

AMES NATIONAL CORP
Form 10-K
March 13, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2016. 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 No.)

405 5TH STREET, AMES, IOWA

(Address of principal executive offices)

50010

(Zip Code)

(515) 232-6251

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: **NONE**

Securities registered pursuant to Section 12(g) of the Exchange Act:

COMMON STOCK, \$2.00 PAR VALUE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes__ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes__ No X

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

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

Large accelerated filer___ Accelerated filer X 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 X

As of June 30, 2016, the aggregate market value of voting stock held by non-affiliates of the registrant, based upon the closing sale price for the registrant's common stock in the NASDAQ Capital Market, was \$228,599,580. Shares of common stock beneficially owned by each executive officer and director of the Company have been excluded on the basis that such persons may be deemed to be an affiliate of the registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares outstanding of the registrant's common stock on February 28, 2017, was 9,310,913.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, as filed with the Securities and Exchange Commission on or about March 17, 2017, are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Ames National Corporation (the "Company") is an Iowa corporation and bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company owns 100% of the stock of five banking subsidiaries consisting of two national banks and three state-chartered banks, as described below. All of the Company's operations are conducted in the State of Iowa and primarily within the central and north central Iowa counties of Boone, Hancock, Marshall, Polk and Story where the Company's banking subsidiaries are located. The Company does not engage in any material business activities apart from its ownership of its banking subsidiaries and the management of its own investment and loan portfolios. The principal executive offices of the Company are located at 405 5th Street, Ames, Iowa 50010. The Company's telephone number is (515) 232-6251 and website address is www.amesnational.com.

The Company was organized and incorporated on January 21, 1975 under the laws of the State of Iowa to serve as a holding company for its principal banking subsidiary, First National Bank, Ames, Iowa ("First National") located in Ames, Iowa. In 1983, the Company acquired the stock of the State Bank & Trust Co. ("State Bank") located in Nevada, Iowa; in 1991, the Company, through a newly-chartered state bank known as Boone Bank & Trust Co. ("Boone Bank"), acquired certain assets and assumed certain liabilities of the former Boone State Bank & Trust Company located in Boone, Iowa; in 1995, the Company acquired the stock of the Reliance State Bank, ("Reliance Bank") located in Story City, Iowa; and in 2002, the Company chartered and commenced operations of a new national banking organization, United Bank & Trust NA ("United Bank"), located in Marshalltown, Iowa. First National, State Bank, Boone Bank, Reliance Bank and United Bank are each operated as a wholly owned subsidiary of the Company. These five financial institutions are referred to in this Form 10-K collectively as the "Banks" and individually as a "Bank".

The principal sources of Company revenue are: (i) interest and fees earned on loans made or held by the Company and Banks; (ii) interest on investments, primarily on bonds, held by the Banks; (iii) fees on wealth management services; (iv) service charges on deposit accounts maintained at the Banks; (v) merchant and card fees; (vi) gain on the sale of loans; and (vii) securities gains. The Company's principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) salaries and employee benefits; (iii) data processing costs primarily associated with maintaining the Banks' loan and deposit functions; (iv) occupancy expenses for maintaining the Banks' facilities; (v) professional fees; (vi) business development; and (vii) other real estate owned expenses. The largest component contributing to the Company's net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning

assets and interest paid on interest bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

The Banks' lending activities consist primarily of short-term and medium-term commercial and agricultural real estate loans, residential real estate loans, agricultural and business operating loans and lines of credit, equipment loans, vehicle loans, personal loans and lines of credit, home improvement loans and origination of mortgage loans for sale into the secondary market. The Banks also offer a variety of demand, savings and time deposits, cash management services, merchant credit card processing, safe deposit boxes, wire transfers, direct deposit of payroll and social security checks and automated/video teller machine access. Four of the five Banks also offer trust services.

The Company provides various services to the Banks which include, but are not limited to, management assistance, internal auditing services, human resources services and administration, compliance management, marketing assistance and coordination, loan review, support with respect to computer systems and related procedures, financial reporting, training and the coordination of management activities.

Banking Subsidiaries

First National Bank, Ames, Iowa. First National is a nationally-chartered, commercial bank insured by the FDIC. It was organized in 1903 and became a wholly owned subsidiary of the Company in 1975 through a bank holding company reorganization whereby the then shareholders of First National exchanged all of their First National stock for stock in the Company. On August 29, 2014 First National completed the purchase of the three bank offices of First Bank located in West Des Moines and Johnston, Iowa (the "First Bank Acquisition"). These offices were purchased for cash consideration of \$4.3 million. The contractual balance of loans receivable acquired was \$45.6 million and the contractual balance of the deposits assumed was \$81.8 million. As a result of the First Bank Acquisition, the Bank recorded a core deposit intangible asset of \$1.0 million and goodwill of \$1.1 million. First National provides full-service banking to businesses and residents within the Ames community through its three Ames offices and the Greater Des Moines area through its four offices located in Ankeny, West Des Moines and Johnston. It provides a variety of products and services designed to meet the needs of the markets it serves. It has an experienced staff of bank officers including many who have spent the majority of their banking careers with First National and who emphasize long-term customer relationships.

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As of December 31, 2016, First National had capital of \$73,779,000 and 112 full-time equivalent employees. Full-time equivalents represent the number of people a business would employ if all its employees were employed on a full-time basis. It is calculated by dividing the total number of hours worked by all full and part-time employees by the number of hours a full-time individual would work for a given period of time. First National had net income for the years ended December 31, 2016, 2015 and 2014 of approximately \$7,858,000, \$7,223,000 and \$7,490,000, respectively. Total assets as of December 31, 2016, 2015 and 2014 were approximately \$755,296,000, \$704,289,000 and \$706,185,000, respectively.

State Bank & Trust Co., Nevada, Iowa. State Bank is an Iowa, state-chartered, FDIC insured commercial bank. State Bank was acquired by the Company in 1983 through a stock transaction whereby the then shareholders of State Bank exchanged all their State Bank stock for stock in the Company. State Bank was organized in 1939 and provides full-service banking to businesses and residents within the Nevada area from its Nevada location. It has a strong presence in agricultural, commercial and residential real estate lending.

As of December 31, 2016, State Bank had capital of \$18,634,000 and 20 full-time equivalent employees. State Bank had net income for the years ended December 31, 2016, 2015 and 2014 of approximately \$2,323,000, \$2,311,000 and \$2,280,000, respectively. Total assets as of December 31, 2016, 2015 and 2014 were approximately \$160,739,000, \$154,847,000 and \$157,894,000, respectively.

Boone Bank & Trust Co., Boone, Iowa. Boone Bank is an Iowa, state-chartered, FDIC insured commercial bank. Boone Bank was organized in 1992 by the Company under a new state charter in connection with a purchase and assumption transaction whereby Boone Bank purchased certain assets and assumed certain liabilities of the former Boone State Bank & Trust Company in exchange for a cash payment. It provides full service banking to businesses and residents within the Boone community and surrounding area. It is actively engaged in agricultural, consumer and commercial lending, including real estate, operating and equipment loans. It conducts business from its main office and a full service office, both located in Boone.

As of December 31, 2016, Boone Bank had capital of \$14,011,000 and 22 full-time equivalent employees. Boone Bank had net income for the years ended December 31, 2016, 2015 and 2014 of approximately \$1,763,000, \$1,684,000 and \$1,614,000, respectively. Total assets as of December 31, 2016, 2015 and 2014 were approximately \$133,837,000, \$135,767,000 and \$125,776,000, respectively.

Reliance State Bank, Story City, Iowa. Reliance Bank is an Iowa, state-chartered, FDIC insured commercial bank. Reliance Bank was organized in 1928. Reliance Bank was acquired by the Company in 1995 through a stock transaction whereby the then shareholders of Reliance Bank exchanged all their Reliance Bank stock for stock in the

Company. In 2012, Reliance Bank completed the purchase of two bank offices of Liberty Bank, F.S.B. located in Garner and Klemme, Iowa (the "Liberty Acquisition"). Reliance Bank provides full banking services to businesses and residents within the Story City and Garner communities and surrounding areas. Reliance Bank closed its Klemme office in 2015. While its primary emphasis is in agricultural lending, Reliance Bank also provides the traditional lending services typically offered by community banks. It conducts business from its main office located in Story City and full service office located in Garner.

As of December 31, 2016, Reliance Bank had capital of \$29,333,000 and 30 full-time equivalent employees. Reliance Bank had net income for the years ended December 31, 2016, 2015 and 2014 of approximately \$2,779,000, \$2,569,000 and \$2,392,000, respectively. Total assets as of December 31, 2016, 2015 and 2014 were approximately \$222,664,000, \$219,452,000 and \$219,474,000, respectively.

United Bank & Trust NA, Marshalltown, Iowa. United Bank is a nationally-chartered, commercial bank insured by the FDIC. It was newly chartered in 2002 and offers a broad range of deposit and loan products, as well as wealth management services to customers located in the Marshalltown and surrounding Marshall County area. It conducts business from its main office and a full service office, both located in Marshalltown.

As of December 31, 2016, United Bank had capital of \$14,206,000 and 18 full-time equivalent employees. United Bank had net income for the years ended December 31, 2016, 2015 and 2014 of approximately \$1,271,000, \$1,296,000 and \$1,110,000, respectively. Total assets as of December 31, 2016, 2015 and 2014 were approximately \$111,226,000, \$112,480,000 and \$107,000,000, respectively.

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Business Strategy and Operations

As a multi-bank holding company for five community banks, the Company emphasizes strong personal relationships to provide products and services that meet the needs of the Banks' customers. The Company seeks to achieve growth and maintain a strong return on equity. To accomplish these goals, the Banks focus on small-to-medium size businesses that traditionally wish to develop an exclusive relationship with a single bank. The Banks, individually and collectively, have the size to give the personal attention required by business owners, in addition to the credit expertise to help businesses meet their goals.

The Banks offer a full range of deposit services that are typically available in most financial institutions, including checking accounts, savings accounts and time deposits of various types, ranging from money market accounts to longer-term certificates of deposit. One major goal in developing the Banks' product mix is to keep the product offerings as simple as possible, both in terms of the number of products and the features and benefits of the individual services. The transaction accounts and time certificates are tailored to each Bank's principal market area at rates competitive in that Bank's market. In addition, retirement accounts such as IRAs (Individual Retirement Accounts) are available. The FDIC insures all deposit accounts up to the maximum amount. The Banks solicit these accounts from small-to-medium sized businesses in their respective primary trade areas, and from individuals who live and/or work within these areas. No material portion of the Banks' deposits has been obtained from a single person or from a few persons. Therefore, the Company does not believe that the loss of the deposits of any person or of a few persons would have an adverse effect on the Banks' operations or erode their deposit base.

