\$ 1,247	\$ 186	\$8,839
Provision for loan losses	308	164	376	75	15	34	999
Recoveries of loans charged-off	20	20	-	-	1	6	48
Loans charged-off	-	(6)	-	-	-	(6)	(14)
Balance, June 30, 2015	\$823	\$ 1,826	\$ 3,590	\$ 812	\$ 1,263	\$ 220	\$9,872

Table Of Contents

Allowance for loan losses disaggregated on the basis of impairment analysis method as of June 30, 2016 and December 31, 2015 is as follows: *(in thousands)*

2016	Construction	1-4 Family Residential	Commercial	Agricultural	Commercial	Agricultural	Consumer and Other	Total
	Real Estate	Real Estate	Real Estate	Real Estate			Other	
Individually evaluated for impairment	\$ -	\$ 143	\$ -	\$ -	\$ 219	\$ -	\$ 2	\$ 364
Collectively evaluated for impairment	758	1,599	3,890	834	1,220	1,219	251	9,771
Balance June 30, 2016	\$ 758	\$ 1,742	\$ 3,890	\$ 834	\$ 1,439	\$ 1,219	\$ 253	\$ 10,135

2015	Construction	1-4 Family Residential	Commercial	Agricultural	Commercial	Agricultural	Consumer and Other	Total
	Real Estate	Real Estate	Real Estate	Real Estate			Other	
Individually evaluated for impairment	\$ -	\$ 273	\$ 2	\$ -	\$ 164	\$ -	\$ -	\$ 439
Collectively evaluated for impairment	999	1,533	3,555	760	1,207	1,256	239	9,549
Balance December 31, 2015	\$ 999	\$ 1,806	\$ 3,557	\$ 760	\$ 1,371	\$ 1,256	\$ 239	\$ 9,988

Loans receivable disaggregated on the basis of impairment analysis method as of June 30, 2016 and December 31, 2015 is as follows *(in thousands)*:

2016	Construction	1-4 Family Residential	Commercial	Agricultural	Commercial	Agricultural	Consumer and Other	Total
	Real Estate	Real Estate	Real Estate	Real Estate			Other	
Individually evaluated for impairment	\$ -	\$ 1,165	\$ 468	\$ -	\$ 733	\$ 11	\$ 92	\$ 2,469
Collectively evaluated for impairment	53,757	136,064	291,165	67,857	77,142	72,762	21,970	720,717
Balance June 30, 2016	\$ 53,757	\$ 137,229	\$ 291,633	\$ 67,857	\$ 77,875	\$ 72,773	\$ 22,062	\$ 723,186

2015	Construction	1-4 Family Residential	Commercial	Agricultural	Commercial	Agricultural	Consumer and Other	Total
	Real Estate	Real Estate	Real Estate	Real Estate				
Individually evaluated for impairment	\$ -	\$ 1,050	\$ 558	\$ -	\$ 197	\$ 11	\$ 2	\$ 1,818
Collectively evaluated for impairment	66,268	126,026	251,331	62,530	102,318	79,522	21,597	709,592
Balance December 31, 2015	\$ 66,268	\$ 127,076	\$ 251,889	\$ 62,530	\$ 102,515	\$ 79,533	\$ 21,599	\$ 711,410

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.

Table Of Contents

The following is a recap of impaired loans, on a disaggregated basis, as of June 30, 2016 and December 31, 2015: *(in thousands)*