AMES NATIONAL CORP
Form 10-K
March 12, 2018

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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, 2017. Commission File Number 0-32637.

AMES NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

IOWA	**42-1039071**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
405 5TH STREET, AMES, IOWA	**50010**
(Address of principal executive offices)	(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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "accelerated filer, large accelerated filer, a smaller reporting company or an emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer____ Accelerated filer __X__ Non-accelerated filer ____ Smaller reporting company ____ Emerging growth 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, 2017, 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 $280,293,001. 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 28, 2018, 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 16, 2018, 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 investments, primarily on bonds, held by 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; and (vi) business development. 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, which includes wealth management 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, support with respect to computer systems and related procedures, financial reporting, training and the coordination of management activities.

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. 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, 2017, First National had capital of $76,640,000 and 115 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, 2017, 2016 and 2015 of approximately $7,154,000, $7,858,000 and $7,223,000, respectively. Total assets as of December 31, 2017, 2016 and 2015 were approximately $756,222,000, $755,296,000 and $704,289,000, 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. It has a strong presence in agricultural, commercial and residential real estate lending.

As of December 31, 2017, State Bank had capital of $18,478,000 and 20 full-time equivalent employees. State Bank had net income for the years ended December 31, 2017, 2016 and 2015 of approximately $1,672,000, $2,323,000 and $2,311,000, respectively. Total assets as of December 31, 2017, 2016 and 2015 were approximately $158,988,000, $160,739,000 and $154,847,000, 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, 2017, Boone Bank had capital of $14,379,000 and 22 full-time equivalent employees. Boone Bank had net income for the years ended December 31, 2017, 2016 and 2015 of approximately $1,522,000, $1,763,000 and $1,684,000, respectively. Total assets as of December 31, 2017, 2016 and 2015 were approximately $134,278,000, $133,837,000 and $135,767,000, 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 a bank office of Liberty Bank, F.S.B. located in Garner, Iowa (the "Liberty Acquisition"). Reliance Bank provides full banking services to businesses and residents within the Story City and Garner communities and surrounding areas. 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, 2017, Reliance Bank had capital of $30,032,000 and 31 full-time equivalent employees. Reliance Bank had net income for the years ended December 31, 2017, 2016 and 2015 of approximately $2,515,000, $2,779,000 and $2,569,000, respectively. Total assets as of December 31, 2017, 2016 and 2015 were approximately $220,385,000, $222,664,000 and $219,452,000, respectively.

United Bank & Trust NA, Marshalltown, Iowa. United Bank is a nationally-chartered, commercial bank insured by the FDIC. It was 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, 2017, United Bank had capital of $14,118,000 and 19 full-time equivalent employees. United Bank had net income for the years ended December 31, 2017, 2016 and 2015 of approximately $1,033,000, $1,271,000 and $1,296,000, respectively. Total assets as of December 31, 2017, 2016 and 2015 were approximately $107,848,000, $111,226,000 and $112,480,000, respectively.

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.

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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 51% of the loan portfolio consists of loans made for commercial purposes.

The types of loans the Banks offer include:

- 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
financing guaranteed under Small Business Administration programs
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.

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

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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 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 five 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 55% 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 commodity prices, weather conditions and government programs.

Commercial and Agricultural Operating Lines - These loans are typically 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 20% of the loan portfolio.

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, home equity term loans and home equity lines of credit represent approximately 20% 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 2% 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, 2017, the Banks had a total of 207 full-time equivalent employees and the Company had an additional 14 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 that all offer a full line of business and consumer loan and retail and commercial deposit services. All banks, but Reliance State, offer trust service, which include wealth management services.

First National is headquartered in Ames, Iowa with a population of 66,191. 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, 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 has a minimum exposure to agricultural lending.

Boone Bank is located in Boone, Iowa with a population of 12,661. 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. Boone Bank provides lending services to the agriculture, commercial and real estate markets.

State Bank is located in Nevada, Iowa with a population of 6,798. 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.

Reliance Bank is headquartered in Story City, Iowa with a population of 3,431. The major employers in the Story City area are Bethany Manor, American Packaging, M.H. Eby, Inc. and Record Printing. The Bank also maintains an office in Garner, Iowa with a population of 3,075. 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.

United Bank is located in Marshalltown, Iowa with a population of 27,620. The major employers are Iowa Veterans Home, Marshalltown School District, JBS Swift & Co., Emerson Process Management/Fisher Division, Lennox Industries and UnityPoint Health. Marshalltown is the county seat of Marshall County. Loan services include primarily commercial and consumer types of credit including operating lines, equipment loans, automobile financing and real estate loans.

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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, 2017, there were 50 FDIC insured institutions having approximately 107 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 have most significantly affected larger institutions, even relatively small institutions such as the Company have been affected.

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.

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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, or 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.

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.

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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 and 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. The deposit insurance coverage limit is $250,000 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, 2017.

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 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.

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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 allowance 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. 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 15 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 began on January 1, 2016, at the 0.625% level and increases 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%; 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.

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, 2017, the Banks exceeded all of their regulatory capital requirements and were designated as “well-capitalized” under federal guidelines. See Note 15 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, 2017, 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 $115,100,000 or less (subject to an exemption not in excess of the first $15,500,000 of transaction accounts). A reserve of $2,988,000 plus 10% of amounts in excess of $115,100,000 must be maintained in the event total transaction accounts exceed $115,100,000. 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.

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 interest 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.

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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. The U.S. Congress established three key objectives for monetary policy in the Federal Reserve Act: maximizing employment, stabilizing prices, and moderating long-term interest rates. The first two objectives are sometimes referred to as the Federal Reserve's dual mandate. Its duties have expanded over the years, and as of 2009 so include supervising and regulating banks, maintaining the stability of the financial system and providing financial services to depository institutions, the U.S. government, and foreign official institutions. The Federal Reserve conducts research into the economy and releases numerous publications. 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 Federal Open Market Committee ("FOMC"), a committee within the Federal Reserve System, is charged under the United States of America ("USA") law with overseeing the nation's open market operations (i.e., the Federal Reserve Banks buying and selling of USA government securities). This Federal Reserve committee makes key decisions about interest rates and the growth of the USA money supply. The FOMC is the principal organization of USA national monetary policy. The Committee sets monetary policy by specifying the short-term objective for the Federal Reserve Bank's open market operations, which is usually a target level for the federal funds rate (the rate that commercial banks charge between themselves for overnight loans).

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.

Executive Officers of Company and Banks

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 with the exception of John P. Nelson. Mr. Nelson was appointed chief operating officer and executive vice president on November 9, 2016.

Name	Age	Position with the Company or Bank and Principal Occupation and Employment During the Past Five Years
Scott T. Bauer	55	President and Director of First National.
Kevin G. Deardorff	63	Vice President & Technology Director of the Company.
Curtis A. Hoff	55	President and Director of United Bank.
Stephen C. McGill	63	President and Director of State Bank.
John P. Nelson	51	Chief Financial Officer, Executive Vice President, Chief Operating Officer, Secretary, Treasurer and Director of the Company. Director and Chairman of Reliance Bank.
Thomas H. Pohlman	67	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	56	President and Director of Boone Bank.
Richard J. Schreier	50	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.

Changes in general business, economic and political conditions may adversely affect the Company’s business.

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.

Economic conditions in our market, the state of Iowa, and the United States have generally improved during the last several years. There can be no assurance, however, that this improvement will continue or occur at a meaningful rate. In particular, Company management is seeing weakness in the Iowa agricultural economy as a result of the current low grain prices; however, favorable yields in 2017 are generally providing break even cash flows for most of the Company’s agricultural borrowers. Stagnant or declining economic conditions could materially and adversely affect our results of operations and financial condition.

Fair values of investments in the Company’s securities portfolio may adversely change.

As of December 31, 2017, the fair value of our securities portfolio was approximately $498.3 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 earnings and 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.

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, our inability to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers may negatively impact the quality of our loan portfolio, result in loan defaults, foreclosures and additional charge-offs and necessitate that we significantly increase our allowance for loan and lease losses. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

The commercial real estate loan portfolio is a significant part of the Company’s business.

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2017. The market value of real estate securing these loans 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 in charge-offs, resulting in the need to increase our provision for loan losses and adversely affecting our operating results and financial condition.

If the Company’s actual loan losses exceed the allowance for loan losses or increase significantly, the Company’s net income will decrease.

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 or increase significantly; 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.

Changes in interest rates could adversely affect the Company’s results of operations and financial condition.

Short-term federal funds interest rates have risen 0.75% in 2017, while longer term rates (10-20 years) are relatively unchanged in 2017. This increase in short-term rates has negatively impacted the Company's net interest margin as 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.

The Company may have difficulty continuing to grow, and even if we do grow, our growth may strain our resources and limit our ability to expand operations successfully.

Our future profitability will depend in part on our continued ability to grow in both loans and deposits; however, we may not be able to sustain our historical growth rate or be able to grow at all. In addition, our future success will depend on competitive factors and on the ability of our senior management to continue to maintain an appropriate system of internal controls and procedures and manage a growing number of customer relationships. We may not be able to implement changes or improvements to these internal controls and procedures in an efficient or timely manner and may discover deficiencies in existing systems and controls. Consequently, continued growth, if achieved, may place a strain on our operational infrastructure, which could have a material adverse effect on our financial condition and results of operations.

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We may not be able to attract and retain key personnel and other skilled employees.

Our success depends, in large part, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Our senior management team has significant industry experience, and their knowledge and relationships would be difficult to replace. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of commercial and agricultural banking services, we must attract and retain qualified banking personnel to continue to grow our business, and competition for such personnel can be intense. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations. The loss of the services of any senior executive or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition or results of operations. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings or have a material adverse effect on our business, financial condition or results of operations.

The Company is subject to certain operational risks, including, but not limited to, data processing system failures, errors, data security breaches and customer or employee fraud.

There have been a number of publicized cases involving errors, fraud or other misconduct by employees of financial services firms in recent years. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. Employee fraud, errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to civil claims for negligence.

Although we maintain a system of internal controls and procedures designed to reduce the risk of loss from employee or customer fraud or misconduct and employee errors as well as insurance coverage to mitigate against some operational risks, including data processing system failures and errors and customer or employee fraud; these internal controls may fail to prevent or detect such an occurrence, or such an occurrence may not be insured or exceed applicable insurance limits.

In addition, there have also been a number of cases where financial institutions have been the victim of fraud related to unauthorized wire and automated clearinghouse transactions. The facts and circumstances of each case vary but generally involve criminals posing as customers (i.e., stealing bank customers' identities) to transfer funds out of the institution quickly in an effort to place the funds beyond recovery prior to detection. Although we have policies and procedures in place to verify the authenticity of our customers and prevent identity theft, we can provide no assurances that these policies and procedures will prevent all fraudulent transfers. In addition, although we have safeguards in place, it is possible that our computer systems could be infiltrated by hackers or other intruders resulting in loss, destruction or misuse of our data or confidential information about our customers. We can provide no assurances that these safeguards will prevent all unauthorized infiltrations or breaches. Identity theft, successful unauthorized intrusions and similar unauthorized conduct could result in reputational damage and financial losses to the Company.

An impairment charge of goodwill or other intangibles could have a material adverse impact on the Company's results of operations and financial condition.

Because the Company has grown in part through acquisitions, goodwill and intangible assets are included in the consolidated assets. Goodwill and intangible assets were $7.9 million as of December 31, 2017. Under generally accepted accounting principles ("GAAP"), we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors. GAAP requires us to assign and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets is not sufficient to support its net book value, we may be required to record an impairment charge. The amount of any impairment charge could be significant and could have a material adverse impact on our financial condition and results of operations for the period in which the charge is taken.

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Loans to agricultural-related borrowers are subject to factors beyond the Company's control, including fluctuations in commodity and livestock prices and other risks, which could negatively impact the Company's loan portfolio.

A significant portion of our loan portfolio consists of loans to borrowers who are directly or indirectly affected by the health of the Iowa agricultural economy. During 2016 and 2017, the agricultural economy has experienced historically low commodity and livestock prices which have placed downward pressure on cash flow and profits from agricultural activities. An extended period of low commodity and/or livestock prices, together with other risks to which our agricultural borrowers are subject, including poor weather conditions, higher input costs and changes in governmental support programs, could result in reduced cash flows and profit margins, negatively affecting these borrowers and making it more difficult for them to repay their loan obligations to us. A general decline in the agricultural economy could also negatively affect us by reducing the value of agricultural real estate which secures some of our agricultural loans, creating the potential for greater losses if these borrowers are unable to repay their loans and we are forced to rely on this collateral. Moreover, a general decline in the agricultural economy could also negatively impact some of our commercial borrowers whose businesses are directly or indirectly dependent on the health of the agricultural economy. All of these risks, which are beyond our control, could produce losses in our loan portfolio and adversely affect our financial condition or results of operations.

Changes in accounting policies or accounting standards, or changes in how accounting standards are interpreted or applied, could materially affect how the Company reports our results of operations and financial condition.

Our accounting policies are fundamental to determining and understanding our results of operation and financial condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Any changes in our accounting policies could materially affect our financial statements. From time to time, the Financial Accounting Standards Board (the "FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our outside auditors) may change positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be difficult to predict and could materially affect how we report our results of operations and financial condition. We may be required to apply a new or revised standard retroactively or apply an existing standard differently and retroactively, which may result in the Company being required to restate prior period financial statements in material amounts. In particular, the FASB issued a new rule requiring companies to estimate current expected credit losses. The rule, which is a major change for banking organizations, becomes effective for the Company on January 1, 2020. The new standard is likely to result in more timely recognition of credit losses than under the previous incurred loss model, and the Company is evaluating the extent to which the new rule will affect its results of operations.

The inability to maintain adequate liquidity may adversely affect the Company's business.

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. Either of these situations could have a material adverse impact on our results of operation and financial condition.

The Company's operations are concentrated in Iowa.

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 commodity prices, 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.

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The Company faces competition from 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, breach of information security, 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.

Risk related to the Company's stock.

The trading volume in our common stock on the Nasdaq Capital Market is relatively limited compared to those of companies with larger capitalization 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, or other events affecting our business, may have a more significant impact on the price of our stock than would be the case for more actively traded companies.

Changes in technology could be costly.

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 due to the cost limitations or otherwise.

A breach of information security, compliance breach, or error by one of the Company’s agents or vendors could negatively affect the Company’s reputation and business.

We depend on data processing, communication and information exchange on a variety of computing platforms and networks and over the Internet. A cyber-attack on our systems could result in the theft, loss or destruction of our information or the theft or improper use of confidential information about our customers, any of which could harm our reputation. We cannot be certain all of our systems are entirely free from vulnerability to attack, despite safeguards which have been installed. We also 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 or their degree of compliance with their own systems of internal control. 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 our customers or others. If information security is breached either on our systems or those of our vendors, our financial condition, results of operations, reputation 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 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 impairment losses on investment securities available for sale, (2) the allowance for loan losses, and (3) impairment of goodwill. Because of the inherent uncertainty of the estimates required to apply these policies, 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 and regulatory 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.

Current and future government regulations may increase the Company’s costs of doing business.

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 the Banks;
- 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 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.

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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 is a lease agreement 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.

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 28, 2018, the Company had approximately 333 shareholders of record and approximately 1,606 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 $26.55 on February 28, 2018.

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:

2017			**2016**		
	Market Price			Market Price	
Quarter	High	Low	Quarter	High	Low
1st	$37.45	$28.50	1st	$25.20	$22.54
2nd	$32.00	$29.45	2nd	$27.02	$24.00
3rd	$31.15	$26.60	3rd	$28.86	$25.78
4th	$31.90	$27.55	4th	$35.30	$26.60

The Company declared aggregate annual cash dividends in 2017 and 2016 of approximately $8,194,000 and $7,821,000, respectively, or $0.88 per share in 2017 and $0.84 per share in 2016. In February 2018, the Company declared a quarterly cash dividend of approximately $2,142,000 or $0.23 per share and a one-time special cash dividend of $0.25 per share.

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

	2017	**2016**
Quarter	Cash dividends declared per share	Cash dividends declared per share
1st	$ 0.22	$ 0.21
2nd	$ 0.22	$ 0.21
3rd	$ 0.22	$ 0.21
4th	$ 0.22	$ 0.21

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 15 (Regulatory Matters) to the Company's financial statements included herein.

The Company does not maintain or sponsor any equity compensation plans covering its executives or employees of the Company or the Banks.

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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 116 bank holding companies operating principally in the Midwest as selected by SNL Financial. The NASDAQ Bank Index is comprised of 264 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, 2012, 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.

		Period Ending				
Index	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Ames National Corporation	100.00	105.24	125.73	121.47	170.37	147.89
NASDAQ Composite Index	100.00	140.12	160.78	171.97	187.22	242.71
NASDAQ Bank Index	100.00	143.73	148.86	160.70	222.81	234.58
Midwest OTC Bank Index	100.00	121.31	138.93	157.38	180.74	215.16

In November, 2017, 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, 2016) that expired in November, 2017. The Company did not purchase any shares in 2017 or 2016 under either of the Stock Repurchase Plans that were in effect during 2017 or 2016.

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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, 2017.

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, 2017 to October 31, 2017 (1)	-	$ -	-	100,000
November 1, 2017 to November 30, 2017 (1) and (2)	-	$ -	-	100,000
December 1, 2017 to December 31, 2017 (2)	-	$ -	-	100,000
Total	-		-	

(1) The Stock Repurchase Plan adopted in November, 2016 expired in November, 2017 and no shares remain available for purchase under this plan as a result of the expiration. No purchases were made under this plan during October or November, 2017.

(2) A successor Stock Repurchase Plan was approved and became effective on November 8, 2017 and authorized the purchase of up to 100,000 shares. This plan is scheduled to expire on November 13, 2018. No purchases were made under this plan during November or December, 2017.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial data of the Company for the five years ended December 31, 2013 through 2017 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.

