

quality standard is an important factor in protecting earnings, and affiliate banks have done a good job of monitoring and managing credit quality.

Other real estate owned decreased over \$1 million from December 31, 2012 to December 31, 2013 primarily due to property sales and impairment write downs. As the real estate market improves, the Company is looking for opportunities to sell these properties and enhance earnings.

The Company's stockholders' equity represented 11.5% of total assets as of December 31, 2013 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total equity was \$142 million as of December 31, 2013 compared to \$145 million reported at year-end 2012. Lower capital levels were directly attributed to a change in the unrealized gains in our security portfolio, one of the elements included in our capital. Capital is impacted by earnings, dividends and the fair value of the investment portfolio. When interest rates increase, the fair value of the investment portfolio is reduced and that change is reflected in capital.

The Company's stock, which is listed on the NASDAQ Capital Market under ATLO symbol, closed at \$22.39 on December 31, 2013. During the fourth quarter, the price ranged from \$21.09 to \$23.05. On November 13, 2013, the Company declared a quarterly cash dividend on its common stock, payable on February 17, 2014 to stockholders of record as of February 3, 2014, equal to \$0.16 per share.

As we wrap up 2013, the advantages of using technology to enhance our clients' banking experiences continue to be evident. Mobile Banking has taken the level of convenience to a new high by providing clients with the ability to deposit checks using their smart phones. We are happy with the client responses to this new service. We are also pleased to report that the acquisition of the Garner and Klemme, Iowa offices by Reliance State Bank in April of 2012 continues to generate positive returns. Reliance State Bank's net income for 2013 was \$2,172,000, as compared to \$1,833,000 for the year ended December 31, 2012, an 18.5% increase. The acquisition contributed to increases in net interest income, noninterest income and noninterest expense, and has proven to be a profitable model as we look for future growth strategies.

Thank you for your commitment to Ames National Corporation. Between loan growth, a strong core deposit base and improving net interest income, the Company is well-positioned for opportunities in 2014. We have knowledgeable, responsive people in place to deliver the financial services that clients value. By remaining focused on our core values of being innovative, community-minded, flexible and trusted, our clients and the community respond, and we are positioned as the financial leaders in the communities we serve. Please contact us if you have any comments or questions. We appreciate the opportunity to serve you.



DOUGLAS C. GUSTAFSON
Chairman



THOMAS H. POHLMAN
President



Year Ended December 31,	
2013	2012
\$13,954,000	\$14,182,000
\$1.50	\$1.52
\$0.64	\$0.60
1.14%	1.24%
9.76%	10.08%
52.78%	52.33%
3.18%	3.35%
11.52%	11.89%

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

Ames National Corporation ended 2013 with net income of \$14.0 million or \$1.50 per share compared to the \$14.2 million, or \$1.52 per share, earned in 2012. Given the challenging interest rate and regulatory environment, we are pleased with these results. Intermediate and long-term interest rates have increased, and we have seen the net interest margin improve from the first half of 2013. After experiencing declining margins due to an extensive period of low interest rates and moderate loan demand, this stabilization in the net interest margin is positive. The 10.7% growth in the Company's loan portfolio which is a primary driver of income will have a favorable impact on the net interest margin.

For the fourth quarter, net income for Ames National Corporation totaled \$3.4 million or \$0.36 per share. This number is slightly lower than the \$3.5 million or \$0.37 per share reported during the fourth quarter of 2012. This change was primarily due to the increase in the provision for loan losses and a decrease in gains on the sale of mortgage loans. Although the loan loss provision reduced earnings for the fourth quarter, the increase in loan demand coupled with the improvements in the intermediate interest rates, puts us in a better position to improve net income as we enter 2014 compared to this time last year.

Noninterest income was \$220,000 higher for the fourth quarter of 2013 compared to 2012. This represents a 12.6% increase while noninterest expense saw a modest increase of only 1.2% during the same time period. As mortgage refinancing slowed in 2013 due to lower demand and a higher interest rate environment, the Company was still able to increase noninterest income primarily as a result of higher securities gains combined with no other-than-temporary impairment charges in 2013.

Growth in the Wealth Management and Trust Services area continues to be an area of focus for affiliate banks. Strategically, the Company is looking long-term at the benefits of assisting clients at every financial life stage and increasing the Wealth Management and Trust Services client base. Over the past year, the expansion of these services has allowed us to open or expand relationships with many new and existing clients.

Turning to the balance sheet, total assets were \$1.2 billion as of December 31, 2013, a \$15.4 million increase compared to December 31, 2012. The growth in assets was due to a \$54 million increase in loans which was funded by growth in core deposits, repurchase agreements and the use of short-term investments. Deposits were \$1 billion as of year-end, a 0.7% increase over year-end last year. The loan growth was driven by increases in the real estate portfolio. As the economic environment continues to see improvements, affiliate banks' opportunities to assist with commercial real estate activities have grown. The shift from short-term investments to funding loan growth has had a positive impact on net interest income.

