

The increase in deposits was partially offset by a decrease in higher cost retail certificates of deposits and public funds.

Asset quality continues to remain favorable for the Company. Impaired loans as of September 30, 2013, were \$2,420,000, or 0.45% of gross loans, compared to \$4,918,000, or 0.99% of gross loans as of September 30, 2012. In addition, net charge-offs for the nine months ended September 30, 2013 and September 30, 2012 were \$36,000 and \$47,000, respectively. The allowance for loan losses at quarter-end totaled \$7,903,000, or 1.47% of gross loans, compared to \$8,009,000 or 1.61% of gross loans as of September 30 of last year. These measurements attest to the fact that maintaining credit quality is a top priority for the Company. Effectively managing credit quality is an important factor in driving earnings.

The Company's stockholders' equity represented 11.7% of total assets at quarter-end with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. The strength of our **capital** position places the Company in a good position as opportunities for expansion arise.

The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$22.41 on September 30, 2013. During the third quarter of 2013, the price ranged from \$19.87 to \$23.94. On August 14, 2013, the Company declared a quarterly cash dividend on its common stock, payable on November 15, 2013 to stockholders of record as of November 1, 2013, equal to \$0.16 per share.

Overall, the third quarter of 2013 was good for the Company. We have been pleased with the loan opportunities and are optimistic that the economy is improving. Commercial borrowers are expanding their current businesses and looking for ways to grow. This growth environment provides more opportunities for our banks to put deposit dollars to work through loans versus other lower-yielding investments. Given the current interest rate environment, maintaining our historic net interest margin levels will continue to be a challenge until market interest rates improve in the intermediate part of the yield curve.

As we continue to build stronger relationships and provide services for our clients that simply their banking and enhance their financial lives, we launched yet another banking convenience during the third quarter. Mobile Deposit is now available for our clients through the online banking app on their smart phones. With Mobile Deposit, clients can make deposits by taking photo photos of their checks and submitting them through their smart phones. Clients are enjoying the added convenience that this new service provides and the Company is enjoying a lower per-item deposit cost and the addition of a powerful retention tool.

Thank you for your commitment to Ames National Corporation. We are dedicated to delivering a unique level of financial services to our clients and valuable returns to you, our shareholder. Please contact us if you have any comments or questions. We appreciate the opportunity to service you.



DOUGLAS C. GUSTAFSON
Chairman



THOMAS H. POHLMAN
President

Nine Months Ended
September 30,
2013 2012

\$10,577,000	\$10,714,000
\$1.14	\$1.15
\$0.48	\$0.45
1.15%	1.27%
10.77%	10.86%
53.15%	51.52%
3.16%	3.37%
11.65%	12.33%



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



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Letter To Shareholders

2013 third quarter results for Ames National Corporation were similar to the results reported during the third quarter of 2012. **Net income** for the Company totaled \$3,712,000, or \$0.40 per share, compared to \$3,861,000 or \$0.41 per share in 2012. The primary reason for the decrease in net income was a decline in income collected from the sale of mortgage loans. As loan rates increased in the market, the demand for refinancing mortgages decreased.

Third quarter **net interest income** totaled \$8,511,000, an increase of \$265,000, or 3.2%, compared to the same quarter a year ago, due to the recognition of \$320,000 of interest income on several nonaccrual loans that were collected or returned to accrual during the quarter. Although net interest income increased, the Company's net interest margin decreased to 3.28% for the third quarter 2013 from 3.34% for the same period in 2012. The compression of the net interest margin can be attributed to lower market yields on loans and investments which have matured and repriced at lower market rates in 2013. Margin compression is an industry-wide trend given the current interest rate environment.

Non-interest income, which is primarily income derived from service fees and security gains, totaled \$1,820,000 for the third quarter compared to \$2,059,000 for the same period in 2012. As mentioned earlier, lower gains on the sale of mortgage loans is the primary reason for the decrease in non-interest income. On a positive note, the Wealth Management area is seeing great synergy and the number of relationships continues to grow. The expansion of Private Banking and Wealth Management has been a strategic initiative over the past three years and, as opportunities in the market increase, we have the structure and people in place to assist clients with their growing financial management needs.

Non-interest expense, or operating expenses, totaled \$5,231,000 for the third quarter compared to \$5,043,000 recorded in 2012. The increase of 3.7% in noninterest expense was primarily the result of increased salaries and benefits due to normal salary increases and additional staffing to assist with the increased compliance and regulatory requirements. We have also added staff to drive loan growth in the Des Moines metro market as opportunities have increased. We consistently focus on closely monitoring expenses and it is especially important in the current interest rate environment. The efficiency ratio for the third quarter of 2013 was 50.63%, compared to 48.93% in 2012.

The Company continues to see positive growth on the balance sheet year over year. As of September 30, 2013, **total assets** were \$1,213,233,000, a \$45,354,000 increase compared to September 30, 2012. The increase in assets was mainly due to a higher level of loans. We are pleased to report **loans** grew 8.2% over 2012 ending at \$528,706,000 compared to \$488,426,000 as of September 30, 2012. This loan growth was driven primary by expanded opportunities in the real estate loan area. In addition to loan growth, the investment portfolio as of September 30, 2013 increased to \$583,477,000, compared to \$573,557,000 as of September 30, 2012.

Deposits totaled \$977,006,000 on September 30, 2013, a 3.7% increase from the \$942,222,000 recorded at September 30, 2012, which helped to fund the increase in loans and securities. This increase is mainly the result of the continued growth in core accounts, including: commercial and retail demand, checking with interest, money market and savings account balances.