Loans are provided to creditworthy borrowers regardless of their race, color, national origin, religion, sex, age, marital status, disability, receipt of public assistance or any other basis prohibited by law. The Banks intend to fulfill this commitment while maintaining prudent credit standards. In the course of fulfilling this obligation to meet the credit needs of the communities which they serve, the Banks give consideration to each credit application regardless of the fact that the applicant may reside in a low to moderate income neighborhood, and without regard to the geographic location of the residence, property or business within their market areas.

The Banks provide innovative, quality financial products, such as Internet banking and trust services that meet the banking needs of their customers and communities. The loan programs and acceptance of certain loans may vary from time-to-time depending on the funds available and regulations governing the banking industry. The Banks offer all basic types of credit to their local communities and surrounding rural areas, including commercial, agricultural and consumer loans. The types of loans within these categories are as follows:

Commercial Loans. Commercial loans are typically made to sole proprietors, partnerships, corporations and other business entities such as municipalities where the loan is to be used primarily for business purposes. These loans are typically secured by assets owned by the borrower and often times involve personal guarantees given by the owners of

the business. Approximately 51% of the loan portfolio consists of loans made for commercial purposes.

The types of loans the Banks offer include:

- financing guaranteed under Small Business Administration programs
- operating and working capital loans
- loans to finance equipment and other capital purchases
- commercial real estate loans
 - business lines of credit
- term loans
- loans to professionals
- letters of credit

Agricultural Loans. The Banks, by nature of their location in central and north-central Iowa, are directly and indirectly involved in agriculture and agri-business lending. This includes short-term seasonal lending associated with cyclical crop and livestock production, intermediate term lending for machinery, equipment and breeding stock acquisition and long-term real estate lending. These loans are typically secured by the crops, livestock, equipment or real estate being financed. The basic tenet of the Banks' agricultural lending philosophy is a blending of strong, positive cash flow supported by an adequate collateral position, along with a demonstrated capacity to withstand short-term negative impact if necessary. Applicable governmental subsidies and affiliated programs are utilized if warranted to accomplish these parameters. Approximately 20% of the loan portfolio consists of loans made for agricultural purposes.

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Consumer Loans. Consumer loans are typically available to finance home improvements and consumer purchases, such as automobiles, household furnishings and boats. These loans are made on both a secured and an unsecured basis. The following types of consumer loans are available:

- automobiles and trucks
- boats and recreational vehicles
- personal loans and lines of credit
- home equity lines of credit
- home improvement and rehabilitation loans
- consumer real estate loans

Other types of credit programs, such as loans to nonprofit organizations, to public entities, for community development and to other governmental programs also are available.

First National, Boone Bank, State Bank and United Bank offer wealth management services typically found in a commercial bank with trust powers, including the administration of estates, conservatorships, personal and corporate trusts and agency accounts. The Banks also provide farm management, investment and custodial services for individuals, businesses and non-profit organizations.

The Banks earn income from the origination of residential mortgages that are sold in the secondary real estate market without retaining the mortgage servicing rights.

The Banks offer traditional banking services, such as safe deposit boxes, wire transfers, direct deposit of payroll and social security checks, automated/video teller machine access and automatic drafts (ACH) for various accounts.

Lending Credit Management

The Company strives to achieve sound credit risk management. In order to achieve this goal, the Company has established uniform credit policies and underwriting criteria for the Banks' loan portfolios. The Banks diversify in the types of loans offered and are subject to regular credit examinations, annual internal audits and annual review of large loans, as well as quarterly reviews of loans experiencing deterioration in credit quality. The Company attempts to identify potential problem loans early, charge off loans promptly and maintain an adequate allowance for loan losses. The Company has established credit guidelines for the Banks' lending portfolios which include guidelines relating to the more commonly requested loan types, as follows:

Commercial Real Estate Loans - Commercial real estate loans, including agricultural real estate loans, are normally based on loan to appraisal value ratios of not to exceed 80% and secured by a first priority lien position. Loans are typically subject to interest rate adjustments no less frequently than 5 years from origination. Fully amortized monthly repayment terms normally do not exceed twenty years. Projections and cash flows that show ability to service debt within the amortization period are required. Property and casualty insurance is required to protect the Banks' collateral interests. Commercial and agricultural real estate loans represent approximately 51% of the loan portfolio. Major risk factors for commercial real estate loans, as well as the other loan types described below, include a geographic concentration in central Iowa; the dependence of the local economy upon several large governmental entities, including Iowa State University and the Iowa Department of Transportation; and the health of Iowa's agricultural sector that is dependent on weather conditions and government programs.

Commercial and Agricultural Operating Lines - These loans are made to businesses and farm operations with terms up to twelve months. The credit needs are generally seasonal with the source of repayment coming from the entity's normal business cycle. Cash flow reviews are completed to establish the ability to service the debt within the terms of the loan. A first priority lien on the general assets of the business normally secures these types of loans. Loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and hail insurance is required for most agricultural borrowers. Loans are generally guaranteed by the principal(s).

Commercial and Agricultural Term Loans – These loans are made to businesses and farm operations to finance equipment, breeding stock and other capital expenditures. Terms are generally the lesser of five years or the useful life of the asset. Term loans are normally secured by the asset being financed and are often additionally secured with the general assets of the business. Loan to value is generally 75% of the cost or value of the assets. Loans are normally guaranteed by the principal(s). Commercial and agricultural operating and term loans represent approximately 20% of the loan portfolio.

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Residential First Mortgage Loans – Proceeds of these loans are used to buy or refinance the purchase of residential real estate with the loan secured by a first lien on the real estate. Most of the residential mortgage loans originated by the Banks (including servicing rights) are sold in the secondary mortgage market due to the higher interest rate risk inherent in the 15 and 30 year fixed rate terms consumers prefer. Loans that are originated and not sold in the secondary market generally have fixed rates of up to fifteen years. The maximum amortization of first mortgage residential real estate loans is 30 years. The loan-to-value ratios normally do not exceed 90% without credit enhancements such as mortgage insurance. Property insurance is required on all loans to protect the Banks' collateral position. Loans secured by one to four family residential properties, home equity term loans and home equity lines of credit represent approximately 20% of the loan portfolio.

Home Equity Term Loans – These loans are normally for the purpose of home improvement or other consumer purposes and are secured by a junior mortgage on residential real estate. Loan-to-value ratios normally do not exceed 90% of market value.

Home Equity Lines of Credit - The Banks offer a home equity line of credit generally with a maximum term of 60 months. These loans are secured by a junior mortgage on the residential real estate and normally do not exceed a loan-to-market value ratio of 90% with the interest adjusted quarterly.

Consumer Loans – Consumer loans are normally made to consumers under the following guidelines. Automobiles - loans on new and used automobiles generally will not exceed 90% and 75% of the value, respectively. Recreational vehicles and boats will not exceed 90% and 66% of the value, respectively. Each of these loans is secured by a first priority lien on the assets and requires insurance to protect the Banks' collateral position. Unsecured - The term for unsecured loans generally does not exceed 12 months. Consumer and other loans represent approximately 2% of the loan portfolio.

Investments available-for-sale

The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, and to fulfill the Company's asset/liability management policies. The Company's investment portfolios are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy to purchase investment securities which are U.S. Government securities, U.S. government agency, state and local government obligations, corporate debt securities, other equity securities and overnight federal funds.

Employees

At December 31, 2016, the Banks had a total of 202 full-time equivalent employees and the Company had an additional 14 full-time employees. The Company and Banks provide their employees with a comprehensive program of benefits, including comprehensive medical, vision and dental plans, long-term and short-term disability coverage, and a 401(k) profit sharing plan. Management considers its relations with employees to be satisfactory. Unions represent none of the employees.

Market Area

The Company operates five commercial banks with locations in Boone, Hancock, Marshall, Polk and Story Counties in central and north central Iowa.

First National is headquartered in Ames, Iowa with a population of 65,060. The major employers are Iowa State University, National Center for Animal Health, Iowa Department of Transportation, Mary Greeley Medical Center, Ames Community Schools, City of Ames, Danfoss and McFarland Clinic. First National maintains four offices in the Des Moines metro area with a population of approximately 600,000. The major employers in the Des Moines metro market are State of Iowa, Principal Financial Group, Wells Fargo, UnityPoint Health, Mercy Medical Center, Nationwide Insurance, DuPont Pioneer, Hy-Vee Food Corp and John Deere. First National's primary business includes providing retail banking services and business and consumer lending. First National has a minimum exposure to agricultural lending.

Boone Bank is located in Boone, Iowa with a population of 12,692. Boone is the county seat of Boone County. The major employers are Fareway Stores, Inc., Iowa National Guard, Union Pacific Railroad, Boone County Hospital and Communication Data Services. The Bank offers a full line of loan, deposit, and trust services. Boone Bank provides lending services to the agriculture, commercial and real estate markets.

State Bank is located in Nevada, Iowa with a population of 6,831. Nevada is the county seat of Story County. The major employers are Print Graphics, General Financial Supply, Mid-American Manufacturing, Mid-States Millwright & Builders, Inc., Burke Corporation and Almaco. State Bank provides various types of loans with a major agricultural presence. It provides a wide variety of banking services including wealth management, deposit, ATM and debit card, and merchant card processing.

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Reliance Bank is headquartered in Story City, Iowa with a population of 3,435. The major employers in the Story City area are Bethany Manor, American Packaging, M.H. Eby, Inc. and Record Printing. The Bank also maintains offices in Garner, Iowa with a population of 3,107. Garner is the county seat of Hancock County. The major employers in the Garner area are Iowa Mold & Tooling and Stellar Industries. All locations are in major agricultural areas and the Bank has a strong presence in this type of lending. As a full service commercial bank, it provides a full line of products and services.

United Bank is located in Marshalltown, Iowa with a population of 27,620. The major employers are Iowa Veterans Home, Marshalltown School District, JBS Swift & Co., Emerson Process Management/Fisher Division, Lennox Industries and Central Iowa HealthCare. Marshalltown is the county seat of Marshall County. The Bank offers a full line of loan, deposit, and wealth management services. Loan services include primarily commercial and consumer types of credit including operating lines, equipment loans, automobile financing and real estate loans.

