

HAASE BRUCE N
Form 4
February 10, 2010

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
HAASE BRUCE N

2. Issuer Name and Ticker or Trading Symbol
CHOICE HOTELS INTERNATIONAL INC /DE [CHH]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
10750 COLUMBIA PIKE
(Street)

3. Date of Earliest Transaction (Month/Day/Year)
02/08/2010

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
Executive Vice President

SILVER SPRING, MD 20901

(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Ownership (Instr. 4) |
|---------------------------------|--------------------------------------|--|--------------------------------|---|---|--|-----------------------------------|
| Common Stock | 02/08/2010 | | F | 436 D | \$ 31.45 48,492 | D | |
| Common Stock | | | | | 1,612 | I | 401(k) Plan |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | 6. Date Exercisable and Expiration Date (Month/Day/Year) | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | 8. Price of Derivative Security (Instr. 5) | 9. Nu |
|--|--|--------------------------------------|--|--------------------------------|---|--|---|--|----------------------------|
| | | | | Code | V (A) (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares |

Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---------------|-----------|--------------------------|-------|
| | Director | 10% Owner | Officer | Other |
| HAASE BRUCE N 10750 COLUMBIA PIKE SILVER SPRING, MD 20901 | | | Executive Vice President | |

Signatures

Bret L. Limage, attorney
in fact
02/10/2010
**Signature of Reporting Person Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. g-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.

While economic conditions in our market, the state of Iowa, and the United States have generally improved since the recession, there can be no assurance that this improvement will continue or occur at a meaningful rate. Stagnant or declining economic conditions could materially and adversely affect our results of operations and financial condition.

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

As of December 31, 2016, the fair value of our securities portfolio was approximately \$516.1 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.

Table of Contents

Our investment securities are analyzed quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is credit loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to have OTTI when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security having an unrealized loss if we have the intent to sell the security or if it is more likely than not that we will be required to sell the security before collection of the principal amount.

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, 2016. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that was anticipated at the time of originating the loan, which could cause an increase to our provision for loan losses and adversely affect our operating results and financial condition.

If the Company's actual loan losses exceed the allowance for loan losses, 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, 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.

An increase in interest rates that may occur in connection with the continuing recovery of the economy could negatively impact our net interest margin if interest expense increases more quickly than interest income. Our earning assets (primarily our loan and investment portfolio) have longer maturities than our interest bearing liabilities (primarily our deposits and other borrowings). Therefore, in a rising interest rate environment, interest expense will increase more quickly than interest income, as the interest bearing liabilities reprice more quickly than earning assets, placing downward pressure on the net interest margin. A reduction in the net interest margin could negatively affect our results of operations, including earnings. In response to this challenge, we model quarterly the changes in income that would result from various changes in interest rates. Management believes our earning assets have the appropriate maturity and repricing characteristics to optimize earnings and interest rate risk positions.

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.

Table of Contents

The Company is subject to certain operational risks, including, but not limited to, data processing system failures, errors, 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. 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 financial results and 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 \$8.1 million as of December 31, 2016. 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 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.

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 farmers and other borrowers who are directly or indirectly affected by the health of the Iowa agricultural economy. During 2015 and 2016, the agricultural economy has experienced a decline in commodity and livestock prices which has 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.

Table of Contents

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 financial results and condition.

Our accounting policies are fundamental to determining and understanding our financial results and 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 financial results and 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.

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 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.

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.

Table of Contents

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 larger companies listed on the NASDAQ Capital Market, the NASDAQ Global Markets, the New York Stock Exchange or other consolidated reporting systems or stock exchanges. A change in the supply or demand for our common stock, or other events affecting our business, may have a more significant impact on the price of our stock than 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.

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 customer, 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. If information security is breached, or one of our service providers or vendors breaches compliance procedures, information could be lost or misappropriated, resulting in financial loss or costs to us or damage to others. If information security is breached 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.

Table of Contents

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations.

Changes in these standards are continuously occurring, and given the current economic environment, more significant changes may occur. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

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.

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.

Table of Contents

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 March 1, 2017, the Company had approximately 377 shareholders of record and an estimated 1,317 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 \$32.20 on February 28, 2017.

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:

| 2016 | 2015 |
|--------------|--------------|
| Market Price | Market Price |

Explanation of Responses:

| Quarter | High | Low | Quarter | High | Low |
|---------|---------|---------|---------|---------|---------|
| 1st | \$25.20 | \$22.54 | 1st | \$26.06 | \$23.60 |
| 2nd | \$27.02 | \$24.00 | 2nd | \$26.43 | \$23.51 |
| 3rd | \$28.86 | \$25.78 | 3rd | \$26.40 | \$22.01 |
| 4th | \$35.30 | \$26.60 | 4th | \$26.41 | \$22.75 |

The Company declared aggregate annual cash dividends in 2016 and 2015 of approximately \$7,821,000 and \$7,449,000, respectively, or \$0.84 per share in 2016 and \$0.80 per share in 2015. In February 2017, the Company declared a cash dividend of approximately \$2,048,000 or \$0.22 per share.