	Years Ended December 31,				
(dollars in thousands, except per share amounts)	**2017**	**2016**	**2015**	**2014**	**2013**
STATEMENT OF INCOME DATA					
Interest income	$45,794	$44,046	$43,150	$40,964	$38,434
Interest expense	5,581	4,135	4,185	4,547	5,075
Net interest income	40,213	39,911	38,965	36,417	33,359
Provision for loan losses	1,520	524	1,099	429	786
Net interest income after provision for loan losses	38,693	39,387	37,866	35,988	32,573
Noninterest income	7,993	8,088	8,267	9,252	7,718
Noninterest expense	25,405	24,935	25,312	24,373	21,679
Income before provision for income tax	21,281	22,540	20,821	20,867	18,612
Provision for income tax	7,584	6,805	5,806	5,616	4,658
Net income	$13,697	$15,735	$15,015	$15,251	$13,954
DIVIDENDS AND EARNINGS PER SHARE DATA					
Cash dividends declared	$8,194	$7,821	$7,449	$6,704	$5,959
Cash dividends declared per share	$0.88	$0.84	$0.80	$0.72	$0.64
Basic and diluted earnings per share	$1.47	$1.69	$1.61	$1.64	$1.50
Weighted average shares outstanding	9,310,913	9,310,913	9,310,913	9,310,913	9,310,913
BALANCE SHEET DATA					
Total assets	$1,375,060	$1,366,453	$1,326,747	$1,301,031	$1,233,084
Net loans	771,550	752,182	701,328	658,441	564,502
Deposits	1,134,391	1,109,409	1,074,193	1,052,123	1,011,803
Stockholders' equity	170,753	165,105	161,250	154,674	142,106
Equity to assets ratio	12.42 %	12.08 %	12.15 %	11.89 %	11.52 %

	Years Ended December 31, 2017	2016	2015	2014	2013
FIVE YEAR FINANCIAL PERFORMANCE					
Net income	$13,697	$15,735	$15,015	$15,251	$13,954
Average assets	1,368,680	1,330,906	1,325,321	1,263,382	1,225,617
Average stockholders' equity	170,762	167,750	159,047	151,211	142,997
Return on assets (net income divided by average assets)	1.00 %	1.18 %	1.13 %	1.21 %	1.14 %
Return on equity (net income divided by average equity)	8.02 %	9.38 %	9.44 %	10.09 %	9.76 %
Net interest margin (net interest income divided by average earning assets) *	3.25 %	3.36 %	3.33 %	3.31 %	3.18 %
Efficiency ratio (noninterest expense divided by noninterest income plus net interest income)	52.70 %	51.95 %	53.59 %	53.37 %	52.78 %
Dividend payout ratio (dividends per share divided by net income per share)	59.86 %	49.70 %	49.69 %	43.90 %	42.67 %
Dividend yield (dividends per share divided by closing year-end market price)	3.16 %	2.55 %	3.29 %	2.78 %	2.86 %
Equity to assets ratio (average equity divided by average assets)	12.48 %	12.60 %	12.00 %	11.97 %	11.67 %

* See page 30 for further discussion of this Non-GAAP financial measure.

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. Products and services offered by the Banks are for commercial and consumer purposes, including loans, deposits and wealth management services. Some Banks also offer investment services through a third-party broker-dealer. The Company employs 14 individuals to assist with financial reporting, human resources, marketing, audit, compliance, technology systems, training and the coordination of management activities, in addition to 206 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 investments, primarily on bonds, held by 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; and (vi) business development. 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 Company reported net income of $13,697,000 for the year ended December 31, 2017 compared to $15,735,000 and $15,015,000 reported for the years ended December 31, 2016 and 2015, respectively. This represents a decrease in net income of 12.9% when comparing 2017 with 2016 and an increase in net income of 4.8% when comparing 2016 with 2015. The decline in earnings in 2017 from 2016 is primarily the result of an increased provision for loan losses, elevated deposit interest expense and higher income tax expense, offset in part by improved loan interest income. The increase in net income in 2016 from 2015 was primarily the result of increased loan interest income, lower provision for loan losses and lower other real estate owned expenses, offset in part by decreased security interest income, decreased securities gains and increased salaries and benefits expense. Earnings per share for 2017 were $1.47 compared to $1.69 in 2016 and $1.61 in 2015. All five Banks demonstrated profitable operations during 2017, 2016 and 2015.

The Company's return on average equity for 2017 was 8.02% compared to 9.38% and 9.44% in 2016 and 2015, respectively, and the return on average assets for 2017 was 1.00% compared to 1.18% in 2016 and 1.13% in 2015. The decrease in return on average equity and return on average assets when comparing 2017 to 2016 was primarily a result of lower net income. The decrease in return on average equity when comparing 2016 to 2015 was primarily a result of increased average equity, more than offsetting the increase in net income. The increase in return on average assets when comparing 2016 to 2015 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
- Non-GAAP Financial Measures

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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, resulting in a reduction in net interest income. 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.

The agricultural community is subject to commodity price fluctuations. Extended periods of low commodity prices, higher input costs or poor weather conditions could result in reduced profit margins, reducing demand for goods and services provided by agriculture-related businesses, which, in turn, could affect other businesses in the Company’s market area. Any combination of these factors could produce losses within the Company's agricultural loan portfolio and in the commercial loan portfolio with respect to borrowers whose businesses are directly or indirectly impacted by the health of the agricultural economy.

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 5,670 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,					
	2017		**2016**		**2015**	
	Company	Industry	Company	Industry	Company	Industry
Return on assets	1.00 %	0.97 %	1.18 %	1.04 %	1.13 %	1.04 %
Return on equity	8.02 %	8.64 %	9.38 %	9.32 %	9.44 %	9.31 %
Net interest margin	3.25 %	3.25 %	3.36 %	3.13 %	3.33 %	3.07 %
Efficiency ratio	52.70 %	57.94 %	51.95 %	58.28 %	53.59 %	59.91 %
Capital ratio	12.48 %	9.62 %	12.60 %	9.48 %	12.00 %	9.59 %

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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 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 lower than the industry primarily as a result of the Company's 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 the same as 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.

Industry Results

The FDIC Quarterly Banking Profile reported the following results for the fourth quarter of 2017

Quarterly Net Income Is 40.9% Lower Than a Year Ago Largely Due to One-Time Changes From the New Tax Law

In the fourth quarter, 5,670 insured institutions reported quarterly net income of $25.5 billion, down $17.7 billion (40.9%) from a year ago. Higher income taxes, reflecting one-time income tax effects enacted from the new tax law, coupled with higher noninterest expense and loan-loss provisions, lowered quarterly net income. Excluding one-time income tax effects, estimated quarterly net income would have been $42.2 billion, down 2.3percent.

Full-Year 2017 Net Income Declines 3.5% Due to One-Time Tax Changes

Net income for full-year 2017 totaled $164.8 billion a decline of $6 billion (3.5%) compared to 2016.The decline in full-year net income was due to higher income taxes (up $21.6 billion, or 28.4%), which reflects one-time changes from the new tax law, combined with higher noninterest expense (up $19.5 billion, or 4.6%) and higher loan-loss provisions (up$3 billion, or 6.2%). Net operating revenue (the sum of net interest income and total noninterest income)increased by $39.5 billion from 2016, as net interest income rose by $37.7 billion (8.2%) and noninterest income grew by $1.8 billion (0.7%). The average net interest margin (NIM) increased to 3.25% from 3.13% in 2016. Without the one-time tax charges in the fourth quarter, estimated full-year 2017 net income would have been $183.1 billion, an increase of 7.2% from 2016.

Net Interest Income Rises 8.5% From Fourth Quarter 2016

Net operating revenue of $192.2 billion, was $10 billion (5.5%) higher than fourth quarter 2016. Net interest income grew by $10.2 billion (8.5%), while noninterest income fell by $202.4million (0.3%).More than four out of five banks (86.4%) reported higher net interest income from a year ago, as interest-bearing assets increased (up 4.4%) and the average NIM increased to 3.31% from 3.16% a year ago. This is the highest quarterly NIM for the industry since fourth quarter 2012. More than two out of three banks (70%) reported higher net interest margins than a year earlier.

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Provisions Increase 8.9% From a Year Ago

Loan-loss provisions totaled $13.6 billion in the fourth quarter, an increase of $1.1 billion (8.9%) from a year ago. More than one in three (38.9%) institutions reported higher loan-loss provisions than in fourth quarter 2016. Fourth quarter loan-loss provisions totaled 7.1% of net operating revenue, up from 6.8% a year ago. This estimate of net income applies the average quarterly tax rate between fourth quarter 2011 and third quarter 2017 to income before taxes and discontinued operations. 3This estimate of net income applies the average annual tax rate between 2011 and 2016 to income before taxes and discontinued operations.

Noninterest Expense Increases From a Year Ago

Noninterest expense for the banking industry was $9.4 billion (8.6%)higher than fourth quarter 2016, led by an increase in “other” noninterest expense(up $6.3 billion, or 14.1%).Other noninterest expense includes, but is not limited to, information technology costs, legal fees, consulting services, and audit fees. Salary and employee benefits rose by $3.2 billion (6.3%) from a year ago. Full-time equivalent employees at FDIC-insured institutions rose by 1.1% from a year ago, while industry assets increased by 3.8%. Average assets per employee rose to $8.4 million from $8.2 million in fourth quarter 2016.

Net Charge-Off Rate Increases Slightly

Banks charged off $13.2 billion in uncollectable loans during the quarter, an increase of $1 billion (8.6%) from a year ago. This marks a ninth consecutive quarter that net charge-offs increased. Less than half (45.3%) of all banks reported an annual increase in their quarterly net charge-offs. The increase in net charge-offs was led by credit card balances, which grew by $1.1 billion(15.7%).Net charge-offs declined for commercial and industrial loans (down $210.3 million, 8.6%), home equity loans (down $178.1 million, or 68.6%),and residential mortgage loans (down $68.3million, or 36.4%).The average net charge-off rate rose from 0.52% in fourth quarter 2016 to 0.55%.

Noncurrent Loan Rate Remains Stable

After declining for the past six consecutive quarters, noncurrent balances (90 days or more past due or in nonaccrual status) for total loans and leases increased by $1.5 billion (1.3%) during the fourth quarter. The increase in noncurrent balances was led by residential mortgages (up 2.8 billion, or 5.2%) and credit cards (up $1.2 billion, or 11.5%), and was partially offset by a decline in noncurrent commercial and industrial loans (down $1.7 billion, or 8.5%). Despite the overall dollar increase, the average noncurrent loan rate remained unchanged at 1.20% from the previous quarter.

Loan-Loss Reserves Increase From the Previous Quarter

Banks continued to increase their loan-loss reserves (up $236.2 million, or 0.2%) during the quarter, as loan-loss provisions of $13.6 billion exceeded net charge-offs of $13.2 billion. Banks that itemize their reserves(banks with assets greater than $1 billion) reported higher reserves for credit card losses (up $1.9 billion, or 5.2%) from the previous quarter, and lower reserves for residential real estate losses(down $827.2 million, or 5.4%) and commercial and industrial loan losses (down $723.5 million, or 2.2%)during the quarter. The coverage ratio (loan-loss reserves to noncurrent loan balances) declined slightly to 106.3%, but has been above 100% for the past three quarters.

Equity Capital Rises Modestly

Total equity capital increased by $3.6 billion (0.2%) in fourth quarter 2017. Declared dividends of $30.1 billion exceeded the quarterly net income of $25.5 billion during the quarter, reducing retained earnings by $4.6 billion. Accumulated other comprehensive income declined by $8.5 billion in the quarter, which was led by a decline in the market value of available-for-sale securities. The equity-to-asset ratio declined to 11.22% from 11.31% in third quarter 2017, but remained above the year-ago ratio of 11.10%. At year-end 2017, 99.4% of all insured institutions, which account for 99.97% of total industry assets, met or exceeded the requirements for the highest regulatory capital category, as defined for Prompt Corrective Action purposes.

Total Loan and Lease Balances Increase $164.1 Billion During the Fourth Quarter

Total loan and lease balances increased by $164.1 billion (1.7%) from third quarter 2017, as balances in all major loan categories increased. Credit card balances increased by $69.6 billion (8.8%) from the previous quarter, commercial and industrial loans grew by $24.5 billion (1.2%), and residential mortgage loans rose by $21.7 billion (1.1%).Unused loan commitments were $108.9 billion (1.5%) higher than the previous quarter, led by higher unused credit card lines (up $57.7 billion, or 1.6%). Over the past 12 months, loan and lease balances increased by $416.1 billion (4.5%), exceeding last quarter's annual growth rate of 3.5%.The 12-monthincrease in loan and lease balances was led by commercial and industrial loans (up $78.4 billion, or 4.1%), residential mortgage loans (up $68.7 million, or 3.4%), nonfarm nonresidential loans (up $67.1 billion, or 5.1%),and credit card balances (up $65.2 billion, or 8.2%). Home equity lines of credit continued with the year-over-year decline (down $23 billion, or 5.3%). Unused loan commitments increased 4.4% from a year ago, the largest annual growth rate since third quarter 2016.

Deposits Grew 1.4% From the Previous Quarter

Total deposits increased by $179.8 billion (1.4%) in the fourth quarter. Balances in domestic interest-bearing accounts rose by $153.7 billion (1.8%), and balances in noninterest-bearing accounts grew by $7.8 billion (0.2%). Domestic deposits in accounts larger than $250,000 increased by $159.6 billion (2.5%) from third quarter 2017. Nondeposit liabilities declined by $8.9 billion (0.4%), as other liabilities were down $29.3 billion (7.3%).

"Problem Bank List" Falls Below 100

The FDIC's Problem Bank List declined from 104 to 95 at year-end 2017, the lowest number of problem banks since first quarter 2008. Total assets of problem banks were down from $16 billion in the third quarter to $13.9 billion. During the quarter, merger transactions absorbed 64 institutions, two institutions failed, and one new charter was added. For full-year 2017, five new charters were added, 230 institutions were absorbed by mergers, and eight institutions failed.

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 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.

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.

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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 change 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 acquisitions in 2014 and 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, 2017, 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.

Non-GAAP Financial Measures

This report contains references to financial measures that are not defined in GAAP. Such non-GAAP financial measures include the Company's presentation of net interest income and net interest margin on a fully taxable equivalent (FTE) basis. Management believes these non-GAAP financial measures are widely used in the financial institutions industry and provide useful information to both management and investors to analyze and evaluate the Company's financial performance. Limitations associated with non-GAAP financial measures include the risks that persons might disagree as to the appropriateness of items included in these measures and that different companies might calculate these measures differently. These non-GAAP disclosures should not be considered an alternative to the Company's GAAP results. The following table reconciles the non-GAAP financial measures of net interest income and net interest margin on an FTE basis to GAAP. *(dollars in thousands)*

	2017	2016	2015
Reconciliation of net interest income and annualized net interest margin on an FTE basis to GAAP:			
Net interest income (GAAP)	$40,213	$39,911	$38,965
Tax-equivalent adjustment [1]	2,700	2,929	3,123
Net interest income on an FTE basis (non-GAAP)	42,913	42,840	42,088

Average interest-earning assets	$1,319,362	$1,276,543	$1,264,537
Net interest margin on an FTE basis (non-GAAP)	3.25 %	3.36 %	3.33 %

(1) Computed on a tax-equivalent basis using an incremental federal income tax rate of 35 percent, adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt securities and loans.

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Income Statement Review

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. *(dollars in thousands)*

ASSETS

	2017			**2016**			**2015**		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
Interest-earning assets									
Loans (1)									
Commercial	$75,997	$3,477	4.58 %	$91,009	$4,039	4.44 %	$98,546	$4,446	4.51 %
Agricultural	68,382	3,599	5.26 %	74,205	3,625	4.89 %	75,706	3,568	4.71 %
Real estate	616,821	26,427	4.28 %	541,953	23,956	4.42 %	488,827	22,039	4.51 %
Consumer and other	10,968	545	4.97 %	19,671	738	3.75 %	18,745	728	3.89 %
Total loans (including fees)	772,168	34,048	4.41 %	726,838	32,358	4.45 %	681,824	30,781	4.51 %
Investment securities									
Taxable	272,293	6,219	2.28 %	260,618	5,853	2.25 %	275,105	6,179	2.25 %
Tax-exempt (2)	237,938	7,716	3.24 %	252,864	8,369	3.31 %	264,028	8,931	3.38 %
Total investment securities	510,231	13,935	2.73 %	513,482	14,222	2.77 %	539,133	15,110	2.80 %
Interest bearing deposits and federal funds sold	36,963	512	1.39 %	36,223	395	1.09 %	43,580	382	0.88 %

Total interest-earning assets	1,319,362	$48,495	3.68 %	1,276,543	$46,975	3.68 %	1,264,537	$46,273	3.66 %
Noninterest-earning assets									
Cash and due from banks	21,702			20,844			21,052		
Premises and equipment, net	15,766			16,583			16,404		
Other, less allowance for loan losses	11,850			16,936			23,328		
Total noninterest-earning assets	49,318			54,363			60,784		
TOTAL ASSETS	$1,368,680			$1,330,906			$1,325,321		

(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

	2017			2016			2015		
	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate	Average balance	Revenue/ expense	Yield/ rate
Interest-bearing liabilities									
Deposits									
Savings, NOW accounts and money markets	$717,875	$2,547	0.35 %	$669,754	$1,340	0.20 %	$652,063	$1,143	0.18 %
Time deposits > $100,000	83,059	921	1.11 %	86,400	797	0.92 %	90,574	809	0.89 %
Time deposits < $100,000	114,469	972	0.85 %	124,894	937	0.75 %	138,387	1,067	0.77 %
Total deposits	915,403	4,440	0.49 %	881,048	3,074	0.35 %	881,024	3,019	0.34 %
Other borrowed funds	73,049	1,142	1.56 %	82,582	1,061	1.28 %	86,381	1,166	1.35 %
Total interest-bearing liabilities	988,452	5,582	0.56 %	963,630	4,135	0.43 %	967,405	4,185	0.43 %
Noninterest-bearing liabilities									
Demand deposits	202,120			191,899			192,112		
Other liabilities	7,346			7,627			6,757		
Stockholders' equity	170,762			167,750			159,047		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,368,680			$1,330,906			$1,325,321		
Net interest income		$42,913	3.25 %		$42,840	3.36 %		$42,088	3.33 %

Spread Analysis

Interest income/average assets	$48,495	3.54 %	$46,975	3.53 %	$46,273	3.49 %
Interest expense/average assets	5,582	0.41 %	4,135	0.31 %	4,185	0.32 %
Net interest income/average assets	42,913	3.14 %	42,840	3.22 %	42,088	3.18 %

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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 $2,471,000 in 2017 compared to 2016. Increased volume of real estate loans increased interest income in 2017 by $3,245,000 and lower interest rates decreased interest income in 2017 by $774,000. *(dollars in thousands)*

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.

	2017 Compared to 2016			**2016 Compared to 2015**		
	Volume	Rate	Total (1)	Volume	Rate	Total (1)
Interest income						
Loans						
Commercial	$(686)	$124	$(562)	$(338)	$(69)	$(407)
Agricultural	(293)	267	(26)	(74)	131	57
Real estate	3,245	(774)	2,471	2,362	(445)	1,917
Consumer and other	(387)	194	(193)	36	(26)	10
Total loans (including fees)	1,879	(189)	1,690	1,986	(409)	1,577
Investment securities						
Taxable	282	84	366	(326)	(0)	(326)
Tax-exempt	(481)	(172)	(653)	(377)	(185)	(562)
Total investment securities	(199)	(88)	(287)	(703)	(185)	(888)
Interest bearing deposits and federal funds sold	8	109	117	(71)	84	13
Total interest-earning assets	1,688	(168)	1,520	1,212	(510)	702
Interest-bearing liabilities						
Deposits						
Savings, NOW accounts and money markets	105	1,102	1,207	39	158	197
Time deposits > $100,000	(32)	156	124	(37)	25	(12)
Time deposits < $100,000	(83)	118	35	(103)	(27)	(130)
Total deposits	(10)	1,376	1,366	(101)	156	55
Other borrowed funds	(132)	213	81	(48)	(57)	(105)

Total interest-bearing liabilities	(142)	1,589	1,447	(149)	99	(50)
Net interest income-earning assets	$1,830	$(1,757)	$73	$1,361	$(609)	$752

(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, 2017, 2016 and 2015, the Company's net interest margin was 3.25%, 3.36% and 3.33%, respectively, computed on a FTE basis.