Competition

The geographic market area served by the Banks is highly competitive with respect to both loans and deposits. The Banks compete principally with other commercial banks, savings and loan associations, credit unions, mortgage companies, finance divisions of auto and farm equipment companies, agricultural suppliers and other financial service providers. Some of these competitors are local, while others are statewide or nationwide. The major commercial bank competitors include Great Western Bank, U.S. Bank National Association and Wells Fargo Bank, each of which maintains an office or offices within the Banks' primary central Iowa trade areas. Among the advantages such larger banks have are their ability to finance extensive advertising campaigns and to allocate their investment assets to geographic regions of higher yield and demand. These larger banking organizations have much higher legal lending limits than the Banks and thus are better able to finance large regional, national and global commercial customers.

In order to compete with the other financial institutions in their primary trade areas, the Banks use, to the fullest extent possible, the flexibility which is accorded by independent status. This includes an emphasis on specialized services, local promotional activity and personal contacts by the Banks' officers, directors and employees. In particular, the Banks compete for deposits principally by offering depositors a wide variety of deposit programs, convenient office locations, hours and other services. The Banks compete for loans primarily by offering competitive interest rates, experienced local lending personnel and quality products and services.

As of December 31, 2016, there were 46 FDIC insured institutions having approximately 106 locations within Boone, Hancock, Marshall, Polk and Story County, Iowa where the Banks' offices are located. First National, State Bank and Reliance Bank together have the largest percentage of deposits in Story County.

The Banks also compete with the financial markets for funds. Yields on corporate and government debt securities and commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for funds with equity, money market, and insurance products offered by brokerage and insurance companies. This competitive trend will likely continue in the future.

The Company anticipates bank competition will continue to change materially over the next several years as more financial institutions, including the major regional and national banks, continue to consolidate. Credit unions, which are not subject to income taxes, have a significant competitive advantage and provide additional competition in the Company's local markets.

Supervision and Regulation

The following discussion refers to certain statutes and regulations affecting the banking industry in general. These references provide brief summaries and therefore do not purport to be complete and are qualified in their entirety by reference to those statutes and regulations. In addition, due to the numerous statutes and regulations that apply to and regulate the banking industry, many are not referenced below.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (*"the Dodd-Frank Act"*). In response to the last national and international economic recession and to strengthen supervision of financial institutions and systemically important nonbank financial institutions, Congress and the U.S. government have taken a variety of actions, including the enactment of the Dodd-Frank Act on July 21, 2010. The Dodd-Frank Act represents the most comprehensive change to banking laws since the Great Depression of the 1930s and mandates changes in several key areas: regulation and compliance (both with respect to financial institutions and systemically important nonbank financial companies), securities regulation, executive compensation, regulation of derivatives, corporate governance, transactions with affiliates, deposit insurance assessments and consumer protection. While the changes in the law required by the Dodd-Frank Act has most significantly affected larger institutions, even relatively small institutions such as the Company have been affected.

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Pursuant to the Dodd-Frank Act, the Banks are subject to regulations promulgated by the consumer protection bureau housed within the Federal Reserve, known as the Bureau of Consumer Financial Protection (the "Bureau" or "BCFP"). The Bureau promulgates rules and orders with respect to consumer financial products and services and has substantial power to define the rights of consumers and responsibilities of lending institutions, such as the Banks. The Bureau will not, however, examine or supervise the Banks for compliance with such regulations; rather, enforcement authority will remain with the Banks' primary federal regulator although the Banks may be required to submit reports or other materials to the Bureau upon its request.

The Company and the Banks are subject to extensive federal and state regulation and supervision. Regulation and supervision of financial institutions is primarily intended to protect depositors and the FDIC rather than shareholders of the Company. The laws and regulations affecting banks and bank holding companies have changed significantly over recent years. There is reason to expect that similar changes will continue in the future. Any change in applicable laws, regulations or regulatory policies may have a material effect on the business, operations and prospects of the Company. The Company is unable to predict the nature or the extent of the effects on its business and earnings that any fiscal or monetary policies or new federal or state legislation may have in the future.

The Company

The Company is a bank holding company by virtue of its ownership of the Banks, and is registered as such with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA"), which subjects the Company and the Banks to supervision and examination by the Federal Reserve. Under the BHCA, the Company files with the Federal Reserve annual reports of its operations and such additional information as the Federal Reserve may require.

Source of Strength to the Banks. The Federal Reserve takes the position that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's position that in serving as a source of strength to its subsidiary banks, bank holding companies should use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. It should also maintain the financial flexibility and capital raising capacity to obtain additional resources for providing assistance to its subsidiary banks. A bank holding company's failure to meet its obligation to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice, or a violation of the Federal Reserve's regulations, or both.

Federal Reserve Approval. Bank holding companies must obtain the approval of the Federal Reserve before they: (i) acquire direct or indirect ownership or control of any voting stock of any bank if, after such acquisition, they would own or control, directly or indirectly, more than 5% of the voting stock of such bank; (ii) merge or consolidate with

another bank holding company; or (iii) acquire substantially all of the assets of any additional banks.

Non-Banking Activities. With certain exceptions, the BHCA also prohibits bank holding companies from acquiring direct or indirect ownership or control of voting stock in any company other than a bank or a bank holding company unless the Federal Reserve finds the company's business to be incidental to the business of banking. When making this determination, the Federal Reserve in part considers whether allowing a bank holding company to engage in those activities would offer advantages to the public that would outweigh possible adverse effects. A bank holding company may engage in permissible non-banking activities on a de novo basis, if the holding company meets certain criteria and notifies the Federal Reserve within ten (10) business days after the activity has commenced.

Financial Holding Company. Under the Financial Services Modernization Act, eligible bank holding companies may elect (with the approval of the Federal Reserve) to become a "financial holding company." Financial holding companies are permitted to engage in certain financial activities through affiliates that had previously been prohibited activities for bank holding companies. Such financial activities include securities and insurance underwriting and merchant banking. At this time, the Company has not elected to become a financial holding company, but may choose to do so at some time in the future.

Control Transactions. The Change in Bank Control Act of 1978, as amended, requires a person or group of persons acquiring "control" of a bank holding company to provide the Federal Reserve with at least 60 days prior written notice of the proposed acquisition. Following receipt of this notice, the Federal Reserve has 60 days to issue a notice disapproving the proposed acquisition, but the Federal Reserve may extend this time period for up to another 30 days. An acquisition may be completed before the disapproval period expires if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, would constitute the acquisition of control. In addition, any "company" would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (or 5% if the "company" is a bank holding company) or more of the outstanding shares of the Company, or otherwise obtain control over the Company.

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Affiliate Transactions. The Company and the Banks are deemed affiliates within the meaning of the Federal Reserve Act, and transactions between affiliates are subject to certain restrictions. Generally, the Federal Reserve Act: (i) limits the extent to which the financial institution or its subsidiaries may engage in "covered transactions" with an affiliate; and (ii) requires all transactions with an affiliate, whether or not "covered transactions," to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions.

State Law on Acquisitions. Iowa law permits bank holding companies to make acquisitions throughout the state. However, Iowa currently has a deposit concentration limit of 15% on the amount of deposits in the state that any one banking organization can control and continue to acquire banks or bank deposits (by acquisitions), which applies to all depository institutions doing business in Iowa.

Banking Subsidiaries

Applicable federal and state statutes and regulations governing a bank's operations relate, among other matters, to capital adequacy requirements, required reserves against deposits, investments, loans, legal lending limits, certain interest rates payable, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches and dealings with affiliated persons.

First National and United Bank are national banks subject to primary federal regulation and supervision by the Office of Comptroller of the Currency ("OCC"). The FDIC, as an insurer of the deposits to the maximum extent permitted by law, also has some limited regulatory authority over First National and United Bank. State Bank, Boone Bank and Reliance Bank are state banks subject to regulation and supervision by the Iowa Division of Banking. The three state Banks are also subject to regulation and examination by the FDIC, which insures their respective deposits to the maximum extent permitted by law. The federal laws that apply to the Banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of collateral for loans. The laws and regulations governing the Banks generally have been promulgated to protect depositors and the deposit insurance fund of the FDIC and not to protect stockholders of such institutions or their holding companies.

The OCC and FDIC each have authority to prohibit banks under their supervision from engaging in what it considers to be an unsafe and unsound practice in conducting their business. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires federal banking regulators to adopt regulations or guidelines in a number of areas to ensure bank safety and soundness, including internal controls, credit underwriting, asset growth, management compensation, ratios of classified assets to capital and earnings. FDICIA also contains provisions which are intended to change independent auditing requirements, restrict the activities of state-chartered insured banks,

amend various consumer banking laws, limit the ability of "undercapitalized banks" to borrow from the Federal Reserve's discount window, require regulators to perform periodic on-site bank examinations and set standards for real estate lending.

Borrowing Limitations. Each of the Banks is subject to limitations on the aggregate amount of loans that it can make to any one borrower, including related entities. Subject to numerous exceptions based on the type of loans and collateral, applicable statutes and regulations generally limit loans to one borrower of 15% of total equity and reserves. Each of the Banks is in compliance with applicable loans to one borrower requirements.

FDIC Insurance. Under the Dodd-Frank Act, a permanent increase in deposit insurance was authorized up to \$250,000. The coverage limit is per depositor, per insured depository institution for each account ownership category. The FDIC has adopted a risk-based insurance assessment system under which depository institutions contribute funds to the FDIC insurance fund based on their risk classification. The FDIC may terminate the deposit insurance of any insured depository institution if it determines after an administrative hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law.

Capital Adequacy Requirements. The Federal Reserve, the FDIC and the OCC (collectively, the "Agencies") have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. Failure to achieve and maintain adequate capital levels may give rise to supervisory action through the issuance of a capital directive to ensure the maintenance of required capital levels. Each of the Banks is in compliance with applicable risk-based capital level requirements as of December 31, 2016.

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Basel III Capital Requirements. In July, 2013, the Agencies, approved final rules (the “Basel III Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The Basel III Capital Rules generally implement the Basel Committee on Banking Supervision’s (the “Basel Committee”) December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the Company and the Banks, as compared to the prior U.S. general risk-based capital rules. The Basel III Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Basel III Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios and replace the existing general risk-weighting approach, which was derived from the Basel Committee’s 1988 “Basel I” capital accords, with a more risk-sensitive approach based, in part, on the “standardized approach” in the Basel Committee’s 2004 “Basel II” capital accords. In addition, the Basel III Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal agencies’ rules. The Basel III Capital Rules were effective for the Company and Banks on January 1, 2015, subject to phase-in periods for certain of their components and other provisions.

Among other matters, the Basel III Capital Rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the Basel III Capital Rules’ specific requirements.

