

The Company's stockholders' equity represented 12.3% of total assets as of June 30, 2014 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total stockholders' equity was \$152,325,000 as of June 30, 2014, and \$136,385,000 as of June 30, 2013. The increase in stockholders' equity was primarily the result of net income and an increase in the securities available-for-sale.

Growth Strategies:

On April 30, 2014, the Company announced that First National Bank, Ames, Iowa, a 100% owned subsidiary of the Company, had entered into a purchase and assumption agreement with First Bank, West Des Moines, Iowa. The transaction is expected to close in the third quarter of 2014, and we believe the First Bank offices will be an excellent fit for our community banking model. First Bank operates two bank offices in West Des Moines, Iowa and one bank office in Johnston, Iowa. With our strong capital position, Ames National Corporation continues to seek growth opportunities to enhance shareholder value.


First National Bank also purchased a building in West Ames in order to meet the needs of customers previously served at the University Office. This strategy provides improved access for customers and is located in an area with future growth potential.


Shareholder Information:

Return on average assets was 1.23% for the quarter ended June 30, 2014, compared to 1.05% for the same period in 2013. Return on average equity was 10.27% for the quarter ended June 30, 2014, compared to the 8.98% in 2013. Return on average assets was 1.34% for the six months ended June 30, 2014, compared to 1.11% for the same period in 2013. Return on average equity was 11.33% for the six months ended June 30, 2014, compared to the 9.42% in 2013. Excluding the after tax one-time gain on the sale of the University office building, net income of \$7,593,000 or \$0.82 per share in 2014 would have still exceeded 2013 earnings of \$6,865,000, or \$0.74 per share.

The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$23.14 on June 30, 2014. During the second quarter of 2014, the price ranged from \$21.15 to \$23.35. On May 14, 2014, the Company declared a quarterly cash dividend on its common stock, payable on August 15, 2014 to stockholders of record as of August 1, 2014, equal to \$0.18 per share.

The first six months of 2014 has brought many new opportunities for growth and expansion. The Board of Directors and management team are optimistic about the strategic direction and momentum of the Company, and we encourage you to contact us if you have any questions.


DOUGLAS C. GUSTAFSON
Chairman


THOMAS H. POHLMAN
President

Six Months Ended June 30,

2014	2013
\$8,381,000	\$6,865,000
\$0.90	\$0.74
\$0.36	\$0.32
1.34%	1.11%
11.33%	9.42%
47.96%	54.45%
3.27%	3.10%
12.33%	11.30%



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 HERRAS

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

Second Quarter 2014 Results:

Ames National Corporation is pleased to report that net income totaled \$3,855,000 or \$0.41 per share for the quarter ended June 30, 2014. This represents an 18% increase over the \$3,279,000 or \$0.35 per share earned during the same period in 2013.

The improvement in net income is primarily due to an increase in net interest income. As average balances of real estate loans increased and yields on securities available for sale grew, net interest income increased to \$8,979,000, an 11% improvement over second quarter 2013. The increase in net interest income was also due to the recognition of \$248,000 of interest income on two nonaccrual loans that were returned to accrual status during the quarter. The growth in net interest income led to an increase in the Company's net interest margin, ending the second quarter at 3.30% compared to the 3.07% reported during the same time period in 2013. Excluding the interest income recognized on the nonaccrual loans, the net interest margin would have been 3.22%, still exceeding the 3.07% margin from 2013. The hard work of our staff in developing new business has resulted in the Company investing in loans versus securities, which results in higher margins.

Additional highlights include a 29.6% increase in Wealth Management income as this service continues to grow. The Company also experienced a 7.3% decrease in noninterest expense, primarily as a result of lower other real estate owned costs. The efficiency ratio for the second quarter of 2014 improved to 50.49% compared to 57.26% in 2013.

Balance Sheet Review:

As of June 30, 2014, total assets were \$1,235,704,000, a \$28,790,000 increase compared to June 30, 2013. The increase in assets was primarily due to a 9% increase in loans over 2013, ending the quarter at \$549,980,000. The Company was pleased to see the strong activity in the commercial and consumer loan areas, a good indication of positive economic improvements.

The allowance for loan losses on June 30, 2014 totaled \$8,517,000, or 1.52% of gross loans, compared to \$7,819,000 or 1.52% of gross loans as of June 30, 2013. The increase in the allowance for loan losses can be primarily attributed to the additional provision for loan losses necessary to accommodate the growth in the loan portfolio. Impaired loans as of June 30, 2014, were \$967,000, or 0.17% of gross loans, compared to \$4,771,000, or 0.93% of gross loans as of June 30, 2013.

Securities available-for-sale as of June 30, 2014 declined to \$599,239,000, from \$602,300,000 as of June 30, 2013. This quarter presented an opportunity to invest in our loan portfolio rather than the securities portfolio. This, coupled with the regular pay downs in the portfolio, led to a reduction in our security's portfolio compared to a year ago.

Deposits totaled \$982,570,000 on June 30, 2014, a 1.8% decrease from the \$1,000,457,000 recorded at June 30, 2013. The Company had reductions in time certificates of deposit less than \$100,000, NOW accounts and demand deposit accounts. The lower demand deposit balances were mainly the result of a reclassification of deposits as a commercial customer transferred funds to a daily repurchase account from a commercial checking account as a strategy to increase its earning potential. The decrease in demand deposits was partially offset by growth in core savings and money market deposits.