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Net interest income during 2017, 2016 and 2015 totaled $40,213,000, $39,911,000 and $38,965,000, respectively, representing a 0.8% increase in 2017 compared to 2016 and a 2.4% increase in 2016 from 2015. Net interest income increased in 2017 as compared to 2016 due primarily to increases in the average balance of real estate loans. Net interest income increased in 2016 as compared to 2015 due primarily to increases in the average balance of real estate loans.

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, 2017 was $1,520,000 compared to $524,000 for the previous year. The provision for loan losses in 2017 was necessary to maintain an adequate allowance for loan loss on the increasing outstanding loan portfolio, as well as funding net charge offs of $706,000. Credit quality indicators, such as classified assets, past due or impaired loans, have remained steady since 2015. The Company’s provision for loan losses for the year ended December 31, 2016 was $524,000 compared to $1,099,000 for the year ended December 31, 2015. The provision for loan losses in 2016 and 2015 were necessary to maintain an adequate allowance for loan loss on the outstanding loan portfolio, as net charge offs were not significant. The increase in the allowance for loan losses in 2016 was provided due to growth in the Company’s loan portfolios and, to a lesser extent to provide for a specific reserve on impaired loans. 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. 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 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.

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 2017, 2016 and 2015 totaled $7,993,000, $8,088,000 and $8,267,000, respectively. The decrease in noninterest income in 2017 compared to 2016 is primarily due to lower gains on the sale of loans, offset in part by higher wealth management income. The decrease in the gain on the sale of loans is primarily due to a slowdown in the refinance of home loans held for sale resulting in lower revenue. The increase in wealth management income is primarily due to increases in assets under management due to a brokerage business acquisition in 2016. The lower noninterest income in 2016 as compared to 2015 related primarily to the lower security gains, offset in part by an increase in wealth management income. The increase in wealth management income is primarily due to increases in assets under management. Excluding securities gains, noninterest income decreased 2.3% in 2017 as compared to 2016. Excluding securities gains and gain on disposal of premises and equipment in 2016 and 2015, noninterest income increased 3.5% in 2016 as compared to 2015.

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 63%, 63% and 60% of noninterest expense in 2017, 2016 and 2015, respectively.

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Noninterest expense during the years ended 2017, 2016 and 2015 totaled $25,405,000, $24,935,000 and $25,312,000, respectively, representing a 1.9% increase in 2017 compared to a 1.5% decrease in 2016. The primary reason for the increase in 2017 was normal salary and benefit increases and lower real estate owned income, offset by lower FDIC insurance assessment. Other real estate owned income declined primarily due to gains recorded in 2016 with significantly lesser corresponding gains in 2017. FDIC assessments decreased due primarily to lower assessment rates in 2017 as compared to 2016. Salaries and employee benefits increased primarily due to normal salary increases and to a lesser extent normal increases in benefit costs. The primary reason for the decrease in 2016 was lower other real estate owned expenses and FDIC insurance assessments, offset in part by increases in salaries and employee benefits and data processing costs. Other real estate owned expense declined primarily due to impairment losses in 2016 of $28,000 as compared to losses of $615,000 in 2015. To a lesser extent other real estate owned expense decreased due to gains on the sale of other real estate owned of $219,000 in 2016 as compared to gains of $100,000 in 2015. FDIC insurance assessment decreased primarily due to lower assessment rates in 2016 as compared to 2015. Salaries and employee benefits increased primarily due to normal salary increases and to a lesser extent normal increases in benefit costs. Data processing costs increased in 2016 primarily due to normal increases in our existing data processing contracts. The percentage of noninterest expense to average assets was 1.86 % in 2017, compared to 1.87% and 1.91% during 2016 and 2015, respectively.

Provision for Income Taxes

The provision for income taxes for 2017, 2016 and 2015 was $7,585,000, $6,805,000 and $5,807,000, respectively. This amount represents an effective tax rate of 36%, 30% and 28% for 2017, 2016 and 2015, respectively. The Company's marginal federal income tax rate through December 31, 2017 was 35%. The difference between the Company's effective and marginal tax rate historically has been primarily related to investments made in tax exempt securities. However, the increase in the effective tax rate for 2017 is due primarily to the write down of $1,190,000 of the Company’s deferred income tax asset due to a decrease in the corporate federal income tax rates to 21% enacted in December 2017. The increase in the effective tax rate for 2016 compared to 2015 is due primarily to an increase in income before income taxes; tax-exempt interest income decreasing as a percent of income before income taxes; and the recording of a $226,000 valuation allowance to fully reserve the deferred income tax asset associated with a state alternative minimum tax credit carryforward in 2016.

Balance Sheet Review

The Company’s assets are comprised primarily of loans and investment securities. Average earning asset maturity or repricing dates are generally 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 $1,375,060,000 in 2017 compared to $1,366,453,000 in 2016, a 0.6% increase. The increase in assets was due primarily to an increase in the loan portfolio and the Company's interest bearing deposits in other financial institutions, which was funded primarily by a decrease in securities and an increase in deposits.

Loan Portfolio

Net loans as of December 31, 2017 totaled $771,550,000, an increase of 2.6% from the $752,182,000 as of December 31, 2016. Loan demand remained favorable in 2017 as most markets provided additional lending opportunities, in particular the Des Moines metro and Ames markets. This growth is primarily reflected in the commercial real estate loan portfolios. Loans are the primary contributor to the Company's revenues and cash flows. The average yield on loans was 168 basis points higher in both 2017 and 2016, in comparison to the average tax-equivalent investment portfolio yields.

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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, 2017. *(dollars in thousands)*

	2017	**2016**	**2015**	**2014**	**2013**
Real Estate					
Construction	$50,309	$61,042	$66,268	$36,016	$23,928
1-4 family residential	146,258	149,507	127,076	122,777	108,289
Commercial	350,626	315,702	251,889	257,054	206,112
Agricultural	81,790	73,032	62,530	57,449	53,834
Commercial	73,816	74,378	102,515	92,703	86,823
Agricultural	69,806	76,994	79,533	85,609	81,326
Consumer and other	10,345	12,130	21,599	15,763	12,795
Total loans	782,950	762,785	711,410	667,371	573,107
Deferred loan fees, net	(79)	(96)	(94)	(92)	(34)
Total loans net of deferred fees	$782,871	$762,689	$711,316	$667,279	$573,073

The Company's loan portfolio consists of real estate, commercial, agricultural and consumer loans. As of December 31, 2017, gross loans totaled approximately $783 million, which equals approximately 69.0% of total deposits and 56.9% of total assets. The Company’s peer group (consisting of 332 bank holding companies with total assets of $1 to $3 billion) loan to deposit ratio as of September 30, 2017 was a much higher 87%. 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 competitive markets for borrowers, based upon a comparison of net charge offs. As of December 31, 2017, 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 1-4 family residence and 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.

Maturities and Sensitivities of Loans to Changes in Interest Rates as of December 31, 2017

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. *(dollars in thousands)*

	Within one year	After one year but within five years	After five years	Total
Real Estate				
Construction	$28,749	$19,852	$1,708	$50,309
1-4 family residential	24,873	55,409	65,976	146,258
Commercial	24,003	271,022	55,601	350,626
Agricultural	11,382	25,857	44,551	81,790
Commercial	41,556	27,010	5,250	73,816
Agricultural	60,013	6,690	3,103	69,806
Consumer and other	1,566	6,676	2,103	10,345
Total loans	$192,142	$412,516	$178,292	$782,950

	After one year but within five years	After five years
Loan maturities after one year with:		
Fixed rates	$340,482	$176,140
Variable rates	72,034	2,152
	$412,516	$178,292

Loans Held For Sale

There was no mortgage origination funding awaiting delivery to the secondary market as of December 31, 2017 and $243,000 as of December 31, 2016. 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, 2017 were $498,343,000, a decrease of $17.7 million or 3.4% from the prior year end. As of December 31, 2017 and 2016, the investment portfolio comprised 36% and 38% 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, 2017, 2016 and 2015, respectively. This portfolio provides the Company with a significant amount of liquidity. *(dollars in thousands)*

	2017	**2016**	**2015**
U.S. government treasuries	$6,367	$4,368	$1,467
U.S. government agencies	111,263	110,209	106,445
U.S. government mortgage-backed securities	81,780	82,858	98,079
State and political subdivisions	237,413	264,448	277,597
Corporate bonds	58,464	51,184	50,889
Equity securities	3,056	3,013	3,156
Total	$498,343	$516,080	$537,633

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, 2017 and 2016.

During the years ended December 31, 2017, 2016 and 2015, 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, 2017; however, it is possible that the Company may incur impairment losses in 2018 and thereafter.

As of December 31, 2017, 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 and corporate bonds. Annually, the Company will validate prices supplied by the independent pricing service by comparison to prices obtained from third-party sources.

Investment Maturities as of December 31, 2017

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. *(dollars in thousands)*

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

U.S. government treasuries	$-	$4,441	$1,926	$-	$6,367
U.S. government agencies	7,990	69,089	34,184	-	111,263
U.S. government mortgage-backed securities	415	54,871	26,494	-	81,780
States and political subdivisions (1)	28,820	113,560	75,757	19,276	237,413
Corporate bonds	4,950	37,744	15,770	-	58,464
Total	$42,175	$279,705	$154,131	$19,276	$495,287
Weighted average yield					
U.S. government treasuries	0.00 %	2.02 %	2.11 %	0.00 %	2.05 %
U.S. government agencies	1.63 %	1.99 %	2.38 %	0.00 %	2.09 %
U.S government mortgage-backed securities	3.81 %	2.32 %	2.49 %	0.00 %	2.39 %
States and political subdivisions (1)	3.29 %	3.20 %	3.44 %	3.39 %	3.30 %
Corporate bonds	2.14 %	2.38 %	2.85 %	0.00 %	2.49 %
Total	2.85 %	2.60 %	2.96 %	3.39 %	2.76 %

(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, 2017 and 2016, the Company’s investment securities portfolio included securities issued by 258 and 286 government municipalities and agencies located within 22 and 25 states with a fair value of $237,413,000 and $264,448,000, 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, 2017 and 2016 was $4.4 million (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.

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, 2017 and 2016 identifying the state in which the issuing government municipality or agency operates. *(dollars in thousands)*

	2017		**2016**	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of states and political subdivisions:				
General Obligation bonds:				
Iowa	$56,029	$55,829	$75,142	$74,408
Texas	12,141	12,174	11,091	11,065
Pennsylvania	8,719	8,745	8,728	8,654
Washington	7,017	6,900	7,221	6,957
Other (2017: 18 states; 2016: 17 states)	22,023	22,228	28,064	28,258
Total general obligation bonds	$105,929	$105,876	$130,246	$129,342
Revenue bonds:				
Iowa	$122,044	$122,140	$126,750	$126,964
Other (2017: 9 states; 2016: 9 states)	9,376	9,397	8,208	8,142

Total revenue bonds	$131,420	$131,537	$134,958	$135,106
Total obligations of states and political subdivisions	$237,349	$237,413	$265,204	$264,448

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As of December 31, 2017 and 2016, 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 13 revenue sources in 2017 and 2016. The revenue sources that represent 5% or more, individually, as a percent of the total revenue bonds are summarized in the following table. *(dollars in thousands)*

	2017		**2016**	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Revenue bonds by revenue source				
Sales tax	$74,631	$74,973	$77,586	$78,085
College and universities, primarily dormitory revenues	10,452	10,443	11,283	11,296
Water	12,763	12,611	14,105	13,907
Leases	9,383	9,331	9,106	8,960
Electric Power	7,382	7,416	8,446	8,459
Other	16,809	16,763	14,432	14,399
Total revenue bonds by revenue source	$131,420	$131,537	$134,958	$135,106

Deposits

Total deposits were $1,134,391,000 and $1,109,409,000 as of December 31, 2017 and 2016, respectively. The increase of $24,982,000 between the periods can be primarily attributed to increases in retail NOW balances and commercial demand deposit balances, offset in part by a decrease in other time deposits due in part to the low rate environment.

The Company's primary source of funds is customer deposits. The Banks attempt 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 54% 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 $11,116,000 and $7,110,000 of brokered deposits as of December 31, 2017 and 2016, respectively.

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, 2017, 2016 and 2015. *(dollars in thousands)*

	2017 Average Amount	Rate	**2016** Average Amount	Rate	**2015** Average Amount	Rate
Noninterest bearing demand deposits	$202,120	0.00%	$191,899	0.00%	$192,112	0.00%
Interest bearing demand deposits	326,468	0.36%	301,073	0.19%	300,285	0.16%
Money market deposits	298,182	0.40%	281,997	0.22%	271,838	0.21%
Savings deposits	93,225	0.21%	86,684	0.15%	79,940	0.13%
Time certificates > $100,000	83,059	1.11%	86,400	0.92%	90,574	0.89%
Time certificates < $100,000	114,469	0.85%	124,894	0.75%	138,387	0.77%
	$1,117,523		$1,072,947		$1,073,136	

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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, 2017, 2016 and 2015. *(dollars in thousands)*

	2017	**2016**	**2015**
3 months or less	$15,439	$16,600	$13,370
Over 3 through 12 months	34,464	34,033	46,643
Over 12 through 36 months	25,787	23,152	23,704
Over 36 months	9,259	10,931	6,503
Total	$84,949	$84,716	$90,220

Securities Sold Under an Agreement to Repurchase

Securities sold under agreements to repurchase totaled $37,425,000 and $58,337,000 as of December 31, 2017 and 2016, respectively a decrease of 36% due primarily to decreases in two customers balances at year end.

Borrowed Funds

Borrowed funds that may be utilized by the Company are comprised of FHLB advances, federal funds purchased and repurchase 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.

The following table summarizes the outstanding amount of, and the average rate on, borrowed funds as of December 31, 2017, 2016 and 2015. *(dollars in thousands)*

	2017		2016		2015	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
Federal funds purchased and repurchase agreements	$37,425	0.77 %	$58,337	0.51 %	$54,290	0.33 %
FHLB advances	13,500	2.73 %	14,500	2.62 %	18,542	2.24 %
Other borrowings	13,000	3.62 %	13,000	3.62 %	13,000	3.62 %
Total	$63,925	1.76 %	$85,837	1.33 %	$85,832	1.24 %

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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, 2017, 2016 and 2015. *(dollars in thousands)*

	2017		**2016**		**2015**	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Federal funds purchased and repurchase agreements	$45,283	0.61 %	$47,827	0.35 %	$52,187	0.28 %
FHLB advances	14,944	2.64 %	22,039	1.94 %	17,199	2.34 %
Other borrowings	12,822	3.67 %	12,716	3.68 %	16,995	3.63 %
Total	$73,049	1.56 %	$82,582	1.29 %	$86,381	1.35 %
Maximum Amount Outstanding during the Year						
Federal funds purchased and repurchase agreements	$56,596		$58,762		$66,245	
FHLB advances	$27,400		$52,500		$50,253	
Other borrowings	$13,000		$13,000		$23,000	

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, 2017, 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 14 of the “Notes to Consolidated Statements” and the “Liquidity and Capital Resources” section of this discussion.

Contractual Obligations

The following table sets forth the balance of the Company’s contractual obligations by maturity period as of December 31, 2017. *(dollars in thousands)*

		Payments due by period			
		Less than	1-3	3-5	More than
Contractual Obligations	Total	1 year	years	years	5 years
Deposits	$1,134,391	$1,044,543	$71,092	$18,756	$ -
Securities sold under agreements to repurchase	37,425	37,425	-	-	-
FHLB advances and other borrowings (1)	26,500	24,500	2,000	-	-
Leases	152	92	60	-	
Purchase obligations (2)	4,195	1,791	1,580	648	176
Total	$1,202,663	$1,108,351	$74,732	$19,404	$ 176

(1) FHLB advances consist of various FHLB borrowings with fixed rates with final maturities through 2020. Other borrowings also include $13.0 million of term repurchase agreements having maturities greater less than one year with $7.0 million callable by the issuing financial institution quarterly. The term repurchase agreements have final maturities in 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.

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Asset Quality Review and Credit Risk Management

The Company’s credit risk is centered in the loan portfolio, which on December 31, 2017, totaled $771,550,000 as compared to $752,182,000 as of December 31, 2016, an increase of 2.6%. Net loans comprise 56% of total assets as of the end of 2017. 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 7% from December 31, 2016 and total $5,216,000 as of December 31, 2017. The Company’s level of non-performing assets as a percentage of assets of 0.38% as of December 31, 2017, is lower than the average for the Company’s peer group of FDIC insured institutions as of September 30, 2017, of 0.67%. Management believes that the allowance for loan losses as of December 31, 2017 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, 2017. *(dollars in thousands)*

	2017	**2016**	**2015**	**2014**	**2013**
Non-performing assets:					
Nonaccrual loans	$4,810	$5,077	$1,818	$2,407	$2,508
Loans 90 days or more past due	18	22	75	36	27
Total non-performing loans	4,828	5,099	1,893	2,443	2,535
Securities available-for-sale	-	-	-	-	-
Other real estate owned	386	546	1,250	8,436	8,861
Total non-performing assets	$5,214	$5,645	$3,143	$10,879	$11,396

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 $4,810,000 as of December 31, 2017 and were $267,000 lower than the impaired loans as of December 31, 2016. 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 $811,000 and $720,000 at December 31, 2017 and 2016, respectively. The average balances of impaired loans for the years ended December 31, 2017 and 2016 were $5,029,000 and 2,965,000, respectively. The increase in the average balance of impaired loans was due primarily to two loan relationships. For the years ended December 31, 2017, 2016 and 2015, interest income, which would have been recorded under the original terms of nonaccrual loans, was approximately $379,000, $272,000 and $162,000, respectively, with $37,000, $72,000 and $164,000, respectively, recorded. There was $18,000 of loans greater than 90 days past due and still accruing interest as of December 31, 2017 and there was $22,000 of loans greater than 90 days past due and still accruing interest at December 31, 2016.

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.