Pursuant to the Basel III Capital Rules, the Company and Banks are subject to new regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by the regulators that could have a material adverse effect on the Company’s consolidated financial statements. Prior to January 1, 2015, the Banks were subject to capital requirements under Basel I and there were no capital requirements for the Company. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and Banks must meet specific capital guidelines that involve quantitative measures of the Company and Banks’ assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s and Banks’ capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15%

of CET1. See Note 16 to the “Notes to Consolidated Financial Statements,” which is included in Part II, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

Pursuant to the Basel III Capital Rules, the effects of certain accumulated other comprehensive income or loss (“AOCI”) items are not excluded; however, the Company and Banks, made a one-time permanent election to continue to exclude these items. This election was made concurrently with the first filing of certain of the Company and Banks’ periodic regulatory reports in the beginning of 2015 in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of their securities portfolio. The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities issued prior to May 19, 2010, from inclusion in Tier 1 capital, subject to grandfathering in the case of companies, such as us, that had less than \$15 billion in total consolidated assets as of December 31, 2009.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and will be phased in over a four-year period (beginning at 40% on January 1, 2015, and an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and increases by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

With respect to the Banks, the Basel III Capital Rules revise the Prompt Corrective Action (“PCA”) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any PCA category.

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The Basel III Capital Rules prescribe a standardized approach for risk weightings for a large and risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, and resulting in high-risk weights for a variety of asset classes.

Should the Company or Banks not meet the requirements of the Basel III Capital Rules, the Company and Banks would be subject to adverse regulatory action by their regulators, which action could result in material adverse consequences for the Company, Banks, and Company shareholders.

As of December 31, 2016, the Banks exceeded all of their regulatory capital requirements and were designated as "well-capitalized" under federal guidelines. See Note 16 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Prompt Corrective Action. Regulations adopted by the Agencies impose even more stringent capital requirements under prompt corrective action. The FDIC and other Agencies must take certain "prompt corrective action" when a bank fails to meet capital requirements. The regulations establish and define five capital levels: (i) "well-capitalized," (ii) "adequately capitalized," (iii) "undercapitalized," (iv) "significantly undercapitalized" and (v) "critically undercapitalized." Increasingly severe restrictions are imposed on the payment of dividends and management fees, asset growth and other aspects of the operations of institutions that fall below the category of being "adequately capitalized." Undercapitalized institutions are required to develop and implement capital plans acceptable to the appropriate federal regulatory agency. Such plans must require that any company that controls the undercapitalized institution must provide certain guarantees that the institution will comply with the plan until it is adequately capitalized. As of December 31, 2016, each of the Banks was categorized as "well capitalized" under regulatory prompt corrective action provisions.

Restrictions on Dividends. The dividends paid to the Company by the Banks are the major source of Company cash flow. Various federal and state statutory provisions limit the amount of dividends banking subsidiaries are permitted to pay to their holding companies without regulatory approval. Federal Reserve policy further limits the circumstances under which bank holding companies may declare dividends. For example, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. In addition, the Federal Reserve and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings. Federal and state banking regulators may also restrict the payment of dividends by order.

First National Bank and United Bank, as national banks, generally may pay dividends, without obtaining the express approval of the OCC, in an amount up to its retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits as defined by the

OCC, consists of net income less dividends declared during the period. Boone Bank, Reliance Bank and State Bank are also restricted under Iowa law to paying dividends only out of their undivided profits. Additionally, the payment of dividends by the Banks is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and the Banks generally are prohibited from paying any dividends if, following payment thereof, the Bank would be undercapitalized.

Reserves Against Deposits

The Federal Reserve requires all depository institutions to maintain reserves against their transaction accounts (primarily checking accounts) and non-personal time deposits. Generally, reserves of 3% must be maintained against total transaction accounts of \$110,200,000 or less (subject to an exemption not in excess of the first \$15,200,000 of transaction accounts). A reserve of \$2,850,000 plus 10% of amounts in excess of \$110,200,000 must be maintained in the event total transaction accounts exceed \$110,200,000. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy applicable liquidity requirements. Because required reserves must be maintained in the form of vault cash or a noninterest bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce the earning assets of the Banks.

Regulatory Enforcement Authority

The enforcement powers available to federal and state banking regulators are substantial and include, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, enforcement actions must be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions, or inactions, may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Applicable law also requires public disclosure of final enforcement actions by the federal banking agencies.

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National Monetary Policies

In addition to being affected by general economic conditions, the earnings and growth of the Banks are affected by the regulatory authorities' policies, including the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply, credit conditions and interest rates. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, changes in reserve requirements against bank deposits and the Federal Reserve Discount Rate, which is the rate charged member banks to borrow from the Federal Reserve Bank. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

The monetary policies of the Federal Reserve have had a material impact on the operating results of commercial banks in the past and are expected to have a similar impact in the future. The U.S. Congress established three key objectives for monetary policy in the Federal Reserve Act: maximizing employment, stabilizing prices, and moderating long-term interest rates. The first two objectives are sometimes referred to as the Federal Reserve's dual mandate. Its duties have expanded over the years, and as of 2009 so include supervising and regulating banks, maintaining the stability of the financial system and providing financial services to depository institutions, the U.S. government, and foreign official institutions. The Federal Reserve conducts research into the economy and releases numerous publications. Also important in terms of effect on banks are controls on interest rates paid by banks on deposits and types of deposits that may be offered by banks. The Federal Open Market Committee ("FOMC"), a committee within the Federal Reserve System, is charged under the United States of America ("USA") law with overseeing the nation's open market operations (i.e., the Federal Reserve Banks buying and selling of USA government securities). This Federal Reserve committee makes key decisions about interest rates and the growth of the USA money supply. The FOMC is the principal organization of USA national monetary policy. The Committee sets monetary policy by specifying the short-term objective for the Federal Reserve Bank's open market operations, which is usually a target level for the federal funds rate (the rate that commercial banks charge between themselves for overnight loans).

Availability of Information on Company Website

The Company files periodic reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The Company makes available on or through its website free of charge all periodic reports filed by the Company with the SEC, including any amendments to such reports, as soon as reasonably practicable after such reports have been electronically filed with the SEC. The address of the Company's website on the Internet is: www.amesnational.com.

The Company will provide a paper copy of these reports free of charge upon written or telephonic request directed to John P. Nelson, CFO, 405 5th Street, Ames, Iowa 50010 or (515) 232-6251 or by email request at

info@amesnational.com. The information found on the Company's website is not part of this or any other report the Company files with the SEC.

Executive Officers of Company and Banks

The following table sets forth summary information about the executive officers of the Company and certain executive officers of the Banks. Unless otherwise indicated, each executive officer has served in his current position for the past five years with the exception of John P. Nelson. Mr. Nelson was appointed chief operating officer and executive vice president on November 9, 2016.

Name	Age	Position with the Company or Bank and Principal Occupation and Employment During the Past Five Years
Scott T. Bauer	54	President and Director of First National.
Kevin G. Deardorff	62	Vice President & Technology Director of the Company.
Curtis A. Hoff	54	President and Director of United Bank.
Stephen C. McGill	62	President and Director of State Bank.
John P. Nelson	50	Chief Financial Officer, Executive Vice President, Chief Operating Officer, Secretary, Treasurer and Director of the Company. Director and Chairman of Reliance Bank.
Thomas H. Pohlman	66	Chief Executive Officer, President and Director of the Company. Director and Chairman of First National, State Bank, Boone Bank and United Bank.
Jeffrey K. Putzier	55	President and Director of Boone Bank.
Richard J. Schreier	49	President and Director of Reliance Bank.

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ITEM 1A. RISK FACTORS

Set forth below is a description of risk factors related to the Company's business, provided to enable investors to assess, and be appropriately apprised of, certain risks and uncertainties the Company faces in conducting its business. An investor should carefully consider the risks described below and elsewhere in this Report, which could materially and adversely affect the Company's business, results of operations or financial condition. The risks and uncertainties discussed below are also applicable to forward-looking statements contained in this Report and in other reports filed by the Company with the Securities and Exchange Commission. Given these risks and uncertainties, investors are cautioned not to place undue reliance on forward-looking statements.

Changes in general business, economic and political conditions may adversely affect the Company's business.

Our earnings and financial condition are affected by general business, economic and political conditions. For example, a depressed economic environment increases the likelihood of lower employment levels and recession, which could adversely affect our earnings and financial condition. General business and economic conditions that could affect us include short-term and long-term interest rates, inflation, fluctuations in both debt and equity capital markets and the strength of the national and local economies in which we operate. Political conditions can also affect our earnings through the introduction of new regulatory schemes and changes in tax laws.

Our financial performance generally, and in particular the ability of customers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment not only in the markets where we operate but also in the state of Iowa generally and in the United States as a whole. A favorable business environment is generally characterized by, among other factors: economic growth; efficient capital markets; low inflation; low unemployment; high business and investor confidence; and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

While economic conditions in our market, the state of Iowa, and the United States have generally improved since the recession, there can be no assurance that this improvement will continue or occur at a meaningful rate. Stagnant or declining economic conditions could materially and adversely affect our results of operations and financial condition.

Fair values of investments in the Company's securities portfolio may adversely change.

As of December 31, 2016, the fair value of our securities portfolio was approximately \$516.1 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, an unfavorable change in the liquidity of an investment, rating agency downgrades of the securities, reinvestment risk, liquidity risk, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause us to recognize an other than temporary impairment (OTTI) in future periods and result in realized losses that negatively impact earnings. The success of any investment activity is affected by general economic conditions. Unexpected volatility or illiquidity in the markets in which we hold securities could reduce our liquidity and stockholders' equity. To mitigate these risks, we have access to lines of credit that provide additional liquidity, if needed.

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Our investment securities are analyzed quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is credit loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to have OTTI when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security having an unrealized loss if we have the intent to sell the security or if it is more likely than not that we will be required to sell the security before collection of the principal amount.

The commercial real estate loan portfolio is a significant part of the Company's business.

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2016. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that was anticipated at the time of originating the loan, which could cause an increase to our provision for loan losses and adversely affect our operating results and financial condition.

If the Company's actual loan losses exceed the allowance for loan losses, the Company's net income will decrease.

We maintain an allowance for loan losses at a level believed to be adequate to absorb estimated losses inherent in the existing loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio.

Determination of the allowance is inherently subjective as it requires significant estimates and management's judgment of credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic

conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. Also, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance. Any increases in provisions will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

Changes in interest rates could adversely affect the Company's results of operations and financial condition.

