

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
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FILER

HILLS BANCORPORATION

CIK: **732417** | IRS No.: **421208067** | State of Incorporation: **IA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-12668** | Film No.: **95535899**
SIC: **6022** State commercial banks

Mailing Address
131 MAIN ST
HILLS IA 52235

Business Address
131 MAIN ST
HILLS IA 52235
3196792291

FORM 10-Q - QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
(As last amended in Rel. No. 34-26589, eff. 4/12/93.)

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 period ended March 31, 1995

OR

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 0-12668

Hills Bancorporation
(Exact name of registrant as specified in its charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

42-1208067
(I.R.S. Employer Identification
Number)

131 Main Street, Hills, Iowa
(Address of principal executive offices)

52235
(Zip code)

(319) 679-2291
(Registrant's telephone number, including area code)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

	SHARES OUTSTANDING CLASS AT APRIL 30, 1995
Common Stock, no par value	487,773

HILLS BANCORPORATION
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FINANCIAL INFORMATION

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Consolidated statements of income, (unaudited) for three
months ended March 31, 1995 and 1994
Consolidated statement of stockholders' equity,
(unaudited) for three months ended March 31, 1995
and 1994
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COMPUTATION OF EARNINGS PER SHARE

SIGNATURES

HILLS BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31, 1995 Unaudited	December 31, 1994*
ASSETS		
Cash and due from banks	\$ 9,804	\$ 10,805
Investment securities:		
Available for sale (amortized cost March 31, 1995 \$94,303; December 31, 1994 \$94,914)	91,977	90,795
Held to maturity (fair value March 31, 1995 \$19,450; December 31, 1994 \$19,561)	19,459	19,255
Federal funds sold	788	7,500
Loans, net	307,204	300,821
Property and equipment, net	6,527	6,350
Accrued interest receivable	4,173	3,776
Deferred income taxes, net	2,271	2,935
Other assets	2,687	2,675
	\$444,890	\$444,912
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing deposits	\$ 36,350	\$ 35,470
Interest-bearing deposits	328,439	337,368
Total deposits	\$364,789	\$372,838
Federal funds purchased and securities sold under agreements to repurchase	8,541	7,043
Federal Home Loan Bank notes	25,758	20,758
Accrued interest payable	1,519	1,548
Other liabilities	1,548	1,068
	\$402,155	\$403,255
 REDEEMABLE COMMON STOCK HELD BY EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)		
	\$ 5,265	\$ 5,210
 STOCKHOLDERS' EQUITY		
Capital stock, common, no par value; authorized 2,000,000 shares; issued 487,773 shares	\$ 8,915	\$ 8,915
Retained earnings	35,285	35,336
Unrealized gains (losses) on debt securities, net	(1,465)	(2,594)
	\$ 42,735	\$ 41,657
Less, maximum cash obligation related to ESOP shares	5,265	5,210
	\$ 37,470	\$ 36,447
	\$444,890	\$444,912

* Derived from audited financial statements. See Note to Consolidated

HILLS BANCORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 Three Months Ended March 31, 1995 and 1994
 (In Thousands, Except Per Share Data)

	1995	1994
Interest income:		
Interest and fees on loans	\$ 6,411	\$ 5,455
Interest on investment securities		
Taxable	1,194	1,291
Non taxable	261	267
Interest on federal funds sold	40	48
Total interest income	\$ 7,906	\$ 7,061
Interest expense:		
Interest on deposits	\$ 3,669	\$ 3,328
Interest on securities sold under agreements to repurchase	92	34
Interest on FHLB notes	366	245
Interest portion of Employee Stock Ownership Plan contribution	- -	2
Total interest expense	\$ 4,127	\$ 3,609
Net interest income	\$ 3,779	\$ 3,452
Provision for loan losses	180	180
Net interest income after provision for loan losses	\$ 3,599	\$ 3,272

Other income:		
Loan origination fees	\$ 19	\$ 174
Trust fees	151	179
Deposit account charges and fees	373	349
Other fees and charges	250	232
	\$ 793	\$ 934
Other expenses:		
Salaries and employee benefits	\$ 1,340	\$ 1,299
Occupancy	190	175
Furniture and equipment	253	234
F.D.I.C. insurance	209	198
Office supplies and postage	177	152
Other	541	541
	\$ 2,710	\$ 2,599
Income before income taxes	\$ 1,682	\$ 1,607
Federal and state income taxes	\$ 465	\$ 436
Net income	\$ 1,217	\$ 1,171
Per common share:		
Net income	\$ 2.48	\$ 2.40
Dividend, January	2.60	2.41
Weighted average of common outstanding stock	490,799	488,691

See Note to Consolidated Financial Statements

HILLS BANCORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 Three Months Ended March 31, 1995 and 1994
 (In Thousands)

	Total
Balance, January 1, 1995	\$ 36,447
Net income	1,217
Change related to ESOP shares	(55)
Cash dividends (\$2.60 per share)	(1,268)
Unrealized gains (losses) on debt securities, net	1,129
Balance, March 31, 1995	\$ 37,470
Balance, January 1, 1994	\$ 35,943
Net income	1,171
Payment on debt of ESOP	131
Change related to ESOP shares	32
Cash dividends (\$2.40 per share)	(1,170)
Unrealized gains (losses) on debt securities, net	(1,096)
Balance, March 31, 1994	\$ 35,011

See Note to Consolidated Financial Statements.

