

AMES NATIONAL CORP
Form 10-K
March 11, 2016
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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, 2015. 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, 2015, 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 29, 2016, 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, 2016, 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 fixed income investments held by the Company and 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; (vii) Federal Deposit Insurance Corporation (the "FDIC") insurance assessments; and (viii) 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 and support with respect to computer systems and related procedures.

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, 2015, First National had capital of \$72,200,000 and 111 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, 2015, 2014 and 2013 of approximately \$7,223,000, \$7,490,000 and \$7,200,000, respectively. Total assets as of December 31, 2015, 2014 and 2013 were approximately \$704,289,000, \$706,185,000 and \$629,414,000, 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. State Bank closed its Colo office in 2015. It has a strong presence in agricultural, commercial and residential real estate lending.

As of December 31, 2015, State Bank had capital of \$18,571,000 and 21 full-time equivalent employees. State Bank had net income for the years ended December 31, 2015, 2014 and 2013 of approximately \$2,311,000, \$2,280,000 and \$2,122,000, respectively. Total assets as of December 31, 2015, 2014 and 2013 were approximately \$154,847,000, \$157,894,000 and \$154,405,000, 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, 2015, Boone Bank had capital of \$14,132,000 and 23 full-time equivalent employees. Boone Bank had net income for the years ended December 31, 2015, 2014 and 2013 of approximately \$1,684,000, \$1,614,000 and \$1,533,000, respectively. Total assets as of December 31, 2015, 2014 and 2013 were approximately \$135,767,000, \$125,776,000 and \$128,551,000, 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"). These offices were purchased for cash consideration of \$5.4

million. The contractual balance of loans receivable acquired was \$47.0 million and the contractual balance of the deposits assumed was \$98.1 million. As a result of the Liberty Acquisition, the Bank recorded a core deposit intangible asset of \$1.5 million and goodwill of \$5.6 million. 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, 2015, Reliance Bank had capital of \$28,240,000 and 32 full-time equivalent employees. Reliance Bank had net income for the years ended December 31, 2015, 2014 and 2013 of approximately \$2,569,000, \$2,392,000 and \$2,172,000, respectively. Total assets as of December 31, 2015, 2014 and 2013 were approximately \$219,452,000, \$219,474,000 and \$221,597,000, 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, 2015, United Bank had capital of \$14,270,000 and 21 full-time equivalent employees. United Bank had net income for the years ended December 31, 2015, 2014 and 2013 of approximately \$1,296,000, \$1,110,000 and \$1,103,000, respectively. Total assets as of December 31, 2015, 2014 and 2013 were approximately \$112,480,000, \$107,000,000 and \$111,420,000, 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 50% 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 and external loan 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 44% 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 26% 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 represent approximately 18% 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 3% 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, 2015, the Banks had a total of 208 full-time equivalent employees and the Company had an additional 12 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 63,266. 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, Sauer-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 12,633. 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 6,779. 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 3,434. 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 3,098. 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 27,727. 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, 2015, there were 47 FDIC insured institutions having approximately 112 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, 2015.

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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 allocation 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 will begin on January 1, 2016, at the 0.625% level and increase 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, 2015, the Banks exceeded all of their regulatory capital requirements and were designated as “well-capitalized” under federal guidelines. The table below includes certain non-GAAP financial measures that are used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews these measures along with other measures of capital as part of its financial analyses and has included this non-GAAP financial information, and the corresponding reconciliation to total equity. 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, 2015, 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 \$103,600,000 or less (subject to an exemption not in excess of the first \$14,500,000 of transaction accounts). A reserve of \$2,673,000 plus 10% of amounts in excess of \$103,600,000 must be maintained in the event total transaction accounts exceed \$103,600,000. 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.

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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.

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. 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 Depository Institutions Deregulation Committee, created by Congress in 1980, phased out ceilings on the rate of interest that may be paid on deposits by commercial banks and savings and loan associations, with the result that the differentials between the maximum rates banks and savings and loans can pay on deposit accounts have been eliminated. The effect of deregulation of deposit interest rates has been to increase banks' cost of funds and to make banks more sensitive to fluctuation in market rates.

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.

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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.

Name	Age	Position with the Company or Bank and Principal Occupation and Employment During the Past Five Years
Scott T. Bauer	53	President and Director of First National.
Kevin G. Deardorff	61	Vice President & Technology Director of the Company.
Curtis A. Hoff	53	Named President and Director of United Bank on January 1, 2012. Previously served as an Executive Vice President of United Bank and Senior Vice President of State Bank.
Stephen C. McGill	61	President and Director of State Bank.
John P. Nelson	49	Chief Financial Officer, Vice President, Secretary, Treasurer and Director of the Company. Director and Chairman of Reliance Bank.
Thomas H. Pohlman	65	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	54	President and Director of Boone Bank.
Richard J. Schreier	48	President and Director of Reliance Bank.

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.

Risks Related to General Business, Economic and Political Conditions

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.

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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.

Risks Related to Investments

As of December 31, 2015, the fair value of our securities portfolio was approximately \$537.6 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.

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.

Risks Related to Commercial Real Estate Loans

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2015. 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.

Risk Related to the Allowance for Loan Losses

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.

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Rising Interest Rates

An increase in interest rates that may occur in connection with the 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.

Liquidity Risk

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.

Concentration of Operations

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.

Competition with 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.

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, 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.

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Trading Volume

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 may have a more significant impact on the price of our stock than for more actively traded companies.

Technological Advances

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.

Information Security

We depend on data processing, communication and information exchange on a variety of computing platforms and networks and over the internet. We cannot be certain all of our systems are entirely free from vulnerability to attack, despite safeguards which have been installed. We 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, our financial condition, results of operations 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 generally accepted accounting principles (“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 OTTI of investment securities available for sale, (2) the allowance for loan losses, and (3) impairment of goodwill. Because of the inherent uncertainty of these estimates, 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.

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.

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Government Regulations

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 our banking subsidiaries;
- 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 new 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 are lease agreements 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.

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.

Table Of Contents**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 February 29, 2016, the Company had approximately 394 shareholders of record and an estimated 1,191 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 \$23.46 on February 29, 2016.

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:

2015			2014		
	Market Price			Market Price	
Quarter	High	Low	Quarter	High	Low
1st	\$26.06	\$23.60	1st	\$23.50	\$20.24
2nd	\$26.43	\$23.51	2nd	\$23.35	\$21.15
3rd	\$26.40	\$22.01	3rd	\$24.37	\$22.13
4th	\$26.41	\$22.75	4th	\$26.87	\$21.63

The Company declared aggregate annual cash dividends in 2015 and 2014 of approximately \$7,449,000 and \$6,704,000, respectively, or \$0.80 per share in 2015 and \$0.72 per share in 2014. In February 2016, the Company declared a cash dividend of approximately \$1,955,000 or \$0.21 per share.

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

Quarter	2015 Cash dividends declared per share	2014 Cash dividends declared per share
1st	\$ 0.20	\$ 0.18
2nd	\$ 0.20	\$ 0.18
3rd	\$ 0.20	\$ 0.18
4th	\$ 0.20	\$ 0.18

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 129 bank holding companies operating principally in the Midwest as selected by SNL Financial. The NASDAQ Bank Index is comprised of 283 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, 2010, 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.

<i>Index</i>	<i>Period Ending</i>					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Ames National Corporation	100.00	92.49	106.74	112.33	134.20	129.65
NASDAQ Composite Index	100.00	99.21	116.82	163.75	188.03	201.40
NASDAQ Bank Index	100.00	88.73	105.75	152.00	157.42	169.94
Midwest OTC Bank Index	100.00	99.07	114.39	138.97	159.22	180.14

In November, 2015, 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, 2014) that expired in November, 2015. The Company did not purchase any shares in 2015 or 2014 under either of the Stock Repurchase Plans that were in effect during 2015 or 2014.

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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, 2015.

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, 2015 to October 31, 2015 (1)	-	\$ -	-	100,000
November 1, 2015 to November 30, 2015 (1) and (2)	-	\$ -	-	100,000
December 1, 2015 to December 31, 2015 (2)	-	\$ -	-	100,000
Total	-		-	

The Stock Repurchase Plan adopted in November, 2014 expired in November, 2015 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, 2015.

A successor Stock Repurchase Plan was approved and became effective on November 11, 2015 and authorized the (2) purchase of up to 100,000 shares. This plan is scheduled to expire on November 8, 2016. No purchases were made under this plan during November or December, 2015.

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The following financial data of the Company for the five years ended December 31, 2011 through 2015 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,				
	2015	2014	2013	2012	2011
STATEMENT OF INCOME DATA					
Interest income	\$43,150	\$40,964	\$38,434	\$38,072	\$37,616
Interest expense	4,185	4,547	5,075	5,752	6,730
Net interest income	38,965	36,417	33,359	32,320	30,886
Provision for loan losses	1,099	429	786	22	533
Net interest income after provision for loan losses	37,866	35,988	32,573	32,298	30,353
Noninterest income	8,267	9,252	7,718	7,435	6,970
Noninterest expense	25,312	24,373	21,679	20,803	18,852
Income before provision for income tax	20,821	20,867	18,612	18,930	18,471
Provision for income tax	5,806	5,616	4,658	4,748	4,550
Net income	\$15,015	\$15,251	\$13,954	\$14,182	\$13,921
DIVIDENDS AND EARNINGS PER SHARE DATA					
Cash dividends declared	\$7,449	\$6,704	\$5,959	\$5,587	\$4,876
Cash dividends declared per share	\$0.80	\$0.72	\$0.64	\$0.60	\$0.52
Basic and diluted earnings per share	\$1.61	\$1.64	\$1.50	\$1.52	\$1.48
Weighted average shares outstanding	9,310,913	9,310,913	9,310,913	9,310,913	9,399,076
BALANCE SHEET DATA					
Total assets	\$1,326,747	\$1,301,031	\$1,233,084	\$1,217,692	\$1,035,564
Net loans	701,328	658,441	564,502	510,126	438,651

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Deposits	1,074,193	1,052,123	1,011,803	1,004,732	818,705
Stockholders' equity	161,250	154,674	142,106	144,736	134,557
Equity to assets ratio	12.15	% 11.89	% 11.52	% 11.89	% 12.99