An increase in interest rates that may occur in connection with the continuing recovery of the economy could negatively impact our net interest margin if interest expense increases more quickly than interest income. Our earning assets (primarily our loan and investment portfolio) have longer maturities than our interest bearing liabilities (primarily our deposits and other borrowings). Therefore, in a rising interest rate environment, interest expense will increase more quickly than interest income, as the interest bearing liabilities reprice more quickly than earning assets, placing downward pressure on the net interest margin. A reduction in the net interest margin could negatively affect our results of operations, including earnings. In response to this challenge, we model quarterly the changes in income that would result from various changes in interest rates. Management believes our earning assets have the appropriate maturity and repricing characteristics to optimize earnings and interest rate risk positions.

The Company may have difficulty continuing to grow, and even if we do grow, our growth may strain our resources and limit our ability to expand operations successfully.

Our future profitability will depend in part on our continued ability to grow in both loans and deposits; however, we may not be able to sustain our historical growth rate or be able to grow at all. In addition, our future success will depend on competitive factors and on the ability of our senior management to continue to maintain an appropriate system of internal controls and procedures and manage a growing number of customer relationships. We may not be able to implement changes or improvements to these internal controls and procedures in an efficient or timely manner and may discover deficiencies in existing systems and controls. Consequently, continued growth, if achieved, may place a strain on our operational infrastructure, which could have a material adverse effect on our financial condition and results of operations.

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The Company is subject to certain operational risks, including, but not limited to, data processing system failures, errors, breaches and customer or employee fraud.

There have been a number of publicized cases involving errors, fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. Employee fraud, errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to civil claims for negligence.

Although we maintain a system of internal controls and procedures designed to reduce the risk of loss from employee or customer fraud or misconduct and employee errors as well as insurance coverage to mitigate against some operational risks, including data processing system failures and errors and customer or employee fraud; these internal controls may fail to prevent or detect such an occurrence, or such an occurrence may not be insured or exceed applicable insurance limits.

In addition, there have also been a number of cases where financial institutions have been the victim of fraud related to unauthorized wire and automated clearinghouse transactions. The facts and circumstances of each case vary but generally involve criminals posing as customers (i.e. , stealing bank customers' identities) to transfer funds out of the institution quickly in an effort to place the funds beyond recovery prior to detection. Although we have policies and procedures in place to verify the authenticity of our customers and prevent identity theft, we can provide no assurances that these policies and procedures will prevent all fraudulent transfers. In addition, although we have safeguards in place, it is possible that our computer systems could be infiltrated by hackers or other intruders. We can provide no assurances that these safeguards will prevent all unauthorized infiltrations or breaches. Identity theft, successful unauthorized intrusions and similar unauthorized conduct could result in reputational damage and financial losses to the Company.

An impairment charge of goodwill or other intangibles could have a material adverse impact on the Company's financial results and condition.

Because the Company has grown in part through acquisitions, goodwill and intangible assets are included in the consolidated assets. Goodwill and intangible assets were \$8.1 million as of December 31, 2016. Under generally accepted accounting principles ("GAAP"), we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors. GAAP requires us to assign

and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge. The amount of any impairment charge could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

Loans to agricultural-related borrowers are subject to factors beyond the Company's control, including fluctuations in commodity and livestock prices and other risks, which could negatively impact the Company's loan portfolio.

A significant portion of our loan portfolio consists of loans to farmers and other borrowers who are directly or indirectly affected by the health of the Iowa agricultural economy. During 2015 and 2016, the agricultural economy has experienced a decline in commodity and livestock prices which has placed downward pressure on cash flow and profits from agricultural activities. An extended period of low commodity and/or livestock prices, together with other risks to which our agricultural borrowers are subject, including poor weather conditions, higher input costs and changes in governmental support programs, could result in reduced cash flows and profit margins, negatively affecting these borrowers and making it more difficult for them to repay their loan obligations to us. A general decline in the agricultural economy could also negatively affect us by reducing the value of agricultural real estate which secures some of our agricultural loans, creating the potential for greater losses if these borrowers are unable to repay their loans and we are forced to rely on this collateral. Moreover, a general decline in the agricultural economy could also negatively impact some of our commercial borrowers whose businesses are directly or indirectly dependent on the health of the agricultural economy. All of these risks, which are beyond our control, could produce losses in our loan portfolio and adversely affect our financial condition or results of operations.

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Changes in accounting policies or accounting standards, or changes in how accounting standards are interpreted or applied, could materially affect how the Company reports our financial results and condition.

Our accounting policies are fundamental to determining and understanding our financial results and condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Any changes in our accounting policies could materially affect our financial statements. From time to time, the Financial Accounting Standards Board (the “FASB”) and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our outside auditors) may change positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be difficult to predict and could materially affect how we report our financial results and condition. We may be required to apply a new or revised standard retroactively or apply an existing standard differently and retroactively, which may result in the Company being required to restate prior period financial statements in material amounts. In particular, the FASB issued a new rule requiring companies to estimate current expected credit losses. The rule, which is a major change for banking organizations, becomes effective for the Company on January 1, 2020. The new standard is likely to result in more timely recognition of credit losses than under the previous incurred loss model, and the Company is evaluating the extent to which the new rule will affect its results of operations.

The inability to maintain adequate liquidity may adversely affect the Company’s business.

Maintaining adequate liquidity is essential to the banking business. An inability to raise funds through deposits, borrowing, sale of securities or other sources could have a substantial negative impact on our liquidity. Access to funding sources in amounts necessary to finance our activities or with terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets or adverse regulatory action taken against us. Our ability to borrow could be impaired by factors such as a disruption in the financial markets or negative views and expectations of the prospects for the financial services industry in light of the challenges facing the industry.

We maintain liquidity primarily through customer deposits and other short-term funding sources, including advances from the Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB) overnight borrowings and purchased federal funds. If economic conditions change so that we do not have access to short-term credit, or our depositors withdraw a substantial amount of their funds for other uses, we might experience liquidity issues. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated reductions in our liquidity. In such events, our cost of funds may increase, thereby reducing our net interest income, or we may need to sell a portion of our investment portfolio, which, depending upon market conditions, could result in us realizing losses on such sales.

The Company's operations are concentrated in Iowa.

Our operations are concentrated primarily in central and north central Iowa. As a result of this geographic concentration, our results of operations may correlate to the economic conditions in this area. Any deterioration in economic conditions in central or north central Iowa, particularly in the industries on which the area depends (including agriculture which, in turn, is dependent upon weather conditions and government support programs), may adversely affect the quality of our loan portfolio and the demand for our products and services, and accordingly, our financial condition and results of operations.

The Company faces competition from larger financial institutions.

The banking and financial services business in our market area continues to be a competitive field and is becoming more competitive as a result of:

changes in regulations;
changes in technology and product delivery systems; and
the accelerating pace of consolidation among financial services providers.

It may be difficult for us to compete effectively in the market, and our results of operations could be adversely affected by the nature or pace of change in competition. We compete for loans, deposits and customers with various bank and non-bank financial services providers, many of which are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services. Our strategic planning efforts continue to focus on capitalizing on our strengths in local markets while working to identify opportunities for improvement to gain competitive advantages.

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Damage to our reputation could adversely affect our business.

Our business depends upon earning and maintaining the trust and confidence of our customers, investors, and employees. Damage to our reputation could cause significant harm to our business. Harm to our reputation could arise from numerous sources, including employee misconduct, compliance failures, litigation, breach of information security, or governmental investigations, among other things. In addition, a failure to deliver appropriate standards of service, or a failure or perceived failure to treat customers and clients fairly could result in customer dissatisfaction, litigation, breach of information security, and heightened regulatory scrutiny, all of which could lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity about us, whether or not true, may also result in harm to our business. Should any events or circumstances that could undermine our reputation occur, there can be no assurance that the additional costs and expenses that we may incur in addressing such issues would not adversely affect our financial condition and results of operations.

Risk related to the Company's stock.

The trading volume in our common stock on the Nasdaq Capital Market is relatively limited compared to those of larger companies listed on the NASDAQ Capital Market, the NASDAQ Global Markets, the New York Stock Exchange or other consolidated reporting systems or stock exchanges. A change in the supply or demand for our common stock, or other events affecting our business, may have a more significant impact on the price of our stock than for more actively traded companies.

Changes in technology could be costly.

The financial services industry is continually undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements and there is a risk we could become less competitive if we are unable to take advantage of these improvements.

A breach of information security, compliance breach, or error by one of the Company's agents or vendors could negatively affect the Company's reputation and business.

We depend on data processing, communication and information exchange on a variety of computing platforms and networks and over the Internet. A cyber-attack on our systems could result in the theft, loss or destruction of our information or the theft or improper use of confidential information about our customer, any of which could harm our reputation. We cannot be certain all of our systems are entirely free from vulnerability to attack, despite safeguards which have been installed. We also outsource certain key aspects of our data processing and communication to certain third-party providers. While we have selected these third-party providers carefully, we cannot control their actions. If information security is breached, or one of our service providers or vendors breaches compliance procedures, information could be lost or misappropriated, resulting in financial loss or costs to us or damage to others. If information security is breached either on our systems or those of our vendors, our financial condition, results of operations, reputation and future prospects could be adversely affected.

Our accounting policies and methods may require management to make estimates about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure they comply with GAAP and reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances. The application of that chosen accounting policy or method might result in us reporting different amounts than would have been reported under a different alternative. If management's estimates or assumptions are incorrect, we may experience a material loss.

We have identified three accounting policies as being "critical" to the presentation of our financial condition and results of operations because they require management to make particularly subjective and complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to (1) the fair value and possible impairment losses on investment securities available for sale, (2) the allowance for loan losses, and (3) impairment of goodwill. Because of the inherent uncertainty of the estimates required to apply these policies, no assurance can be given that application of alternative policies or methods might not result in the reporting of different amounts of the fair value of securities available for sale, the allowance for loan losses, goodwill valuation and, accordingly, net income.

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From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations.

Changes in these standards are continuously occurring, and given the current economic environment, more significant changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

Current and future government regulations may increase the Company's costs of doing business.

Current and future legislation and the policies established by federal and state regulatory authorities will affect our operations. We are subject to extensive supervision of, and examination by, federal and state regulatory authorities which may limit our growth and the return to our shareholders by restricting certain activities, such as:

- the payment of dividends to our shareholders;
- the payment of dividends to the Company by the Banks;
- possible mergers with or acquisitions of or by other institutions;
- investment policies;
- loans and interest rates on loans;
- interest rates paid on deposits;
- expansion of branch offices; and/or
- the possibility to provide or expand securities or trust services.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represented a comprehensive overhaul of the financial services industry within the United States and, among many other things, established the federal BCFP and required the BCFP and other federal agencies to implement many significant rules and regulations. Compliance with the law and regulations has resulted in additional costs, and not all the rules and regulations have been finalized.