HILLS BANCORPORATION
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 Three Months Ended March 31, 1995 and 1994
 (In Thousands)

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,217	\$ 1,171
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	202	178
Provision for loan losses	180	180
(Increase) in accrued interest receivable	(397)	(48)
Amortization of bond discount	138	223
(Increase) in other assets	(12)	(192)
Increase in accrued interest and other liabilities	451	516
Net cash provided by operating activities	\$ 1,779	\$ 2,028
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities:		
Available for sale	\$ 4,000	\$ 9,000
Held to maturity	330	615
Purchase of investment securities:		
Available for sale	(3,510)	(8,084)
Held to maturity	(551)	(738)
Federal funds sold, net	6,712	533
Loans made to customers, net of collections	(6,563)	(2,944)
Purchases of property and equipment	(379)	(26)
Net cash provided by (used in) investing activities	\$ 39	\$ (1,644)

CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	\$ (8,049)	\$ (30)
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	1,498	(29)
Borrowings from FHLB	5,000	- -
Dividends paid	(1,268)	(1,170)
Net cash (used in) financing activities	\$ (2,819)	\$ (1,229)
(Decrease) increase in cash and due from banks	\$ (1,001)	\$ (845)

CASH AND DUE FROM BANKS		
Beginning	10,805	10,107
Ending	\$ 9,804	\$ 9,262

SUPPLEMENTAL DISCLOSURES

Cash payments for:

Interest paid to depositors and others	\$ 3,698	\$ 3,393
Interest paid on other obligations	458	281

Non-cash financing transactions:

Increase in stockholders' equity related to ESOP debt	- -	132
Increase in maximum cash obligation related to ESOP shares	(55)	(32)
Net unrealized gains (losses) on debt securities	1,129	(1,096)

See Note to Consolidated Financial Statements.

HILLS BANCORPORATION
NOTE TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Interim Financial Statements

Interim consolidated financial statements have not been examined by independent public accountants, but include all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the results for these periods. The results of operation for the interim periods are not necessarily indicative of the results for a full year.

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks (including cash items in process of clearing). Cash flows from demand deposits, NOW accounts, savings accounts, and federal funds purchased and sold are reported net since their original maturities are less than three months. Cash flows from loans and time deposits are presented as net increases or decreases.

PART I, ITEM 2.
HILLS BANCORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE FINANCIAL CONDITION AND RESULTS OF OPERATION

The consolidated balance sheet of Hills Bancorporation as of March 31, 1995 reflects total assets of \$444,890,000 which is a slight decrease of \$22,000 from December 31, 1994. Net loans are \$307,204,000 which represents an increase of \$6,383,000 from December 31, 1994. Compared to one year ago, total assets have increased from \$416,404,000 to \$444,890,000 for an increase of \$28,486,000. Also during this time, net loans increased \$41,464,000 to \$307,204,000 as of March 31, 1995. These loan increases were primarily single family residential loans in the Iowa City and Coralville area. By March 31, 1995, the U.S. Government bond interest rates, after increasing during 1994, have decreased back to yields effective in December, 1994. The changes in rates have a direct effect on secondary market financing and also on other income for the Bank in terms of loan origination fees. At this time, loan demand for in-house real estate loans appears to be strong and the funding of these loans will come from deposit growth and/or FHLB advances.

On the liability side of the bank, deposits (when federal funds purchased and securities sold under agreements to repurchase are included) as of March 31, 1995 totaled \$373,330,000, a decrease of \$6,551,000 for the first three months. March 31, 1995 deposits, including repos, have grown \$15,414,000 from March 31, 1994. Also during the last twelve months, borrowings from the FHLB has increased from \$15,790,000 to \$25,758,000. Asset-liability management encompasses both the management of interest rate sensitivity and the maintenance of adequate liquidity. Interest rate sensitivity management attempts to provide the optimal level of net interest income while managing exposure to risks associated with interest rate movements. Liquidity management involves planning to meet anticipated funding needs. Management monitors the rate sensitivity and

liquidity positions on an on-going basis and, when necessary, appropriate action is taken to minimize any adverse effects of rapid interest rate movements or any unexpected liquidity concerns.

In January of 1995, Hills Bancorporation paid a dividend of \$2.60 per share. The dividend of \$2.60 per share represents an 8.33% increase from the \$2.40 paid in January, 1994. The total dividend of \$1,268,000 is deducted from stockholders' equity and is reflected in the resulting stockholders' equity as of March 31, 1995 of \$37,470,000. Stockholders' equity at March 31, 1995 and December 31, 1994 reflects an adjustment for unrealized gain (losses) on debt securities, net of income taxes. Prior to December 31, 1993 all debt securities were carried at amortized cost. Effective December 31, 1993, the Company adopted FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and classified investments as held to maturity or available for sale. Investment securities held to maturity are those for which the Company has the ability and intent to hold to maturity. Securities meeting such criteria at the date of purchase and as of the balance sheet date are carried at cost, adjusted for amortization of premiums and discounts. Gains and losses on sales of investment securities are based upon the adjusted book value of the specific securities sold.