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	Years Ended December 31,				
	2015	2014	2013	2012	2011
FIVE YEAR FINANCIAL PERFORMANCE					
Net income	\$ 15,015	\$ 15,251	\$ 13,954	\$ 14,182	\$ 13,921
Average assets	1,325,321	1,263,382	1,225,617	1,142,667	1,009,231
Average stockholders' equity	159,047	151,211	142,997	140,716	128,679
Return on assets (net income divided by average assets)	1.13	% 1.21	% 1.14	% 1.24	% 1.38
Return on equity (net income divided by average equity)	9.44	% 10.09	% 9.76	% 10.08	% 10.82
Net interest margin (net interest income divided by average earning assets)	3.33	% 3.31	% 3.18	% 3.35	% 3.60
Efficiency ratio (noninterest expense divided by noninterest income plus net interest income)	53.59	% 53.37	% 52.78	% 52.33	% 49.80
Dividend payout ratio (dividends per share divided by net income per share)	49.69	% 43.90	% 42.67	% 39.47	% 35.14
Dividend yield (dividends per share divided by closing year-end market price)	3.29	% 2.78	% 2.86	% 2.74	% 2.67
Equity to assets ratio (average equity divided by average assets)	12.00	% 11.97	% 11.67	% 12.31	% 12.75

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 investment and loan portfolios. Products and services offered by the Banks are for commercial and consumer purposes, including loans, deposits and wealth management services. The Banks also offer investment services through a third-party broker-dealer. The Company employs twelve individuals to assist with financial reporting, human resources, marketing, audit, compliance, technology systems and the coordination of management

activities, in addition to 208 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 fixed income investments held by the Company and 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; (vii) Federal Deposit Insurance Corporation (the "FDIC") insurance assessments; and (viii) 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.

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The Company reported net income of \$15,015,000 for the year ended December 31, 2015 compared to \$15,251,000 and \$13,954,000 reported for the years ended December 31, 2014 and 2013, respectively. This represents a decrease in net income of 1.5% when comparing 2015 with 2014 and an increase in net income of 9.3% when comparing 2014 with 2013. 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 Report, contributed to increases in net interest income, noninterest income and noninterest expense in 2015. The increase in net income in 2014 from 2013 was primarily the result of an increase in net interest income, gain on the disposal of premises and equipment in 2014 and an increase in wealth management income, offset in part by increases in salaries and benefits and other real estate owned expenses. The gain on the disposal of premises and equipment was primarily due to the sale of First National's University office. The First Bank Acquisition, described in Item 1 of this Report, contributed to increases in net interest income, noninterest income and noninterest expense in 2015. Earnings per share for 2015 were \$1.61 compared to \$1.64 in 2014 and \$1.50 in 2013. All five Banks demonstrated profitable operations during 2015.

The Company's return on average equity for 2015 was 9.44% compared to 10.09% and 9.76% in 2014 and 2013, respectively, and the return on average assets for 2015 was 1.13% compared to 1.21% in 2014 and 1.14% in 2013. 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 increase in return on average equity and assets when comparing 2014 to 2013 was primarily a result of increased 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.

Table Of Contents**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 6,182 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.

Selected Indicators for the Company and the Industry

	Years Ended December 31,									
	2015		2014		2013					
	Company	Industry	Company	Industry	Company	Industry	Company	Industry		
Return on assets	1.13 %	1.04 %	1.21 %	1.01 %	1.14 %	1.07 %				
Return on equity	9.44 %	9.31 %	10.09 %	9.03 %	9.76 %	9.56 %				
Net interest margin	3.33 %	3.07 %	3.31 %	3.14 %	3.18 %	3.26 %				
Efficiency ratio	53.59 %	59.91 %	53.37 %	61.88 %	52.78 %	60.54 %				
Capital ratio	12.00 %	9.59 %	11.97 %	9.46 %	11.67 %	9.41 %				

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 2015

Earnings and Profitability Register Year-Over-Year Improvement

Declines in expenses for litigation at a few large banks combined with moderate revenue growth to lift fourth-quarter net income at FDIC-insured institutions to \$40.8 billion, an increase of \$4.4 billion (11.9%) compared with fourth quarter 2014. The improving trend in earnings was widespread. More than half of all banks, or 56.6%, reported year-over-year increases in quarterly net income. Meanwhile, the percentage of banks reporting negative quarterly net income fell to 9.1%, from 9.9% in the year-ago year. The average return on assets (ROA) rose to 1.03% from 0.95% in fourth quarter 2014.

Margins Improve at Large Banks

Net operating revenue—the sum of net interest income and total noninterest income—totaled \$174.3 billion in the fourth quarter, up \$6.8 billion (4.1%) from a year earlier. More than two-thirds of all banks, or 68%, reported year-over-year growth in revenues. Noninterest income was \$3 billion (5%) higher, as servicing income rose by \$2.1 billion (178%), and gains on asset sales were \$984 million (32%) higher. Net interest income increased by \$3.9 billion (3.6%) compared with fourth quarter 2014. The average net interest margin (NIM) was 3.13%, slightly higher than the 3.12% average the year before. This is the first time in five years that the average quarterly NIM hasn't been lower than the year earlier. Most of the margin improvement occurred at larger banks, whose asset portfolios were better-positioned to benefit from the increase in short-term interest rates late in the quarter. Only 45% of all banks reported year-over-year NIM improvement.

Litigation Expenses Fall 80%

Total noninterest expenses were \$2.7 billion (2.5%) lower than in the year-ago quarter. Itemized litigation expenses at a few of the largest banks totaled \$616 million, a decline of \$2.4 billion (80%) from fourth quarter 2014. Salary and employee benefit expenses were \$1.2 billion (2.5%) higher, while expenses for premises and other fixed assets rose \$313 million (2.7%).

Loss Provisions Rise to Three-Year High

Provisions for loan and lease losses increased year over year for a sixth consecutive quarter, rising by \$3.8 billion (45.5%). The \$12 billion in provisions that banks set aside in the fourth quarter is the largest quarterly total in three years. About 37% of banks reported higher quarterly provisions, while a similar proportion reported reductions in their loss provisions.

Charge-Offs Rise in C&I, Consumer Portfolios

Net charge-offs totaled \$10.6 billion in the fourth quarter, an increase of \$690 million (7%) from a year earlier. This is the first year-over-year increase in quarterly charge-offs in 22 quarters. Net charge-offs of loans to commercial and industrial (C&I) borrowers rose by \$512 million (43.4%), as lower oil prices adversely affected some energy sector borrowers. Credit card charge-offs were \$292 million (5.6%) higher, an increase largely in line with the growth in total credit card balances. Net charge-offs of auto loans increased by \$105 million (15.9%). All other major loan categories had lower charge-offs than a year ago. The average net charge-off rate in the fourth quarter was 0.49%, almost unchanged from the 0.48% average in fourth quarter 2014.

Pace of Loan Growth Accelerates

Total assets increased by \$167.8 billion (1.1%) during the quarter. Total loans and leases rose by \$197.3 billion (2.3%), as credit card balances had a largely seasonal \$41.7 billion (5.8%) increase, C&I loans increased by \$39.6 billion (2.2%), and nonfarm nonresidential real estate loans rose by \$31.6 billion (2.6%). In addition, loans to nondepository financial institutions increased \$17.1 billion (6.5%), and multifamily residential real estate loans rose by \$15 billion (4.6%). Loans to small businesses and farms increased \$7.1 billion (1.1%). Investment securities holdings grew by \$49.6 billion (1.5%). Banks reduced their balances with Federal Reserve banks by \$42 billion (3.4%), with most of the decline occurring at a few of the largest banks. Assets in trading accounts fell by \$22.1 billion (3.8%).

Deposits Continue to Fund Asset Growth

Total deposits increased by \$199.4 billion (1.7%) during the fourth quarter, as deposits in domestic offices rose by \$255.9 billion (2.4%), and foreign office deposits declined by \$56.5 billion (4.2%). Interest-bearing domestic deposits were up \$215.1 billion (2.8%), while noninterest-bearing deposits rose by \$40.7 billion (1.4%). Banks reduced their nondeposit liabilities by \$35.9 billion (1.8%) during the quarter.

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Problem List' Falls Below 200 Institutions

The number of FDIC-insured commercial banks and savings institutions reporting quarterly financial results declined from 6,270 to 6,182 in the fourth quarter. Mergers absorbed 81 institutions in the three months ended December 31, while two insured institutions failed. No new charters were added in the fourth quarter. Banks reported 2,033,758 full-time equivalent employees in the quarter, down from 2,038,490 in the third quarter and 2,047,945 a year

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.

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, 2015, 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.

	2015			2014			2013		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
<i>(dollars in thousands)</i>									
ASSETS									
Interest-earning assets									
Loans (1)									
Commercial	\$98,546	\$4,446	4.51 %	\$85,115	\$4,034	4.74 %	\$80,254	\$3,843	4.79 %
Agricultural	75,706	3,568	4.71 %	72,399	3,469	4.79 %	69,117	3,667	5.31 %
Real estate	488,827	22,039	4.51 %	412,752	19,039	4.61 %	363,983	17,191	4.72 %
Consumer and other	18,745	728	3.89 %	13,840	654	4.73 %	14,273	733	5.14 %
Total loans (including fees)	681,824	30,781	4.51 %	584,106	27,196	4.66 %	527,627	25,434	4.82 %
Investment securities									
Taxable	275,105	6,179	2.25 %	296,785	7,105	2.39 %	292,179	5,744	1.97 %
Tax-exempt (2)	264,028	8,931	3.38 %	281,790	9,771	3.47 %	295,271	10,558	3.58 %
Total investment securities	539,133	15,110	2.80 %	578,575	16,876	2.92 %	587,450	16,302	2.78 %

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Interest bearing deposits and federal funds sold	43,580	382	0.88 %	40,147	309	0.77 %	49,796	391	0.78 %
Total interest-earning assets	1,264,537	\$46,273	3.66 %	1,202,828	\$44,381	3.69 %	1,164,873	\$42,127	3.62 %
Noninterest-earning assets									
Cash and due from banks	21,052			21,640			20,718		
Premises and equipment, net	16,404			12,943			12,108		
Other, less allowance for loan losses	23,328			25,971			27,918		
Total noninterest-earning assets	60,784			60,554			60,744		
TOTAL ASSETS	\$1,325,321			\$1,263,382			\$1,225,617		

(1) Average loan balance includes nonaccrual loans, if any. Interest income collected on nonaccrual loans has been included.