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

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

| Quarter | 2016 | 2015 |
|---------|-----------------------------------|-----------------------------------|
| | Cash dividends declared per share | Cash dividends declared per share |
| 1st | \$ 0.21 | \$ 0.20 |
| 2nd | \$ 0.21 | \$ 0.20 |
| 3rd | \$ 0.21 | \$ 0.20 |
| 4th | \$ 0.21 | \$ 0.20 |

The decision to declare cash dividends in the future and the amount thereof rests within the discretion of the Board of Directors of the Company and will be subject to, among other things, the future earnings, capital requirements and financial condition of the Company and certain regulatory restrictions imposed on the payment of dividends by the Banks. Such restrictions are discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and in Note 16 (Regulatory Matters) to the Company's financial statements included herein.

Table of Contents

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 121 bank holding companies operating principally in the Midwest as selected by SNL Financial. The NASDAQ Bank Index is comprised of 270 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, 2011, 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

| <i>Index</i> | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Ames National Corporation | 100.00 | 115.41 | 121.46 | 145.10 | 140.18 | 196.62 |
| NASDAQ Composite Index | 100.00 | 117.45 | 164.57 | 188.84 | 201.98 | 219.89 |
| NASDAQ Bank Index | 100.00 | 119.19 | 171.31 | 177.42 | 191.53 | 265.56 |
| Midwest OTC Bank Index | 100.00 | 115.47 | 140.28 | 160.72 | 181.83 | 208.60 |

In November, 2016, 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, 2015) that expired in November, 2016. The Company did not purchase any shares in 2016 or 2015 under either of the Stock Repurchase Plans that were in effect during 2016 or 2015.

Table of Contents

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, 2016.

| 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, 2016 to October 31, 2016 (1) | - | \$ - | - | 100,000 |
| November 1, 2016 to November 30, 2016 (1) and (2) | - | \$ - | - | 100,000 |
| December 1, 2016 to December 31, 2016 (2) | - | \$ - | - | 100,000 |
| Total | - | | - | |

The Stock Repurchase Plan adopted in November, 2015 expired in November, 2016 and no shares remain available (1) for purchase under this plan as a result of the expiration. No purchases were made under this plan during October or November, 2016.

A successor Stock Repurchase Plan was approved and became effective on November 10, 2016 and authorized the (2) purchase of up to 100,000 shares. This plan is scheduled to expire on November 7, 2017. No purchases were made under this plan during November or December, 2016.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following financial data of the Company for the five years ended December 31, 2012 through 2016 is derived from the Company's historical audited financial statements and related footnotes. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the consolidated financial statements and related notes contained elsewhere in this Annual Report.

Selected Financial Data

| <i>(dollars in thousands, except per share amounts)</i> | Years Ended December 31, | | | | |
|---|---------------------------------|-------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| STATEMENT OF INCOME DATA | | | | | |
| Interest income | \$44,046 | \$43,150 | \$40,964 | \$38,434 | \$38,072 |
| Interest expense | 4,135 | 4,185 | 4,547 | 5,075 | 5,752 |
| Net interest income | 39,911 | 38,965 | 36,417 | 33,359 | 32,320 |
| Provision for loan losses | 524 | 1,099 | 429 | 786 | 22 |
| Net interest income after provision for loan losses | 39,387 | 37,866 | 35,988 | 32,573 | 32,298 |
| Noninterest income | 8,088 | 8,267 | 9,252 | 7,718 | 7,435 |
| Noninterest expense | 24,935 | 25,312 | 24,373 | 21,679 | 20,803 |
| Income before provision for income tax | 22,540 | 20,821 | 20,867 | 18,612 | 18,930 |
| Provision for income tax | 6,805 | 5,806 | 5,616 | 4,658 | 4,748 |
| Net income | \$15,735 | \$15,015 | \$15,251 | \$13,954 | \$14,182 |
| DIVIDENDS AND EARNINGS PER SHARE DATA | | | | | |
| Cash dividends declared | \$7,821 | \$7,449 | \$6,704 | \$5,959 | \$5,587 |
| Cash dividends declared per share | \$0.84 | \$0.80 | \$0.72 | \$0.64 | \$0.60 |
| Basic and diluted earnings per share | \$1.69 | \$1.61 | \$1.64 | \$1.50 | \$1.52 |
| Weighted average shares outstanding | 9,310,913 | 9,310,913 | 9,310,913 | 9,310,913 | 9,310,913 |
| BALANCE SHEET DATA | | | | | |
| Total assets | \$1,366,453 | \$1,326,747 | \$1,301,031 | \$1,233,084 | \$1,217,692 |
| Net loans | 752,182 | 701,328 | 658,441 | 564,502 | 510,126 |

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | | | | | |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| Deposits | 1,109,409 | 1,074,193 | 1,052,123 | 1,011,803 | 1,004,732 |
| Stockholders' equity | 165,105 | 161,250 | 154,674 | 142,106 | 144,736 |
| Equity to assets ratio | 12.08 % | 12.15 % | 11.89 % | 11.52 % | 11.89 % |