2ND QUARTER

2014 | QUARTERLY REPORT TO SHAREHOLDERS

AT A GLANCE...
FINANCIAL HIGHLIGHTS

	Three Months Ended June 30,	
	2014	2013
Net Income	\$3,855,000	\$3,279,000
Earnings Per Share – Basic	\$0.41	\$0.35
Dividends Per Share	\$0.18	\$0.16
Return on Average Assets (ROA)	1.23%	1.05%
Return on Average Equity (ROE)	10.27%	8.98%
Efficiency Ratio	50.49%	57.26%
Net Interest Margin (FTE)	3.30%	3.07%
Equity Capital Ratio*		

Consolidated Balance Sheets

(unaudited)

	June 30, 2014	June 30, 2013
ASSETS		
Cash and due from banks	\$ 23,718,424	\$ 19,429,057
Interest bearing deposits in financial institutions	26,426,762	36,408,837
Securities available-for-sale	599,239,228	602,299,900
Loans receivable, net	549,980,394	506,139,036
Loans held for sale	697,145	1,257,924
Bank premises and equipment, net	11,104,529	12,185,791
Accrued income receivable	7,186,788	7,021,977
Other real estate owned	8,928,652	8,989,208
Deferred income taxes	1,325,200	5,798,827
Core deposit intangible, net	902,816	1,161,066
Goodwill	5,600,749	5,600,749
Other assets	593,219	621,132
Total assets	\$ 1,235,703,906	\$ 1,206,913,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>LIABILITIES</i>		
Deposits		
Demand, noninterest bearing	\$ 167,184,250	\$ 172,564,005
NOW accounts	280,415,844	298,457,426
Savings and money market	301,022,762	287,124,558
Time, \$100,000 and over	94,395,668	93,247,877
Other time	139,551,875	149,062,756
Total deposits	982,570,399	1,000,456,622
Securities sold under agreements to repurchase	61,151,643	30,628,684
FHLB advances and other long-term borrowings	34,504,421	34,576,061
Dividend payable	1,675,964	1,489,746
Accrued expenses and other liabilities	3,476,535	3,377,173
Total liabilities	1,083,378,962	1,070,528,286
<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 June 30, 2014 and 2013	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	107,183,584	98,044,977
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	5,640,806	(1,160,313)
Treasury stock, at cost; 122,002 shares at June 30, 2014 and 2013	(2,016,498)	(2,016,498)
Total stockholders' equity	152,324,944	136,385,218
Total liabilities and stockholders' equity	\$ 1,235,703,906	\$ 1,206,913,504

Consolidated Statements of Income

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2012
INTEREST INCOME:				
Loans	\$6,576,580	\$6,146,761	\$12,986,011	\$12,305,274
Securities				
Taxable	1,851,296	1,399,811	3,614,899	2,779,773
Tax-exempt	1,645,094	1,746,378	3,319,202	3,474,811
Interest bearing deposits and federal funds sold	72,937	108,313	146,076	218,046
Total interest income	10,145,907	9,401,263	20,066,188	18,777,904
INTEREST EXPENSE:				
Deposits	862,691	999,601	1,754,701	1,995,441
Other borrowed funds	303,861	294,939	598,347	590,850
Total interest expense	1,166,552	1,294,540	2,353,048	2,586,291
Net interest income	8,979,355	8,106,723	17,713,140	16,191,613
Provision for loan losses	35,644	60,000	74,875	73,574
Net interest income after provision for loan losses	8,943,711	8,046,723	17,638,265	16,118,039
NONINTEREST INCOME:				
Wealth Management Income	724,376	558,747	1,421,195	1,098,769
Service fees	410,795	402,002	768,274	777,827
Securities gains, net	-	364,250	135,081	433,241
Gain on sale of loans held for sale	150,526	345,377	249,179	700,920
Merchant and card fees	290,250	272,612	549,639	613,098
Gain (loss) on sale and disposal of premises and equipment	(14,715)	-	1,242,209	-
Other noninterest income	172,740	146,032	314,179	308,133
Total noninterest income	1,733,972	2,089,020	4,679,756	3,931,988
NONINTEREST EXPENSE:				
Salaries and employee benefits	3,430,736	3,231,314	6,722,188	6,447,396
Data processing	595,570	627,216	1,166,920	1,199,851
Occupancy expenses, net	349,588	339,457	818,808	745,181
FDIC insurance assessments	163,352	172,443	325,696	332,751
Professional fees	348,441	267,573	630,888	540,028
Business development	215,616	202,033	423,477	393,384
Other real estate owned expense, net	19,006	672,919	19,710	667,738
Core deposit intangible amortization	61,000	68,425	126,748	142,198
Other operating expenses, net	225,798	256,809	503,774	488,758
Total noninterest expense	5,409,107	5,838,189	10,738,209	10,957,285
Income before income taxes	5,268,576	4,297,554	11,579,812	9,092,742
INCOME TAX EXPENSE	1,413,653	1,018,858	3,198,798	2,228,112
NET INCOME	\$ 3,854,923	\$ 3,278,696	\$ 8,381,014	\$ 6,864,630
Basic and diluted earnings per share	\$ 0.41	\$ 0.35	\$ 0.90	\$ 0.74
Declared dividends per share	\$ 0.18	\$ 0.16	\$ 0.36	\$ 0.32