(2) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental tax rate of 35%.

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Average Balances and Interest Rates (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2015			2014			2013		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
<i>(dollars in thousands)</i>									
Interest-bearing liabilities									
Deposits									
Savings, NOW accounts and money markets	\$652,063	\$1,143	0.18 %	\$607,273	\$1,142	0.19 %	\$591,044	\$1,176	0.20 %
Time deposits > \$100,000	90,574	809	0.89 %	96,244	930	0.97 %	96,247	1,080	1.12 %
Time deposits < \$100,000	138,387	1,067	0.77 %	145,704	1,313	0.90 %	149,934	1,606	1.07 %
Total deposits	881,024	3,019	0.34 %	849,221	3,385	0.40 %	837,225	3,862	0.46 %
Other borrowed funds	86,381	1,166	1.35 %	85,246	1,162	1.36 %	71,787	1,213	1.69 %
Total interest-bearing liabilities	967,405	4,185	0.43 %	934,467	4,547	0.49 %	909,012	5,075	0.56 %
Noninterest-bearing liabilities									
Demand deposits	192,112			171,407			167,207		
Other liabilities	6,757			6,297			6,401		
Stockholders' equity	159,047			151,211			142,997		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,325,321			\$1,263,382			\$1,225,617		

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Net interest income	\$42,088	3.33 %	\$39,834	3.31 %	\$37,052	3.18 %
Spread Analysis						
Interest income/average assets	\$46,273	3.49 %	\$44,381	3.51 %	\$42,127	3.44 %
Interest expense/average assets	4,185	0.32 %	4,547	0.36 %	5,075	0.41 %
Net interest income/average assets	42,088	3.18 %	39,834	3.15 %	37,052	3.02 %

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Rate and Volume Analysis

The rate and volume analysis is used to determine how much of the change in interest income or expense is the result of a change in volume or a change in interest rate. For example, real estate loan interest income increased \$3,000,000 in 2015 compared to 2014. Increased volume of real estate loans increased interest income in 2015 by \$3,423,000 and lower interest rates decreased interest income in 2015 by \$423,000.

The following table sets forth, on a tax-equivalent basis, a summary of the changes in net interest income resulting from changes in volume and rates.

<i>(dollars in thousands)</i>	2015 Compared to 2014			2014 Compared to 2013		
	Volume	Rate	Total (1)	Volume	Rate	Total (1)
Interest income						
Loans						
Commercial	\$615	\$(203)	\$412	\$231	\$(40)	\$191
Agricultural	157	(58)	99	170	(368)	(198)
Real estate	3,423	(423)	3,000	2,256	(408)	1,848
Consumer and other	204	(130)	74	(22)	(57)	(79)
Total loans (including fees)	4,399	(814)	3,585	2,635	(873)	1,762
Investment securities						
Taxable	(515)	(411)	(926)	94	1,267	1,361
Tax-exempt	(595)	(245)	(840)	(470)	(317)	(787)
Total investment securities	(1,110)	(656)	(1,766)	(376)	950	574
Interest bearing deposits and federal funds sold	27	46	73	(77)	(5)	(82)
Total interest-earning assets	3,316	(1,424)	1,892	2,182	72	2,254
Interest-bearing liabilities						
Deposits						
Savings, NOW accounts and money markets	72	(71)	1	30	(64)	(34)
Time deposits > \$100,000	(50)	(71)	(121)	-	(150)	(150)
Time deposits < \$100,000	(64)	(182)	(246)	(44)	(249)	(293)
Total deposits	(42)	(324)	(366)	(14)	(463)	(477)

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Other borrowed funds	14	(10)	4	207	(258)	(51)
Total interest-bearing liabilities	(28)	(334)	(362)	193	(721)	(528)
Net interest income-earning assets	\$3,344	\$(1,090)	\$2,254	\$1,989	\$793	\$2,782

(1) The change in interest due to both volume and yield/rate has been allocated to change due to volume and change due to yield/rate in proportion to the absolute value of the change in each.

Net Interest Income

The Company's largest contributing component to net income is net interest income, which is the difference between interest earned on earning assets and interest paid on interest bearing liabilities. The volume of and yields earned on earning assets and the volume of and the rates paid on interest bearing liabilities determine net interest income. Refer to the tables preceding this paragraph for additional detail. Interest earned and interest paid is also affected by general economic conditions, particularly changes in market interest rates, by government policies and the action of regulatory authorities. Net interest income divided by average earning assets is referred to as net interest margin. For the years December 31, 2015, 2014 and 2013, the Company's net interest margin was 3.33%, 3.31% and 3.18%, respectively.

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Net interest income during 2015, 2014 and 2013 totaled \$38,965,000, \$36,417,000 and \$33,359,000, respectively, representing a 7.0% increase in 2015 compared to 2014 and a 9.2% increase in 2014 from 2013. Net interest income increased in 2015 as compared to 2014 due primarily to increases in the average balance of real estate loans. Net interest income increased in 2014 as compared to 2013 due primarily to increases in the average balance of real estate loans and the average yield on taxable investment securities.

The high level of competition in the local markets will continue to put downward pressure on the net interest margin of the Company. Currently, the Company's primary market in Ames, Iowa, has ten banks, six credit unions and several other financial investment companies. Multiple banks are also located in the Company's other market areas in central and north central Iowa creating similarly competitive environments.

Provision for Loan Losses

The provision for loan losses reflects management's judgment of the expense to be recognized in order to maintain an adequate allowance for loan losses. The Company's provision for loan losses for the year ended December 31, 2015 was \$1,099,000 compared to \$429,000 for the previous year. The higher provision for loan losses in 2015 as compared to 2014 was due primarily to increases in the general allowance resulting from increased outstanding loans in the construction and commercial operating portfolios. Credit quality indicators such as classified assets and impaired loans have improved since 2014; while past due loans have risen slightly but remain at a favorable level as compared to peer banks. There was no significant change in the allowance for loan loss on impaired loans. The Company's provision for loan losses for the year ended December 31, 2014 was \$429,000 compared to \$786,000 for the previous year. The lower provision for loan losses in 2014 as compared to 2013 was due primarily to improved credit quality indicators such as lower past due, impaired and classified loans, as well as a decrease in the allowance for loan loss on impaired loans, offset to a lesser extent due to an increase in the general allowance due to higher loans receivables. Refer to the "Asset Quality and Credit Risk Management" discussion for additional details with regard to loan loss provision expense.

Management believes the allowance for loan losses is adequate to absorb probable losses in the current portfolio. This statement is based upon management's continuing evaluation of inherent risks in the current loan portfolio, current levels of classified assets and general economic factors. The Company will continue to monitor the allowance and make future adjustments to the allowance as conditions dictate. 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.

Noninterest Income and Expense

Total noninterest income is comprised primarily of fee-based revenues from wealth management and trust services, bank-related service charges on deposit activities, net securities gains, merchant and card fees related to electronic processing of merchant and cash transactions and gain on the sale of loans held for sale.

Noninterest income during the years ended 2015, 2014 and 2013 totaled \$8,267,000, \$9,252,000 and \$7,718,000, respectively. The lower noninterest income in 2015 as compared to 2014 related primarily to the gain on the disposal of premises and equipment in 2014 and lower recognized securities gains, offset in part by higher gains on the sale of loans held for sale and merchant and card fees. The gain on the disposal of premises and equipment was due primarily to the sale of First National's University office in 2014 which resulted in a \$1,257,000 gain. The increase in gain on sale of loans held for sale is due primarily to higher loan origination volume due to favorable economic conditions during 2015. The increase in merchant and card fees is due primarily to the First Bank Acquisition. The higher noninterest income in 2014 as compared to 2013 related primarily to the above-referenced gain on the disposal of premises and equipment in 2014 and wealth management income, offset in part by lower gains on the sale of loans held for sale. The increase in wealth management income was due primarily to market value driven account fees, as market values have increased on managed assets, and estate settlement fees. The decrease in gain on sale of loans held for sale is due primarily to lower loan origination volume due to higher market interest rates during 2014. Excluding securities gains and gain on disposal of premises and equipment in 2015 and 2014, noninterest income increased 7.0% in 2015 as compared to 2014. Excluding securities gains and gain on sale of premises and equipment in 2014 and 2013, noninterest income increased 2.8% in 2014 as compared to 2013.

Noninterest expense for the Company consists of all operating expenses other than interest expense on deposits and other borrowed funds. Salaries and employee benefits are the largest component of the Company's operating expenses and comprise 60%, 58% and 61% of noninterest expense in 2015, 2014 and 2013, respectively.

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Noninterest expense during the years ended 2015, 2014 and 2013 totaled \$25,312,000, \$24,373,000 and \$21,679,000, respectively, representing a 3.9% increase in 2015 compared to a 12.4% increase in 2014. The primary reason for the increase in 2015 was higher salaries and employee benefit costs benefits and data processing costs, offset in part by a decrease in the other real estate owned expense. Salaries and employee benefits increased due primarily to additional payroll costs associated with the First Bank Acquisition and normal salary increases. Data processing costs increased due primarily to the First Bank Acquisition, equipping the West Ames Office and expenses related to the implementation of video banking services. Other real estate owned expenses decreased due to lower levels of impairment write-down in 2015 as compared to 2014. The primary reason for the increase in 2014 was higher salaries and employee benefit costs due primarily to normal salary increases, additional payroll costs associated with the First Bank Acquisition and higher incentive pay and higher other real estate owned expenses due to impairment write-downs. The percentage of noninterest expense to average assets was 1.91% in 2015, compared to 1.93% and 1.77% during 2014 and 2013, respectively.

Provision for Income Taxes

The provision for income taxes for 2015, 2014 and 2013 was \$5,807,000, \$5,616,000 and \$4,658,000, respectively. This amount represents an effective tax rate of 28%, 27% and 25% for 2015, 2014 and 2013, respectively. The Company's marginal federal income tax rate is currently 35%. The difference between the Company's effective and marginal tax rate is primarily related to investments made in tax exempt securities. The increase in the effective tax rate for 2015 is due primarily to tax-exempt interest income decreasing as a percent of income before income taxes. The increase in the effective tax rate for 2014 is due primarily to tax-exempt interest income decreasing as a percent of income before income taxes.