Asset quality continues to be favorable for the Company. Net loan recoveries were \$13,000 for 2013 as compared to net loan charge-offs of \$155,000 for the year ended December 31, 2012. Impaired loans as of December 31, 2013, were \$2,244,000, or 0.39% of gross loans, compared to \$5,912,000, or 1.1% of gross loans as of December 31, 2012. Maintaining a high credit

4TH QUARTER

2013 QUARTERLY REPORT TO SHAREHOLDERS

AT A GLANCE...
FINANCIAL HIGHLIGHTS

	Three Months Ended December 31,	
	2013	2012
Net Income	\$3,377,000	\$3,469,000
Earnings Per Share – Basic	\$0.36	\$0.37
Dividends Per Share	\$0.16	\$0.15
Return on Average Assets (ROA)	1.09%	1.17%
Return on Average Equity (ROE)	9.45%	9.57%
Efficiency Ratio	51.69%	54.77%
Net Interest Margin (FTE)	3.25%	3.26%
Equity Capital Ratio		

Consolidated Balance Sheets

(unaudited)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$ 24,270,031	\$ 34,805,371
Interest bearing deposits in financial institutions	23,628,117	44,639,033
Securities available-for-sale	580,039,080	588,417,037
Loans receivable, net	564,501,547	510,125,880
Loans held for sale	295,618	1,030,180
Bank premises and equipment, net	11,892,329	12,233,464
Accrued income receivable	7,437,673	7,173,703
Other real estate owned	8,861,107	9,910,825
Deferred income taxes	5,027,103	-
Core deposit intangible, net	1,029,564	1,303,264
Goodwill	5,600,749	5,600,749
Other assets	501,242	2,452,593
Total assets	\$ 1,233,084,160	\$ 1,217,692,099
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>LIABILITIES</i>		
Deposits		
Demand, noninterest bearing	\$ 179,946,472	\$ 182,033,279
NOW accounts	299,788,852	287,294,015
Savings and money market	289,307,102	279,774,197
Time, \$100,000 and over	97,077,717	99,925,619
Other time	145,683,035	155,705,340
Total deposits	1,011,803,178	1,004,732,450
Federal funds purchased and securities sold under agreements to repurchase	39,616,644	27,088,660
FHLB advances and other long-term borrowings	34,540,526	34,611,035
Dividend payable	1,489,746	1,396,627
Deferred income taxes	-	1,632,560
Accrued expenses and other liabilities	3,527,882	3,495,032
Total liabilities	1,090,977,976	1,072,956,364
<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 December 31, 2013 and 2012	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	102,154,498	94,159,839
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	451,132	11,075,342
Treasury stock, at cost; 122,002 shares at December 31, 2013 and 2012	(2,016,498)	(2,016,498)
Total stockholders' equity	142,106,184	144,735,735
Total liabilities and stockholders' equity	\$ 1,233,084,160	\$ 1,217,692,099

Consolidated Statements of Income

(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012
INTEREST INCOME:				
Loans	\$ 6,559,671	\$ 6,291,450	\$ 25,433,950	\$ 24,761,633
Securities				
Taxable	1,564,881	1,398,435	5,744,321	6,058,556
Tax-exempt	1,694,459	1,720,710	6,864,948	6,767,545
Interest bearing deposits and federal funds sold	86,422	112,676	390,594	484,004
Total interest income	9,905,433	9,523,271	38,433,813	38,071,738
INTEREST EXPENSE:				
Deposits	942,053	1,052,483	3,861,713	4,472,337
Other borrowed funds	307,084	307,581	1,213,050	1,279,604
Total interest expense	1,249,137	1,360,064	5,074,763	5,751,941
Net interest income	8,656,296	8,163,207	33,359,050	32,319,797
Provision (credit) for loan losses	620,428	(129,092)	786,390	22,277
Net interest income after provision (credit) for loan losses	8,035,868	8,292,299	32,572,660	32,297,520
NONINTEREST INCOME:				
Trust services income	511,524	532,651	1,970,938	2,060,308
Service fees	400,922	417,502	1,580,811	1,578,672
Securities gains, net	364,941	108,457	1,002,920	646,755
Other-than-temporary impairment of investment securities	-	(259,851)	-	(259,851)
Gain on sale of loans held for sale	230,824	506,996	1,200,402	1,589,122
Merchant and card fees	257,444	245,849	1,142,027	1,055,613
Other noninterest income	200,402	193,756	820,680	764,765
Total noninterest income	1,966,057	1,745,360	7,717,778	7,435,384
NONINTEREST EXPENSE:				
Salaries and employee benefits	3,395,400	3,172,200	13,131,556	12,465,403
Data processing	633,412	606,485	2,414,564	2,239,003
Occupancy expenses	368,058	392,926	1,471,978	1,462,898
FDIC insurance assessments	154,498	186,324	661,127	664,285
Professional fees	274,464	290,491	1,127,666	1,224,093
Business development	308,419	340,887	957,702	941,090
Other real estate owned expense, net	(1,901)	10,781	651,401	482,904
Core deposit intangible amortization	65,751	73,776	273,700	196,736
Other operating expenses, net	292,983	352,813	989,178	1,126,541
Total noninterest expense	5,491,084	5,426,683	21,678,872	20,802,953
Income before income taxes	4,510,841	4,610,976	18,611,566	18,929,951
INCOME TAX EXPENSE	1,133,894	1,142,237	4,657,922	4,747,643
NET INCOME	\$ 3,376,947	\$ 3,468,739	\$ 13,953,644	\$ 14,182,308
Basic and diluted earnings per share	\$ 0.36	\$ 0.37	\$ 1.50	\$ 1.52
Declared dividends per share	\$ 0.16	\$ 0.15	\$ 0.64	\$ 0.60