23

Table of Contents

| | Years Ended December 31, | | | | |
|---|--------------------------|-----------|-----------|-----------|-----------|
| | 2015 | 2015 | 2014 | 2013 | 2012 |
| FIVE YEAR FINANCIAL PERFORMANCE | | | | | |
| Net income | \$ 15,735 | \$ 15,015 | \$ 15,251 | \$ 13,954 | \$ 14,182 |
| Average assets | 1,330,906 | 1,325,321 | 1,263,382 | 1,225,617 | 1,142,667 |
| Average stockholders' equity | 167,750 | 159,047 | 151,211 | 142,997 | 140,716 |
| Return on assets (net income divided by average assets) | 1.18 | % 1.13 | % 1.21 | % 1.14 | % 1.24 |
| Return on equity (net income divided by average equity) | 9.38 | % 9.44 | % 10.09 | % 9.76 | % 10.08 |
| Net interest margin (net interest income divided by average earning assets) | 3.36 | % 3.33 | % 3.31 | % 3.18 | % 3.35 |
| Efficiency ratio (noninterest expense divided by noninterest income plus net interest income) | 51.95 | % 53.59 | % 53.37 | % 52.78 | % 52.33 |
| Dividend payout ratio (dividends per share divided by net income per share) | 49.70 | % 49.69 | % 43.90 | % 42.67 | % 39.47 |
| Dividend yield (dividends per share divided by closing year-end market price) | 2.55 | % 3.29 | % 2.78 | % 2.86 | % 2.74 |
| Equity to assets ratio (average equity divided by average assets) | 12.60 | % 12.00 | % 11.97 | % 11.67 | % 12.31 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Overview**

The following discussion is provided for the consolidated operations of the Company and its Banks. The purpose of this discussion is to focus on significant factors affecting the Company's financial condition and results of operations.

The Company does not engage in any material business activities apart from its ownership of the Banks and the managing of its own loan portfolios. 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,

Explanation of Responses:

in addition to 202 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; (vi) business development; and (vii) other real estate owned expenses. The largest component contributing to the Company's net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning assets and interest paid on interest bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

The Company reported net income of \$15,735,000 for the year ended December 31, 2016 compared to \$15,015,000 and \$15,251,000 reported for the years ended December 31, 2015 and 2014, respectively. This represents an increase in net income of 4.8% when comparing 2016 with 2015 and a decrease in net income of 1.5% when comparing 2015 with 2014. 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. The decrease in net income in 2015 from 2014 was primarily the result of a one-time gain of the disposal of premises and equipment in 2014 and an increase in salaries and benefits and provision for loan losses, offset in part by an increase in net interest income and a decrease in other real estate expenses. The gain on the disposal of premises and equipment in 2014 was primarily due to the sale of First National's University office. The First Bank Acquisition, described in Item 1 of this Annual Report, contributed to increases in net interest income, noninterest income and noninterest expense in 2015. Earnings per share for 2016 were \$1.69 compared to \$1.61 in 2015 and \$1.64 in 2014. All five Banks demonstrated profitable operations during 2016.

Table of Contents

The Company's return on average equity for 2016 was 9.38% compared to 9.44% and 10.09% in 2015 and 2014, respectively, and the return on average assets for 2016 was 1.18% compared to 1.13% in 2015 and 1.21% in 2014. 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 decrease in return on average equity and assets when comparing 2015 to 2014 was primarily a result of increased average equity and average assets, without a corresponding increase in net income.

The following discussion will provide a summary review of important items relating to:

- Challenges
- Key Performance Indicators
- Industry Results
- Critical Accounting Policies
- Income Statement Review
- Balance Sheet Review
- Asset Quality Review and Credit Risk Management
- Liquidity and Capital Resources
- Interest Rate Risk
- Inflation
- Forward-Looking Statements and Business Risks

Challenges

Management has identified certain events or circumstances that have the potential to negatively impact the Company's financial condition and results of operations in the future and is attempting to position the Company to best respond to those challenges.

If interest rates increase significantly over a relatively short period of time due to improving national employment levels or higher inflationary numbers, the interest rate environment may present a challenge to the Company. Increases in interest rates may negatively impact the Company's net interest margin if interest expense increases more quickly than interest income, thus placing downward pressure on net interest income. The Company's earning assets (primarily its loan and investment portfolio) have longer maturities than its interest bearing liabilities (primarily deposits and other borrowings); therefore, in a rising interest rate environment, interest expense will tend to increase more quickly than interest income as the interest bearing liabilities reprice more quickly than earning assets. In response to this challenge, the Banks model quarterly the changes in income that would result from various changes in interest rates. Management believes Bank earning assets have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.

If market interest rates in the three to five year term remain at low levels as compared to the short term interest rates, the interest rate environment may present a challenge to the Company. The Company's earning assets (typically priced at market interest rates in the three to five year range) will reprice at lower interest rates, but the deposits will not reprice at significantly lower interest rates, therefore the net interest income may decrease. Management believes Bank earning assets have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.

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 portfolios.

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 5,913 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.