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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. *(dollars in thousands)*

	2017	**2016**	**2015**	**2014**	**2013**
Balance at beginning of period	$10,507	$9,988	$8,838	$8,572	$7,773
Charge-offs:					
Real estate					
Construction	-	-	-	-	-
1-4 Family residential	7	15	25	151	81
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Commercial	687	78	-	17	-
Agricultural	-	-	39	-	-
Consumer and other	44	39	5	77	36
Total charge-offs	738	132	69	245	117
Recoveries:					
Real estate					
Construction	-	30	50	25	-
1-4 Family residential	11	5	26	18	54
Commercial	-	-	4	-	51
Agricultural	-	-	-	-	-
Commercial	7	83	-	19	3
Agricultural	-	-	28	-	-
Consumer and other	14	9	12	20	22
Total recoveries	32	127	120	82	130
Net charge-offs (recoveries)	706	5	(51)	163	(13)
Provisions charged to operations	1,520	524	1,099	429	786
Balance at end of period	$11,321	$10,507	$9,988	$8,838	$8,572
Average loans outstanding	$772,168	$726,838	$681,824	$527,627	$482,699
Ratio of net charge-offs (recoveries) during the period to average loans outstanding	0.09 %	0.00 %	-0.01 %	0.03 %	0.00 %
	1.45 %	1.38 %	1.40 %	1.32 %	1.50 %

Ratio of allowance for loan losses to total loans net of deferred fees

The allowance for loan losses increased to $11,321,000 at the end of 2017 in comparison to the allowance of $10,507,000 at year end 2016 as a result of provisions of $1,520,000, offset by net charge offs of $706,000. The provision for loan losses in 2017 was necessary to maintain an adequate allowance for loan loss on the increasing outstanding loan portfolio, as well as funding net charge offs. The allowance for loan losses increased to $10,507,000 at the end of 2016 in comparison to the allowance of $9,988,000 at year end 2015 as a result of provisions of $524,000, offset by net charge offs of $5,000. The provision for loan losses in 2016 was necessary to maintain an adequate allowance for loan loss on the outstanding loan portfolio, as net charge offs were not significant. The increase in the allowance for loan losses was provided due to growth in the Company's loan portfolios and, to a lesser extent to provide for a specific reserve on impaired loans due primarily to one loan relationship identified in the fourth quarter of 2016. The allowance for loan loss on impaired loans increased $281,000 to $720,000 as of December 31, 2016. 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 in 2015 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.

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General reserves for loan categories range from 1.08% to 1.86% of the outstanding loan balances as of December 31, 2017. 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 provision recognized in 2017 was due primarily to an increase in the loan portfolio, as well as funding net charge offs. The loan provisions recognized in 2016 and 2015 were primarily due to increases in the loan portfolio. The allowance relating to commercial real estate is the largest reserve component. 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, 2017, commercial real estate loans have general reserves ranging from 1.25% to 1.44%.

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 health of Iowa’s agricultural sector that, in turn, is dependent on crop and livestock prices, 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. 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 a significant impact on the reallocation of the allowance among different parts of the portfolio. The following table sets forth information regarding changes in the Company's specific reserve on loans individually evaluated for impairment and loans individually evaluated for impairment for the most recent five years. *(dollars in thousands)*

	2017	**2016**	**2015**	**2014**	**2013**
Specific reserve on loans individually evaluated for impairment	$811	$720	$439	$337	$477
Loans individually evaluated for impairment	$4,810	$5,077	$1,818	$2,533	$2,721
Percentage increase (decrease) in specific reserve on loans individually evaluated for impairment	13 %	64 %	30 %	-29 %	-32 %
Percentage increase (decrease) in loans individually evaluated for impairment	-5 %	179 %	-28 %	-7 %	-59 %

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Allocation of the Allowance for Loan Losses

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The following table sets forth information concerning the Company's allocation of the allowance for loan losses.
(dollars in thousands)

	2017		**2016**		**2015**		**2014**		**2013**	
	Amount	% *	Amount	% *	Amount	% *	Amount	% *	Amount	% *
Balance at end of period applicable to:										
Real Estate										
Construction	$796	6 %	$908	8 %	$999	9 %	$495	5 %	$392	4 %
1-4 family residential	1,716	19 %	1,711	20 %	1,806	18 %	1,648	18 %	1,523	19 %
Commercial	4,734	45 %	3,960	41 %	3,557	36 %	3,214	38 %	3,230	36 %
Agricultural	997	11 %	861	9 %	760	9 %	737	10 %	686	10 %
Commercial	1,739	9 %	1,728	10 %	1,371	14 %	1,247	14 %	1,435	15 %
Agricultural	1,171	9 %	1,216	10 %	1,256	11 %	1,312	13 %	1,165	14 %
Consumer and other	168	1 %	123	2 %	239	3 %	185	2 %	141	2 %
	$11,321	100%	$10,507	100%	$9,988	100%	$8,838	100%	$8,572	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, 2017, 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 and interest-bearing deposits in financial institutions for December 31, 2017, 2016 and 2015 totaled $69,420,000; $61,215,000; and $50,999,000, respectively. The higher balance of liquid assets at December 31, 2017 primarily relates to an increase in funds at a correspondent bank and the Federal Reserve Bank.

Other sources of liquidity available to the Banks as of December 31, 2017 include borrowing capacity with the FHLB of $185,417,000 and federal funds borrowing capacity at correspondent banks of $110,081,000. As of December 31, 2017, the Company had outstanding FHLB advances of $13,500,000, no federal funds purchased, securities sold under agreements to repurchase of $37,425,000 and other borrowings of $13,000,000.

Total investments as of December 31, 2017, were $498,343,000 compared to $516,080,000 as of year-end 2016. As of December 31, 2017 and 2016, the investment portfolio as a percentage of total assets was 36% and 38%, 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, 2017 and 2016 and have pretax net unrealized (losses) of $(687,000) and $(915,000), 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, 2017, 2016 and 2015 totaled $18,846,000, $21,417,000 and $22,622,000, respectively. The decrease in net cash provided by operating activities in 2017 as compared to 2016 was primarily due to a decrease in net income. The decrease in net cash provided by operating activities in 2016 as compared to 2015 was primarily due to an increase in deferred income taxes.

Net cash used in investing activities for the years ended December 31, 2017, 2016 and 2015 was $16,895,000, $43,470,000 and $34,376,000, respectively. The change in net cash used in investing activities in 2017 was primarily due to an increase in the loan portfolio in 2017 as compared to the increase in the loan portfolio in 2016. The change in net cash used in investing activities in 2016 was primarily due to a decrease in proceeds from securities maturities and calls; an increase in interest bearing deposits in financial institutions; and an increase in loans, offset in part by a decrease in securities purchased.

Net cash provided by (used in) financing activities for the years ended December 31, 2017, 2016 and 2015 totaled $(5,031,000), $27,525,000 and $12,029,000, respectively. The change in net cash provided by (used in) financing activities in 2017 was due primarily to a decrease in the securities sold under agreements to repurchase and to a lesser extent an increase in deposits in 2017 as compared to the increase in deposits 2016. The change in net cash provided by (used in) financing activities in 2016 was due primarily to an increase in deposits.

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 2017, dividends from the Banks amounted to $10,355,000 compared to $9,350,000 in 2016. 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 and interest bearing deposits totaling $13,888,000 that were available at December 31, 2017 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 $153,294,000 as of December 31, 2017 compared to a total of $164,066,000 at the end of 2016. 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, 2017. 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, 2017, that are of concern to management.

Capital Resources

The Company's total stockholders' equity increased to $170,753,000 at December 31, 2017, from $165,105,000 at December 31, 2016. At December 31, 2017 and 2016, stockholders' equity as a percentage of total assets was 12.4 % and 12.1%, respectively. The increase in stockholders' equity was primarily the result of net income, offset in part by dividends declared. The capital levels of the Company currently exceed applicable regulatory guidelines as of December 31, 2017.

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 2017 and 2016. 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 Annual 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” a 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.

Adequacy of the allowance for loan losses and 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 currently 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.

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 and the effect of the recent Federal tax reform on the operations of the Company and its customers.

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 FASB 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. The Company cannot predict such factors nor can it assess the impact, if any, of such factors on its financial condition 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 2017 changed when compared to 2016.

Based on a simulation modeling analysis performed as of December 31, 2017, 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, 2018. *(dollars in thousands)*

	$ Change	% Change
+400 Basis Points	$ (6,713)	-16.59 %
+300 Basis Points	(4,791)	-11.84 %
+200 Basis Points	(3,051)	-7.54 %
+100 Basis Points	(1,456)	-3.60 %
-100 Basis Points	28	0.07 %
-200 Basis Points	(1,811)	-4.47 %

Down 300 and 400 basis points is not presented due to the low interest rate environment.

As shown above, at December 31, 2018, the estimated effect of an immediate 400 basis point increase in interest rates would decrease the Company's net interest income by 16.59% or approximately $6,713,000 in 2018. 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 200 basis point decrease in rates would decrease the Company's net interest income by 4.47% or approximately $1,811,000 in 2018. 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, 2017. 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. *(dollars in thousands)*

	Less than three months	Three months to one year	One to five years	Over five years	Cumulative Total
Interest earning assets					
Interest bearing deposits	$27,309	$1,731	$13,982	$-	$43,022
Investments (1)	3,117	39,057	279,705	176,464	498,343
Loans	133,919	58,223	412,515	178,293	782,950
Loans held for sale	-	-	-	-	-
Total interest earning assets	$164,345	$99,011	$706,202	$354,757	$1,324,315
Interest bearing liabilities					
Interest bearing demand deposits	$322,393	$-	$-	$-	$322,393
Money market and savings deposits	389,630	-	-	-	389,630
Time certificates > $100,000	15,438	34,464	35,047	-	84,949
Time certificates < $100,000	14,317	40,968	54,801	-	110,086
Other borrowed funds (2)	17,500	7,000	-	2,000	26,500
Total interest bearing liabilities	$759,278	$82,432	$89,848	$2,000	$933,558
Interest sensitivity gap	$(594,933)	$16,579	$616,354	$352,757	$390,757
Cumulative interest sensitivity gap	$(594,933)	$(578,354)	$38,000	$390,757	$390,757
Cumulative interest sensitivity gap as a percent of total assets	-43.27 %	-42.06 %	2.76 %	28.42 %	

(1) Investments with maturities over 5 years include the market value of equity securities of $3.0 million

(2) Includes $13.5 million of advances from the FHLB. Of these advances, $13.5 million are term advances. The term advances have been categorized based upon their maturity date. Includes $13.0 million of term repurchase agreements, of which $7.0 million are callable. The term repurchase agreement was categorized based upon maturity, because the interest rates on such agreement is above current market rates.

As of December 31, 2017, the Company's cumulative gap ratios for assets and liabilities repricing within three months and within one year were a negative 43% and 42%, 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, 2017. 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, 2017, 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, 2017 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

Executive Vice President

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ames National Corporation and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the years in the three year period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, 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 12, 2018, expressed an unqualified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ CliftonLarsonAllen LLP

We have served as the Company’s auditor since 2006.

West Des Moines, Iowa

March 12, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

Opinion on Internal Control over Financial Reporting

We have audited Ames National Corporation and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows of the Company, and our report dated March 12, 2018, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

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Board of Directors and Stockholders

Ames National Corporation

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Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ CliftonLarsonAllen LLP

West Des Moines, Iowa

March 12, 2018

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

ASSETS	**2017**	**2016**
Cash and due from banks	$26,397,550	$29,478,068
Interest bearing deposits in financial institutions	43,021,953	31,737,259
Securities available-for-sale	498,342,864	516,079,506
Loans receivable, net	771,549,655	752,181,730
Loans held for sale	-	242,618
Bank premises and equipment, net	15,399,146	16,049,379
Accrued income receivable	8,382,391	7,768,689
Other real estate owned	385,509	545,757
Deferred income taxes	2,542,533	3,485,689
Other intangible assets, net	1,091,462	1,352,812
Goodwill	6,732,216	6,732,216
Other assets	1,214,371	799,306
Total assets	$1,375,059,650	$1,366,453,029
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	$227,332,347	$212,074,792
NOW accounts	322,392,945	310,427,812
Savings and money market	389,630,180	381,852,433
Time, $250,000 and over	38,838,782	39,031,663
Other time	156,196,433	166,022,165
Total deposits	1,134,390,687	1,109,408,865
Securities sold under agreements to repurchase	37,424,619	58,337,367
Federal Home Loan Bank (FHLB) advances	13,500,000	14,500,000
Other borrowings	13,000,000	13,000,000
Dividends payable	2,048,401	1,955,292
Accrued expenses and other liabilities	3,942,801	4,146,262
Total liabilities	1,204,306,508	1,201,347,786
STOCKHOLDERS' EQUITY		
Common stock, $2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of December 31, 2017 and 2016	18,621,826	18,621,826
Additional paid-in capital	20,878,728	20,878,728
Retained earnings	131,684,961	126,181,376
Accumulated other comprehensive (loss)	(432,373)	(576,687)

Total stockholders' equity	*170,753,142*	*165,105,243*
Total liabilities and stockholders' equity	$*1,375,059,650*	$*1,366,453,029*

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Interest income:			
Loans, including fees	$34,048,310	$32,358,028	$30,780,496
Securities:			
Taxable	6,219,030	5,853,146	6,179,492
Tax-exempt	5,015,696	5,439,908	5,808,011
Interest bearing deposits and federal funds sold	511,399	394,957	382,346
Total interest income	45,794,435	44,046,039	43,150,345
Interest expense:			
Deposits	4,439,305	3,073,658	3,019,273
Other borrowed funds	1,141,774	1,061,623	1,165,866
Total interest expense	5,581,079	4,135,281	4,185,139
Net interest income	40,213,356	39,910,758	38,965,206
Provision for loan losses	1,519,596	524,365	1,099,183
Net interest income after provision for loan losses	38,693,760	39,386,393	37,866,023
Noninterest income:			
Wealth management income	3,060,599	2,929,456	2,724,451
Service fees	1,515,998	1,633,178	1,740,740
Securities gains, net	505,139	423,601	888,179
Gain on sale of loans held for sale	783,776	1,082,347	907,875
Merchant and card fees	1,375,402	1,405,751	1,378,218
Other noninterest income	751,853	613,201	627,730
Total noninterest income	7,992,767	8,087,534	8,267,193
Noninterest expense:			
Salaries and employee benefits	15,994,036	15,687,335	15,231,369
Data processing	3,298,080	3,297,079	3,027,203
Occupancy expenses	2,018,553	1,962,726	1,889,793
FDIC insurance assessments	427,781	540,237	680,563
Professional fees	1,231,778	1,178,924	1,274,298
Business development	1,033,026	1,016,365	1,064,362
Other real estate owned (income) expense, net	(2,459)	(172,628)	613,812
Intangible asset amortization	369,580	368,259	421,500
Other operating expenses, net	1,034,162	1,056,348	1,109,121
Total noninterest expense	25,404,537	24,934,645	25,312,021

Income before income taxes	*21,281,990*	*22,539,282*	*20,821,195*
Provision for income taxes	*7,584,801*	*6,804,506*	*5,806,544*
Net income	$*13,697,189*	$*15,734,776*	$*15,014,651*
Basic and diluted earnings per share	$*1.47*	$*1.69*	$*1.61*

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
Net income	$13,697,189	$15,734,776	$15,014,651
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on securities before tax:			
Unrealized holding gains (losses) arising during the period	734,209	(6,018,340)	(683,696)
Less: reclassification adjustment for gains realized in net income	505,139	423,601	888,179
Other comprehensive income (loss) before tax	229,070	(6,441,941)	(1,571,875)
Tax expense (benefit) related to other comprehensive income (loss)	84,756	(2,383,518)	(581,594)
Other comprehensive income (loss), net of tax	144,314	(4,058,423)	(990,281)
Comprehensive income	$13,841,503	$11,676,353	$14,024,370

See Notes to Consolidated Financial Statements.

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2014	$ 18,621,826	$ 20,878,728	$ 110,701,847	$ 4,472,017	$ 154,674,418
Net income	-	-	15,014,651	-	15,014,651
Other comprehensive (loss)	-	-	-	(990,281)	(990,281)
Cash dividends declared, $0.80 per share	-	-	(7,448,731)	-	(7,448,731)
Balance, December 31, 2015	18,621,826	20,878,728	118,267,767	3,481,736	161,250,057
Net income	-	-	15,734,776	-	15,734,776
Other comprehensive (loss)	-	-	-	(4,058,423)	(4,058,423)
Cash dividends declared, $0.84 per share	-	-	(7,821,167)	-	(7,821,167)
Balance, December 31, 2016	18,621,826	20,878,728	126,181,376	(576,687)	165,105,243
Net income	-	-	13,697,189	-	13,697,189
Other comprehensive income	-	-	-	144,314	144,314
Cash dividends declared, $0.88 per share	-	-	(8,193,604)	-	(8,193,604)
Balance, December 31, 2017	$ 18,621,826	$ 20,878,728	$ 131,684,961	$ (432,373)	$ 170,753,142

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$13,697,189	$15,734,776	$15,014,651
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,519,596	524,365	1,099,183
Provision (credit) for off-balance sheet commitments	(5,000)	24,000	7,000
Amortization of securities available-for-sale, loans and deposits, net	2,797,455	3,065,740	3,404,299
Amortization of intangible assets	369,580	368,259	421,500
Depreciation	1,133,559	1,209,144	1,147,120
Provision for deferred income taxes	858,400	174,400	1,938,200
Securities gains, net	(505,139)	(423,601)	(888,179)
Gain on sales of loans held for sale	(783,776)	(1,082,347)	(907,875)
Proceeds from the sales of loans held for sale	32,703,719	47,700,123	39,670,999
Originations of loans held for sale	(31,677,325)	(46,321,024)	(38,597,644)
Impairment of other real estate owned	-	28,039	614,687
(Gain) on sale of other real estate owned, net	(14,648)	(218,687)	(100,409)
Loss on sale and disposal of bank premises and equipment, net	2,179	25,772	5,388
Change in assets and liabilities:			
(Increase) in accrued income receivable	(613,702)	(202,898)	(94,768)
(Increase) decrease in other assets	(437,556)	298,656	109,864
Increase (decrease) in accrued expenses and other liabilities	(198,461)	512,599	(221,667)
Net cash provided by operating activities	18,846,070	21,417,316	22,622,349
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available-for-sale	(64,197,470)	(78,120,246)	(100,805,716)
Proceeds from sale of securities available-for-sale	14,025,166	25,142,516	25,031,910
Proceeds from maturities and calls of securities available-for-sale	65,725,649	65,294,571	75,946,662
Net decrease (increase) in interest bearing deposits in financial institutions	(11,284,694)	(4,744,168)	4,476,291
Net (increase) in loans	(20,784,138)	(51,414,733)	(41,677,319)
Net proceeds from the sale of other real estate owned	191,564	1,052,178	4,875,464
Proceeds from the sale or bank premises and equipment	55,141	-	-
Purchase of bank premises and equipment	(518,155)	(267,761)	(2,196,551)
Other changes in other real estate owned	-	-	(26,612)
Purchase of customer list	(108,230)	(412,340)	-
Net cash (used in) investing activities	(16,895,167)	(43,469,983)	(34,375,871)
CASH FLOWS FROM FINANCING ACTIVITIES			

Increase in deposits	*24,981,822*	*35,247,743*	*22,192,208*
Increase (decrease) in securities sold under agreements to repurchase	*(20,912,748)*	*4,047,452*	*3,024,904*
Proceeds from FHLB and other borrowings	-	-	*4,500,000*
Payments on FHLB and other borrowings	*(1,000,000)*	*(4,042,203)*	*(10,425,534)*
Dividends paid	*(8,100,495)*	*(7,728,058)*	*(7,262,512)*
Net cash provided by (used in) financing activities	*(5,031,421)*	*27,524,934*	*12,029,066*
Net increase (decrease) in cash and due from banks	*(3,080,518)*	*5,472,267*	*275,544*
CASH AND DUE FROM BANKS			
Beginning	*29,478,068*	*24,005,801*	*23,730,257*
Ending	$*26,397,550*	$*29,478,068*	$*24,005,801*

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AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2017, 2016 and 2015

	2017	**2016**	**2015**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$*5,509,886*	$*4,172,526*	$*4,464,760*
Income taxes	*6,886,832*	*5,822,394*	*4,291,621*
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES			
Transfer of loans to other real estate owned	$*16,668*	$*157,372*	$*74,609*
Other real real estate owned sale financed by a loan receivable	-	-	*1,897,449*

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Note *1*. Summary of Significant Accounting Policies

Description of business: Ames National Corporation and subsidiaries (the Company) operates in the commercial banking industry through its subsidiaries in Ames, Boone, Story City, Nevada and Marshalltown, Iowa. Loan and deposit customers are located primarily in Boone, Hancock, Polk, Marshall and Story Counties and adjacent counties in Iowa.