Balance Sheet Review

The Company's assets are comprised primarily of loans and investment securities. Average earning asset maturity or repricing dates are five years or less for the combined portfolios as the assets are funded for the most part by short term deposits with either immediate availability or less than one year average maturities. This exposes the Company to risk with regard to changes in interest rates that are more fully explained in Item 7A of this Annual Report "Quantitative and Qualitative Disclosures about Market Risk".

Total assets increased to \$1,326,747,000 in 2015 compared to \$1,301,031,000 in 2014, a 2.0% increase. The increase in assets was due primarily to an increase in loans primarily from higher loan volume, offset in part by a decrease in securities available-for-sale and other real estate owned.

Loan Portfolio

Net loans as of December 31, 2015 totaled \$701,328,000, an increase of 6.51% from the \$658,441,000 as of December 31, 2014. The growth was primarily due to favorable lending environments in most of the Bank's market areas. This growth is primarily reflected in the construction real estate portfolios and commercial operating portfolios. Loans are the primary contributor to the Company's revenues and cash flows. The average yield on loans was 171 and 174 basis points higher in 2015 and 2014, respectively, in comparison to the average tax-equivalent investment portfolio yields.

Types of Loans

The following table sets forth the composition of the Company's loan portfolio for the past five years ending at December 31, 2015.

	2015	2014	2013	2012	2011
<i>(dollars in thousands)</i>					
Real Estate					
Construction	\$66,268	\$36,016	\$23,928	\$17,077	\$23,631
1-4 family residential	127,076	122,777	108,289	104,268	94,262
Commercial	251,889	257,054	206,112	178,660	147,500
Agricultural	62,530	57,449	53,834	43,868	32,503
Commercial	102,515	92,703	86,823	80,264	75,958
Agricultural	79,533	85,609	81,326	77,483	52,179
Consumer and other	21,599	15,763	12,795	16,340	20,754
Total loans	711,410	667,371	573,107	517,960	446,787
Deferred loan fees, net	(93)	(92)	(34)	(62)	(231)
Total loans net of deferred fees	\$711,317	\$667,279	\$573,073	\$517,898	\$446,556

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The Company's loan portfolio consists of real estate, commercial, agricultural and consumer loans. As of December 31, 2015, gross loans totaled approximately \$711 million, which equals approximately 66.2% of total deposits and 53.6% of total assets. The Company's peer group (consisting of 345 bank holding companies with total assets of \$1 to \$3 billion) loan to deposit ratio as of September 30, 2015 was a much higher 84%. The primary factor relating to the lower loan to deposit ratio for the Company compared to peer group averages is a more conservative underwriting philosophy and a higher level of deposits. As of December 31, 2015, the majority of the loans were originated directly by the Banks to borrowers within the Banks' principal market areas. There are no foreign loans outstanding during the years presented.

Real estate loans include various types of loans for which the Banks hold real property as collateral and consist of loans primarily on commercial properties and single family residences. Real estate loans typically have fixed rates for up to five years, with the Company's loan policy permitting a maximum fixed rate maturity of up to 15 years. The majority of construction loan volume is given to contractors to construct commercial buildings and these loans generally have maturities of up to 12 months. The Banks also originate residential real estate loans for sale to the secondary market for a fee.

Commercial loans consist primarily of loans to businesses for various purposes, including revolving lines to finance current operations, floor-plans, inventory and accounts receivable; capital expenditure loans to finance equipment and other fixed assets; and letters of credit. These loans generally have short maturities, have either adjustable or fixed rates and are unsecured or secured by inventory, accounts receivable, equipment and/or real estate.

Agricultural loans play an important part in the Banks' loan portfolios. Iowa is a major agricultural state and is a national leader in both grain and livestock production. The Banks play a significant role in their communities in financing operating, livestock and real estate activities for area producers.

Consumer loans include loans extended to individuals for household, family and other personal expenditures not secured by real estate. The majority of the Banks' consumer lending is for vehicles, consolidation of personal debts, household appliances and improvements.

The interest rates charged on loans vary with the degree of risk and the amount and maturity of the loan. Competitive pressures, market interest rates, the availability of funds and government regulation further influence the rate charged on a loan. The Banks follow a loan policy, which has been approved by both the board of directors of the Company and the Banks, and is overseen by both Company and Bank management. These policies establish lending limits, review and grading criteria and other guidelines such as loan administration and allowance for loan losses. Loans are approved by the Banks' board of directors and/or designated officers in accordance with respective guidelines and underwriting policies of the Company. Credit limits generally vary according to the type of loan and the individual loan officer's experience. Loans to any one borrower are limited by applicable state and federal banking laws.

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The contractual maturities of the Company's loan portfolio are as shown below. Actual maturities may differ from contractual maturities because individual borrowers may have the right to prepay loans with or without prepayment penalties.

	Within one year	After one year but within five years	After five years	Total
<i>(dollars in thousands)</i>				
Real Estate				
Construction	\$26,749	\$19,719	\$19,800	\$66,268
1-4 family residential	22,543	48,603	55,930	127,076
Commercial	15,541	177,917	58,431	251,889
Agricultural	6,411	21,442	34,677	62,530
Commercial	44,341	54,595	3,579	102,515
Agricultural	67,730	9,959	1,844	79,533
Consumer and other	10,213	9,708	1,678	21,599
Total loans	\$193,528	\$341,943	\$175,939	\$711,410

	After one year but within five years	After five years
Loan maturities after one year with:		
Fixed rates	\$303,848	\$133,578
Variable rates	38,095	42,361
	\$341,943	\$175,939

Loans Held For Sale

Mortgage origination funding awaiting delivery to the secondary market totaled \$539,000 and \$705,000 as of December 31, 2015 and 2014, respectively. Residential mortgage loans are originated by the Banks and sold to several secondary mortgage market outlets based upon customer product preferences and pricing considerations. The

mortgages are sold in the secondary market to eliminate interest rate risk and to generate secondary market fee income. It is not anticipated at the present time that loans held for sale will become a significant portion of total assets.

Investment Portfolio

Total investments as of December 31, 2015 were \$537,633,000, a decrease of \$4.9 million or 0.9% from the prior year end. As of December 31, 2015 and 2014, the investment portfolio comprised 41% and 42% of total assets, respectively.

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The following table presents the fair values, which represent the carrying values due to the available-for-sale classification, of the Company's investment portfolio as of December 31, 2015, 2014 and 2013, respectively. This portfolio provides the Company with a significant amount of liquidity.

	2015	2014	2013
<i>(dollars in thousands)</i>			
U.S. government treasuries	\$ 1,467	\$ 1,448	\$-
U.S. government agencies	106,445	87,307	61,178
U.S. government mortgage-backed securities	98,079	120,985	155,142
State and political subdivisions	277,597	281,776	315,224
Corporate bonds	50,889	47,319	44,752
Equity securities	3,156	3,667	3,743
Total	\$537,633	\$542,502	\$580,039

Investments in states and political subdivisions represent purchases of municipal bonds located primarily in the state of Iowa and contiguous states.

The equity securities portfolio consisted primarily of required stocks, such as the FHLB and FRB stock, as of December 31, 2015 and also included a publically traded common stock as of December 31, 2014 and 2013.

During the years ended December 31, 2015, 2014 and 2013, the Company did not recognize an other-than-temporary impairment. Management estimates at the present time there exists no other-than-temporary impairments in the securities available-for-sale portfolio at December 31, 2015; however, it is possible that the Company may incur impairment losses in 2016 and thereafter.

As of December 31, 2015, the Company did not have securities from a single issuer, except for the United States Government or its agencies, which exceeded 10% of consolidated stockholders' equity.

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.

The valuation techniques used are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques are consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, a fair value hierarchy was established for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available.

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Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatility, prepayment speeds, credit risk); or inputs derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Other securities available-for-sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the terms and conditions, among other things.

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, the Company does not purchase investment portfolio securities that are esoteric or that have a complicated structure. The Company's entire portfolio consists of traditional investments, nearly all of which are federal agency or mortgage pass-through securities, general obligation or revenue based municipal bonds or corporate bonds. Equity securities consist of publically traded common stock, FHLB stock and FRB stock. Pricing for such instruments is fairly generic and is easily obtained. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources.

Investment Maturities as of December 31, 2015

The investments in the following table are reported by contractual maturity. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without prepayment penalties.

	After one year but within	After five years but within	After
Within			

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	one year	five years	ten years	ten years	Total
<i>(dollars in thousands)</i>					
U.S. government treasuries	\$-	\$1,467	\$-	\$-	\$1,467
U.S. government agencies	4,015	65,105	37,324	-	106,444
U.S. government mortgage-backed securities	488	88,018	9,573	-	98,079
States and political subdivisions (1)	26,350	146,479	90,974	13,794	277,597
Corporate bonds	3,583	23,147	24,160	-	50,890
Total	\$34,436	\$324,216	\$162,031	\$13,794	\$534,477

Weighted average yield										
U.S. government treasuries	0.00	%	2.00	%	0.00	%	0.00	%	2.00	%
U.S. government agencies	2.50	%	1.90	%	2.27	%	0.00	%	2.05	%
U.S. government mortgage-backed securities	4.27	%	2.50	%	2.73	%	0.00	%	2.53	%
States and political subdivisions (1)	3.61	%	3.15	%	3.65	%	3.92	%	3.39	%
Corporate bonds	2.57	%	2.38	%	2.62	%	0.00	%	2.51	%
Total	3.38	%	2.66	%	3.12	%	3.92	%	2.88	%

(1) Yields on tax-exempt obligations of states and political subdivisions have been computed on a tax-equivalent basis.

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At December 31, 2015 and 2014, the Company's investment securities portfolio included securities issued by 283 and 314 government municipalities and agencies located within 24 and 25 states with a fair value of \$277,597,000 and \$281,776,000, respectively. No one municipality or agency represents a concentration within this segment of the investment portfolio. The largest exposure to any one municipality or agency as of December 31, 2015 and 2014 was \$5.1 million and \$5.4 million, respectively (approximately 1.9% of the fair value of the governmental municipalities and agencies) both represented by the Dubuque, Iowa Community School District to be repaid by sales tax revenues as of December 31, 2015 and 2014.

