

unchanged, the Company had reductions in time certificates of deposit and NOW accounts, offset by growth in savings and money market and demand accounts. Long-term certificates of deposit decreased as we believe clients are anticipating an interest rate increase and are keeping their funds more liquid. With the abundance in deposits, we have ample dollars available to fund loan growth. This level of deposits ranks Ames National Corporation as the 6th largest Iowa commercial bank holding company based on total deposits. It is interesting to note that deposits have grown from \$722,000 at year-end 2009 to over \$1 billion as of quarter-end. This increase represents a 40% increase over the past five years.

The Company's stockholders' equity represented 11.7% of total assets as of March 31, 2014 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total stockholders' equity was \$147,188,000 as of March 31, 2014, and \$145,772,000 as of March 31, 2013. The increase in stockholders' equity was primarily the result of net income, offset by lower fair value on the securities available-for-sale as reflected in the decrease in accumulated other comprehensive income and dividends.

Shareholder Information:

Return on average assets was 1.45% for the first quarter, compared to 1.18% for the same period in 2013. Return on average equity was 12.43%, compared to the 9.87% reported for the first quarter of 2013.

The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$22.04 on March 31, 2014. During the first quarter of 2014, the price ranged from \$20.24 to \$23.50. On February 11, 2014, the Company declared a quarterly cash dividend on its common stock, payable on May 15, 2014 to stockholders of record as of May 1, 2014, equal to \$0.18 per share.

The Company is forecasting earnings for the year ending December 31, 2014 in the range of \$1.58 to \$1.64 per share compared to \$1.50 per share earned for the year ended December 31, 2013.

Our People:

We would like to remember a good friend and long-time employee of Ames National Corporation, Edward Jacobson. Ed served the Company for over 38 years as former Senior Vice President at First National Bank, Treasurer of Ames National Corporation and board chair at Reliance State Bank. Ed was part of the original group of incorporators of Ames National Corporation in 1975. Ed passed away on December 30, 2013. We would like to express our condolences to Ed's wife, Leanna, and his entire family.

As we look forward to the remainder of 2014, we are excited about many new opportunities and will continue to focus on strategic direction and profitable growth. We encourage you to contact us if you have any questions about your Company.



DOUGLAS C. GUSTAFSON
Chairman



THOMAS H. POHLMAN
President



Company Directors

DOUGLAS C. GUSTAFSON, DVM

Chairman of the Board | Retired Veterinarian

THOMAS H. POHLMAN

President, Ames National Corporation

DAVID W. BENSON

Attorney, Nyemaster Goode, P.C.

ROBERT L. CRAMER

Retired President, Fareway Stores, Inc.

STEVEN D. FORTH

Farmer

BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

CHARLES D. JONS, MD

Retired Physician, McFarland Clinic

JAMES R. LARSON, II

President, Larson Development Corporation

WARREN R. MADDEN

Vice President for Business & Finance, Iowa State University

JOHN P. NELSON

Chief Financial Officer, Ames National Corporation

RICHARD O. PARKER

Attorney, Parker Law Firm

LARRY A. RAYMON

Chief Executive Officer, Raymon Enterprises, Inc.

Affiliate Banks



UNITED BANK & TRUST



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Letter To Shareholders

First Quarter 2014 Results:

Ames National Corporation is off to a good start in 2014. For the first quarter, net income reached \$4,526,000, or \$0.49 per share, compared to \$3,586,000 or \$0.39 per share in 2013. This increase is primarily the result of an after tax gain on the sale of the Ames National Corporation building, occupied by First National Bank, Ames, in the Iowa State University Campustown area. The sale added \$788,000 to net income. Net income also grew due to increases in interest income from securities available-for-sale and loans, but was offset in part by a decrease in the sale of mortgage loans as the volume of refinancing activity has slowed dramatically. Excluding the after-tax, one-time gain on the sale of premises and equipment, net income would have been \$3,738,000, or \$0.40 per share in 2014, 4.2% higher than first quarter of 2013.

We were pleased with first quarter net interest income growth of \$649,000, or 8.0%, compared to the same quarter a year ago. Net interest income totaled \$8,734,000, primarily due to an upturn in the average balance of loans and an increase in the yields on securities available-for-sale. This improvement in interest income led to an improvement in the Company's net interest margin to 3.24% for the quarter as compared to 3.13% for the same time period in 2013. The efficiency ratio for the first quarter of 2014 was 45.63%, compared to 51.56% in 2013.

Balance Sheet Review:

Total assets were \$1,257,981,000 on March 31, 2014, a \$3,451,000 increase over 2013 levels.

Net loans increased 8.0% to \$548,545,000 during the first quarter as compared to \$507,834,000 as of March 31, 2013. The growth was a result of increases in the commercial and agricultural real estate loan portfolios. As the loan portfolio continues to grow, it is prudent to increase the allowance for loan losses. The allowance for loan losses on March 31, 2014 totaled \$8,568,000, or 1.54% of gross loans, compared to \$7,786,000 or 1.51% of gross loans as of March 31, 2013. A provision for loan losses of \$39,000 was recognized in the first quarter as compared to a provision for loan losses of \$14,000 in the first quarter of last year. Net loan charge-offs were \$44,000 for the quarter compared to net loan charge-offs of \$400 for the first quarter of 2013.