Segment information: The Company uses the "management approach" for reporting information about segments in annual and interim financial statements. The "management approach" is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Based on the "management approach" model, the Company has determined that its business is comprised of *one* operating segment: banking. The banking segment generates revenues through personal, business, agricultural and commercial lending, management of the investment securities portfolio, deposit account services and wealth management services.

Consolidation: The consolidated financial statements include the accounts of Ames National Corporation (the Parent Company) and its wholly-owned subsidiaries, First National Bank, Ames, Iowa (FNB); State Bank & Trust Co., Nevada, Iowa (SBT); Boone Bank & Trust Co., Boone, Iowa (BBT); Reliance State Bank (RSB), Story City, Iowa; and United Bank & Trust NA, Marshalltown, Iowa (UBT) (collectively, the Banks). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the assessment of goodwill impairment and the assessment of other-than-temporary impairment for certain financial instruments.

Cash and due from banks: For purposes of reporting cash flows, cash and due from banks include cash on hand and amounts due from banks. The Company reports net cash flows for customer loan transactions, deposit transactions and short-term borrowings with maturities of *90* days or less.

Securities available-for-sale: The Company classifies all securities as available-for-sale. Securities available-for-sale are those securities the Company *may* decide to sell if needed for liquidity, asset-liability management or other reasons. Securities available-for-sale are reported at fair value, with the change in the net unrealized gains reported as other comprehensive income and as accumulated other comprehensive income, net of taxes, a separate component of stockholders' equity.

Gains and losses on the sale of securities are determined using the specific identification method based on amortized cost and are reflected in results of operation at the time of sale. Interest and dividend income, adjusted by amortization of purchase premium or discount over the estimated life of the security using the level yield method, is included in income as earned.

Declines in the fair value of securities available-for-sale 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 change 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.

Loans: Loans are stated at the principal amount outstanding, net of deferred loan fees and the allowance for loan losses. Interest on loans is credited to income as earned based on the principal amount outstanding. The Banks' policy is to discontinue the accrual of interest income on any loan *90* days or more past due unless the loans are well collateralized and in the process of collection. Income on nonaccrual loans is subsequently recognized only to the extent that cash payments are received and principal obligations are expected to be recoverable. Nonaccrual loans are returned to an accrual status when, in the opinion of management, the financial position of the borrower indicates there is *no* longer any reasonable doubt as to timely payment of principal or interest.

Allowance for loan losses: The allowance for loan losses is established through a provision for loan losses and maintained at a level deemed appropriate by management to provide for known and inherent risks in the loan portfolio. The allowance is based upon an ongoing review of past loan loss experience, current economic conditions, the underlying collateral value securing the loans and other adverse situations that *may* affect the borrower's ability to repay. Loans which are deemed to be uncollectible are charged-off and deducted from the allowance. Recoveries on loans charged-off are added to the allowance. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. 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 materially affect the amounts reported in the Company's financial statements.

The Company's allowance for possible loan losses consists of *two* components (i) specific reserves based on probable losses on specific loans and (ii) a general allowance based on historical loan loss experience, general economic conditions and other qualitative risk factors both internal and external to the Company.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk rating process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include residential *first* mortgage loans secured by *one*-to-*four* family residences, residential construction loans, and automobile loans. Commercial and agricultural loans and mortgage loans secured by other properties are evaluated individually for impairment when analysis of borrower operating results and financial condition indicates that underlying cash flows of the borrower's business are *not* adequate to meet its debt service requirements. Often this is associated with a delay or shortfall in payments of *90* days or more. Nonaccrual loans are often also considered impaired. Impaired loans or portions thereof, are charged-off when deemed uncollectible.

The general component of the allowance for loan losses is based on historical loan loss experience, general economic conditions and other qualitative risk factors both internal and external to the Company. The general component is determined by evaluating, among other things: (i) actual charge offs; (ii) the experience, ability and effectiveness of the Company's lending management and staff; (iii) the effectiveness of the Company's loan policies, procedures and internal controls; (iv) changes in asset quality; (v) changes in loan portfolio volume; (vi) the composition and concentrations of credit; (vii) the impact of competition on loan structuring and pricing; (viii) the effectiveness of the internal audit loan review function; (ix) the impact of environmental risks on portfolio risks; and (*x*) the impact of rising interest rates on portfolio risk (collectively, the variables). Management evaluates the degree of risk that each *one* of these variables has on the quality of the loan portfolio on a quarterly basis. Each variable is determined to have either a high, moderate or low degree of risk. The results are then input into a "general allocation matrix" to determine an appropriate general allocation of the allowance for losses. Also included in the general component is an allocation for groups of loans with similar risk characteristics.

Loans held for sale: Loans held for sale are the loans the Banks have the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sales of loans are determined by the difference between the sale proceeds and the carrying value of the loans, recognized at settlement date and recorded as noninterest income.

Bank premises and equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using straight-line and accelerated methods over the estimated useful lives of the respective assets. Depreciable lives range from *3* to *7* years for equipment and *15* to *39* years for premises.

Other real estate owned: Real estate properties acquired through or in lieu of foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell and any subsequent write-downs are charged to operations. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value less costs to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available.

Goodwill and other intangible assets: Goodwill represents the excess of cost over fair value of net assets acquired. Goodwill resulting from acquisitions is *not* amortized, but is tested for impairment annually or whenever events change and circumstances indicate that it is more likely than *not* that impairment has occurred. Goodwill is tested for impairment using a *two*-step process that begins with an estimation of the fair value of a reporting unit. The *second* step, if necessary, measures the amount of impairment.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions and selecting an appropriate control premium. At *December 31, 2017,* the Company management has completed the goodwill impairment analysis and determined goodwill was *not* impaired based on the fair value of the respective reporting unit.

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The only other significant intangible asset is the core deposit intangible asset. The core deposit intangible asset is determined to have a definite life and is amortized over the estimated useful life. The core deposit intangible asset is a customer based relationship valuation attributed to the expectation of a lower net cost of these deposits versus alternative sources of funds. The core deposit intangible asset and other long-lived assets are reviewed for impairment whenever events occur or circumstances indicate that the carrying amount *may not* be recoverable.

Wealth management department assets: Property held for customers in fiduciary or agency capacities are *not* included in the accompanying consolidated balance sheets, as such items are *not* assets of the Banks.

Advertising costs: Advertising costs are expensed as incurred.

Income taxes: Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases. Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than *not* that some or all of the deferred tax assets will *not* be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years' tax returns. Accounting for uncertainty in income taxes sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Benefits from tax positions taken or expected to be taken in a tax return are *not* recognized if the likelihood that the tax position would be sustained upon examination by a taxing authority is considered to be *50* percent or less. Interest and penalties are accounted for as a component of income tax expense.

The Company files a consolidated federal income tax return, with each entity computing its taxes on a separate company basis. For state tax purposes, the Banks file franchise tax returns, while the Parent Company files a corporate income tax return.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as accumulated other comprehensive income, a separate component of the stockholders' equity section of the consolidated balance sheet, and such items, along with net income, are components of the statement of comprehensive income. Gains and losses on securities available-for-sale are reclassified to net income as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income at the time of the charge.

Financial instruments with off-balance-sheet risk: The Company, in the normal course of business, makes commitments to make loans which are *not* reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note *14*.

Transfers of financial assets and participating interests: Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (*1*) the assets have been isolated from the Company, (*2*) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (*3*) the Company does *not* maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (*1*) from the date of the transfer, it must represent a proportionate (pro rata) ownership in the financial asset, (*2*) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (*3*) the rights of each participating interest holder must have the same priority, and (*4*) *no* party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Earnings per share: Basic earnings per share computations for the years ended *December 31, 2017, 2016* and *2015,* were determined by dividing net income by the weighted-average number of common shares outstanding during the years then ended. The Company had *no* potentially dilutive securities outstanding during the periods presented.

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The following information was used in the computation of basic earnings per share (EPS) for the years ended *December 31, 2017, 2016,* and *2015*.

	2017	2016	2015
Basic earning per share computation:			
Net income	$*13,697,189*	$*15,734,776*	$*15,014,651*
Weighted average common shares outstanding	*9,310,913*	*9,310,913*	*9,310,913*
Basic EPS	$*1.47*	$*1.69*	$*1.61*

Reclassifications: Certain reclassifications have been made to the prior consolidated financial statements to conform to the current period presentation. These reclassifications had *no* effect on stockholders' equity and net income of the prior periods.

New and Pending Accounting Pronouncements: In *January 2016,* the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") *No. 2016-01,* Financial Instruments—Overall (Subtopic *825-10*): *Recognition and Measurement of Financial Assets and Financial Liabilities.* The update enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by updating certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Among other changes, the update includes requiring changes in fair value of equity securities with readily determinable fair value to be recognized in net income and clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entities' other deferred tax assets. Among other items the ASC requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public companies, this update will be effective for interim and annual periods beginning after *December 15, 2017,* and is to be applied on a modified retrospective basis. Upon the effective date, the fair value of the Company's loan portfolio will be presented using an exit price method. The Company has concluded that the remaining requirements of this update are *not* expected to have a material impact on the Company's consolidated financial statements.

In *February 2016,* the FASB issued ASU *No. 2016-02,* Leases (Topic *842*). The ASU requires a lessee to recognize on the balance sheet assets and liabilities for leases with lease terms of more than *12* months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Unlike current GAAP, which requires that only capital leases be recognized on the balance sheet, the ASC requires that both types of leases by recognized on the balance sheet. For public companies, this update will be effective for interim and annual periods beginning after *December 15, 2018.* Early application is permitted. The adoption of this guidance is *not* expected to have a material impact on the Company's consolidated financial statements.

In *June 2016,* the FASB issued ASU *No. 2016-13,* Financial Instruments-Credit Losses (Topic *326*): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after *December 15, 2019.* The Company is currently planning for the implementation of this accounting standard. It is too early to assess the impact that the guidance will have on the Company’s consolidated financial statements.

In *May 2014,* the FASB issued ASU *2014-09,* Revenue from Contracts with Customers (Topic *606*): *Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs—Contracts with Customers (Subtopic 340-40)* . The guidance in this update supersedes the revenue recognition requirements in ASC Topic *605,* Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification. For public companies, this update will be effective for interim and annual periods beginning after *December 15, 2017.* The Company adopted the guidance effective *January 1, 2018.* The guidance does *not* apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. Service charges on deposit accounts are within the scope of the guidance; however, current revenue recognition practices will *not* change under the guidance, as deposit agreements are considered day-to-day contracts. Other noninterest income sources of revenue are considered immaterial. Implementation of the guidance will *not* change current business practices or internal controls for financial reporting. The Company has assessed the impact that this guidance will have on its consolidated financial statements and does *not* expect the guidance to have a material impact on the Company's consolidated financial statements.

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In *January 2017,* the FASB issued ASU *2017-04,* Intangibles-Goodwill and Other (Topic *350*): *Simplifying the Test for Goodwill Impairment*. The guidance in this update eliminates the Step *2* from the goodwill impairment test. For public companies, this update will be effective for interim and annual periods beginning after *December 15, 2019,* with early adoption permitted for interim and annual goodwill impairment test with a measurement date after *January 1, 2017.* The Company does *not* expect the guidance to have a material impact on the Company's consolidated financial statements.

In *February 2018,* the FASB issued ASU *2018-02,* Income Statement-Reporting Comprehensive Income (Topic *220*): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The amendments in this ASU would require a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted *21* percent corporate income tax rate. The amendments in this proposed Update would be effective for all entities for fiscal years beginning after *December 15, 2018,* and interim periods within those fiscal years. Early adoption of the amendments in this proposed Update would be permitted. The Company is currently planning on early adopting this ASU in the *first* quarter of *2018* and does *not* expect the guidance to have a material impact on the Company’s financial statements.

Note *2.* Concentrations and Restrictions on Cash and Due from Banks and Interest Bearing Deposits in Financial Institutions

The Federal Reserve Bank requires member banks to maintain certain cash and due from bank reserves. The subsidiary banks’ reserve requirements totaled approximately *$5,955,000* and *$5,707,000* at *December 31, 2017* and *2016,* respectively.

At *December 31, 2017,* the Company had approximately *$46,016,000* on deposit at various financial institutions. Management does *not* believe these balances carry a significant risk of loss but cannot provide absolute assurance that *no* losses would occur if these institutions were to become insolvent.

Note *3.* Debt and Equity Securities

The amortized cost of securities available-for-sale and their approximate fair values are summarized below *(in thousands)*:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2017:				
U.S. government treasuries	$ 6,413	$ 2	$ (48)	$ 6,367
U.S. government agencies	111,900	136	(773)	111,263
U.S. government mortgage-backed securities	81,685	422	(327)	81,780
State and political subdivisions	237,349	1,233	(1,169)	237,413
Corporate bonds	58,647	206	(389)	58,464
Equity securities, other	3,036	20	-	3,056
	$ 499,030	$ 2,019	$ (2,706)	$ 498,343

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2016:				
U.S. government treasuries	$ 4,396	$ 18	$ (46)	$ 4,368
U.S. government agencies	110,372	540	(703)	110,209
U.S. government mortgage-backed securities	82,279	1,018	(439)	82,858
State and political subdivisions	265,204	1,660	(2,416)	264,448
Corporate bonds	51,731	147	(694)	51,184
Equity securities, other	3,013	-	-	3,013
	$ 516,995	$ 3,383	$ (4,298)	$ 516,080

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The amortized cost and fair value of debt securities available-for-sale as of *December 31, 2017,* are shown below by expected maturity. Expected maturities will differ from contractual maturities because issuers *may* have the right to call or prepay obligations with or without call or prepayment penalties. *(in thousands)*

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ *42,105*	$ *42,174*
Due after one year through five years	*279,659*	*279,705*
Due after five years through ten years	*154,967*	*154,132*
Due after ten years	*19,263*	*19,276*
	495,994	*495,287*
Equity securities	*3,036*	*3,056*
	$ *499,030*	$ *498,343*

At *December 31, 2017* and *2016,* securities with a carrying value of approximately *$171,129,000* and *$177,234,000,* respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. Securities sold under agreements to repurchase are held by the Company’s safekeeping agent.

The proceeds, gains, and losses from securities available-for-sale are summarized below *(in thousands)*:

	2017	**2016**	**2015**
Proceeds from sales of securities available-for-sale	$ *14,025*	$ *25,143*	$ *25,032*
Gross realized gains on securities available-for-sale	*540*	*430*	*911*
Gross realized losses on securities available-for-sale	*35*	*6*	*23*
Tax provision applicable to net realized gains on securities available-for-sale	*187*	*157*	*331*

No other-than-temporary impairments were recognized as a component of income for the years ended *December 31, 2017, 2016* and *2015*.

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Gross unrealized losses and fair value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of *December 31, 2017* and *2016,* are summarized as follows: *(in thousands)*

2017:	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. government treasuries	$*4,894*	$ *(48*)	$-	$ -	$*4,894*	$ *(48*)
U.S. government agencies	*73,953*	*(549*)	*10,168*	*(224*)	*84,121*	*(773*)
U.S. government mortgage-backed securities	*39,565*	*(245*)	*5,344*	*(82*)	*44,909*	*(327*)
State and political subdivisions	*89,904*	*(703*)	*16,631*	*(466*)	*106,535*	*(1,169*)
Corporate bonds	*29,808*	*(198*)	*6,709*	*(191*)	*36,517*	*(389*)
	$*238,124*	$ *(1,743*)	$*38,852*	$ *(963*)	$*276,976*	$ *(2,706*)

2016:	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Securities available for sale:						
U.S. government treasuries	$*2,893*	$ *(46*)	$-	$ -	$*2,893*	$ *(46*)
U.S. government agencies	*48,225*	*(703*)	-	-	*48,225*	*(703*)
U.S. government mortgage-backed securities	*33,753*	*(439*)	-	-	*33,753*	*(439*)
State and political subdivisions	*125,558*	*(2,226*)	*6,512*	*(190*)	*132,070*	*(2,416*)
Corporate bonds	*35,703*	*(694*)	-	-	*35,703*	*(694*)
	$*246,132*	$ *(4,108*)	$*6,512*	$ *(190*)	$*252,644*	$ *(4,298*)

At *December 31, 2017,* debt securities have unrealized losses of *$2,706,000.* These unrealized losses are generally due to changes in interest rates or general market conditions. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts’ reports. Management concluded that the unrealized losses on debt securities were temporary. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values and management’s assessments will occur in the near term and that such changes could materially affect the amounts reported in the Company’s financial statements.

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Note *4.* Loans Receivable and Credit Disclosures

The composition of loans receivable is as follows *(in thousands)*:

	2017	2016
Real estate - construction	$*50,309*	$*61,042*
Real estate - 1 to 4 family residential	*146,258*	*149,507*
Real estate - commercial	*350,626*	*315,702*
Real estate - agricultural	*81,790*	*73,032*
Commercial	*73,816*	*74,378*
Agricultural	*69,806*	*76,994*
Consumer and other	*10,345*	*12,130*
	782,950	*762,785*
Less:		
Allowance for loan losses	*(11,321*)	*(10,507*)
Deferred loan fees	*(79*)	*(96*)
	$*771,550*	$*752,182*

Construction loans are underwritten utilizing independent appraisals, sensitivity analysis of absorption, vacancy and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates *may* be inaccurate. Construction loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. The Company *may* require guarantees on these loans. The Company's construction loans are secured primarily by properties located in its primary market area.

The Company originates *1-4* family real estate, consumer and other loans utilizing credit reports to supplement the underwriting process. The Company's manual underwriting standards for *1-4* family loans are generally in accordance with FHLMC and FNMA manual underwriting guidelines. Properties securing *1-4 four*-family real estate loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and have been approved by the Board of Directors. The loan-to-value ratios normally do *not* exceed *90%* without credit enhancements such as mortgage insurance. The Company will lend up to *100%* of the lesser of the appraised value or purchase price for conventional *1-4* family real estate loans, provided private mortgage insurance is obtained. The Company's *1-4* family real estate loans are secured primarily by properties located in its primary market area. The underwriting standards for consumer and other loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. To monitor and manage loan risk, policies and procedures are developed and modified, as needed by management. This activity, coupled with smaller loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, market conditions are reviewed by management on a regular basis.