We cannot predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that any changes may have on future business and earnings prospects. The cost of compliance with future regulatory requirements may adversely affect our net income.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's office is housed in the main office of First National located at 405 5th Street, Ames, Iowa and occupies approximately 4,200 square feet. There is a lease agreement between the Company and First National. The main office owned by First National, consists of approximately 45,000 square feet. In addition to its main office, First National conducts its business through six full-service offices, the West Ames office, North Grand office, Ankeny office, West Glen office, Valley Junction office and Johnston office. The West Ames office is located in Ames, Iowa and consists of approximately 1,800 square feet. The North Grand office is located in Ames, Iowa and consists of approximately 3,700 square feet. The office in Ankeny, Iowa occupies approximately 14,000 square feet, of which approximately 3,000 square feet is leased to four tenants for business purposes. The West Glenn office is located in West Des Moines, Iowa and occupies approximately 12,500 square feet and is leased from the Company. The West Glen office leases approximately 2,000 square feet to one tenant. The Valley Junction office is located in West Des Moines, Iowa and consists of approximately 2,600 square feet. The Johnston office is leased and consists of 3,800 square feet. All of the properties owned by the Company and First National are free of any mortgages.

State Bank conducts its business from its main office located at 1025 Sixth Street, Nevada, Iowa. This property is owned by State Bank free of any mortgage.

Boone Bank conducts its business from its main office located at 716 Eighth Street, Boone, Iowa and from one additional full-service office also located in Boone, Iowa. All properties are owned by Boone Bank free of any mortgage.

Reliance Bank conducts its business from its main office located at 606 Broad Street, Story City, Iowa. Approximately 12,400 square feet of the Story City office is leased to twelve individual tenants and two commercial tenants. Reliance also has a full service office located in Garner, Iowa. All properties are owned by Reliance Bank free of any mortgage.

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United Bank conducts its business from its main office located at 2101 South Center Street, Marshalltown, Iowa and from a full-service office also located in Marshalltown, Iowa. All properties are owned by United Bank free of any mortgage.

ITEM 3. LEGAL PROCEEDINGS

The Banks are from time-to-time parties to various legal actions arising in the normal course of business. The Company believes that there is no threatened or pending proceeding against the Company or the Banks, which, if determined adversely, would have a material adverse effect on the business or financial condition of the Company or the Banks.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On March 1, 2017, the Company had approximately 377 shareholders of record and an estimated 1,317 additional beneficial owners whose shares were held in nominee titles through brokerage or other accounts. The Company's common stock is traded on the NASDAQ Capital Market under the symbol "ATLO". Trading in the Company's common stock is, however, relatively limited. The closing price of the Company's common stock was \$32.20 on February 28, 2017.

Based on information provided to and gathered by the Company on an informal basis, the Company believes that the high and low sales price for the common stock on a per share basis during the last two years is as follows:

2016	2015
Market Price	Market Price

Quarter	High	Low	Quarter	High	Low
1st	\$25.20	\$22.54	1st	\$26.06	\$23.60
2nd	\$27.02	\$24.00	2nd	\$26.43	\$23.51
3rd	\$28.86	\$25.78	3rd	\$26.40	\$22.01
4th	\$35.30	\$26.60	4th	\$26.41	\$22.75

The Company declared aggregate annual cash dividends in 2016 and 2015 of approximately \$7,821,000 and \$7,449,000, respectively, or \$0.84 per share in 2016 and \$0.80 per share in 2015. In February 2017, the Company declared a cash dividend of approximately \$2,048,000 or \$0.22 per share.

The Company does not maintain or sponsor any equity compensation plans covering its executives or employees of the Company or the Banks.

Quarterly dividends declared during the last two years were as follows:

Quarter	2016	2015
	Cash dividends declared per share	Cash dividends declared per share
1st	\$ 0.21	\$ 0.20
2nd	\$ 0.21	\$ 0.20
3rd	\$ 0.21	\$ 0.20
4th	\$ 0.21	\$ 0.20

The decision to declare cash dividends in the future and the amount thereof rests within the discretion of the Board of Directors of the Company and will be subject to, among other things, the future earnings, capital requirements and financial condition of the Company and certain regulatory restrictions imposed on the payment of dividends by the Banks. Such restrictions are discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and in Note 16 (Regulatory Matters) to the Company's financial statements included herein.

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The following performance graph provides information regarding cumulative, five-year total return on an indexed basis of the Company's common stock as compared with the NASDAQ Composite Index, the SNL Midwest OTC_BB and Pink Banks ("Midwest OTC Bank Index") and the SNL Bank NASDAQ Index ("NASDAQ Bank Index") prepared by SNL Financial L.C. of Charlottesville, Virginia (www.snl.com). The Midwest OTC Bank Index reflects the performance of 121 bank holding companies operating principally in the Midwest as selected by SNL Financial. The NASDAQ Bank Index is comprised of 270 bank and bank holding companies listed on the NASDAQ market and operating throughout the United States. The indexes assume the investment of \$100 on December 31, 2011, in the Company's common stock, the NASDAQ Composite Index, Midwest OTC Bank Index and the NASDAQ Bank Index with all dividends reinvested. The Company's stock price performance shown in the following graph is not indicative of future stock price performance.

Period Ending

<i>Index</i>	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Ames National Corporation	100.00	115.41	121.46	145.10	140.18	196.62
NASDAQ Composite Index	100.00	117.45	164.57	188.84	201.98	219.89
NASDAQ Bank Index	100.00	119.19	171.31	177.42	191.53	265.56
Midwest OTC Bank Index	100.00	115.47	140.28	160.72	181.83	208.60

In November, 2016, the Board of Directors approved a Stock Repurchase Plan which provided for the repurchase of up to 100,000 shares of the Company's common stock. This Stock Repurchase Plan replaced the previous Stock Repurchase Plan (approved in November, 2015) that expired in November, 2016. The Company did not purchase any shares in 2016 or 2015 under either of the Stock Repurchase Plans that were in effect during 2016 or 2015.

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The following table provides information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of the Company’s common stock during the three months ended December 31, 2016.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under The Plan
October 1, 2016 to October 31, 2016 (1)	-	\$ -	-	100,000
November 1, 2016 to November 30, 2016 (1) and (2)	-	\$ -	-	100,000
December 1, 2016 to December 31, 2016 (2)	-	\$ -	-	100,000
Total	-		-	

The Stock Repurchase Plan adopted in November, 2015 expired in November, 2016 and no shares remain available (1) for purchase under this plan as a result of the expiration. No purchases were made under this plan during October or November, 2016.

A successor Stock Repurchase Plan was approved and became effective on November 10, 2016 and authorized the (2) purchase of up to 100,000 shares. This plan is scheduled to expire on November 7, 2017. No purchases were made under this plan during November or December, 2016.

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The following financial data of the Company for the five years ended December 31, 2012 through 2016 is derived from the Company's historical audited financial statements and related footnotes. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements and related notes contained elsewhere in this Annual Report.

Selected Financial Data

<i>(dollars in thousands, except per share amounts)</i>	Years Ended December 31,				
	2016	2015	2014	2013	2012
STATEMENT OF INCOME DATA					
Interest income	\$44,046	\$43,150	\$40,964	\$38,434	\$38,072
Interest expense	4,135	4,185	4,547	5,075	5,752
Net interest income	39,911	38,965	36,417	33,359	32,320
Provision for loan losses	524	1,099	429	786	22
Net interest income after provision for loan losses	39,387	37,866	35,988	32,573	32,298
Noninterest income	8,088	8,267	9,252	7,718	7,435
Noninterest expense	24,935	25,312	24,373	21,679	20,803
Income before provision for income tax	22,540	20,821	20,867	18,612	18,930
Provision for income tax	6,805	5,806	5,616	4,658	4,748
Net income	\$15,735	\$15,015	\$15,251	\$13,954	\$14,182
DIVIDENDS AND EARNINGS PER SHARE DATA					
Cash dividends declared	\$7,821	\$7,449	\$6,704	\$5,959	\$5,587
Cash dividends declared per share	\$0.84	\$0.80	\$0.72	\$0.64	\$0.60
Basic and diluted earnings per share	\$1.69	\$1.61	\$1.64	\$1.50	\$1.52
Weighted average shares outstanding	9,310,913	9,310,913	9,310,913	9,310,913	9,310,913
BALANCE SHEET DATA					
Total assets	\$1,366,453	\$1,326,747	\$1,301,031	\$1,233,084	\$1,217,692
Net loans	752,182	701,328	658,441	564,502	510,126

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Deposits	1,109,409	1,074,193	1,052,123	1,011,803	1,004,732					
Stockholders' equity	165,105	161,250	154,674	142,106	144,736					
Equity to assets ratio	12.08	%	12.15	%	11.89	%	11.52	%	11.89	%

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	Years Ended December 31,				
	2015	2015	2014	2013	2012
FIVE YEAR FINANCIAL PERFORMANCE					
Net income	\$ 15,735	\$ 15,015	\$ 15,251	\$ 13,954	\$ 14,182
Average assets	1,330,906	1,325,321	1,263,382	1,225,617	1,142,667
Average stockholders' equity	167,750	159,047	151,211	142,997	140,716
Return on assets (net income divided by average assets)	1.18	% 1.13	% 1.21	% 1.14	% 1.24
Return on equity (net income divided by average equity)	9.38	% 9.44	% 10.09	% 9.76	% 10.08
Net interest margin (net interest income divided by average earning assets)	3.36	% 3.33	% 3.31	% 3.18	% 3.35
Efficiency ratio (noninterest expense divided by noninterest income plus net interest income)	51.95	% 53.59	% 53.37	% 52.78	% 52.33
Dividend payout ratio (dividends per share divided by net income per share)	49.70	% 49.69	% 43.90	% 42.67	% 39.47
Dividend yield (dividends per share divided by closing year-end market price)	2.55	% 3.29	% 2.78	% 2.86	% 2.74
Equity to assets ratio (average equity divided by average assets)	12.60	% 12.00	% 11.97	% 11.67	% 12.31

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Overview**

The following discussion is provided for the consolidated operations of the Company and its Banks. The purpose of this discussion is to focus on significant factors affecting the Company's financial condition and results of operations.

The Company does not engage in any material business activities apart from its ownership of the Banks and the managing of its own loan portfolios. Products and services offered by the Banks are for commercial and consumer purposes, including loans, deposits and wealth management services. Some Banks also offer investment services through a third-party broker-dealer. The Company employs 14 individuals to assist with financial reporting, human resources, marketing, audit, compliance, technology systems, training and the coordination of management activities,

in addition to 202 full-time equivalent individuals employed by the Banks.