Table of Contents

Selected Indicators for the Company and the Industry

| | Years Ended December 31, | | | | | | | | | |
|---------------------|--------------------------|----------|---------|----------|---------|----------|---------|----------|---------|----------|
| | 2016 | | 2015 | | 2014 | | 2013 | | 2012 | |
| | Company | Industry | Company | Industry | Company | Industry | Company | Industry | Company | Industry |
| Return on assets | 1.18 % | 1.04 % | 1.13 % | 1.04 % | 1.21 % | 1.01 % | | | | |
| Return on equity | 9.38 % | 9.32 % | 9.44 % | 9.31 % | 10.09 % | 9.03 % | | | | |
| Net interest margin | 3.36 % | 3.13 % | 3.33 % | 3.07 % | 3.31 % | 3.14 % | | | | |
| Efficiency ratio | 51.95 % | 58.28 % | 53.59 % | 59.91 % | 53.37 % | 61.88 % | | | | |
| Capital ratio | 12.60 % | 9.48 % | 12.00 % | 9.59 % | 11.97 % | 9.46 % | | | | |

Key performance indicators include:

Return on Assets

This ratio is calculated by dividing net income by average assets. It is used to measure how effectively the assets of the Company are being utilized in generating income. The Company's return on assets ratio is higher than that of the industry, primarily as a result of the Company's net interest margin and noninterest expense relative to the industry.

Return on Equity

This ratio is calculated by dividing net income by average equity. It is used to measure the net income or return the Company generated for the shareholders' equity investment in the Company. The Company's return on equity ratio is higher than the industry primarily as a result of the Company's net interest margin and noninterest expense relative to the industry, offset in part by a higher capital ratio.

Net Interest Margin

This ratio is calculated by dividing net interest income by average earning assets. Earning assets consist primarily of loans and investments that earn interest. This ratio is used to measure how well the Company is able to maintain

Explanation of Responses:

interest rates on earning assets above those of interest-bearing liabilities, which is the interest expense paid on deposit accounts and other borrowings. The Company's net interest margin is slightly higher than the industry, due primarily to a higher yields on earning assets at the Company as compared to the industry.

Efficiency Ratio

This ratio is calculated by dividing noninterest expense by net interest income and noninterest income. The ratio is a measure of the Company's ability to manage noninterest expenses. The Company's efficiency ratio is lower than the industry average, primarily as a result of the Company's lower noninterest expense.

Capital Ratio

The capital ratio is calculated by dividing average total equity capital by average total assets. It measures the level of average assets that are funded by shareholders' equity. Given an equal level of risk in the financial condition of two companies, the higher the capital ratio, generally the more financially sound the company. The Company's capital ratio is significantly higher than the industry average.

Table of Contents

Industry Results

The FDIC Quarterly Banking Profile reported the following results for the fourth quarter of 2016

Income Is \$43.7 Billion in Fourth Quarter

Insured institutions reported net income of \$43.7 billion for the quarter, an increase of \$3.1 billion (7.7%) compared with the year before. Almost 60% of all banks reported year-over-year increases in quarterly earnings. Only 8.1% of banks were unprofitable for the quarter, down from 9.6% the previous year. The average return on assets (ROA) rose slightly to 1.04%, from 1.02% in fourth quarter 2015.

Full-Year 2016 Earnings Rise to \$171.3 Billion

The industry reported \$171.3 billion in net income for full-year 2016, \$7.9 billion (4.9%) more than the industry earned in 2015. Almost two out of every three banks—65.2%—reported higher earnings in 2016 than in 2015. Only 4.2% of all banks had negative full-year net income. This is the lowest percentage of unprofitable banks for any year since 1995. Net operating revenue was \$29 billion (4.2%) higher than in 2015, as net interest income increased by \$29.8 billion (6.9%) and total noninterest income declined by \$779 million (0.3%). The average net interest margin (NIM) rose to 3.13% from 3.07% in 2015. Total noninterest expenses were only \$5.1 billion (1.2%) higher than a year earlier, as itemized litigation charges at a few large banks were \$2.95 billion lower than in 2015. Loan-loss provisions totaled \$47.8 billion, an increase of \$10.7 billion (28.8%) from 2015. The average return on assets for 2016 was 1.04%, unchanged from the full-year average for 2015.

Net Interest Income Growth Lifts Operating Revenues

Net operating revenue totaled \$181.8 billion in the fourth quarter, up \$7.9 billion (4.6%) from the year before. Net interest income was \$8.4 billion (7.6%) higher, while noninterest income declined by \$480 million (0.8%). The increase in net interest income was attributable to growth in interest-bearing assets (up 5.2% over the past 12 months) and improvement in the industry's aggregate NIM, which rose to 3.16%, from 3.12% in fourth quarter 2015. The NIM improvement was not broad-based. A majority of banks—54.3%—reported lower NIMs than the year earlier. The decline in noninterest income was driven by a \$950 million drop in income from changes in fair values of financial instruments and a \$432 million decline in interchange fees. Both trading income and servicing income rose \$1.7 billion (39.8% and 51.4%, respectively) from fourth quarter 2015.

Explanation of Responses:

Noninterest Expenses Up 2.6% From a Year Before

Total noninterest expenses were \$2.7 billion (2.6%) higher than the year before. Salary and employee benefit expenses rose \$1.7 billion (3.4%), while goodwill impairment charges were \$675 million higher. Expenses for premises and fixed assets were only \$9 million (0.1%) higher than the year earlier.