Commercial and agricultural real estate loans are subject to underwriting standards and processes similar to commercial and agricultural operating loans, in addition to those unique to real estate loans. These loans are viewed primarily as cash flow loans and, secondarily, as loans secured by real estate. Commercial and agricultural real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Loan-to-value generally does *not* exceed *80%* of the cost or value of the assets. Appraisals on properties securing these loans are performed by fee appraisers approved by the Board of Directors. Because payments on commercial and agricultural real estate loans are often dependent on the successful operation or management of the properties, repayment of such loans *may* be subject to adverse conditions in the real estate market or the economy. Management monitors and evaluates commercial and agricultural real estate loans based on collateral and risk rating criteria. The Company *may* require guarantees on these loans. The Company's commercial and agricultural real estate loans are secured primarily by properties located in its primary market area.

Commercial and agricultural operating loans are underwritten based on the Company's examination of current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. This underwriting includes the evaluation of cash flows of the borrower, underlying collateral, if applicable, and the borrower's ability to manage its business activities. The cash flows of borrowers and the collateral securing these loans *may* fluctuate in value after the initial evaluation. 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). The Company's commercial and agricultural operating lending is primarily in its primary market area.

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The Company maintains an internal audit department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the audit committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Summary changes in the allowance for loan losses for the years ended *December 31, 2017, 2016* and *2015* are as follows *(in thousands)*:

	2017	**2016**	**2015**
Balance, beginning	$ *10,507*	$ *9,988*	$ *8,838*
Provision for loan losses	*1,520*	*524*	*1,099*
Recoveries of loans charged-off	*32*	*127*	*120*
Loans charged-off	*(738*)	*(132*)	*(69*)
Balance, ending	$ *11,321*	$ *10,507*	$ *9,988*

Activity in the allowance for loan losses, on a disaggregated basis, for the years ended *December 31, 2017, 2016* and *2015* is as follows *(in thousands)*:

2017:	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, beginning	$ *908*	$ *1,711*	$ *3,960*	$ *861*	$ *1,728*	$ *1,216*	$ *123*	$ *10,507*
Provision (credit) for loan losses	*(112*)	*1*	*774*	*136*	*691*	*(45*)	*75*	*1,520*
Recoveries of loans charged-off	-	*11*	-	-	*7*	-	*14*	*32*
Loans charged-off	-	*(7*)	-	-	*(687*)	-	*(44*)	*(738*)
Balance, ending	$ *796*	$ *1,716*	$ *4,734*	$ *997*	$ *1,739*	$ *1,171*	$ *168*	$ *11,321*

2016:	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total

Balance, beginning	$ *999*	$ *1,806*	$ *3,557*	$ *760*	$ *1,371*	$ *1,256*	$ *239*	$ *9,988*
Provision (credit) for loan losses	*(121*)	*(85*)	*403*	*101*	*352*	*(40*)	*(86*)	*524*
Recoveries of loans charged-off	*30*	*5*	-	-	*83*	-	*9*	*127*
Loans charged-off	-	*(15*)	-	-	*(78*)	-	*(39*)	*(132*)
Balance, ending	$ *908*	$ *1,711*	$ *3,960*	$ *861*	$ *1,728*	$ *1,216*	$ *123*	$ *10,507*

2015:	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Balance, beginning	$ *495*	$ *1,648*	$ *3,214*	$ *737*	$ *1,247*	$ *1,312*	$ *185*	$ *8,838*
Provision (credit) for loan losses	*454*	*157*	*339*	*23*	*124*	*(45*)	*47*	*1,099*
Recoveries of loans charged-off	*50*	*26*	*4*	-	-	*28*	*12*	*120*
Loans charged-off	-	*(25*)	-	-	-	*(39*)	*(5*)	*(69*)
Balance, ending	$ *999*	$ *1,806*	$ *3,557*	$ *760*	$ *1,371*	$ *1,256*	$ *239*	$ *9,988*

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Allowance for loan losses disaggregated on the basis of the impairment analysis method as of *December 31, 2017* and *2016* is as follows *(in thousands)*:

2017:

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Ending balance: Individually evaluated for impairment	$ -	$ *42*	$ *115*	$ -	$ *607*	$ -	$ *47*	$ *811*
Ending balance: Collectively evaluated for impairment	*796*	*1,674*	*4,619*	*997*	*1,132*	*1,171*	*121*	*10,510*
Ending balance	$ *796*	$ *1,716*	$ *4,734*	$ *997*	$ *1,739*	$ *1,171*	$ *168*	$ *11,321*

2016:

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Ending balance: Individually evaluated for impairment	$ -	$ *76*	$ -	$ -	$ *644*	$ -	$ -	$ *720*
Ending balance: Collectively evaluated for impairment	*908*	*1,635*	*3,960*	*861*	*1,084*	*1,216*	*123*	*9,787*
Ending balance	$ *908*	$ *1,711*	$ *3,960*	$ *861*	$ *1,728*	$ *1,216*	$ *123*	$ *10,507*

Loans receivable disaggregated on the basis of the impairment analysis method as of *December 31, 2017* and *2016* is as follows *(in thousands)*:

2017:

	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Ending balance: Individually evaluated for impairment	$ -	$ *689*	$ *901*	$ -	$ *3,140*	$ -	$ *80*	$ *4,810*
Ending balance: Collectively evaluated for impairment	*50,309*	*145,569*	*349,725*	*81,790*	*70,676*	*69,806*	*10,265*	*778,140*

Ending balance	$ *50,309*	$ *146,258*	$ *350,626*	$ *81,790*	$ *73,816*	$ *69,806*	$ *10,345*	$ *782,950*

2016:	Construction Real Estate	1-4 Family Residential Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Consumer and Other	Total
Ending balance: Individually evaluated for impairment	$ -	$ *660*	$ *399*	$ -	$ *3,942*	$ -	$ *76*	$ *5,077*
Ending balance: Collectively evaluated for impairment	*61,042*	*148,847*	*315,303*	*73,032*	*70,436*	*76,994*	*12,054*	*757,708*
Ending balance	$ *61,042*	$ *149,507*	$ *315,702*	$ *73,032*	$ *74,378*	$ *76,994*	$ *12,130*	$ *762,785*

Credit Quality Indicators. As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk ratings of construction, commercial and agricultural real estate loans and commercial and agricultural operating loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in our market area.

The Company utilizes a risk rating matrix to assign risk ratings to each of its construction, commercial and agricultural loans. Loans are rated on a scale of *1* to *7.* A description of the general characteristics of the *7* risk ratings is as follows:

Ratings 1, 2 and 3 - These ratings include loans of average to excellent credit quality borrowers. These borrowers generally have significant capital strength, moderate leverage and stable earnings and growth commensurate to their relative risk rating. These ratings are reviewed at least annually. These ratings also include performing loans less than *$100,000.*

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Rating 4 - This rating includes loans on management's "watch list" and is intended to be utilized for pass rated borrowers where credit quality has begun to show signs of financial weakness that now requires management's heightened attention. This rating is reviewed at least quarterly.

Rating 5 - This rating is for "Special Mention" loans in accordance with regulatory guidelines. This rating is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation. This rating is reviewed at least quarterly.

Rating 6 - This rating includes "Substandard" loans in accordance with regulatory guidelines, for which the accrual of interest has *not* been stopped. By definition under regulatory guidelines, a "Substandard" loan has defined weaknesses which make payment default or principal exposure likely, but *not* yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment or an event outside of the normal course of business. This rating is reviewed at least quarterly.

Rating 7 - This rating includes "Substandard-Impaired" loans in accordance with regulatory guidelines, for which the accrual of interest has generally been stopped. This rating includes loans; (i) where interest is more than *90* days past due; (ii) *not* fully secured; (iii) loans where a specific valuation allowance *may* be necessary; (iv) unable to make contractual principle and interest payments. This rating is reviewed at least quarterly.

The credit risk profile by internally assigned grade, on a disaggregated basis, at *December 31, 2017* and *2016* is as follows *(in thousands)*:

2017:	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	$ *47,726*	$ *319,178*	$ *60,301*	$ *59,535*	$ *45,816*	$*532,556*
Watch	*2,583*	*27,528*	*20,114*	*9,628*	*22,640*	*82,493*
Special Mention	-	*184*	-	-	-	*184*
Substandard	-	*2,835*	*1,375*	*1,513*	*1,350*	*7,073*
Substandard-Impaired	-	*901*	-	*3,140*	-	*4,041*
	$ *50,309*	$ *350,626*	$ *81,790*	$ *73,816*	$ *69,806*	$*626,347*

2016:	Construction Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total

Pass	$ *57,420*	$ *288,107*	$ *51,720*	$ *59,506*	$ *57,415*	$*514,168*
Watch	*3,245*	*22,833*	*15,251*	*9,512*	*18,938*	*69,779*
Special Mention	-	*204*	*4,228*	*96*	*75*	*4,603*
Substandard	*377*	*4,159*	*1,833*	*1,322*	*566*	*8,257*
Substandard-Impaired	-	*399*	-	*3,942*	-	*4,341*
	$ *61,042*	$ *315,702*	$ *73,032*	$ *74,378*	$ *76,994*	$*601,148*

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The credit risk profile based on payment activity, on a disaggregated basis, at *December 31, 2017* and *2016* is as follows *(in thousands)*:

2017:	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	$ *145,551*	$ *10,264*	$ *155,815*
Non-performing	*707*	*81*	*788*
	$ *146,258*	$ *10,345*	$ *156,603*

2016:	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	$ *148,828*	$ *12,051*	$ *160,879*
Non-performing	*679*	*79*	*758*
	$ *149,507*	$ *12,130*	$ *161,637*

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A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. The Company will apply its normal loan review procedures to identify loans that should be evaluated for impairment.

The following is a recap of impaired loans, on a disaggregated basis, at *December 31, 2017, 2016* and *2015* and the average recorded investment and interest income recognized on these loans for the years ended *December 31, 2017, 2016* and *2015 (in thousands)*:

2017:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - 1 to 4 family residential	*572*	*677*	-	*542*	*30*
Real estate - commercial	*671*	*1,353*	-	*652*	-
Real estate - agricultural	-	-	-	-	-
Commercial	*125*	*148*	-	*1,190*	*4*
Agricultural	-	-	-	-	-
Consumer and other	*25*	*44*	-	*53*	-
Total loans with no specific reserve:	*1,393*	*2,222*	-	*2,437*	*34*
With an allowance recorded:					
Real estate - construction	-	-	-	*13*	*2*
Real estate - 1 to 4 family residential	*117*	*180*	*42*	*153*	-
Real estate - commercial	*230*	*230*	*115*	*46*	-
Real estate - agricultural	-	-	-	-	-
Commercial	*3,015*	*3,336*	*607*	*2,357*	-
Agricultural	-	-	-	-	-
Consumer and other	*55*	*43*	*47*	*23*	*1*
Total loans with specific reserve:	*3,417*	*3,789*	*811*	*2,592*	*3*
Total					
Real estate - construction	-	-	-	*13*	*2*
Real estate - 1 to 4 family residential	*689*	*857*	*42*	*695*	*30*
Real estate - commercial	*901*	*1,583*	*115*	*698*	-
Real estate - agricultural	-	-	-	-	-
Commercial	*3,140*	*3,484*	*607*	*3,547*	*4*
Agricultural	-	-	-	-	-
Consumer and other	*80*	*87*	*47*	*76*	*1*
	$ *4,810*	$ *6,011*	$ *811*	$ *5,029*	$ *37*

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2016:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:					
Real estate - construction	$ -	$ -	$ -	$ -	$ 31
Real estate - 1 to 4 family residential	452	473	-	440	1
Real estate - commercial	399	1,025	-	452	26
Real estate - agricultural	-	-	-	-	-
Commercial	2,747	2,672	-	580	-
Agricultural	-	-	-	9	2
Consumer and other	76	81	-	68	6
Total loans with no specific reserve:	3,674	4,251	-	1,549	66
With an allowance recorded:					
Real estate - construction	-	-	-	-	-
Real estate - 1 to 4 family residential	208	360	76	572	5
Real estate - commercial	-	-	-	20	-
Real estate - agricultural	-	-	-	-	-
Commercial	1,195	1,286	644	824	1
Agricultural	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total loans with specific reserve:	1,403	1,646	720	1,416	6
Total					
Real estate - construction	-	-	-	-	31
Real estate - 1 to 4 family residential	660	833	76	1,012	6
Real estate - commercial	399	1,025	-	472	26
Real estate - agricultural	-	-	-	-	-
Commercial	3,942	3,958	644	1,404	1
Agricultural	-	-	-	9	2
Consumer and other	76	81	-	68	6
	$ 5,077	$ 5,897	$ 720	$ 2,965	$ 72

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2015:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:					
Real estate - construction	$ -	$ *31*	$ -	$ *97*	$ *129*
Real estate - 1 to 4 family residential	*296*	*304*	-	*188*	-
Real estate - commercial	*456*	*1,030*	-	*554*	*29*
Real estate - agricultural	-	-	-	-	-
Commercial	*11*	*17*	-	*223*	*3*
Agricultural	*11*	*13*	-	*13*	-
Consumer and other	*2*	*2*	-	*4*	*2*
Total loans with no specific reserve:	*776*	*1,397*	-	*1,079*	*163*
With an allowance recorded:					
Real estate - construction	-	-	-	-	-
Real estate - 1 to 4 family residential	*754*	*891*	*273*	*768*	-
Real estate - commercial	*102*	*111*	*2*	*135*	-
Real estate - agricultural	-	-	-	-	-
Commercial	*186*	*262*	*164*	*122*	-
Agricultural	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total loans with specific reserve:	*1,042*	*1,264*	*439*	*1,025*	-
Total					
Real estate - construction	-	*31*	-	*97*	*129*
Real estate - 1 to 4 family residential	*1,050*	*1,195*	*273*	*956*	-
Real estate - commercial	*558*	*1,141*	*2*	*689*	*29*
Real estate - agricultural	-	-	-	-	-
Commercial	*197*	*279*	*164*	*345*	*3*
Agricultural	*11*	*13*	-	*13*	-
Consumer and other	*2*	*2*	-	*4*	*2*
	$ *1,818*	$ *2,661*	$ *439*	$ *2,104*	$ *163*

The interest foregone on nonaccrual loans for the years ended *December 31, 2017, 2016* and *2015* was approximately *$379,000, $272,000* and *$162,000,* respectively.

Nonaccrual loans at *December 31, 2017* and *2016* were *$4,810,000* and *$5,077,000,* respectively.

Troubled Debt Restructurings. The restructuring of a loan is considered a “troubled debt restructuring” (“TDR”) if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions *may* include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

Certain troubled debt restructurings are on nonaccrual status at the time of restructuring. These borrowings are typically returned to accrual status after sustained repayment performance in accordance with the restructuring agreement for a reasonable period of at least *six* months and management is reasonably assured of future performance. If the troubled debt restructuring meets these performance criteria and the interest rate granted at the modification is equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, then the loan will return to performing status.

For troubled debt restructurings that were on nonaccrual status before the modification, a specific reserve *may* already be recorded. In periods subsequent to modification, the Company will continue to evaluate all troubled debt restructurings for possible impairment and, as necessary, recognizes impairment through the allowance. The Company had charge offs related to TDRs for the years ended *December 31, 2017* and *2016* of *$285,000* and *none,* respectively.

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The Company had loans meeting the definition of TDR of *$2,984,000* as of *December 31, 2017,* all of which were included as impaired and nonaccrual loans. The Company had loans meeting the definition of TDR of *$3,672,000* as of *December 31, 2016,* all of which were included as impaired and nonaccrual loans.

The Company's TDR, on a disaggregated basis, occurring in the years ended *December 31* is as follows *(dollars in thousands)*:

	2017			**2016**		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate - construction	-	$ -	$ -	-	$ -	$ -
Real estate - 1 to 4 family residential	-	-	-	*1*	*149*	*149*
Real estate - commercial	-	-	-	-	-	-
Real estate - agricultural	-	-	-	-	-	-
Commercial	*2*	*93*	*99*	*11*	*3,273*	*3,273*
Agricultural	-	-	-	-	-	-
Consumer and other	-	-	-	*3*	*70*	*70*
	2	$ *93*	$ *99*	*15*	$ *3,492*	$ *3,492*

During the year ended *December 31, 2017,* the Company granted concessions to *two* borrowers experiencing financial difficulties. These loans were extended beyond their normal terms and on *one* loan the interest was also capitalized.

During the year ended *December 31, 2016,* the Company granted concessions to *three* borrowers with *fifteen* contracts experiencing financial difficulties. The *one*-to-four family loan was granted delayed payments for a longer than insignificant amount of time. Three commercial operating loans were granted maturities longer than normal and *seven* commercial operating loans were granted delayed payments for a longer than insignificant amount of time. Three consumer loans were granted maturities longer than normal and interest rates at a below market rate.

There was *one* TDR loan that was modified during the year ended *December 31, 2017* with a payment default. There were *three* TDR loans to *one* borrower that were modified during the year ended *December 31, 2016* with a payment default. A TDR loan is considered to have payment default when it is past due *60* days or more.

There was *no* significant financial impact from specific reserves or from charge-offs for the TDR loans included in the previous table.

An aging analysis of the recorded investment in loans, on a disaggregated basis, as of *December 31, 2017* and *2016,* are as follows *(in thousands)*:

	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	$ *159*	$ -	$ *159*	$ *50,150*	$ *50,309*	$ -
Real estate - 1 to 4 family residential	*940*	*414*	*1,354*	*144,904*	*146,258*	*18*
Real estate - commercial	*363*	*629*	*992*	*349,634*	*350,626*	-
Real estate - agricultural	*655*	-	*655*	*81,135*	*81,790*	-
Commercial	*275*	*418*	*693*	*73,123*	*73,816*	-
Agricultural	*77*	-	*77*	*69,729*	*69,806*	-
Consumer and other	*77*	*38*	*115*	*10,230*	*10,345*	-
	$ *2,546*	$ *1,499*	$ *4,045*	$ *778,905*	$ *782,950*	$ *18*

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2016:	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	$-	$ -	$-	$*61,042*	$*61,042*	$ -
Real estate - 1 to 4 family residential	*1,577*	*35*	*1,612*	*147,895*	*149,507*	*19*
Real estate - commercial	*1,420*	-	*1,420*	*314,282*	*315,702*	-
Real estate - agricultural	-	-	-	*73,032*	*73,032*	-
Commercial	*84*	*747*	*831*	*73,547*	*74,378*	-
Agricultural	-	-	-	*76,994*	*76,994*	-
Consumer and other	*36*	*3*	*39*	*12,091*	*12,130*	*3*
	$*3,117*	$ *785*	$*3,902*	$*758,883*	$*762,785*	$ *22*

There are *no* other known problem loans that cause management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms.