Debt securities available for sale are accounted for at fair value and the unrealized holding gains or losses are presented as a separate component of stockholders' equity, net of their deferred income tax effect. The unrealized holding gains net of deferred income taxes, of the debt securities available for sale as of December 31, 1994, is presented as an adjustment of the separate component of stockholders' equity. At March 31, 1995, due to the change in government interest rates, the gross unrealized loss decreased to \$2,326,000 from \$4,119,000 at December 31, 1994. After the adjustment for deferred income taxes, the net effect on stockholders' equity was a \$1,129,000 increase. The change in interest rates is represented by an example of a U.S. Government bond with a two-year maturity and a yield of 7.55% in December, 1994 and at the end of March the yield available was 6.65%.

The total stockholders' equity of Hills Bancorporation before the reduction for the ESOP shares as a percent of total assets is 9.60%. Under risk-based capital rules, total capital is 00.00% of risk-adjusted assets, compared to the current 8% requirement.

The consolidated net income for the three months ended March 31, 1995 was \$1,217,000 compared to \$1,171,000 for the same period ended March 31,

1994. This is an increase of \$46,000 representing an earnings per share for the three months of \$2.48 compared to \$2.40 for the same three months in 1994. Net interest income is up by \$327,000 over the prior three months one year ago and is reflective primarily of volume increases in terms of total number of assets while the interest rate margin, which is the difference between what the bank earns on investments and loans and pays on interest-bearing deposits is up slightly from one year ago. Total average earning assets were up over \$25.7 million for the first quarter of 1995 compared to the same period in 1994. The provisions for loan losses are the same for both quarters presented and is reflective of management's overall opinion of the loan portfolio at this time, the growth of the loan portfolio, and the level of the reserve as of March 31, 1995.

Other income of the bank was \$793,000 compared to \$934,000 for the three months ended March 31, 1995 and 1994, respectively. Loan origination fees amounted to \$19,000 for the three month period ended March 31, 1995 and \$174,000 for the three months ended March 31, 1994. As already discussed, due to raising interest rates, loan origination fees are not expected to continue at the prior year's pace and the Bank will see a drop for the year in loan origination fees. The Trust Department fees were \$373,000 and \$349,000 for the three months ending March 31, 1995 and 1994, respectively and represents primarily an increase in accounts under management.

Other expenses have increased from \$2,599,000 for the three months ended March 31, 1994 to \$2,710,000 for the period ended March 31, 1995. Of this increase of \$111,000, \$11,000 is from increases in F.D.I.C. insurance and salary and employee benefits have increased compared to one year ago by \$41,000. This is a combination of salary increases and the number of full-time equivalent employees increasing from March 31, 1994 to March 31, 1995 by ten employees. Occupancy and furniture and equipment expenses are up \$34,000 for the three months ending March 31, 1995 compared to one year ago. This increase is primarily in property taxes, rent, and repairs and maintenance on buildings. Federal and state income taxes for 1995 are more than in 1994, primarily the result of increased income before taxes.

The Bank's principal sources of funds continues to be prepayment of loan principal and current amortized loan payments. In addition, funds are provided from current operations. All of the funds are used to fulfill

loan commitments, make short-term investments, and fund any deposit withdrawals needed. The Company has no material commitments or plans which will affect its liquidity or capital resources. The acquisition of property and equipment may be in cash purchases, or they may be financed if favorable terms are available.

HILLS BANCORPORATION
PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings.

Item 2. Changes in Securities

There were no changes in securities.

Item 3. Defaults upon Senior Securities

Hills Bancorporation has no senior securities.

Item 4. Submission of Matters to a Vote of Security Holders

There have been no matters submitted to a vote of security holders during the quarter ended March 31, 1995.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit

See exhibit II - Statement Re Computation of Earnings Per Common Share

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter ended March 31, 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned and thereunto duly authorized.

HILLS BANCORPORATION
(Registrant)

Date 05/09/95

/s/ Dwight O. Seegmiller
Dwight O. Seegmiller, President

(Duly authorized officer of the
registrant)

/s/ James G. Pratt
James G. Pratt, Treasurer
(Principal Financial Officer)

HILLS BANCORPORATION
EXHIBIT 11
COMPUTATION OF EARNINGS PER COMMON SHARE

	Three Months Ended March 31,	
	1995	1994
Shares of common stock, beginning	487,773	487,622
Shares issued during this period	- -	- -
Shares of common stock, ending	487,773	487,622
Weighted average number of shares outstanding #	490,799	488,691
Earnings and Earnings per share:		
Net income (in thousands)	\$ 1,217	\$ 1,171
Earnings per common share	\$ 2.48	\$ 2.40

Computation of weighted average number of shares include equivalent shares attributable to stock options granted in 1993, computed under the treasury stock method.

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