Quarterly Loss Provisions Decline From a Year Ago

Loan-loss provisions totaled \$12.2 billion in the fourth quarter, \$3 million less than banks set aside a year earlier. This marks the first time since second quarter 2014 that quarterly provision expenses have not posted a year-over-year increase. For the industry, fourth-quarter provisions represented 6.7% of the quarter's net operating revenue, down from 7% in fourth quarter 2015.

Quarterly Charge-Offs Rise for a Fifth Consecutive Quarter

Net loan losses totaled \$12.2 billion, up \$1.5 billion (13.5%) from a year earlier. This is the fifth quarter in a row that net charge-offs have posted a year-over-year increase. Credit card charge-offs were \$1.4 billion (24.8%) higher, while net charge-offs of loans to commercial and industrial (C&I) borrowers rose \$666 million (37.9%). Charge-offs of residential mortgage loans were \$576 million (75.1%) lower than in fourth quarter 2015. The average net charge-off rate rose to 0.53%, from 0.49% the year before. This is well below the high of 3.00% recorded in fourth quarter 2009.

Noncurrent Loan Rate at Lowest Level Since 2007

Noncurrent loans and leases—those 90 days or more past-due or in nonaccrual status—declined for the 26th time in the last 27 quarters, falling by \$2.4 billion (1.8%) during the three months ended December 31. During the quarter, noncurrent C&I loans declined for the first time in eight quarters, falling by \$1.4 billion (5.3%). Noncurrent residential mortgage loan balances fell by \$2 billion (3%), while noncurrent home equity loans declined by \$170 million (1.6%), and noncurrent nonfarm nonresidential real estate loans fell by \$192 million (2%). These improvements exceeded the \$1.1 billion (12.7%) increase in noncurrent credit card balances. The average noncurrent loan rate fell from 1.45% to 1.41%, the lowest level since year-end 2007.

Table of Contents

Loan-Loss Reserves Decline for the First Time in Five Quarters

Banks reduced their reserves for loan and lease losses during the fourth quarter, as slightly lower loan-loss provisions were offset by higher net charge-offs. Loss reserves fell by \$649 million (0.5%). At banks that itemize their reserves, which represent more than 90% of total industry reserves, the decline was driven by reductions in reserves for residential real estate loan losses, which fell by \$1.2 billion (6.5%), and in reserves for commercial loan losses, which declined by \$639 million (1.8%). Itemized reserves for losses on credit cards increased by \$677 million (2.3%). Despite the small reduction in industry reserves, the larger decline in noncurrent loan balances caused the coverage ratio of reserves to noncurrent loans to rise from 91.1% to 92.3% in the quarter, the highest level since third quarter 2007.

Equity Capital Posts a Quarterly Decline as the Market Value of Available-For-Sale Securities Falls

Total equity capital declined by \$16.8 billion (0.9%) in fourth quarter 2016, as higher interest rates caused the market values of available-for-sale securities at banks to fall. Accumulated other comprehensive income declined by \$39.5 billion in the quarter, mostly as a result of the drop in securities values. Retained earnings contributed \$15.1 billion to equity growth, \$1.8 billion (13.5%) more than a year earlier. Banks declared \$28.6 billion in dividends, a \$1.3 billion (4.8%) increase over fourth quarter 2015. The average equity-to-assets ratio for the industry declined from 11.22% to 11.11%. At the end of the quarter, 99.7% of all banks, representing 99.9% of industry assets, met or exceeded the requirements for the highest regulatory capital category as defined for Prompt Corrective Action purposes.

Loan Balances Increase \$72.3 Billion in the Fourth Quarter

Total assets rose by \$13.7 billion (0.1%) during the fourth quarter. Total loan and lease balances increased by \$72.3 billion (0.8%). Growth in loan balances was led by credit cards (up \$38.2 billion, 5%), loans secured by nonfarm nonresidential real estate properties (up \$22.8 billion, 1.7%), and real estate construction and development loans (up \$10.1 billion, 3.3%). C&I loan balances fell for the first time in 26 quarters, declining \$7.7 billion (0.4%). Investment securities portfolios rose by \$52 billion (1.5%) during the quarter despite a \$52.4 billion decline in the market values of securities available for sale. Assets in trading accounts declined by \$27.3 billion (4.6%). Banks reduced their balances at Federal Reserve banks by \$116.4 billion (9.6%).

Total Loan Balances Rise 5.3% During 2016

For full-year 2016, total assets increased \$812.6 billion (5.1%). Total loans and leases increased by \$466 billion (5.3%), as C&I loans rose by \$94.2 billion (5.1%), loans secured by nonfarm nonresidential real estate were up by \$92.6 billion (7.5%), and residential mortgages increased by \$91.1 billion (4.8%). All major loan categories grew in 2016. Banks increased their investment securities by \$205.9 billion (6.1%) in 2016, with mortgage-backed securities up \$133.3 billion (7.1%) and U.S. Treasury securities up \$97 billion (23%).

Deposits Rise by \$96 Billion

Domestic deposit growth was relatively strong in the fourth quarter. Total deposits rose by \$95.9 billion (0.7%), as deposits in domestic offices increased by \$186.5 billion (1.6%), while foreign office deposits declined by \$90.6 billion (6.8%). Balances in domestic interest-bearing accounts rose by \$178.7 billion (2.1%), and balances in noninterest-bearing accounts grew by \$7.7 billion (0.2%). Balances in consumer-oriented accounts increased by \$120.5 billion (3%), while all other domestic office deposits rose by \$62 billion (1%). Banks reduced their nondeposit liabilities by \$65.4 billion (3.1%), as securities sold under repurchase agreements declined by \$25.1 billion (10.9%), and trading account liabilities fell by \$13 billion (5.1%).