As of *December 31, 2017,* there were *no* material commitments to lend additional funds to customers whose loans were classified as impaired.

Loans are made in the normal course of business to certain directors and executive officers of the Company and to their affiliates. The terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with others and do *not* involve more than a normal risk of collectability. Loan transactions with related parties at *December 31, 2017* and *2016* were as follows *(in thousands)*:

	2017	**2016**
Balance, beginning of year	$*10,353*	$*9,049*
New loans	*11,264*	*13,218*
Repayments	*(13,018*)	*(11,931*)
Change in status	*10*	*17*
Balance, end of year	$*8,609*	$*10,353*

Note *5*. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation at *December 31, 2017* and *2016* are as follows *(in thousands)*:

	2017	**2016**
Land	$*3,773*	$*3,798*
Buildings and improvements	*18,841*	*18,979*
Furniture and equipment	*6,489*	*6,379*
	29,103	*29,156*
Less accumulated depreciation	*13,704*	*13,107*
	$*15,399*	$*16,049*

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Note *6.* Other Real Estate Owned

Changes in the other real estate owned for the years ended *December 31, 2017* and *2016* are as follows *(in thousands)*:

	2017	2016
Balance, beginning of year	$*546*	$*1,250*
Transfer of loans	*17*	*157*
Impairment	-	*(28*)
Net proceeds from sale	*(192*)	*(1,052*)
Gain on sale, net	*15*	*219*
Balance, end of year	$*386*	$*546*

The following table provides the composition of other real estate owned at *December 31, 2017* and *2016* are as follows *(in thousands)*:

	2017	2016
Construction and land development	$*320*	$*320*
1 to 4 family residential houses	*66*	*226*
	$*386*	$*546*

The Company is actively marketing the assets referred to in the table above. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. The assets above are primarily located in the Ames, Iowa area.

Note *7.* Goodwill

Accounting standards allow for goodwill to be tested for impairment by *first* performing a qualitative assessment to determine whether it is more likely than *not* that the fair value of the reporting unit is less than its carrying value. If the reporting unit does *not* pass the qualitative assessment, then the reporting unit’s carrying value is compared to its fair value. There were *no* changes in the carrying amount of goodwill in *2017* and *2016.* For income tax purposes, goodwill is amortized over *15* years.

Note *8.* Intangible Assets

In conjunction with the acquisition of wealth management business in *2017* and *2016,* the Company recorded a *$109,000* and *$412,000* customer list asset, respectively. The following sets forth the carrying amounts and accumulated amortization of intangible assets at *December 31, 2017* and *2016 (in thousands)*:

	2017		**2016**	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposit intangible asset	$*2,518*	$ *1,861*	$*2,518*	$ *1,563*
Customer list	*520*	*86*	*412*	*14*
Total	$*3,038*	$ *1,947*	$*2,930*	$ *1,577*

The weighted average life of the intangible assets is *2.5* and *2.8* years as of *December 31, 2017* and *2016,* respectively.

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The amortization expense for the intangible assets totaled *$370,000, $368,000* and *$421,000* for the years ended *December 31, 2017, 2016* and *2015,* respectively. Estimated remaining amortization expense on intangible assets for the years ending is as follows *(in thousands)*:

2018	*327*
2019	*203*
2020	*147*
2021	*146*
2022	*146*
After	*122*
	$*1,091*

The following sets forth the activity related to intangible assets for the years ended *December 31, 2017, 2016* and *2015 (in thousands)*:

	2017	**2016**	**2015**
Beginning intangibles, net	$*1,353*	$*1,309*	$*1,730*
Acquisition	*108*	*412*	-
Amortization	*(370*)	*(368*)	*(421*)
Ending intangible asset, net	$*1,091*	$*1,353*	$*1,309*

Note *9.* Deposits

At *December 31, 2017,* the maturities of time deposits are as follows *(in thousands)*:

2018	$*105,187*
2019	*47,169*
2020	*23,923*
2021	*11,884*
2022	*6,872*

$*195,035*

Interest expense on deposits for the years ended *December 31, 2017, 2016* and *2015* is summarized as follows *(in thousands)*:

	2017	**2016**	**2015**
NOW accounts	$*1,161*	$*585*	$*469*
Savings and money market	*1,385*	*755*	*674*
Time deposits	*1,893*	*1,734*	*1,876*
	$*4,439*	$*3,074*	$*3,019*

Deposits held by the Company from related parties at *December 31, 2017* and *2016* amounted to approximately *$15,267,000* and *$15,570,000,* respectively.

Note *10.* Pledged Collateral Related to Securities Sold Under Repurchase Agreements

The following sets forth the pledged collateral at estimated fair value related to securities sold under repurchase agreements and term repurchase agreements as of *December 31, 2017* and *2016 (in thousands)*:

	2017			**2016**		
	Remaining Contractual Maturity of the Agreements					
	Overnight	Greater than 90 days	Total	Overnight	Greater than 90 days	Total
Securities sold under agreements to repurchase:						
U.S. government treasuries	$ *1,474*	$ -	$ *1,474*	$ *1,476*	$ -	$ *1,476*
U.S. government agencies	*47,323*	-	*47,323*	*46,557*	-	*46,557*
U.S. government mortgage-backed securities	*22,824*	-	*22,824*	*30,376*	-	*30,376*
Total	$ *71,621*	$ -	$ *71,621*	$ *78,409*	$ -	$ *78,409*
Term repurchase agreements:						
U.S. government agencies	$ -	$ *14,986*	$ *14,986*	$ -	$ *15,068*	$ *15,068*
U.S. government mortgage-backed securities	-	-	-	-	*354*	*354*
Total	$ -	$ *14,986*	$ *14,986*	$ -	$ *15,422*	$ *15,422*
Total pledged collateral	$ *71,621*	$ *14,986*	$ *86,607*	$ *78,409*	$ *15,422*	$ *93,831*

Note *11.* Borrowings

Securities sold under repurchase agreements (repurchase agreements) are short-term and are secured by securities available-for-sale.

At *December 31, 2017,* FHLB advances and other borrowings consisted of the following (*in thousands)*:

Weighted

	Amount	Average Interest Rate		Features
FHLB advances maturing in:				
2018	*11,500*	*2.94*	%	
2020	*2,000*	*1.58*	%	
Total FHLB advances	$*13,500*	*2.73*	%	
Other borrowings maturing in:				
2018	$*13,000*	*3.62*	%	$7,000,000 term repurchase agreements callable quarterly in 2018
Total other borrowings	$*13,000*	*3.62*	%	
Total FHLB and other borrowings	$*26,500*	*3.17*	%	

Borrowed funds at *December 31, 2017* included FHLB advances and other borrowings. Other borrowings consist of term repurchase agreements. FHLB advances are collateralized by certain *1-4* family residential real estate loans, multifamily real estate loans, commercial real estate loans and agricultural real estate loans. The term repurchase agreements are collateralized with U.S. government treasuries, U.S. government agencies with a carrying and fair value of *$14,986,000* at *December 31, 2017.* The Banks had available borrowing capacity with the FHLB of Des Moines, Iowa of *$185,417,000* at *December 31, 2017.*

Borrowed funds at *December 31, 2016* of *$27,500,000* included FHLB advances and other borrowings. Other borrowings consist of term repurchase agreements. FHLB advances are collateralized by certain *1-4* family residential real estate loans, multifamily real estate loans, commercial real estate loans and agricultural real estate loans. The term repurchase agreements are collateralized with U.S. government agencies and mortgage-backed securities with a carrying and fair value of *$15,422,000* at *December 31, 2016.* The Banks had available borrowing capacity with the FHLB of Des Moines, Iowa of *$177,905,000* at *December 31, 2016.*

Note *12.* Employee Benefit Plans

The Company has a qualified *401*(k) profit-sharing plan. For the years ended *December 31, 2017, 2016* and *2015,* the Company matched employee contributions up to a maximum of *3%* and also contributed an amount equal to *3%* of the participating employee's compensation. For the years ended *December 31, 2017, 2016* and *2015,* Company contributions to the plan were approximately *$737,000, $722,000,* and *$678,000,* respectively. The plan covers substantially all employees.

Note *13.* Income Taxes

The components of income tax expense for the years ended *December 31, 2017, 2016* and *2015* are as follows *(in thousands)*:

	2017	**2016**	**2015**
Federal:			
Current	$*5,708*	$*5,370*	$*3,119*
Deferred	*(305*)	*(43*)	*1,753*
Deferred due to enacted changes in tax rates	*1,190*	-	-
	6,593	*5,327*	*4,872*
State:			
Current	*1,018*	*1,261*	*749*
Deferred	*(26*)	*217*	*186*
	992	*1,478*	*935*
Income tax expense	$*7,585*	$*6,805*	$*5,807*

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of *35%* to income before income taxes for the years ended *December 31, 2017, 2016* and *2015* as a result of the following *(in* *thousands)*:

	2017	2016	2015
Income taxes at 35% federal tax rate	$*7,449*	$*7,889*	$*7,287*
Increase (decrease) resulting from:			
Tax-exempt interest and dividends	*(1,737*)	*(1,943*)	*(2,046*)
State taxes, net of federal tax benefit	*717*	*729*	*506*
Effect of change in deferred tax asset related to enacted changes in tax rates	*1,190*	-	-
Other	*(34*)	*130*	*60*
Total income tax expense	$*7,585*	$*6,805*	$*5,807*

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities at *December 31, 2017* and *2016* are as follows *(in thousands)*:

	2017	**2016**
Deferred tax assets:		
Allowance for loan losses	$*2,776*	$*3,823*
Net unrealized losses on securities available-for-sale	*171*	*338*
Other real estate owned	*68*	*116*
Accrued vacation	*168*	*251*
State alternative minimum tax carryforward	*226*	*226*
Other intangible assets	*155*	*232*
Off balance sheet reserve	*126*	*191*
Other deferred tax assets	*342*	*228*
	4,032	*5,405*
Deferred tax liabilities:		
Bank premises and equipment	*(643*)	*(937*)
Goodwill	*(604*)	*(736*)
Other deferred tax liabilities	*(16*)	*(20*)
	(1,263)	*(1,693*)
Valuation allowance	*(226*)	*(226*)
Net deferred tax asset	$*2,543*	$*3,486*

Income taxes currently payable of approximately *$322,000* and *$482,000* is included in other liabilities as of *December 31, 2017* and *2016,* respectively.

The Company has approximately *$226,000* of state alternative minimum tax ("AMT") credit carryforwards available to offset future state alternative minimum taxable income as of *December 31, 2017* and *2016.* The Company has recorded a valuation allowance against the tax effect of the AMT credit carryforwards, as management believes it is more likely than *not* that such carryforwards will *not* be utilized.

The Company and its subsidiaries file *one* income tax return in the U.S. federal jurisdiction and separate tax returns for the state of Iowa. The Company is *no* longer subject to U.S. federal income and state tax examinations for years before *2014*.

The Company follows the accounting requirements for uncertain tax positions. Management has determined that the Company has *no* material uncertain tax positions and *no* material accrued interest or penalties as of or for the years ended *December 31, 2017* and *2016* that would require recognition. The Company had *no* significant unrecognized tax benefits as of *December 31, 2017,* that if recognized, would affect the effective tax rate. The Company had *no* positions for which it deemed that it is reasonably possible that the total amounts of the unrecognized tax benefit will significantly increase or decrease within the *12* months as of *December 31, 2017* and *2016*.

Note *14.* Commitments, Contingencies and Concentrations of Credit Risk

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. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. A summary of the Company's commitments at *December 31, 2017* and *2016* is as follows *(in thousands)*:

	2017	**2016**
Commitments to extend credit	$*153,294*	$*164,066*
Standby letters of credit	*3,761*	*5,309*
	$*157,055*	$*169,375*

Commitments to extend credit are agreements to lend to a customer as long as there is *no* violation of any condition established in the contract. At *December 31, 2017* and *2016,* approximately *$112,325,000* and *$138,473,000* of the commitments to extend credit were fixed interest rates. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do *not* necessarily represent future cash requirements. The Banks evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Banks upon extension of credit, is based on management's credit evaluation of the party.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a *third*-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies and is required in instances which the Banks deem necessary. In the event the customer does *not* perform in accordance with the terms of the agreement with the *third* party, the Banks would be required to fund the commitment. The maximum potential amount of future payments the Banks could be required to make is represented by the contractual amount shown in the summary above. If the commitments were funded, the Banks would be entitled to seek recovery from the customer.

At *December 31, 2017* and *2016,* the Banks have established liabilities totaling approximately *$507,000* and *$512,000,* respectively to cover estimated credit losses for off-balance-sheet loan commitments and standby letters of credit.

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would *not* have a material adverse effect on the Company's financial statements.

Concentrations of credit risk: The Banks originate real estate, consumer, and commercial loans, primarily in Boone, Hancock, Marshall, Polk and Story Counties in Iowa, as well as adjacent counties. Although the Banks have diversified loan portfolios, a substantial portion of their borrowers' ability to repay loans is dependent upon economic conditions in the Banks' market areas.

Note *15.* Regulatory Matters

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are *not* applicable to bank holding companies. Regulators also have the ability to impose higher limits than those specified by capital adequacy guidelines if they so deem necessary.

The Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, increase the minimum Tier *1* capital ratio requirements and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a *one*-time election, the existing treatment for accumulated other comprehensive income. The Company and the Banks have made the election to retain the existing treatment for accumulated other comprehensive income. The final rules took effect for the Company and the Banks on *January 1, 2015,* subject to a transition period for certain parts of the rules.

Quantitative measures established by regulation to ensure capital adequacy require the Company and each subsidiary bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of *December 31, 2017* and *2016,* that the Company and each subsidiary bank met all capital adequacy requirements to which they are subject.

Beginning in *2016,* an additional capital conservation buffer will be added to the minimum requirements for capital adequacy purposes, subject to a *three* year phase-in period. The capital conservation buffer will be fully phased-in on *January 1, 2019* at *2.5* percent. A banking organization with a conservation buffer of less than *2.5* percent (or the required phase-in amount in years prior to *2019*) will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. At the present time, the ratios for the Company and the Banks are sufficient to meet the fully phased-in conservation buffer.

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As of *December 31, 2017,* the most recent notification from the federal banking regulators categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain minimum common equity, total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. Management believes there are *no* conditions or events since that notification that have changed the institution's category. The Company's and each of the subsidiary bank's actual capital amounts and ratios as of *December 31, 2017* and *2016* are also presented in the table.

	Actual		For Capital Adequacy Purposes *		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017:						
Total capital (to risk- weighted assets):						
Consolidated	$*176,306*	*17.6* %	$*92,500*	*9.25* %	*N/A*	*N/A*
Boone Bank & Trust	*15,344*	*16.5*	*8,613*	*9.25*	$*9,312*	*10.0* %
First National Bank	*81,390*	*15.5*	*48,466*	*9.25*	*52,396*	*10.0*
Reliance State Bank	*26,982*	*15.3*	*16,324*	*9.25*	*17,648*	*10.0*
State Bank & Trust	*20,064*	*15.8*	*11,738*	*9.25*	*12,690*	*10.0*
United Bank & Trust	*14,833*	*19.9*	*6,878*	*9.25*	*7,436*	*10.0*
Tier 1 capital (to risk- weighted assets):						
Consolidated	$*164,467*	*16.4* %	$*72,500*	*7.25* %	*N/A*	*N/A*
Boone Bank & Trust	*14,453*	*15.5*	*6,751*	*7.25*	$*7,449*	*8.0* %
First National Bank	*75,404*	*14.4*	*37,987*	*7.25*	*41,917*	*8.0*
Reliance State Bank	*24,775*	*14.0*	*12,795*	*7.25*	*14,118*	*8.0*
State Bank & Trust	*18,475*	*14.6*	*9,200*	*7.25*	*10,152*	*8.0*
United Bank & Trust	*14,012*	*18.8*	*5,391*	*7.25*	*5,649*	*8.0*
Tier 1 capital (to average- weighted assets):						
Consolidated	$*164,467*	*12.1* %	$*54,264*	*4.00* %	*N/A*	*N/A*
Boone Bank & Trust	*14,453*	*10.4*	*5,568*	*4.00*	$*6,960*	*5.0* %
First National Bank	*75,404*	*10.1*	*29,910*	*4.00*	*37,387*	*5.0*
Reliance State Bank	*24,775*	*11.6*	*8,553*	*4.00*	*10,691*	*5.0*
State Bank & Trust	*18,475*	*11.8*	*6,284*	*4.00*	*7,856*	*5.0*
United Bank & Trust	*14,012*	*12.8*	*4,362*	*4.00*	*5,453*	*5.0*
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	$*164,467*	*16.4* %	$*57,500*	*5.75* %	*N/A*	*N/A*
Boone Bank & Trust	*14,453*	*15.5*	*5,354*	*5.75*	$*6,053*	*6.5* %
First National Bank	*75,404*	*14.4*	*30,128*	*5.75*	*34,058*	*6.5*
Reliance State Bank	*24,775*	*14.0*	*10,147*	*5.75*	*11,471*	*6.5*

State Bank & Trust	*18,475*	*14.6*	*7,297*	*5.75*	*8,248*	*6.5*
United Bank & Trust	*14,012*	*18.8*	*4,276*	*5.75*	*4,833*	*6.5*

* These ratios for *December 31, 2017* include a capital conservation buffer of *1.25%,* except for the Tier *1* capital to average weighted assets ratios.

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	Actual Amount	Ratio	For Capital Adequacy Purposes * Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
As of December 31, 2016:						
Total capital (to risk- weighted assets):						
Consolidated	$*170,358*	*17.2* %	$*85,241*	*8.625*%	*N/A*	*N/A*
Boone Bank & Trust	*15,044*	*17.2*	*7,534*	*8.625*	$*8,735*	*10.0* %
First National Bank	*78,322*	*15.3*	*44,279*	*8.625*	*51,338*	*10.0*
Reliance State Bank	*26,095*	*14.1*	*15,927*	*8.625*	*18,466*	*10.0*
State Bank & Trust	*20,170*	*16.4*	*10,590*	*8.625*	*12,278*	*10.0*
United Bank & Trust	*14,897*	*19.2*	*6,684*	*8.625*	*7,749*	*10.0*
Tier 1 capital (to risk- weighted assets):						
Consolidated	$*159,325*	*16.1* %	$*65,475*	*6.625*%	*N/A*	*N/A*
Boone Bank & Trust	*14,132*	*16.2*	*5,787*	*6.625*	$*6,988*	*8.0* %
First National Bank	*72,750*	*14.2*	*34,011*	*6.625*	*41,070*	*8.0*
Reliance State Bank	*24,139*	*13.1*	*12,234*	*6.625*	*14,773*	*8.0*
State Bank & Trust	*18,633*	*15.2*	*8,134*	*6.625*	*9,822*	*8.0*
United Bank & Trust	*14,078*	*18.2*	*5,134*	*6.625*	*6,199*	*8.0*
Tier 1 capital (to average- weighted assets):						
Consolidated	$*159,325*	*12.0* %	$*53,316*	*4.000*%	*N/A*	*N/A*
Boone Bank & Trust	*14,132*	*10.2*	*5,529*	*4.000*	$*6,911*	*5.0* %
First National Bank	*72,750*	*10.0*	*29,077*	*4.000*	*36,347*	*5.0*
Reliance State Bank	*24,139*	*11.5*	*8,374*	*4.000*	*10,467*	*5.0*
State Bank & Trust	*18,633*	*11.6*	*6,449*	*4.000*	*8,061*	*5.0*
United Bank & Trust	*14,078*	*12.5*	*4,523*	*4.000*	*5,654*	*5.0*
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	$*159,325*	*16.1* %	$*50,650*	*5.125*%	*N/A*	*N/A*
Boone Bank & Trust	*14,132*	*16.2*	*4,477*	*5.125*	$*5,678*	*6.5* %
First National Bank	*72,750*	*14.2*	*26,311*	*5.125*	*33,370*	*6.5*
Reliance State Bank	*24,139*	*13.1*	*9,464*	*5.125*	*12,003*	*6.5*
State Bank & Trust	*18,633*	*15.2*	*6,292*	*5.125*	*7,981*	*6.5*
United Bank & Trust	*14,078*	*18.2*	*3,972*	*5.125*	*5,037*	*6.5*

* These ratios for *December 31, 2016* include a capital conservation buffer of *0.625%,* except for the Tier *1* capital to average weighted assets ratios.