The Company's primary competitive strategy is to utilize seasoned and competent Bank management and local decision-making authority to provide customers with prompt response times and flexibility in the products and services offered. This strategy is viewed as providing an opportunity to increase revenues through the creation of a competitive advantage over other financial institutions. The Company also strives to remain operationally efficient to improve profitability while enabling the Banks to offer more competitive loan and deposit rates.

The principal sources of Company revenues and cash flows are: (i) interest and fees earned on loans made or held by the Company and Banks; (ii) interest on investments, primarily on bonds, held by the Banks; (iii) fees on wealth management services; (iv) service charges on deposit accounts maintained at the Banks; (v) merchant and card fees; (vi) gain on the sale of loans held for sale; and (vii) securities gains. The Company's principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) salaries and employee benefits; (iii) data processing costs primarily associated with maintaining the Banks' loan and deposit functions; (iv) occupancy expenses for maintaining the Banks' facilities; (v) professional fees; (vi) business development; and (vii) other real estate owned expenses. The largest component contributing to the Company's net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning assets and interest paid on interest bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

The Company reported net income of \$15,735,000 for the year ended December 31, 2016 compared to \$15,015,000 and \$15,251,000 reported for the years ended December 31, 2015 and 2014, respectively. This represents an increase in net income of 4.8% when comparing 2016 with 2015 and a decrease in net income of 1.5% when comparing 2015 with 2014. The increase in net income in 2016 from 2015 was primarily the result of increased loan interest income, lower provision for loan losses and lower other real estate owned expenses, offset in part by decreased security interest income, decreased securities gains and increased salaries and benefits expense. The decrease in net income in 2015 from 2014 was primarily the result of a one-time gain of the disposal of premises and equipment in 2014 and an increase in salaries and benefits and provision for loan losses, offset in part by an increase in net interest income and a decrease in other real estate expenses. The gain on the disposal of premises and equipment in 2014 was primarily due to the sale of First National's University office. The First Bank Acquisition, described in Item 1 of this Annual Report, contributed to increases in net interest income, noninterest income and noninterest expense in 2015. Earnings per share for 2016 were \$1.69 compared to \$1.61 in 2015 and \$1.64 in 2014. All five Banks demonstrated profitable operations during 2016.

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The Company's return on average equity for 2016 was 9.38% compared to 9.44% and 10.09% in 2015 and 2014, respectively, and the return on average assets for 2016 was 1.18% compared to 1.13% in 2015 and 1.21% in 2014. The decrease in return on average equity when comparing 2016 to 2015 was primarily a result of increased average equity, more than offsetting the increase in net income. The increase in return on average assets when comparing 2016 to 2015 was primarily a result of increased net income. The decrease in return on average equity and assets when comparing 2015 to 2014 was primarily a result of increased average equity and average assets, without a corresponding increase in net income.

The following discussion will provide a summary review of important items relating to:

- Challenges
- Key Performance Indicators
- Industry Results
- Critical Accounting Policies
- Income Statement Review
- Balance Sheet Review
- Asset Quality Review and Credit Risk Management
- Liquidity and Capital Resources
- Interest Rate Risk
- Inflation
- Forward-Looking Statements and Business Risks

Challenges

Management has identified certain events or circumstances that have the potential to negatively impact the Company's financial condition and results of operations in the future and is attempting to position the Company to best respond to those challenges.

If interest rates increase significantly over a relatively short period of time due to improving national employment levels or higher inflationary numbers, the interest rate environment may present a challenge to the Company. Increases in interest rates may negatively impact the Company's net interest margin if interest expense increases more quickly than interest income, thus placing downward pressure on net interest income. The Company's earning assets (primarily its loan and investment portfolio) have longer maturities than its interest bearing liabilities (primarily deposits and other borrowings); therefore, in a rising interest rate environment, interest expense will tend to increase more quickly than interest income as the interest bearing liabilities reprice more quickly than earning assets. In response to this challenge, the Banks model quarterly the changes in income that would result from various changes in interest rates. Management believes Bank earning assets have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.

If market interest rates in the three to five year term remain at low levels as compared to the short term interest rates, the interest rate environment may present a challenge to the Company. The Company's earning assets (typically priced at market interest rates in the three to five year range) will reprice at lower interest rates, but the deposits will not reprice at significantly lower interest rates, therefore the net interest income may decrease. Management believes Bank earning assets have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.

The agricultural community is subject to commodity price fluctuations. Extended periods of low commodity prices, higher input costs or poor weather conditions could result in reduced profit margins, reducing demand for goods and services provided by agriculture-related businesses, which, in turn, could affect other businesses in the Company's market area. Any combination of these factors could produce losses within the Company's agricultural loan portfolios.

Key Performance Indicators

Certain key performance indicators for the Company and the industry are presented in the following chart. The industry figures are compiled by the Federal Deposit Insurance Corporation (FDIC) and are derived from 5,913 commercial banks and savings institutions insured by the FDIC. Management reviews these indicators on a quarterly basis for purposes of comparing the Company's performance from quarter to quarter against the industry as a whole.

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Selected Indicators for the Company and the Industry

	Years Ended December 31,									
	2016		2015		2014		2013		2012	
	Company	Industry	Company	Industry	Company	Industry	Company	Industry	Company	Industry
Return on assets	1.18 %	1.04 %	1.13 %	1.04 %	1.21 %	1.01 %	1.18 %	1.01 %	1.18 %	1.01 %
Return on equity	9.38 %	9.32 %	9.44 %	9.31 %	10.09 %	9.03 %	9.38 %	9.32 %	9.38 %	9.32 %
Net interest margin	3.36 %	3.13 %	3.33 %	3.07 %	3.31 %	3.14 %	3.36 %	3.13 %	3.36 %	3.13 %
Efficiency ratio	51.95 %	58.28 %	53.59 %	59.91 %	53.37 %	61.88 %	51.95 %	58.28 %	51.95 %	58.28 %
Capital ratio	12.60 %	9.48 %	12.00 %	9.59 %	11.97 %	9.46 %	12.60 %	9.48 %	12.60 %	9.48 %

Key performance indicators include:

Return on Assets

This ratio is calculated by dividing net income by average assets. It is used to measure how effectively the assets of the Company are being utilized in generating income. The Company's return on assets ratio is higher than that of the industry, primarily as a result of the Company's net interest margin and noninterest expense relative to the industry.

Return on Equity

This ratio is calculated by dividing net income by average equity. It is used to measure the net income or return the Company generated for the shareholders' equity investment in the Company. The Company's return on equity ratio is higher than the industry primarily as a result of the Company's net interest margin and noninterest expense relative to the industry, offset in part by a higher capital ratio.

Net Interest Margin

This ratio is calculated by dividing net interest income by average earning assets. Earning assets consist primarily of loans and investments that earn interest. This ratio is used to measure how well the Company is able to maintain

interest rates on earning assets above those of interest-bearing liabilities, which is the interest expense paid on deposit accounts and other borrowings. The Company's net interest margin is slightly higher than the industry, due primarily to a higher yields on earning assets at the Company as compared to the industry.

Efficiency Ratio

This ratio is calculated by dividing noninterest expense by net interest income and noninterest income. The ratio is a measure of the Company's ability to manage noninterest expenses. The Company's efficiency ratio is lower than the industry average, primarily as a result of the Company's lower noninterest expense.

Capital Ratio

The capital ratio is calculated by dividing average total equity capital by average total assets. It measures the level of average assets that are funded by shareholders' equity. Given an equal level of risk in the financial condition of two companies, the higher the capital ratio, generally the more financially sound the company. The Company's capital ratio is significantly higher than the industry average.

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Industry Results

The FDIC Quarterly Banking Profile reported the following results for the fourth quarter of 2016

Income Is \$43.7 Billion in Fourth Quarter

Insured institutions reported net income of \$43.7 billion for the quarter, an increase of \$3.1 billion (7.7%) compared with the year before. Almost 60% of all banks reported year-over-year increases in quarterly earnings. Only 8.1% of banks were unprofitable for the quarter, down from 9.6% the previous year. The average return on assets (ROA) rose slightly to 1.04%, from 1.02% in fourth quarter 2015.

Full-Year 2016 Earnings Rise to \$171.3 Billion

The industry reported \$171.3 billion in net income for full-year 2016, \$7.9 billion (4.9%) more than the industry earned in 2015. Almost two out of every three banks—65.2%—reported higher earnings in 2016 than in 2015. Only 4.2% of all banks had negative full-year net income. This is the lowest percentage of unprofitable banks for any year since 1995. Net operating revenue was \$29 billion (4.2%) higher than in 2015, as net interest income increased by \$29.8 billion (6.9%) and total noninterest income declined by \$779 million (0.3%). The average net interest margin (NIM) rose to 3.13% from 3.07% in 2015. Total noninterest expenses were only \$5.1 billion (1.2%) higher than a year earlier, as itemized litigation charges at a few large banks were \$2.95 billion lower than in 2015. Loan-loss provisions totaled \$47.8 billion, an increase of \$10.7 billion (28.8%) from 2015. The average return on assets for 2016 was 1.04%, unchanged from the full-year average for 2015.

Net Interest Income Growth Lifts Operating Revenues

Net operating revenue totaled \$181.8 billion in the fourth quarter, up \$7.9 billion (4.6%) from the year before. Net interest income was \$8.4 billion (7.6%) higher, while noninterest income declined by \$480 million (0.8%). The increase in net interest income was attributable to growth in interest-bearing assets (up 5.2% over the past 12 months) and improvement in the industry's aggregate NIM, which rose to 3.16%, from 3.12% in fourth quarter 2015. The NIM improvement was not broad-based. A majority of banks—54.3%—reported lower NIMs than the year earlier. The decline in noninterest income was driven by a \$950 million drop in income from changes in fair values of financial instruments and a \$432 million decline in interchange fees. Both trading income and servicing income rose \$1.7 billion (39.8% and 51.4%, respectively) from fourth quarter 2015.

Noninterest Expenses Up 2.6% From a Year Before

Total noninterest expenses were \$2.7 billion (2.6%) higher than the year before. Salary and employee benefit expenses rose \$1.7 billion (3.4%), while goodwill impairment charges were \$675 million higher. Expenses for premises and fixed assets were only \$9 million (0.1%) higher than the year earlier.