Table of Contents

“Problem Bank List” Continues to Improve

The number of FDIC-insured commercial banks and savings institutions reporting quarterly financial results fell to 5,913 in the fourth quarter, from 5,980 in the third quarter of 2016. There were 65 mergers of insured institutions during the quarter, while no insured banks failed. No new charters were added during the quarter. Banks reported 2,052,504 full-time equivalent employees, an increase of 18,777 from fourth quarter 2015. The number of insured institutions on the FDIC’s “Problem Bank List” declined from 132 to 123, as total assets of problem banks rose from \$24.9 billion to \$27.6 billion. For all of 2016, the number of insured institutions reporting declined by 269. Mergers absorbed 251 institutions, and 5 insured institutions failed. This is the smallest number of bank failures in a year since three FDIC-insured institutions failed in 2007. In 2015, there were eight failures.

Critical Accounting Policies

The discussion contained in this Item 7 and other disclosures included within this Annual Report are based on the Company’s audited consolidated financial statements which appear in Item 8 of this Annual Report. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained in these statements is, for the most part, based on the financial effects of transactions and events that have already occurred. However, the preparation of these statements requires management to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

The Company’s significant accounting policies are described in the “Notes to Consolidated Financial Statements” accompanying the Company’s audited financial statements. Based on its consideration of accounting policies that involve the most complex and subjective estimates and judgments, management has identified the allowance for loan losses, the assessment of other-than-temporary impairment for investment securities and the assessment of goodwill to be the Company’s most critical accounting policies.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses that is treated as an expense and charged against earnings. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company’s historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans and other factors.

Qualitative factors include various considerations regarding the general economic environment in the Company's market area. To the extent actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or lesser than future charge-offs. Due to potential changes in conditions, it is at least reasonably possible that changes in estimates will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

For further discussion concerning the allowance for loan losses and the process of establishing specific reserves, see the section of this Annual Report entitled "Asset Quality Review and Credit Risk Management" and "Analysis of the Allowance for Loan Losses".

Fair Value and Other-Than-Temporary Impairment of Investment Securities

The Company's securities available-for-sale portfolio is carried at fair value with "fair value" being defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

Declines in the fair value of available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the intent to sell the investment securities and the more likely than not requirement that the Company will be required to sell the investment securities prior to recovery (2) the length of time and the extent to which the fair value has been less than cost and (3) the financial condition and near-term prospects of the issuer. Due to potential changes in conditions, it is at least reasonably possible that changes in management's assessment of other-than-temporary impairment will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

Table of Contents

Goodwill

Goodwill arose in connection with the First Bank Acquisition on August 29, 2014 and the Liberty Acquisition on April 27, 2012. Goodwill is tested annually for impairment or more often if conditions indicate a possible impairment. For the purposes of goodwill impairment testing, determination of the fair value of a reporting unit involves the use of significant estimates and assumptions. Impairment would arise if the fair value of a reporting unit is less than its carrying value. At December 31, 2016, 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.

Table of Contents**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.

ASSETS

| | 2016 | | | 2015 | | | 2014 | | |
|---------------------------------|--------------------|---------------------|----------------|--------------------|---------------------|----------------|--------------------|---------------------|----------------|
| | Average balance | Revenue/ expense | Yield/ rate | Average balance | Revenue/ expense | Yield/ rate | Average balance | Revenue/ expense | Yield/ rate |
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Interest-earning assets | | | | | | | | | |
| Loans (1) | | | | | | | | | |
| Commercial | \$91,009 | \$4,039 | 4.44 % | \$98,546 | \$4,446 | 4.51 % | \$85,115 | \$4,034 | 4.74 % |
| Agricultural | 74,205 | 3,625 | 4.89 % | 75,706 | 3,568 | 4.71 % | 72,399 | 3,469 | 4.79 % |
| Real estate | 541,953 | 23,956 | 4.42 % | 488,827 | 22,039 | 4.51 % | 412,752 | 19,039 | 4.61 % |
| Consumer and other | 19,671 | 738 | 3.75 % | 18,745 | 728 | 3.89 % | 13,840 | 654 | 4.73 % |
| Total loans (including fees) | 726,838 | 32,358 | 4.45 % | 681,824 | 30,781 | 4.51 % | 584,106 | 27,196 | 4.66 % |
| Investment securities | | | | | | | | | |
| Taxable | 260,618 | 5,853 | 2.25 % | 275,105 | 6,179 | 2.25 % | 296,785 | 7,105 | 2.39 % |
| Tax-exempt (2) | 252,864 | 8,369 | 3.31 % | 264,028 | 8,931 | 3.38 % | 281,790 | 9,771 | 3.47 % |
| Total investment securities | 513,482 | 14,222 | 2.77 % | 539,133 | 15,110 | 2.80 % | 578,575 | 16,876 | 2.92 % |