The Company's procedures for evaluating investments in states, municipalities and political subdivisions include but are not limited to reviewing the offering statement and the most current available financial information, comparing yields to yields of bonds of similar credit quality, confirming capacity to repay, assessing operating and financial performance, evaluating the stability of tax revenues, considering debt profiles and local demographics, and for revenue bonds, assessing the source and strength of revenue structures for municipal authorities. These procedures, as applicable, are utilized for all municipal purchases and are utilized in whole or in part for monitoring the portfolio of municipal holdings. The Company does not utilize third party credit rating agencies as a primary component of determining if the municipal issuer has an adequate capacity to meet the financial commitments under the security for the projected life of the investment, and, therefore, does not compare internal assessments to those of the credit rating agencies. Credit rating downgrades are utilized as an additional indicator of credit weakness and as a reference point for historical default rates.

The following table summarizes the total general obligation and revenue bonds in the Company's investment securities portfolios as of December 31, 2015 and 2014 identifying the state in which the issuing government municipality or agency operates.

	2015		2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<i>(dollars in thousands)</i>				
Obligations of states and political subdivisions:				
General Obligation bonds:				
Iowa	\$77,735	\$78,255	\$75,879	\$76,857
Texas	10,712	10,967	10,352	10,537
Minnesota	8,401	8,510	8,797	8,932
Pennsylvania	8,389	8,448	7,377	7,390
Other (2015: 16 states; 2014: 18 states)	26,449	26,916	31,028	31,549
Total general obligation bonds	\$131,686	\$133,096	\$133,433	\$135,265
Revenue bonds:				
Iowa	\$134,333	\$136,705	\$134,683	\$137,250

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Other (2015: 9 states; 2014: 11 states)	7,752	7,796	9,212	9,261
Total revenue bonds	\$142,085	\$144,501	\$143,895	\$146,511
Total obligations of states and political subdivisions	\$273,771	\$277,597	\$277,328	\$281,776

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As of December 31, 2015 and 2014, the revenue bonds in the Company's investment securities portfolios were issued by government municipalities and agencies to fund public services such as community school facilities, college and university dormitory facilities and water utilities. The revenue bonds are to be paid from 11 revenue sources in 2015 and 2014. The revenue sources that represent 5% or more, individually, as a percent of the total revenue bonds are summarized in the following table.

<i>(dollars in thousands)</i>	2015		2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Revenue bonds by revenue source				
Sales tax	\$88,299	\$90,145	\$86,386	\$88,449
College and universities, primarily dormitory revenues	12,153	12,298	14,005	14,108
Water	10,446	10,548	12,155	12,191
Leases	9,900	9,939	9,551	9,599
Electric Power	8,950	9,141	7,357	7,578
Other	12,337	12,430	14,441	14,586
Total revenue bonds by revenue source	\$142,085	\$144,501	\$143,895	\$146,511

Deposits

Total deposits were \$1,074,193,000 and \$1,052,123,000 as of December 31, 2015 and 2014, respectively. The increase of \$22,070,000 between the periods can be attributed to increases in money market accounts and demand deposit accounts, offset by decreases in other time deposits due in part to the low rate environment.

The Company's primary source of funds is customer deposits. The Banks attempts to attract noninterest-bearing deposits, which are a low-cost funding source. In addition, the Banks offer a variety of interest-bearing accounts designed to attract both short-term and longer-term deposits from customers. Interest-bearing accounts earn interest at rates established by Bank management based on competitive market factors and the Company's need for funds. While nearly 59% of the Banks' certificates of deposit mature in the next year, it is anticipated that a majority of these certificates will be renewed. Rate sensitive certificates of deposits in excess of \$100,000 are subject to somewhat higher volatility with regard to renewal volume as the Banks adjust rates based upon funding needs. In the event a substantial volume of certificates is not renewed, the Company has sufficient liquid assets and borrowing lines to fund significant runoff. A sustained reduction in deposit volume would have a significant negative impact on the Company's operation and liquidity. The Company had \$3,247,000 of brokered deposits as of December 31, 2015 and 2014.

Average Deposits by Type

The following table sets forth the average balances for each major category of deposit and the weighted average interest rate paid for deposits during the years ended December 31, 2015, 2014 and 2013.

	2015		2014		2013	
	Average		Average		Average	
	Amount	Rate	Amount	Rate	Amount	Rate
<i>(dollars in thousands)</i>						
Noninterest bearing demand deposits	\$192,112	0.00%	\$171,407	0.00%	\$167,207	0.00%
Interest bearing demand deposits	300,285	0.16%	293,181	0.18%	294,767	0.20%
Money market deposits	271,838	0.21%	244,461	0.21%	233,344	0.21%
Savings deposits	79,940	0.13%	69,633	0.15%	62,933	0.16%
Time certificates > \$100,000	90,574	0.89%	96,244	0.97%	96,247	1.12%
Time certificates < \$100,000	138,387	0.77%	145,704	0.90%	149,934	1.07%
	\$1,073,136		\$1,020,629		\$1,004,433	

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Deposit Maturity

The following table shows the amounts and remaining maturities of time certificates of deposit that had balances of \$100,000 and over as of December 31, 2015, 2014 and 2013.

	2015	2014	2013
<i>(dollars in thousands)</i>			
3 months or less	\$13,370	\$18,632	\$18,230
Over 3 through 12 months	46,643	37,425	39,765
Over 12 through 36 months	23,704	29,308	28,722
Over 36 months	6,503	8,443	10,361
Total	\$90,220	\$93,808	\$97,078

Securities Sold Under an Agreement to Repurchase

Securities sold under agreements to repurchase totaled \$54,290,000 and \$51,265,000 as of December 31, 2015 and 2014, respectively an increase of 5.9%.

Borrowed Funds

Borrowed funds that may be utilized by the Company are comprised of FHLB advances, federal funds purchased, repurchase agreements and financing agreements. Borrowed funds are an alternative funding source to deposits and can be used to fund the Company's assets and unforeseen liquidity needs. FHLB advances are loans from the FHLB that can mature daily or have longer maturities for fixed or floating rates of interest. Federal funds purchased are borrowings from other banks that mature daily. Securities sold under agreement to repurchase (repurchase agreements) are similar to deposits as they are funds lent by various Bank customers; however, investment securities are pledged to secure such borrowings. The Company has repurchase agreements that reprice daily. Term repurchase agreements are funds lent by a third party with securities pledged to secure such borrowings. These term repurchase agreements have longer terms. Financing agreements are comprised of financing transactions of transferred loans by First National that First National maintains effective control.

The following table summarizes the outstanding amount of, and the average rate on, borrowed funds as of December 31, 2015, 2014 and 2013.

	2015		2014		2013	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
<i>(dollars in thousands)</i>						
Federal funds purchased and repurchase agreements	\$54,290	0.33 %	\$51,265	0.27 %	\$39,617	0.32 %
FHLB advances	18,542	2.24 %	14,468	2.68 %	14,541	2.70 %
Other borrowings	13,000	3.62 %	23,000	3.59 %	20,000	3.40 %
Total	\$85,832	1.24 %	\$88,733	1.52 %	\$74,157	1.62 %

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Average Annual Borrowed Funds

The following table sets forth the average amount of, the average rate paid and maximum outstanding balance on, borrowed funds for the years ended December 31, 2015, 2014 and 2013.

	2015		2014		2013			
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate		
<i>(dollars in thousands)</i>								
Federal funds purchased and repurchase agreements	\$52,187	0.28 %	\$51,536	0.28 %	\$34,908	0.33 %		
FHLB advances	17,199	2.34 %	15,888	2.50 %	16,879	2.40 %		
Other borrowings	16,995	3.63 %	17,822	3.48 %	20,000	3.46 %		
Total	\$86,381	1.35 %	\$85,246	1.36 %	\$71,787	1.69 %		

Maximum Amount Outstanding during the Year

Federal funds purchased and repurchase agreements	\$66,245	\$71,485	\$45,956
FHLB advances	\$50,253	\$39,598	\$45,077
Other borrowings	\$23,000	\$23,000	\$20,000

Off-Balance-Sheet Arrangements

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit that assist customers with their credit needs to conduct business. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. As of December 31, 2015, the most likely impact of these financial instruments on revenues, expenses, or cash flows of the Company would come from unidentified credit risk causing higher provision expense for loan losses in future periods. These financial instruments are not expected to have a significant impact on the liquidity or capital resources of the Company. For additional information, including quantification of the amounts involved, see Note 15 of the "Notes to Consolidated Statements" and the "Liquidity and Capital Resources" section of this discussion.

Contractual Obligations

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The following table sets forth the balance of the Company's contractual obligations by maturity period as of December 31, 2015.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
<i>(dollars in thousands)</i>					
Deposits	\$1,074,193	\$984,072	\$70,079	\$19,903	\$139
Securities sold under agreements to repurchase	54,290	54,290	-	-	-
Federal funds purchased	-	-	-	-	-
FHLB advances and other borrowings (1)	31,542	3,546	25,597	2,105	294
Leases	341	93	186	62	-
Purchase obligations (2)	4,373	1,722	2,071	580	-
Total	\$1,164,739	\$1,043,723	\$97,933	\$22,650	\$433

(1) FHLB advances consist of various FHLB borrowings with fixed rates with final maturities through 2025. \$11.5 million of the FHLB advances are callable quarterly and \$0.5 million of the FHLB advances are amortizing and puttable. Other borrowings also include \$13.0 million of term repurchase agreements having maturities greater than one year and can be called by the issuing financial institution quarterly. The term repurchase agreements have final maturities through 2018.

(2) Purchase obligations include data processing, internet banking services and card processing contracts that include termination provisions that would accelerate all future payments in the event the Company changed service providers prior to the contracts' expirations.

Table Of Contents**Asset Quality Review and Credit Risk Management**

The Company's credit risk is centered in the loan portfolio, which on December 31, 2015, totaled \$701,328,000 as compared to \$658,441,000 as of December 31, 2014, an increase of 6.5%. Net loans comprise 53% of total assets as of the end of 2015. The object in managing loan portfolio risk is to reduce the risk of loss resulting from a customer's failure to perform according to the terms of a transaction and to quantify and manage credit risk on a portfolio basis. As the following chart indicates, the Company's non-performing assets have decreased by 71% from December 31, 2014 and total \$3,140,000 as of December 31, 2015. The Company's level of non-performing assets as a percentage of assets of 0.24% as of December 31, 2015, is lower than the average for the Company's peer group of FDIC insured institutions as of September 30, 2015, of 0.89%. Management believes that the allowance for loan losses as of December 31, 2015 remains adequate based on its analysis of the non-performing assets and the portfolio as a whole.