Quarterly Loss Provisions Decline From a Year Ago

Loan-loss provisions totaled \$12.2 billion in the fourth quarter, \$3 million less than banks set aside a year earlier. This marks the first time since second quarter 2014 that quarterly provision expenses have not posted a year-over-year increase. For the industry, fourth-quarter provisions represented 6.7% of the quarter's net operating revenue, down from 7% in fourth quarter 2015.

Quarterly Charge-Offs Rise for a Fifth Consecutive Quarter

Net loan losses totaled \$12.2 billion, up \$1.5 billion (13.5%) from a year earlier. This is the fifth quarter in a row that net charge-offs have posted a year-over-year increase. Credit card charge-offs were \$1.4 billion (24.8%) higher, while net charge-offs of loans to commercial and industrial (C&I) borrowers rose \$666 million (37.9%). Charge-offs of residential mortgage loans were \$576 million (75.1%) lower than in fourth quarter 2015. The average net charge-off rate rose to 0.53%, from 0.49% the year before. This is well below the high of 3.00% recorded in fourth quarter 2009.

Noncurrent Loan Rate at Lowest Level Since 2007

Noncurrent loans and leases—those 90 days or more past-due or in nonaccrual status—declined for the 26th time in the last 27 quarters, falling by \$2.4 billion (1.8%) during the three months ended December 31. During the quarter, noncurrent C&I loans declined for the first time in eight quarters, falling by \$1.4 billion (5.3%). Noncurrent residential mortgage loan balances fell by \$2 billion (3%), while noncurrent home equity loans declined by \$170 million (1.6%), and noncurrent nonfarm nonresidential real estate loans fell by \$192 million (2%). These improvements exceeded the \$1.1 billion (12.7%) increase in noncurrent credit card balances. The average noncurrent loan rate fell from 1.45% to 1.41%, the lowest level since year-end 2007.

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Loan-Loss Reserves Decline for the First Time in Five Quarters

Banks reduced their reserves for loan and lease losses during the fourth quarter, as slightly lower loan-loss provisions were offset by higher net charge-offs. Loss reserves fell by \$649 million (0.5%). At banks that itemize their reserves, which represent more than 90% of total industry reserves, the decline was driven by reductions in reserves for residential real estate loan losses, which fell by \$1.2 billion (6.5%), and in reserves for commercial loan losses, which declined by \$639 million (1.8%). Itemized reserves for losses on credit cards increased by \$677 million (2.3%). Despite the small reduction in industry reserves, the larger decline in noncurrent loan balances caused the coverage ratio of reserves to noncurrent loans to rise from 91.1% to 92.3% in the quarter, the highest level since third quarter 2007.

Equity Capital Posts a Quarterly Decline as the Market Value of Available-For-Sale Securities Falls

Total equity capital declined by \$16.8 billion (0.9%) in fourth quarter 2016, as higher interest rates caused the market values of available-for-sale securities at banks to fall. Accumulated other comprehensive income declined by \$39.5 billion in the quarter, mostly as a result of the drop in securities values. Retained earnings contributed \$15.1 billion to equity growth, \$1.8 billion (13.5%) more than a year earlier. Banks declared \$28.6 billion in dividends, a \$1.3 billion (4.8%) increase over fourth quarter 2015. The average equity-to-assets ratio for the industry declined from 11.22% to 11.11%. At the end of the quarter, 99.7% of all banks, representing 99.9% of industry assets, met or exceeded the requirements for the highest regulatory capital category as defined for Prompt Corrective Action purposes.

Loan Balances Increase \$72.3 Billion in the Fourth Quarter

Total assets rose by \$13.7 billion (0.1%) during the fourth quarter. Total loan and lease balances increased by \$72.3 billion (0.8%). Growth in loan balances was led by credit cards (up \$38.2 billion, 5%), loans secured by nonfarm nonresidential real estate properties (up \$22.8 billion, 1.7%), and real estate construction and development loans (up \$10.1 billion, 3.3%). C&I loan balances fell for the first time in 26 quarters, declining \$7.7 billion (0.4%). Investment securities portfolios rose by \$52 billion (1.5%) during the quarter despite a \$52.4 billion decline in the market values of securities available for sale. Assets in trading accounts declined by \$27.3 billion (4.6%). Banks reduced their balances at Federal Reserve banks by \$116.4 billion (9.6%).

Total Loan Balances Rise 5.3% During 2016

For full-year 2016, total assets increased \$812.6 billion (5.1%). Total loans and leases increased by \$466 billion (5.3%), as C&I loans rose by \$94.2 billion (5.1%), loans secured by nonfarm nonresidential real estate were up by \$92.6 billion (7.5%), and residential mortgages increased by \$91.1 billion (4.8%). All major loan categories grew in 2016. Banks increased their investment securities by \$205.9 billion (6.1%) in 2016, with mortgage-backed securities up \$133.3 billion (7.1%) and U.S. Treasury securities up \$97 billion (23%).

Deposits Rise by \$96 Billion

Domestic deposit growth was relatively strong in the fourth quarter. Total deposits rose by \$95.9 billion (0.7%), as deposits in domestic offices increased by \$186.5 billion (1.6%), while foreign office deposits declined by \$90.6 billion (6.8%). Balances in domestic interest-bearing accounts rose by \$178.7 billion (2.1%), and balances in noninterest-bearing accounts grew by \$7.7 billion (0.2%). Balances in consumer-oriented accounts increased by \$120.5 billion (3%), while all other domestic office deposits rose by \$62 billion (1%). Banks reduced their nondeposit liabilities by \$65.4 billion (3.1%), as securities sold under repurchase agreements declined by \$25.1 billion (10.9%), and trading account liabilities fell by \$13 billion (5.1%).

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“Problem Bank List” Continues to Improve

The number of FDIC-insured commercial banks and savings institutions reporting quarterly financial results fell to 5,913 in the fourth quarter, from 5,980 in the third quarter of 2016. There were 65 mergers of insured institutions during the quarter, while no insured banks failed. No new charters were added during the quarter. Banks reported 2,052,504 full-time equivalent employees, an increase of 18,777 from fourth quarter 2015. The number of insured institutions on the FDIC’s “Problem Bank List” declined from 132 to 123, as total assets of problem banks rose from \$24.9 billion to \$27.6 billion. For all of 2016, the number of insured institutions reporting declined by 269. Mergers absorbed 251 institutions, and 5 insured institutions failed. This is the smallest number of bank failures in a year since three FDIC-insured institutions failed in 2007. In 2015, there were eight failures.

Critical Accounting Policies

The discussion contained in this Item 7 and other disclosures included within this Annual Report are based on the Company’s audited consolidated financial statements which appear in Item 8 of this Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained in these statements is, for the most part, based on the financial effects of transactions and events that have already occurred. However, the preparation of these statements requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

The Company’s significant accounting policies are described in the “Notes to Consolidated Financial Statements” accompanying the Company’s audited financial statements. Based on its consideration of accounting policies that involve the most complex and subjective estimates and judgments, management has identified the allowance for loan losses, the assessment of other-than-temporary impairment for investment securities and the assessment of goodwill to be the Company’s most critical accounting policies.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses that is treated as an expense and charged against earnings. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company’s historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans and other factors.

Qualitative factors include various considerations regarding the general economic environment in the Company's market area. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or lesser than future charge-offs. Due to potential changes in conditions, it is at least reasonably possible that changes in estimates will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

For further discussion concerning the allowance for loan losses and the process of establishing specific reserves, see the section of this Annual Report entitled "Asset Quality Review and Credit Risk Management" and "Analysis of the Allowance for Loan Losses".

Fair Value and Other-Than-Temporary Impairment of Investment Securities

The Company's securities available-for-sale portfolio is carried at fair value with "fair value" being defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent to sell the investment securities and the more likely than not requirement that the Company will be required to sell the investment securities prior to recovery (2) the length of time and the extent to which the fair value has been less than cost and (3) the financial condition and near-term prospects of the issuer. Due to potential changes in conditions, it is at least reasonably possible that changes in management's assessment of other-than-temporary impairment will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

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Goodwill

Goodwill arose in connection with the First Bank Acquisition on August 29, 2014 and the Liberty Acquisition on April 27, 2012. Goodwill is tested annually for impairment or more often if conditions indicate a possible impairment. For the purposes of goodwill impairment testing, determination of the fair value of a reporting unit involves the use of significant estimates and assumptions. Impairment would arise if the fair value of a reporting unit is less than its carrying value. At December 31, 2016, Company's management has completed the goodwill impairment analysis and determined goodwill was not impaired. Actual future test results may differ from the present evaluation of impairment due to changes in the conditions used in the current evaluation.

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The following highlights a comparative discussion of the major components of net income and their impact for the last three years.

Average Balances and Interest Rates

The following two tables are used to calculate the Company's net interest margin. The first table includes the Company's average assets and the related income to determine the average yield on earning assets. The second table includes the average liabilities and related expense to determine the average rate paid on interest bearing liabilities. The net interest margin is equal to the interest income less the interest expense divided by average earning assets. Refer to the net interest income discussion following the tables for additional detail.

ASSETS

	2016			2015			2014		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
<i>(dollars in thousands)</i>									
Interest-earning assets									
Loans (1)									
Commercial	\$91,009	\$4,039	4.44 %	\$98,546	\$4,446	4.51 %	\$85,115	\$4,034	4.74 %
Agricultural	74,205	3,625	4.89 %	75,706	3,568	4.71 %	72,399	3,469	4.79 %
Real estate	541,953	23,956	4.42 %	488,827	22,039	4.51 %	412,752	19,039	4.61 %
Consumer and other	19,671	738	3.75 %	18,745	728	3.89 %	13,840	654	4.73 %
Total loans (including fees)	726,838	32,358	4.45 %	681,824	30,781	4.51 %	584,106	27,196	4.66 %
Investment securities									
Taxable	260,618	5,853	2.25 %	275,105	6,179	2.25 %	296,785	7,105	2.39 %
Tax-exempt (2)	252,864	8,369	3.31 %	264,028	8,931	3.38 %	281,790	9,771	3.47 %
Total investment securities	513,482	14,222	2.77 %	539,133	15,110	2.80 %	578,575	16,876	2.92 %

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Interest bearing deposits and federal funds sold	36,223	395	1.09 %	43,580	382	0.88 %	40,147	309	0.77 %
Total interest-earning assets	1,276,543	\$46,975	3.68 %	1,264,537	\$46,273	3.66 %	1,202,828	\$44,381	3.69 %
Noninterest-earning assets									
Cash and due from banks	20,844			21,052			21,640		
Premises and equipment, net	16,583			16,404			12,943		
Other, less allowance for loan losses	16,936			23,328			25,971		
Total noninterest-earning assets	54,363			60,784			60,554		