Quarter-end securities available-for-sale declined to \$600,831,000, from \$608,304,000 last year. The decrease in securities available-for-sale is primarily due to a reduction in the unrealized gain on securities and pay downs of U.S. government mortgage-backed securities, offset in part by purchases of U.S. government agencies and corporate bonds.

It is important to note that impaired loans decreased \$4,531,000 from first quarter of 2013 to first quarter of 2014. Ames National Corporation's low level of problem loans places us in the top 15% of peer bank-holding companies in the country and is an indication of the importance we have placed on effectively monitoring and managing credit quality.

Deposits totaled \$1,027,793,000 on March 31, 2014, a 0.6% decrease from the \$1,034,217,000 recorded at March 31, 2013. While the deposit totals are relatively

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2014 | QUARTERLY REPORT TO SHAREHOLDERS

AT A GLANCE...
FINANCIAL HIGHLIGHTS

	Three Months Ended March 31,	
	2014	2013
Net Income	\$4,526,000	\$3,586,000
Earnings Per Share – Basic	\$0.49	\$0.39
Dividends Per Share	\$0.18	\$0.16
Return on Average Assets (ROA)	1.45%	1.18%
Return on Average Equity (ROE)	12.43%	9.87%
Efficiency Ratio	45.63%	51.56%
Net Interest Margin (FTE)	3.24%	3.13%
Equity Capital Ratio	11.70%	11.62%

Consolidated Balance Sheets

(unaudited)

	March 31, 2014	March 31, 2013
ASSETS		
Cash and due from banks	\$ 30,409,845	\$ 22,695,730
Interest bearing deposits in financial institutions	40,366,808	76,070,883
Securities available-for-sale	600,831,476	608,303,937
Loans receivable, net	548,545,071	507,833,509
Loans held for sale	-	1,453,982
Bank premises and equipment, net	11,251,540	12,073,335
Accrued income receivable	7,432,502	7,161,067
Other real estate owned	8,880,467	9,595,828
Deferred income taxes	3,049,156	-
Core deposit intangible, net	963,816	1,229,491
Goodwill	5,600,749	5,600,749
Other assets	649,449	2,511,842
Total assets	\$ 1,257,980,879	\$ 1,254,530,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>LIABILITIES</i>		
Deposits		
Demand, noninterest bearing	\$ 173,459,774	\$ 166,911,150
NOW accounts	299,537,933	314,063,659
Savings and money market	316,704,817	302,870,203
Time, \$100,000 and over	95,697,308	97,819,266
Other time	142,393,181	152,552,623
Total deposits	1,027,793,013	1,034,216,901
Securities sold under agreements to repurchase	39,910,174	34,722,165
FHLB advances and other long-term borrowings	36,722,546	32,593,618
Dividend payable	1,675,964	1,489,747
Deferred income taxes	-	1,039,518
Accrued expenses and other liabilities	4,691,477	4,696,722
Total liabilities	1,110,793,174	1,108,758,671
<i>STOCKHOLDERS' EQUITY</i>		
Common stock, \$2 par value, authorized 18,000,000 shares; issued 9,432,915 shares; outstanding 9,310,913 shares as of March 31, 2014 and 2013	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	105,004,625	96,256,026
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	2,682,526	10,015,102
Treasury stock, at cost; 122,002 shares at March 31, 2014 and 2013	(2,016,498)	(2,016,498)
Total stockholders' equity	147,187,705	145,771,682
Total liabilities and stockholders' equity	\$ 1,257,980,879	\$ 1,254,530,353

Consolidated Statements of Income

(unaudited)

	Three Months Ended March 31,	
	2014	2013
INTEREST INCOME:		
Loans	\$ 6,409,431	\$ 6,158,513
Securities		
Taxable	1,763,603	1,379,962
Tax-exempt	1,674,108	1,728,433
Interest bearing deposits and federal funds sold	73,139	109,733
Total interest income	9,920,281	9,376,641
INTEREST EXPENSE:		
Deposits	892,010	995,840
Other borrowed funds	294,486	295,911
Total interest expense	1,186,496	1,291,751
Net interest income	8,733,785	8,084,890
Provision for loan losses	39,231	13,574
Net interest income after provision for loan losses	8,694,554	8,071,316
NONINTEREST INCOME:		
Trust services income	625,524	487,254
Service fees	357,479	375,825
Securities gains, net	135,081	68,991
Gain on sale of loans held for sale	98,653	355,543
Merchant and card fees	259,389	340,486
Gain on the sale of premises and equipment	1,256,924	-
Other noninterest income	212,734	214,869
Total noninterest income	2,945,784	1,842,968
NONINTEREST EXPENSE:		
Salaries and employee benefits	3,291,452	3,216,082
Data processing	571,350	572,635
Occupancy expenses, net	469,220	405,724
FDIC insurance assessments	162,344	160,308
Professional fees	282,447	272,455
Business development	207,861	191,351
Other real estate owned expense, net	704	(5,181)
Core deposit intangible amortization	65,748	73,773
Other operating expenses, net	277,976	231,949
Total noninterest expense	5,329,102	5,119,096
Income before income taxes	6,311,236	4,795,188
INCOME TAX EXPENSE	1,785,145	1,209,254
NET INCOME	\$ 4,526,091	\$ 3,585,934
Basic and diluted earnings per share	\$ 0.49	\$ 0.39
Declared dividends per share	\$ 0.18	\$ 0.16