Non-performing Assets

The following table sets forth information concerning the Company's non-performing assets for the past five years ended December 31, 2015.

	2015	2014	2013	2012	2011
<i>(dollars in thousands)</i>					
Non-performing assets:					
Nonaccrual loans	\$ 1,818	\$ 2,407	\$ 2,508	\$ 5,567	\$ 7,915
Loans 90 days or more past due	75	36	27	-	152
Total non-performing loans	1,893	2,443	2,535	5,567	8,067
Securities available-for-sale	-	-	-	-	-
Other real estate owned	1,250	8,436	8,861	9,911	9,538
Total non-performing assets	\$ 3,143	\$ 10,879	\$ 11,396	\$ 15,478	\$ 17,605

The accrual of interest on nonaccrual and other impaired loans is generally discontinued at 90 days or when, in the opinion of management, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received and when principal obligations are expected to be recoverable. Interest income on restructured loans is recognized pursuant to the terms of the new loan agreement. Interest income on other impaired loans remaining on accrual is monitored and income is recognized based upon the terms of the underlying loan agreement. However, the recorded net investment in impaired loans, including accrued interest, is limited to the present value of the expected cash flows of the impaired loan or the observable fair value of the loan's collateral.

Impaired loans totaled \$1,818,000 as of December 31, 2015 and were \$589,000 lower than the impaired loans as of December 31, 2014. The Company considers impaired loans to generally include the non-performing loans (consisting of nonaccrual loans and loans past due 90 days or more and still accruing) and other loans that may or may not meet the former nonperforming criteria but are considered to meet the definition of impaired.

The allowance for loan losses related to these impaired loans was approximately \$439,000 and \$337,000 at December 31, 2015 and 2014, respectively. The average balances of impaired loans for the years ended December 31, 2015 and 2014 were \$2,104,000 and \$2,173,000, respectively. For the years ended December 31, 2015, 2014 and 2013, interest income, which would have been recorded under the original terms of nonaccrual loans, was approximately \$162,000, \$136,000 and \$287,000, respectively, with \$164,000, \$453,000 and \$347,000, respectively, recorded. There was \$75,000 of loans greater than 90 days past due and still accruing interest as of December 31, 2015 and there was \$36,000 of loans greater than 90 days past due and still accruing interest at December 31, 2014.

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Summary of the Allowance for Loan Losses

The provision for loan losses represents an expense charged against earnings to maintain an adequate allowance for loan losses. The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Factors considered in establishing an appropriate allowance include: an assessment of the financial condition of the borrower; a realistic determination of value and adequacy of underlying collateral; historical charge-offs; the condition of the local economy; the condition of the specific industry of the borrower; an analysis of the levels and trends of loan categories; and a review of delinquent and classified loans.

The adequacy of the allowance for loan losses is evaluated quarterly by management, the Company and respective Bank boards. This evaluation focuses on specific loan reviews, changes in the type and volume of the loan portfolio given the current economic conditions and historical loss experience. Any one of the following conditions may result in the review of a specific loan: concern about whether the customer's cash flow or collateral are sufficient to repay the loan; delinquent status; criticism of the loan in a regulatory examination; the accrual of interest has been suspended; or other reasons, including when the loan has other special or unusual characteristics which warrant special monitoring.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgment about information available to them at the time of their examination. Due to potential changes in conditions, it is at least reasonably possible that change 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.

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Analysis of the Allowance for Loan Losses

The Company's policy is to charge-off loans when, in management's opinion, the loan is deemed uncollectible, although concerted efforts are made to maximize future recoveries. The following table sets forth information regarding changes in the Company's allowance for loan losses for the most recent five years.

	2015	2014	2013	2012	2011
<i>(dollars in thousands)</i>					
Balance at beginning of period	\$8,838	\$8,572	\$7,773	\$7,905	\$7,521
Charge-offs:					
Real estate					
Construction	-	-	-	-	-
1-4 Family residential	25	151	81	154	75
Commercial	-	-	-	-	51
Agricultural	-	-	-	-	-
Commercial	-	17	-	30	2
Agricultural	39	-	-	-	23
Consumer and other	5	77	36	48	52
Total charge-offs	69	245	117	232	203
Recoveries:					
Real estate					
Construction	50	25	-	-	-
1-4 Family residential	26	18	54	3	-
Commercial	4	-	51	4	2
Agricultural	-	-	-	-	-
Commercial	-	19	3	24	21
Agricultural	28	-	-	-	17
Consumer and other	12	20	22	47	14
Total recoveries	120	82	130	78	54
Net charge-offs (recoveries)	(51)	163	(13)	154	149
Provisions charged to operations	1,099	429	786	22	533
Balance at end of period	\$9,988	\$8,838	\$8,572	\$7,773	\$7,905
Average loans outstanding	\$681,824	\$527,627	\$482,699	\$431,368	\$417,688
Ratio of net charge-offs (recoveries) during the period to average loans outstanding	-0.01 %	0.03 %	0.00 %	0.03 %	0.03 %

Ratio of allowance for loan losses to total loans net of deferred fees	1.40	%	1.32	%	1.50	%	1.50	%	1.77	%
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The allowance for loan losses increased to \$9,988,000 at the end of 2015 in comparison to the allowance of \$8,838,000 at year end 2014 as a result of provisions of \$1,099,000 and net recoveries of \$51,000. The higher provision for loan losses in 2015 as compared to 2014 was due primarily to increased outstanding loans in the construction and commercial real estate portfolios. Credit quality indicators such as classified assets and impaired loans have improved while past due loans have risen slightly but remain at a favorable level as compared to peer banks. There was no significant change in the allowance for loan loss on impaired loans. The allowance for loan losses increased to \$8,838,000 at the end of 2014 in comparison to the allowance of \$8,572,000 at year end 2013 as a result of provisions of \$429,000 and net charge-offs of \$162,000. The lower provision for loan losses in 2014 as compared to 2013 was due primarily to improved credit quality indicators, excluding the loans acquired as a part of the First Bank Acquisition, such as past due loans, classified assets, impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. This decrease was offset in part by provisions required due to an increase in the loan portfolio. The allowance for loan losses increased to \$8,572,000 at the end of 2013 in comparison to the allowance of \$7,773,000 at year end 2012 as a result of provisions of \$786,000 and net recoveries of \$13,000. The higher provision for loan losses in 2013 as compared to 2012 was due primarily to a higher provision required as a result of an increase in the loan portfolio. This increase was offset in part by to improved credit quality indicators such as lower impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. The allowance for loan losses decreased to \$7,773,000 at the end of 2012 in comparison to the allowance of \$7,905,000 at year end 2011 as a result of net charge offs of \$154,000, offset in part by provisions of \$22,000. The lower provision for loan losses in 2012 as compared to 2011 was due primarily to improved credit quality indicators such as lower past due, watch, substandard and impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. These factors were offset in part by an increase in the loan portfolio.

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General reserves for loan categories range from 1.07% to 1.81% of the outstanding loan balances as of December 31, 2015. In general as loan volume increases, the general reserve levels increase with that growth and as loan volume decreases, the general reserve levels decrease with that decline. The loan provisions recognized in 2015 were due primarily to increases in the loan portfolio. The loan provisions recognized in 2014 were due primarily to increases in the loan portfolio, offset in part by lower provisions needed due to improved credit quality indicators, excluding loans acquired as a part of the First Bank Acquisition, impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. The loan provisions recognized in 2013 were due primarily to increases in the loan portfolio, offset in part by lower impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. The allowance relating to commercial real estate and 1-4 family residential are the largest reserve components. Construction, commercial operating and agricultural operating loans have higher general reserve levels as a percentage than the other loan categories as management perceives more risk in this type of lending. Elements contributing to the higher risk level include a higher percentage of watch, special mention, substandard and impaired loans and less favorable economic conditions for those portfolios. As of December 31, 2015, commercial real estate loans have general reserves ranging from 1.25% to 1.45%.

Other factors considered when determining the adequacy of the general reserve include historical losses; watch, substandard and impaired loan volume; collecting past due loans; loan growth; loan-to-value ratios; loan administration; collateral values; and economic factors. The Company's concentration risks include geographic concentration in central Iowa; the local economy's dependence upon several large governmental entity employers, including Iowa State University and the Iowa Department of Transportation; and the health of Iowa's agricultural sector that, in turn, is dependent on weather conditions and government programs. No assurances can be made that losses will remain at the relatively favorable levels experienced over the past five years.

Loans that the Banks have identified as having higher risk levels are reviewed individually in an effort to establish adequate loss reserves. These reserves are considered specific reserves and are directly impacted by the credit quality of the underlying loans. Normally, as the actual or expected level of non-performing loans increase, the specific reserves also increase. As of December 31, 2015, the specific reserve increased to \$439,000 from \$337,000, as the volume of problem credits decreased. As of December 31, 2014, the specific reserve decreased to \$337,000 from \$477,000, as the volume of problem credits decreased. As of December 31, 2013, the specific reserve decreased to \$477,000 from \$702,000, as the volume of problem credits decreased. As of December 31, 2012, the specific reserve decreased to \$702,000 from \$876,000, as the volume of problem credits decreased. As of December 31, 2011, the specific reserve increased to \$876,000 from \$445,000, as the volume of problem credits increased. The specific reserves are dependent upon assumptions regarding the liquidation value of collateral and the cost of recovering collateral including legal fees. Changing the amount of specific reserves on individual loans has historically had the largest impact on the reallocation of the allowance among different parts of the portfolio.

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Allocation of the Allowance for Loan Losses

The following table sets forth information concerning the Company's allocation of the allowance for loan losses.

<i>(dollars in thousands)</i>	2015		2014		2013		2012		2011	
	Amount	% *	Amount	% *	Amount	% *	Amount	% *	Amount	% *
Balance at end of period applicable to:										
Real Estate										
Construction	\$999	9 %	\$495	5 %	\$392	4 %	\$375	3 %	\$793	5 %
1-4 family residential	1,806	18 %	1,648	18 %	1,523	19 %	1,433	21 %	1,402	21 %
Commercial	3,558	36 %	3,214	38 %	3,230	36 %	2,859	35 %	2,859	33 %
Agricultural	760	9 %	737	10 %	686	10 %	523	8 %	501	7 %
Commercial	1,371	14 %	1,247	14 %	1,435	15 %	1,461	15 %	1,352	17 %
Agricultural	1,256	11 %	1,312	13 %	1,165	14 %	945	15 %	764	12 %
Consumer and other	239	3 %	185	2 %	141	2 %	177	3 %	234	5 %
	\$9,989	100%	\$8,838	100%	\$8,572	100%	\$7,773	100%	\$7,905	100%

* Percent of loans in each category to total loans.