| | | | | | | | | | |
|--|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|
| Interest bearing deposits and federal funds sold | 36,223 | 395 | 1.09 % | 43,580 | 382 | 0.88 % | 40,147 | 309 | 0.77 % |
| Total interest-earning assets | 1,276,543 | \$46,975 | 3.68 % | 1,264,537 | \$46,273 | 3.66 % | 1,202,828 | \$44,381 | 3.69 % |
| Noninterest-earning assets | | | | | | | | | |
| Cash and due from banks | 20,844 | | | 21,052 | | | 21,640 | | |
| Premises and equipment, net | 16,583 | | | 16,404 | | | 12,943 | | |
| Other, less allowance for loan losses | 16,936 | | | 23,328 | | | 25,971 | | |
| Total noninterest-earning assets | 54,363 | | | 60,784 | | | 60,554 | | |
| TOTAL ASSETS | \$1,330,906 | | | \$1,325,321 | | | \$1,263,382 | | |

(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%.

Table of Contents

Average Balances and Interest Rates (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2016 | | | 2015 | | | 2014 | | |
|--|--------------------|---------------------|----------------|--------------------|---------------------|----------------|--------------------|---------------------|----------------|
| | Average balance | Revenue/ expense | Yield/ rate | Average balance | Revenue/ expense | Yield/ rate | Average balance | Revenue/ expense | Yield/ rate |
| <i>(dollars in thousands)</i> | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Deposits | | | | | | | | | |
| Savings, NOW accounts and money markets | \$669,754 | \$1,340 | 0.20 % | \$652,063 | \$1,143 | 0.18 % | \$607,273 | \$1,142 | 0.19 % |
| Time deposits > \$100,000 | 86,400 | 797 | 0.92 % | 90,574 | 809 | 0.89 % | 96,244 | 930 | 0.97 % |
| Time deposits < \$100,000 | 124,894 | 937 | 0.75 % | 138,387 | 1,067 | 0.77 % | 145,704 | 1,313 | 0.90 % |
| Total deposits | 881,048 | 3,074 | 0.35 % | 881,024 | 3,019 | 0.34 % | 849,221 | 3,385 | 0.40 % |
| Other borrowed funds | 82,582 | 1,061 | 1.28 % | 86,381 | 1,166 | 1.35 % | 85,246 | 1,162 | 1.36 % |
| Total interest-bearing liabilities | 963,630 | 4,135 | 0.43 % | 967,405 | 4,185 | 0.43 % | 934,467 | 4,547 | 0.49 % |
| Noninterest-bearing liabilities | | | | | | | | | |
| Demand deposits | 191,899 | | | 192,112 | | | 171,407 | | |
| Other liabilities | 7,627 | | | 6,757 | | | 6,297 | | |
| Stockholders' equity | 167,750 | | | 159,047 | | | 151,211 | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$1,330,906 | | | \$1,325,321 | | | \$1,263,382 | | |

Edgar Filing: HAASE BRUCE N - Form 4

| | | | | | | |
|------------------------------------|----------|--------|----------|--------|----------|--------|
| Net interest income | \$42,840 | 3.36 % | \$42,088 | 3.33 % | \$39,834 | 3.31 % |
| Spread Analysis | | | | | | |
| Interest income/average assets | \$46,975 | 3.53 % | \$46,273 | 3.49 % | \$44,381 | 3.51 % |
| Interest expense/average assets | 4,135 | 0.31 % | 4,185 | 0.32 % | 4,547 | 0.36 % |
| Net interest income/average assets | 42,840 | 3.22 % | 42,088 | 3.18 % | 39,834 | 3.15 % |

Table of Contents

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 \$1,917,000 in 2016 compared to 2015. Increased volume of real estate loans increased interest income in 2016 by \$2,362,000 and lower interest rates decreased interest income in 2016 by \$445,000.

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

| | 2016 Compared to 2015 | | | 2015 Compared to 2014 | | |
|--|--------------------------|---------|--------------|-----------------------|----------|--------------|
| | Volume | Rate | Total (1) | Volume | Rate | Total (1) |
| <i>(dollars in thousands)</i> | | | | | | |
| Interest income | | | | | | |
| Loans | | | | | | |
| Commercial | \$(338) | \$(69) | \$(407) | \$615 | \$(203) | \$412 |
| Agricultural | (74) | 131 | 57 | 157 | (58) | 99 |
| Real estate | 2,362 | (445) | 1,917 | 3,423 | (423) | 3,000 |
| Consumer and other | 36 | (26) | 10 | 204 | (130) | 74 |
| Total loans (including fees) | 1,986 | (409) | 1,577 | 4,399 | (814) | 3,585 |
| Investment securities | | | | | | |
| Taxable | (326) | (0) | (326) | (515) | (411) | (926) |
| Tax-exempt | (377) | (185) | (562) | (595) | (245) | (840) |
| Total investment securities | (703) | (185) | (888) | (1,110) | (656) | (1,766) |
| Interest bearing deposits and federal funds sold | (71) | 84 | 13 | 27 | 46 | 73 |
| Total interest-earning assets | 1,212 | (510) | 702 | 3,316 | (1,424) | 1,892 |
| Interest-bearing liabilities | | | | | | |
| Deposits | | | | | | |
| Savings, NOW accounts and money markets | 39 | 158 | 197 | 72 | (71) | 1 |
| Time deposits > \$100,000 | (37) | 25 | (12) | (50) | (71) | (121) |
| Time deposits < \$100,000 | (103) | (27) | (130) | (64) | (182) | (246) |