3RD QUARTER

2013 QUARTERLY REPORT TO SHAREHOLDERS

AT A GLANCE...
FINANCIAL HIGHLIGHTS

	Three Months Ended September 30,	
	2013	2012
Net Income	\$3,712,000	\$3,861,000
Earnings Per Share – Basic	\$0.40	\$0.41
Dividends Per Share	\$0.16	\$0.15
Return on Average Assets (ROA)	1.24%	1.32%
Return on Average Equity (ROE)	10.77%	10.86%
Efficiency Ratio	50.63%	48.93%
Net Interest Margin (FTE)	3.28%	3.34%
Equity Capital Ratio		

Consolidated Balance Sheets

(unaudited)

	September 30, 2013	September 30, 2012
ASSETS		
Cash and due from banks	\$ 25,658,649	\$ 23,542,568
Interest bearing deposits in financial institutions	34,255,292	35,759,545
Securities available-for-sale	583,476,550	573,557,196
Loans receivable, net	528,706,450	488,426,392
Loans held for sale	627,754	1,570,621
Bank premises and equipment, net	12,072,845	12,040,379
Accrued income receivable	8,090,874	8,041,189
Other real estate owned	8,993,815	9,939,706
Deferred income taxes	4,103,206	-
Core deposit intangible, net	1,095,315	1,377,040
Goodwill	5,600,749	5,600,749
Other assets	551,320	8,022,953
Total assets	\$ 1,213,232,819	\$ 1,167,878,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>LIABILITIES</i>		
Deposits		
Demand, noninterest bearing	\$ 165,723,905	\$ 150,811,637
NOW accounts	287,015,885	276,439,976
Savings and money market	283,671,827	257,844,279
Time, \$100,000 and over	93,306,121	99,310,392
Other time	147,288,212	157,815,497
Total deposits	977,005,950	942,221,781
Securities sold under agreements to repurchase	31,973,603	38,974,691
FHLB advances and other long-term borrowings	57,558,364	34,628,314
Dividend payable	1,489,746	1,396,637
Deferred income taxes	-	2,441,988
Accrued expenses and other liabilities	3,851,551	4,161,343
Total liabilities	1,071,879,214	1,023,824,754
<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 September 30, 2013 and 2012	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	100,267,297	92,087,734
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	1,585,754	12,465,296
Treasury stock, at cost; 122,002 shares at September 30, 2013 and 2012	(2,016,498)	(2,016,498)
Total stockholders' equity	141,353,605	144,053,584
Total liabilities and stockholders' equity	\$ 1,213,232,819	\$ 1,167,878,338

Consolidated Statements of Income

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
INTEREST INCOME:				
Loans	\$ 6,569,005	\$ 6,413,866	\$ 18,874,279	\$ 18,470,183
Securities				
Taxable	1,357,658	1,441,987	4,137,431	4,660,121
Tax-exempt	1,737,687	1,697,690	5,212,498	5,046,835
Interest bearing deposits and federal funds sold	86,126	113,149	304,172	371,328
Total interest income	9,750,476	9,666,692	28,528,380	28,548,467
INTEREST EXPENSE:				
Deposits	924,219	1,097,372	2,919,660	3,419,854
Other borrowed funds	315,116	322,887	905,966	972,023
Total interest expense	1,239,335	1,420,259	3,825,626	4,391,877
Net interest income	8,511,141	8,246,433	24,702,754	24,156,590
Provision for loan losses	92,388	35,664	165,962	151,369
Net interest income after provision for loan losses	8,418,753	8,210,769	24,536,792	24,005,221
NONINTEREST INCOME:				
Trust services income	473,471	491,943	1,459,414	1,527,657
Service fees	402,062	429,958	1,179,889	1,161,170
Securities gains, net	204,738	220,230	637,979	538,298
Gain on sale of loans held for sale	268,658	440,232	969,578	1,082,126
Merchant and card fees	271,485	273,514	884,583	809,764
Other noninterest income	199,319	202,627	620,278	571,009
Total noninterest income	1,819,733	2,058,504	5,751,721	5,690,024
NONINTEREST EXPENSE:				
Salaries and employee benefits	3,288,760	3,112,396	9,736,156	9,293,203
Data processing	581,301	558,314	1,781,152	1,632,518
Occupancy expenses	358,739	362,217	1,103,920	1,069,972
FDIC insurance assessments	173,878	158,745	506,629	477,961
Professional fees	313,174	303,209	853,202	933,602
Business development	255,899	209,138	649,283	600,203
Other real estate owned expense, net	(14,436)	31,330	653,302	472,123
Core deposit intangible amortization	65,751	73,776	207,949	122,960
Other operating expenses, net	207,437	233,434	696,195	773,728
Total noninterest expense	5,230,503	5,042,559	16,187,788	15,376,270
Income before income taxes	5,007,983	5,226,714	14,100,725	14,318,975
INCOME TAX EXPENSE	1,295,916	1,365,719	3,524,028	3,605,406
NET INCOME	\$ 3,712,067	\$ 3,860,995	\$ 10,576,697	\$ 10,713,569
Basic and diluted earnings per share	\$ 0.40	\$ 0.41	\$ 1.14	\$ 1.15
Declared dividends per share	\$ 0.16	\$ 0.15	\$ 0.48	\$ 0.45