Liquidity and Capital Resources

Liquidity management is the process by which the Company, through its Banks' Asset and Liability Committees (ALCO), ensures adequate liquid funds are available to meet its financial commitments on a timely basis, at a reasonable cost and within acceptable risk tolerances. These commitments include funding credit obligations to borrowers, funding of mortgage originations pending delivery to the secondary market, withdrawals by depositors, maintaining adequate collateral for pledging for public funds, trust deposits and borrowings, paying dividends to shareholders, payment of operating expenses, funding capital expenditures and maintaining deposit reserve requirements.

Liquidity is derived primarily from core deposit growth and retention; principal and interest payments on loans; principal and interest payments, sale, maturity and prepayment of investment securities; net cash provided from operations; and access to other funding sources. Other funding sources include federal funds purchased lines, FHLB advances and other capital market sources.

As of December 31, 2015, the level of liquidity and capital resources of the Company remain at a satisfactory level and compare favorably to that of other FDIC insured institutions. Management believes that the Company's liquidity sources will be sufficient to support its existing operations for the foreseeable future.

The liquidity and capital resources discussion will cover the following topics:

Review of the Company's Current Liquidity Sources

Review of the Consolidated Statements of Cash Flows

Review of Company Only Cash Flows

Review of Commitments for Capital Expenditures, Cash Flow Uncertainties and Known Trends in Liquidity and Cash Flow Needs

Capital Resources

Review of the Company's Current Liquidity Sources

Liquid assets of cash on hand, balances due from other banks, federal funds sold and interest-bearing deposits in financial institutions for December 31, 2015, 2014 and 2013 totaled \$50,999,000, \$55,200,000 and \$47,898,000, respectively. The lower balance of liquid assets at December 31, 2015 primarily relates to a decrease in interest bearing deposits in financial institutions.

Other sources of liquidity available to the Banks include borrowing capacity with the FHLB of \$154,509,000 and federal funds borrowing capacity at correspondent banks of \$116,570,000. As of December 31, 2015, the Company had outstanding FHLB advances of \$18,542,000, no federal funds purchased, securities sold under agreements to repurchase of \$54,290,000 and other borrowings of \$13,000,000. While the borrowing option is available, the Company has no Treasury Tax and Loan option notes outstanding.

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Total investments as of December 31, 2015, were \$537,633,000 compared to \$542,502,000 as of year-end 2014. As of December 31, 2015 and 2014, the investment portfolio as a percentage of total assets was 41% and 42%, respectively. The investment portfolio provides the Company with a significant amount of liquidity since all investments are classified as available-for-sale as of December 31, 2015 and 2014 and have pretax net unrealized gains of \$5,527,000 and \$7,098,000, respectively.

The investment portfolio serves an important role in the overall context of balance sheet management in terms of balancing capital utilization and liquidity. The decision to purchase or sell securities is based upon the current assessment of economic and financial conditions, including the interest rate environment, liquidity and credit considerations. The portfolio's scheduled maturities represent a significant source of liquidity.

Review of the Consolidated Statements of Cash Flows

Net cash provided by operating activities for the years ended December 31, 2015, 2014 and 2013 totaled \$22,714,000, \$19,508,000 and \$23,525,000, respectively. The increase in net cash provided by operating activities in 2015 as compared to 2014 was primarily due to a decrease in deferred income taxes and lower gain on disposal of bank premises and equipment. The decrease in net cash provided by operating activities in 2014 as compared to 2013 was primarily due to lower amortization of mortgage-backed securities, a decrease in other assets, higher gain on sale and disposal of bank premises and equipment, offset in part by an increase in net income and higher impairment of other real estate owned.

Net cash provided by (used in) investing activities for the years ended December 31, 2015, 2014 and 2013 was \$(34,468,000), \$16,184,000 and \$(47,923,000), respectively. The change in net cash provided by (used in) investing activities in 2015 was primarily due to changes in securities available-for-sale and change in cash acquired, net of cash paid for acquired bank offices acquired in the First Bank Acquisition. The change in net cash provided by investing activities in 2014 was primarily due to changes in securities available-for-sale and cash acquired, net of cash paid for acquired bank offices acquired in the First Bank Acquisition, offset in part by the change in interest bearing deposits in financial institutions.

Net cash provided by (used in) financing activities for the years ended December 31, 2015, 2014 and 2013 totaled \$12,029,000, \$(36,232,000) and \$13,862,000, respectively. The change in net cash provided by (used in) financing activities in 2015 was due primarily to a change in deposits. The change in net cash (used in) financing activities in 2014 was due primarily to a change in deposits. As of December 31, 2015, the Company did not have any external debt financing, off balance sheet financing arrangements or derivative instruments linked to its stock.

Review of Company Only Cash Flows

The Company's liquidity on an unconsolidated basis is heavily dependent upon dividends paid to the Company by the Banks. The Company requires adequate liquidity to pay its expenses and pay stockholder dividends. In 2015, dividends from the Banks amounted to \$8,350,000 compared to \$7,600,000 in 2014. 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 and United Bank, as national banks, generally may pay dividends, without obtaining the express approval of the Office of the Comptroller of the Currency ("OCC"), in an amount up to their 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.

The Company has unconsolidated cash, interest bearing deposits and marketable investment securities totaling \$8,946,000 that were available at December 31, 2015 to provide additional liquidity to the Banks.

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Review of Commitments for Capital Expenditures, Cash Flow Uncertainties and Known Trends in Liquidity and Cash Flow Needs

Commitments to extend credit totaled \$158,566,000 as of December 31, 2015 compared to a total of \$159,527,000 at the end of 2014. The timing of these credit commitments varies with the underlying borrowers; however, the Company has satisfactory liquidity to fund these obligations as of December 31, 2015. The primary cash flow uncertainty would be a sudden decline in deposits causing the Banks to liquidate securities. Historically, the Banks have maintained an adequate level of short term marketable investments to fund the temporary declines in deposit balances. There are no other known trends in liquidity and cash flow needs as of December 31, 2015, that are of concern to management.

Capital Resources

The Company's total stockholders' equity increased to \$161,250,000 at December 31, 2015, from \$154,674,000 at December 31, 2014. At December 31, 2015 and 2014, stockholders' equity as a percentage of total assets was 12.2% and 11.9%, respectively. The increase in stockholders' equity was primarily the result of net income, offset in part by lower fair value on the securities available-for-sale as reflected in the decrease in accumulated other comprehensive income, and dividends declared. The capital levels of the Company currently exceed applicable regulatory guidelines as of December 31, 2015.

From time to time, the Company's board of directors has authorized stock repurchase plans. Stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. No shares of common stock were repurchased under stock repurchase plans in 2015 and 2014. Also see Part II, Item 5 - Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, included elsewhere in this Report.

Interest Rate Risk

Interest rate risk refers to the impact that a change in interest rates may have on the Company's earnings and capital. Management's objectives are to control interest rate risk and to ensure predictable and consistent growth of earnings and capital. Interest rate risk management focuses on fluctuations in net interest income identified through computer simulations to evaluate volatility, varying interest rate, spread and volume assumptions. The risk is quantified and compared against tolerance levels.

The Company uses a third-party computer software simulation modeling program to measure its exposure to potential interest rate changes. For various assumed hypothetical changes in market interest rates, numerous other assumptions are made such as prepayment speeds on loans, the slope of the Treasury yield curve, the rates and volumes of the Company's deposits and the rates and volumes of the Company's loans. This analysis measures the estimated change in net interest income in the event of hypothetical changes in interest rates.

Another measure of interest rate sensitivity is the gap ratio. This ratio indicates the amount of interest-earning assets repricing within a given period in comparison to the amount of interest-bearing liabilities repricing within the same period of time. A gap ratio of 1.0 indicates a matched position, in which case the effect on net interest income due to interest rate movements will be minimal. A gap ratio of less than 1.0 indicates that more liabilities than assets reprice within the time period, while a ratio greater than 1.0 indicates that more assets reprice than liabilities.

The simulation model process provides a dynamic assessment of interest rate sensitivity, whereas a static interest rate gap table is compiled as of a point in time. The model simulations differ from a traditional gap analysis, as a traditional gap analysis does not reflect the multiple effects of interest rate movement on the entire range of assets and liabilities and ignores the future impact of new business strategies.

Inflation

The primary impact of inflation on the Company's operations is to increase asset yields, deposit costs and operating overhead. Unlike most industries, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than they would on non-financial companies. Although interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services, increases in inflation generally have resulted in increased interest rates. The effects of inflation can magnify the growth of assets and, if significant, require that equity capital increase at a faster rate than would be otherwise necessary.

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Forward-Looking Statements and Business Risks

Certain statements contained in the foregoing Management's Discussion and Analysis and elsewhere in this Annual Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases and in oral and written statements made by or with the Company's approval that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends", "targeted", "projected", "continue", "remain", "will", "should", "may" similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statement. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

Local, regional and national economic conditions and the impact they may have on the Company and its customers, and management's assessment of that impact on its estimates including, but not limited to, the allowance for loan losses and fair value of other real estate owned. Of particular relevance are the economic conditions in the concentrated geographic area in central and north-central Iowa in which the Banks conduct their operations.

Changes in the level of nonperforming assets and charge-offs.

Changes in the fair value of securities available-for-sale and management's assessments of other-than-temporary impairment of such securities.

The effects of and changes in trade and monetary and fiscal policies and laws, including the changes in assessment rates established by the Federal Deposit Insurance Corporation for its Deposit Insurance Fund and interest rate policies of the Federal Open Market Committee of the Federal Reserve Board.

Changes in sources and uses of funds, including loans, deposits and borrowings, including the ability of the Banks to maintain unsecured federal funds lines with correspondent banks.

Changes imposed by regulatory agencies to increase capital to a level greater than the level required for well-capitalized financial institutions.