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Banks to the Company. Dividends paid by each Bank to the Company would be prohibited if the effect thereof would cause the Bank’s capital to be reduced below applicable minimum capital requirements. Management believes that these restrictions currently do *not* have a significant impact on the Company.

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Note *16.* Fair Value Measurements

Fair value is 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 shall *not* be 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 standards require the use of valuation techniques that 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 Company'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 shall be used to measure fair value whenever available.

Level *2:* Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted process 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.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of *December 31, 2017* and *2016 (in thousands)*:

Description	Total	Level 1	Level 2	Level 3
2017				
U.S. government treasuries	$*6,367*	$*6,367*	$-	$ -
U.S. government agencies	*111,263*	-	*111,263*	-
U.S. government mortgage-backed securities	*81,780*	-	*81,780*	-
State and political subdivisions	*237,413*	-	*237,413*	-
Corporate bonds	*58,464*	-	*58,464*	-
Equity securities, other	*3,056*	*34*	*3,022*	-
	$*498,343*	$*6,401*	$*491,942*	$ -
2016				
U.S. government treasuries	$*4,368*	$*4,368*	$-	$ -
U.S. government agencies	*110,209*	-	*110,209*	-
U.S. government mortgage-backed securities	*82,858*	-	*82,858*	-
State and political subdivisions	*264,448*	-	*264,448*	-
Corporate bonds	*51,184*	-	*51,184*	-
Equity securities, other	*3,013*	-	*3,013*	-
	$*516,080*	$*4,368*	$*511,712*	$ -

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 available-for-sale securities 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 security's terms and conditions, among other things.

Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment or a change in previously recognized impairment). The following table presents the assets carried on the balance sheet (after specific reserves) by caption and by level with the valuation hierarchy as of *December 31, 2017* and *2016 (in thousands)*:

Description	Total	Level 1	Level 2	Level 3
2017				
Loans	$*2,606*	$ -	$ -	$*2,606*
Other real estate owned	*386*	-	-	*386*
Total	$*2,992*	$ -	$ -	$*2,992*
2016				
Loans	$*683*	$ -	$ -	$*683*
Other real estate owned	*546*	-	-	*546*
Total	$*1,229*	$ -	$ -	$*1,229*

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Loans: Loans in the tables above consist of impaired credits held for investment. In accordance with the loan impairment guidance, impairment was measured based on the fair value of collateral less estimated selling costs for collateral dependent loans or the cash flow method for noncollateral dependent loans. Fair value for collateral dependent impaired loans is based upon appraised values adjusted for trends observed in the market. A valuation allowance was recorded for the excess of the loan's recorded investment over the amounts determined by the collateral value method. This valuation is a component of the allowance for loan losses. The Company considers these fair values level *3*.

Other Real Estate Owned: Other real estate owned in the table above consists of real estate obtained through foreclosure. Other real estate owned is recorded at fair value less estimated selling costs, at the date of transfer. Subsequent to the transfer, other real estate owned is carried at the lower of cost or fair value, less estimated selling costs. The carrying value of other real estate owned is *not* re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value less estimated selling costs. Management uses appraised values and adjusts for trends observed in the market and for disposition costs in determining the value of other real estate owned. A valuation allowance was recorded for the excess of the asset's recorded investment over the amount determined by the fair value, less estimated selling costs. This valuation allowance is a component of the allowance for other real estate owned. The Company considers these fair values level *3*.

The significant inputs used in the fair value measurements for Level *3* assets measured at fair value on a nonrecurring basis as of *December 31, 2017* and *2016* are as follows *(in thousands)*:

	2017 Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Impaired Loans	$*2,606*	Evaluation of collateral	Estimation of value	*NM**
Other real estate owned	$*386*	Appraisal	Appraisal adjustment	*6% -8%(7%)*

	2016 Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Impaired Loans	$*683*	Evaluation of collateral	Estimation of value	*NM**
Other real estate owned	$*546*	Appraisal	Appraisal adjustment	*6% -10%(8%)*

* *Not* Meaningful.

Evaluations of the underlying assets are completed for each impaired collateral dependent loan with a specific reserve. The types of collateral vary widely and could include accounts receivables, inventory, a variety of equipment and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal *may* be obtained. Types of discounts considered included aging of receivables, condition of the collateral, potential market for the collateral and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range would *not* be meaningful.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those that are *not* measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for other financial assets and financial liabilities are discussed below.

Fair value of financial instruments: The following methods and assumptions were used by the Company in estimating fair value disclosures:

<ins>Cash and due from banks and interest bearing deposits in financial institutions</ins>: The recorded amount of these assets approximates fair value.

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Securities available-for-sale: Fair value measurement for Level *1* securities is based upon quoted prices. Fair value measurement for Level *2* securities are based upon quoted prices, if available. If quoted prices are *not* available, 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 security's terms and conditions, among other things. Level *1* securities include equity securities 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.

Loans receivable: The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the historical experience, with repayments for each loan classification modified, as required, by an estimate of the effect of current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate.

Loans held for sale: The fair value of loans held for sale is based on prevailing market prices.

Deposit liabilities: Fair values of deposits with *no* stated maturity, such as noninterest-bearing demand deposits, savings and NOW accounts, and money market accounts, are equal to the amount payable on demand as of the respective balance sheet date. Fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do *not* include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate fair value because of the generally short-term nature of the instruments.

FHLB advances and other borrowings: Fair values of FHLB advances and other borrowings are estimated using discounted cash flow analysis based on interest rates currently being offered with similar terms.

Accrued income receivable and accrued interest payable: The carrying amounts of accrued income receivable and accrued interest payable approximate fair value.

Commitments to extend credit and standby letters of credit: The fair values of commitments to extend credit and standby letters of credit are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and credit worthiness of the counterparties. The carrying value and fair value of the commitments to extend credit and standby letters of credit are *not* considered significant.

Limitations: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. Because *no* market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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The following table includes the carrying amounts and estimated fair values of financial assets and liabilities as of *December 31, 2017* and *2016 (in thousands)*:

	Fair Value Hierarchy Level	**2017** Carrying Amount	Estimated Fair Value	**2016** Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and due from banks	Level 1	$*26,398*	$*26,398*	$*29,478*	$*29,478*
Interest bearing deposits	Level 1	*43,022*	*43,022*	*31,737*	*31,737*
Securities available-for-sale	See previous table	*498,343*	*498,343*	*516,080*	*516,080*
Loans receivable, net	Level 2	*771,550*	*768,444*	*752,182*	*746,580*
Loans held for sale	Level 2	-	-	*243*	*243*
Accrued income receivable	Level 1	*8,382*	*8,382*	*7,769*	*7,769*
Financial liabilities:					
Deposits	Level 2	$*1,134,391*	$*1,134,468*	$*1,109,409*	$*1,110,211*
Securities sold under agreements to repurchase	Level 1	*37,425*	*37,425*	*58,337*	*58,337*
FHLB advances	Level 2	*13,500*	*13,482*	*14,500*	*14,681*
Other borrowings	Level 2	*13,000*	*13,079*	*13,000*	*13,386*
Accrued interest payable	Level 1	*477*	*477*	*408*	*408*

Note *17.* Subsequent Events

Management evaluated subsequent events through the date the financial statements were issued. There were *no* other significant events or transactions occurring after *December 31, 2017,* but prior to *March 12, 2018,* that provided additional evidence about conditions that existed at *December 31, 2017*. There were *no* other significant events or transactions that provided evidence about conditions that did *not* exist at *December 31, 2017.*

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Note *18.* Ames National Corporation (Parent Company Only) Financial Statements

Information relative to the Parent Company's balance sheets at *December 31, 2017* and *2016,* and statements of income and cash flows for each of the years in the *three*-year period ended *December 31, 2017,* is as follows *(in thousands)*:

CONDENSED BALANCE SHEETS

December 31, 2017* and *2016

	2017	2016
ASSETS		
Cash and due from banks	$42	$21
Interest bearing deposits in banks	13,846	11,160
Investment in bank subsidiaries	153,647	149,962
Loans receivable, net	2,275	3,190
Premises and equipment, net	2,848	2,960
Accrued income receivable	6	10
Other real estate owned	320	320
Other assets	278	22
Total assets	$173,262	$167,645
LIABILITIES		
Dividends payable	$2,048	$1,955
Deferred income taxes	70	193
Accrued expenses and other liabilities	390	392
Total liabilities	2,508	2,540
STOCKHOLDERS' EQUITY		
Common stock	18,622	18,622
Additional paid-in capital	20,879	20,879
Retained earnings	131,685	126,181
Accumulated other comprehensive (loss)	(432)	(577)

Total stockholders' equity	*170,754*	*165,105*
Total liabilities and stockholders' equity	$*173,262*	$*167,645*

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CONDENSED STATEMENTS OF INCOME

Years Ended *December 31, 2017, 2016* and *2015*

	2017	2016	2015
Operating income:			
Equity in net income of bank subsidiaries	$ *13,896*	$ *15,994*	$ *15,083*
Interest	*151*	*192*	*195*
Dividends	-	-	*28*
Rental income	*420*	*415*	*404*
Gain on sale of other real estate owned	-	*207*	-
Other income	*1,844*	*1,769*	*1,737*
Securities gains	-	-	*279*
	16,311	*18,577*	*17,726*
Credit for loan losses	*(13*)	*(153*)	*(30*)
Operating income after credit for loan losses	*16,324*	*18,730*	*17,756*
Operating expenses	*2,914*	*2,789*	*2,776*
Income before income taxes	*13,410*	*15,941*	*14,980*
Income tax expense (benefit)	*(287*)	*206*	*(35*)
Net income	$ *13,697*	$ *15,735*	$ *15,015*

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CONDENSED STATEMENTS OF CASH FLOWS

Years Ended *December 31, 2017, 2016* and *2015*

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$13,697	$15,735	$15,015
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	113	124	131
Credit for loan losses	(13)	(153)	(30)
Provision for deferred income taxes	(123)	256	72
Securities gains, net	-	-	(279)
Gain on sale of other real estate owned	-	(207)	-
Equity in net income of bank subsidiaries	(13,896)	(15,994)	(15,083)
Dividends received from bank subsidiaries	10,355	9,350	8,350
(Increase) decrease in accrued income receivable	5	2	(3)
(Increase) decrease in other assets	(248)	90	129
Increase (decrease) in accrued expense and other liabilities	(9)	8	5
Net cash provided by operating activities	9,881	9,211	8,307
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of securities available-for-sale	-	-	909
(Increase) in interest bearing deposits in banks	(2,686)	(2,248)	(1,296)
Decrease in loans	927	126	119
Purchase of other real estate owned	-	-	(739)
Proceeds from the sale of other real estate owned	-	626	-
Purchase of bank premises and equipment	(1)	-	(33)
Net cash used in investing activities	(1,760)	(1,496)	(1,040)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(8,100)	(7,728)	(7,263)
Net cash used in financing activities	(8,100)	(7,728)	(7,263)
Net increase (decrease) in cash and cash equivalents	21	(13)	4
CASH AND DUE FROM BANKS			
Beginning	21	34	30
Ending	$42	$21	$34
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash receipts for income taxes	$142	$171	$237

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Note *19*. Selected Quarterly Financial Data (Unaudited)

(in thousands, except earnings per share):

	2017 March 31	June 30	September 30	December 31
Total interest income	$ *11,084*	$ *11,471*	$ *11,612*	$ *11,628*
Total interest expense	*1,201*	*1,405*	*1,461*	*1,514*
Net interest income	*9,883*	*10,066*	*10,151*	*10,114*
Provision for loan losses	*398*	*767*	*57*	*298*
Net interest income after provision for loan losses	*9,485*	*9,299*	*10,094*	*9,816*
Noninterest income	*2,081*	*2,025*	*1,860*	*1,976*
Noninterest expense	*6,477*	*6,399*	*6,296*	*6,182*
Income before income taxes	*5,089*	*4,925*	*5,658*	*5,610*
Income tax expense	*1,479*	*1,453*	*1,730*	*2,923*
Net income	$ *3,610*	$ *3,472*	$ *3,928*	$ *2,687*
Basic and diluted earnings per common share	$ *0.39*	$ *0.37*	$ *0.42*	$ *0.29*

	2016 March 31	June 30	September 30	December 31
Total interest income	$ *10,849*	$ *11,006*	$ *11,078*	$ *11,114*
Total interest expense	*1,013*	*1,014*	*1,028*	*1,080*
Net interest income	*9,836*	*9,992*	*10,050*	*10,034*
Provision for loan losses	*192*	*14*	*235*	*84*
Net interest income after provision for loan losses	*9,644*	*9,978*	*9,815*	*9,950*
Noninterest income	*2,099*	*1,925*	*2,004*	*2,059*
Noninterest expense	*6,435*	*6,121*	*6,112*	*6,267*
Income before income taxes	*5,308*	*5,782*	*5,707*	*5,742*
Income tax expense	*1,501*	*1,683*	*1,903*	*1,717*
Net income	$ *3,807*	$ *4,099*	$ *3,804*	$ *4,025*
Basic and diluted earnings per common share	$ *0.41*	$ *0.44*	$ *0.41*	$ *0.43*

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report, an evaluation was performed under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

Management’s annual report on internal control over financial reporting is contained in Item 8 of this Annual Report.

The attestation report of the Company’s registered public accounting firm on the Company’s internal control over financial reporting is contained in Item 8 of this Annual Report.

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

Directors

Refer to the information under the captions “Corporate Governance” and "Proposals to be Voted on at Meeting – Proposal 1 – Election of Directors” contained in the Company's definitive proxy statement prepared in connection with its Annual Meeting of Shareholders to be held April 25, 2018, as filed with the SEC on March 16, 2018 (the "Proxy Statement"), which information is incorporated herein by this reference.

Executive Officers

The information required by Item 10 regarding the executive officers appears in Item 1 of Part I of this Annual Report under the heading “Executive Officers of the Company and Banks”.

Section 16(a) Beneficial Ownership Reporting Compliance

Refer to the information under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement, which information is incorporated herein by this reference.

Audit Committee

The Company has established an Audit Committee as a standing committee of the Board of Directors. Refer to the information under the caption “Corporate Governance – Board Committees” in the Proxy Statement, which information is incorporated herein by this reference.

Audit Committee Financial Expert

The Board of Directors of the Company has determined that Lisa M. Eslinger, a director and member of the Audit Committee, qualifies as an "audit committee financial expert" under applicable SEC rules. The Board of Directors has further determined that Ms. Eslinger qualifies as an "independent" director under applicable SEC rules and the corporate governance rules of the NASDAQ stock market. The Board's affirmative determination was based, among other things, upon Ms. Eslinger's experience as Chief Financial and Administrative Officer for the Iowa State Foundation. Prior to joining the foundation, Ms. Eslinger was a senior manager with KPMG LLP.

Code of Ethics

The Company has adopted an Ethics and Confidentiality Policy that applies to all directors, officers and employees of the Company, including the Chief Executive Officer and the Chief Financial Officer of the Company. A copy of this policy is posted on the Company's website at www.amesnational.com. In the event that the Company makes any amendments to, or grants any waivers of, a provision of the Ethics and Confidentiality Policy that requires disclosure under applicable SEC rules, the Company intends to disclose such amendments or waiver and the reasons therefor on its website.

ITEM 11. EXECUTIVE COMPENSATION

Refer to the information under the caption “Executive Compensation” in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Refer to the information under the caption “Security Ownership of Management and Certain Beneficial Owners” in the Proxy Statement, which information is incorporated herein by this reference. The Company does not maintain any equity compensation plans covering its directors, officers or employees or the directors, officers or employees of the Banks.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Refer to the information under the captions “Loans to Directors and Executive Officers and Related Party Transactions” and “Corporate Governance – Director Independence” in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Refer to the information under the caption "Relationship with Independent Registered Public Accounting Firm" in the Proxy Statement, which information is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of Financial Statements and Schedules.

1. Financial Statements

Reports of CliftonLarsonAllen LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets, December 31, 2017 and 2016

Consolidated Statements of Income for the Years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015

Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the Years ended December 31, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

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(b) List of Exhibits.

3.1	- Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K filed on March 12, 2015).
3.2	- Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed on March 12, 2015).
10.1	- Management Incentive Compensation Plan *.
21	- Subsidiaries of the Registrant
23	- Consent of Independent Registered Public Accounting Firm
31.1	- Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	- Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	- Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	- Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350
	* Indicates a management compensatory plan or arrangement.
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)

(1)These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections, and shall not be deemed incorporated by reference in any prior or future filing made by the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates such information by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMES NATIONAL CORPORATION

March 12, 2018	By: /s/ *Thomas H. Pohlman* Thomas H. Pohlman, Chief Executive Officer and President

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on March 12, 2018.

/s/ Thomas H. Pohlman
Thomas H. Pohlman, Chief Executive Officer and President
(Principal Executive Officer)

/s/ John P. Nelson
John P. Nelson, Chief Financial Officer and Executive Vice President
(Principal Financial and Accounting Officer)

/s/ Betty A. Baudler Horras
Betty A. Baudler Horras, Director

/s/ David W. Benson
David W. Benson, Director

/s/ Lisa M. Eslinger
Lisa M. Eslinger, Director

/s/ Steven D. Forth
Steven D. Forth, Director

/s/ Patrick G. Hagan
Patrick G. Hagan, Director

/s/ James R. Larson II
James R. Larson II, Director

/s/ Richard O. Parker
Richard O. Parker, Director

/s/ Kevin L. Swartz
Kevin L. Swartz, Director

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EXHIBIT INDEX

The following exhibits are filed herewith:

Exhibit No.	Description
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