Inflation and interest rate, securities market and monetary fluctuations.

Political instability, acts of war or terrorism and natural disasters.

The timely development and acceptance of new products and services and perceived overall value of these products and services by customers.

Revenues being lower than expected.

Changes in consumer spending, borrowings and savings habits.

Changes in the financial performance and/or condition of the Company's borrowers.

Credit quality deterioration, which could cause an increase in the provision for loan losses.

Technological changes and risks related to breaches of data security and cyber attacks.

The ability to increase market share and control expenses.

Changes in the competitive environment among financial or bank holding companies and other financial service providers.

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The effect of changes in laws and regulations with which the Company and the Banks must comply, including developments and changes related to the implementation of the Dodd-Frank Act.

Changes in the securities markets.

The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters, including the International Financial Reporting Standards.

The costs and effects of legal and regulatory developments, including the resolution of regulatory or other governmental inquiries and the results of regulatory examinations or reviews.

The Company's success at managing the risks involved in the foregoing items.

Certain of the foregoing risks and uncertainties are discussed in greater detail under the heading "Risk Factors" in Item 1A herein.

These factors may not constitute all factors that could cause actual results to differ materially from those discussed in any forward-looking statement. The Company operates in a continually changing business environment and new facts emerge from time to time. It cannot predict such factors nor can it assess the impact, if any, of such factors on its financial position or its results of operations. Accordingly, forward-looking statements should not be relied upon as a predictor of actual results. The Company disclaims any responsibility to update any forward-looking statement provided in this document.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk is comprised primarily of interest rate risk arising from its core banking activities of making loans and taking deposits. Interest rate risk is the risk that changes in market interest rates may adversely affect the Company's net interest income. Management continually develops and applies strategies to mitigate this risk. Management does not believe that the Company's primary market risk exposure and how that exposure was managed in 2015 changed when compared to 2014.

Based on a simulation modeling analysis performed as of December 31, 2015, the following table presents the estimated change in net interest income in the event of hypothetical changes in interest rates for the various rate shock

levels:

Net Interest Income at Risk

Estimated Change in Net Interest Income for Year Ending December 31, 2016

	\$	%	
	Change	Change	
<i>(dollars in thousands)</i>			
+300 Basis Points	\$(4,408)	-11.25 %	
+200 Basis Points	(2,849)	-7.27 %	
+100 Basis Points	(1,445)	-3.69 %	
-100 Basis Points	(1,223)	-3.12 %	

Down 200 and 300 basis points are not presented due to the low interest rate environment.

As shown above, at December 31, 2016, the estimated effect of an immediate 300 basis point increase in interest rates would decrease the Company's net interest income by 11.25% or approximately \$4,408,000 in 2016. In an increasing interest rate environment, the assets are repricing slower than the liabilities, thus a decrease in net interest income. The estimated effect of an immediate 100 basis point decrease in rates would decrease the Company's net interest income by 3.12% or approximately \$1,223,000 in 2016. In a decreasing interest rate environment, a portion of the liabilities are not repricing downward due to their already historically low rates, thus a decrease in net interest income. The Company's Asset Liability Management Policy establishes parameters for a 200 basis point change in interest rates. Under this policy, the Company and the Banks' objective is to properly structure the balance sheet to prevent a 200 basis point change in interest rates from causing a decline in net interest income by more than 15% in one year compared to the base year that hypothetically assumes no change in interest rates.

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions. Actual values may differ from those projections set forth above. Further, the computations do not contemplate any actions the Company may undertake in response to changes in interest rates. Current interest rates on certain liabilities are at a level that does not allow for significant repricing should market interest rates decline considerably.

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Contractual Maturity or Repricing

The following table sets forth the estimated maturity or re-pricing, and the resulting interest sensitivity gap, of the Company's interest-earning assets and interest-bearing liabilities and the cumulative interest sensitivity gap at December 31, 2015. The expected maturities are presented on a contractual basis. Actual maturities may differ from contractual maturities because of prepayment assumptions, early withdrawal of deposits and competition.

	Less than three months	Three months to one year	One to five years	Over five years	Cumulative Total			
<i>(dollars in thousands)</i>								
Interest - earning assets								
Interest-bearing deposits	\$8,452	\$3,354	\$14,940	\$247	\$26,993			
Investments (1)	6,408	28,028	324,216	178,981	537,633			
Loans	107,843	85,685	341,942	175,940	711,410			
Loans held for sale	540	-	-	-	540			
Total interest - earning assets	\$123,243	\$117,067	\$681,098	\$355,168	\$1,276,576			
Interest - bearing liabilities								
Interest bearing demand deposits	\$298,227	\$-	\$-	\$-	\$298,227			
Money market and savings deposits	354,026	-	-	-	354,026			
Time certificates > \$100,000	13,370	46,643	30,207	-	90,220			
Time certificates < \$100,000	22,344	46,920	59,774	139	129,177			
Other borrowed funds (2)	3,042	1,000	27,500	-	31,542			
Total interest - bearing liabilities	\$691,009	\$94,563	\$117,481	\$139	\$903,192			
Interest sensitivity gap	\$(567,766)	\$22,504	\$563,617	\$355,029	\$373,384			
Cumulative interest sensitivity gap	\$(567,766)	\$(545,262)	\$18,355	\$373,384	\$373,384			
Cumulative interest sensitivity gap as a percent of total assets	-42.79	%	-41.10	%	1.38	%	28.14	%

(1) Investments with maturities over 5 years include the market value of equity securities of \$3,156

(2) Includes \$18.5 million of advances from the FHLB. Of these advances, \$6.5 million are term advances, \$11.5 million are callable and \$0.5 million are 15 year amortizing. The term advances have been categorized based upon their maturity date. The \$11.5 million of callable advances were also categorized based upon maturity, because the interest rates on such advances are above current market rates. The \$0.5 million of amortizing advances are based upon put date, since the rates are above market rates. Includes \$13.0 million of term repurchase agreements, of which all are callable. The term repurchase agreements were categorized based upon maturity, because the interest

rates on such advances are above current market rates.

As of December 31, 2015, the Company's cumulative gap ratios for assets and liabilities repricing within three months and within one year were a negative 43% and 41%, respectively, meaning more liabilities than assets are scheduled to reprice within these periods. This situation suggests that a decrease in market interest rates may benefit net interest income and that an increase in interest rates may negatively impact the Company. The liability sensitive gap position is largely the result of classifying the interest bearing NOW accounts, money market accounts and savings accounts as immediately repriceable. Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities and periods to repricing, they may react differently to changes in market interest rates. Also, interest rates on assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other assets and liabilities may follow changes in market interest rates. Additionally, certain assets have features that restrict changes in the interest rates of such assets, both on a short-term basis and over the lives of such assets.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Ames National Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Ames National Corporation's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Ames National Corporation's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment we determined that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria.

The Company's internal control over financial reporting as of December 31, 2015 has been audited by CliftonLarsonAllen LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ Thomas H. Pohlman

Thomas H. Pohlman, Chief Executive Officer and President

/s/ John P. Nelson

John P. Nelson, Chief Financial Officer and Vice President

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

We have audited the accompanying consolidated balance sheets of Ames National Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ames National Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ames National Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2016 expressed an unqualified opinion.

/s/ CliftonLarsonAllen LLP

West Des Moines, Iowa

March 11, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

We have audited Ames National Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ames National Corporation's management is responsible for maintaining effective internal control over the financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ames National Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based upon criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ames National Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated March 11, 2016 expressed an unqualified opinion.

/s/ CliftonLarsonAllen LLP

West Des Moines, Iowa

March 11, 2016

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2015 and 2014**

	2015	2014
ASSETS		
Cash and due from banks	\$24,005,801	\$23,730,257
Interest bearing deposits in financial institutions	26,993,091	31,469,382
Securities available-for-sale	537,632,990	542,502,381
Loans receivable, net	701,328,171	658,440,998
Loans held for sale	539,370	704,850
Bank premises and equipment, net	17,007,798	15,956,989
Accrued income receivable	7,565,791	7,471,023
Other real estate owned	1,249,915	8,435,885
Deferred income taxes	1,276,571	2,633,177
Core deposit intangible, net	1,308,731	1,730,231
Goodwill	6,732,216	6,732,216
Other assets	1,106,698	1,223,328
Total assets	\$1,326,747,143	\$1,301,030,717
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$202,542,011	\$188,725,609
NOW accounts	298,227,493	298,581,556
Savings and money market	354,026,475	321,700,422
Time, \$250,000 and over	36,956,653	36,169,601
Other time	182,440,490	206,946,069
Total deposits	1,074,193,122	1,052,123,257
Securities sold under agreements to repurchase	54,289,915	51,265,011
Federal Home Loan Bank (FHLB) advances	18,542,203	14,467,737
Other borrowings	13,000,000	23,000,000
Dividend payable	1,862,183	1,675,964
Accrued expenses and other liabilities	3,609,663	3,824,330
Total liabilities	1,165,497,086	1,146,356,299
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of December 31, 2015 and 2014	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728
Retained earnings	118,267,767	110,701,847
Accumulated other comprehensive income	3,481,736	4,472,017

Total stockholders' equity	161,250,057	154,674,418
Total liabilities and stockholders' equity	\$1,326,747,143	\$1,301,030,717

See Notes to Consolidated Financial Statements.

Table Of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****Years Ended December 31, 2015, 2014 and 2013**

	2015	2014	2013
Interest income:			
Loans, including fees	\$30,780,496	\$27,196,859	\$25,433,950
Securities:			
Taxable	6,179,492	7,104,563	5,744,321
Tax-exempt	5,808,011	6,354,147	6,864,948
Interest bearing deposits and federal funds sold	382,346	308,782	390,594
Total interest income	43,150,345	40,964,351	38,433,813
Interest expense:			
Deposits	3,019,273	3,385,099	3,861,713
Other borrowed funds	1,165,866	1,162,002	1,213,050
Total interest expense	4,185,139	4,547,101	5,074,763
Net interest income	38,965,206	36,417,250	33,359,050
Provision for loan losses	1,099,183	429,140	786,390
Net interest income after provision for loan losses	37,866,023	35,988,110	32,572,660
Noninterest income:			
Wealth management income	2,724,451	2,748,619	2,199,797
Service fees	1,740,740	1,649,169	1,580,811
Securities gains, net	888,179	1,110,953	