Explanation of Responses:

| | | | | | | |
|------------------------------------|---------|---------|--------|---------|-----------|---------|
| Total deposits | (101) | 156 | 55 | (42) | (324) | (366) |
| Other borrowed funds | (48) | (57) | (105) | 14 | (10) | 4 |
| Total interest-bearing liabilities | (149) | 99 | (50) | (28) | (334) | (362) |
| Net interest income-earning assets | \$1,361 | \$(609) | \$752 | \$3,344 | \$(1,090) | \$2,254 |

(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, 2016, 2015 and 2014, the Company's net interest margin was 3.36%, 3.33% and 3.31%, respectively.

Table of Contents

Net interest income during 2016, 2015 and 2014 totaled \$39,911,000, \$38,965,000 and \$36,417,000, respectively, representing a 2.4% increase in 2016 compared to 2015 and a 7.0% increase in 2015 from 2014. Net interest income increased in 2016 as compared to 2015 due primarily to increases in the average balance of real estate loans. Net interest income increased in 2015 as compared to 2014 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, 2016 was \$524,000 compared to \$1,099,000 for the previous year. 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. The Company's provision for loan losses for the year ended December 31, 2015 was \$1,099,000 compared to \$429,000 for the previous year. The higher provision for loan losses in 2015 as compared to 2014 was due primarily to increases in the general allowance resulting from increased outstanding loans in the construction and commercial operating portfolios. Credit quality indicators such as classified assets and impaired loans have improved since 2014; while past due loans have risen slightly but remain at a favorable level as compared to peer banks. There was no significant change in the allowance for loan loss on impaired loans. 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

Explanation of Responses:

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 2016, 2015 and 2014 totaled \$8,088,000, \$8,267,000 and \$9,252,000, respectively. 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. The lower noninterest income in 2015 as compared to 2014 related primarily to the gain on the disposal of premises and equipment in 2014 and lower recognized securities gains, offset in part by higher gains on the sale of loans held for sale and merchant and card fees. The gain on the disposal of premises and equipment was due primarily to the sale of First National's University office in 2014 which resulted in a \$1,257,000 gain. The increase in gain on sale of loans held for sale is due primarily to higher loan origination volume due to favorable economic conditions during 2015. The increase in merchant and card fees is due primarily to the First Bank Acquisition. Excluding securities gains, noninterest income increased 3.5% in 2016 as compared to 2015. Excluding securities gains and gain on disposal of premises and equipment in 2015 and 2014, noninterest income increased 7.0% in 2015 as compared to 2014.

Table of Contents

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%, 60% and 58% of noninterest expense in 2016, 2015 and 2014, respectively.

Noninterest expense during the years ended 2016, 2015 and 2014 totaled \$24,935,000, \$25,312,000 and \$24,373,000, respectively, representing a 1.5% decrease in 2016 compared to a 3.9% increase in 2015. 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 primary reason for the increase in noninterest expense in 2015 was higher salaries and employee benefit costs benefits and data processing costs, offset in part by a decrease in the other real estate owned expense. Salaries and employee benefits increased due primarily to additional payroll costs associated with the First Bank Acquisition and normal salary increases. Data processing costs increased due primarily to the First Bank Acquisition, equipping the West Ames Office and expenses related to the implementation of video banking services. Other real estate owned expenses decreased due to lower levels of impairment write-down in 2015 as compared to 2014. The percentage of noninterest expense to average assets was 1.87% in 2016, compared to 1.91% and 1.93% during 2015 and 2014, respectively.

Provision for Income Taxes

The provision for income taxes for 2016, 2015 and 2014 was \$6,805,000, \$5,807,000 and \$5,616,000, respectively. This amount represents an effective tax rate of 30%, 28% and 27% for 2016, 2015 and 2014, respectively. The Company's marginal federal income tax rate is currently 35%. The difference between the Company's effective and marginal tax rate is primarily related to investments made in tax exempt securities. The increase in the effective tax rate for 2016 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. The increase in the effective tax rate for 2015 is due primarily to tax-exempt interest income decreasing as a percent of income before income taxes.

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 \$1,366,453,000 in 2016 compared to \$1,326,747,000 in 2015, a 3.0% increase. The increase in assets was due primarily to an increase in loans, primarily funded by a decrease in securities available-for-sale and an increase in deposits.

Loan Portfolio

Net loans as of December 31, 2016 totaled \$752,182,000, an increase of 7.3% from the \$701,328,000 as of December 31, 2015. Loan demand remained favorable in 2016 as most markets provided good additional lending opportunities, in particular the Des Moines metro market. This growth is primarily reflected in the 1-4 family real estate and 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 and 171 basis points higher in 2016 and 2015, respectively, in comparison to the average tax-equivalent investment portfolio yields.

Table of Contents*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, 2016.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| <i>(dollars in thousands)</i> | | | | | |
| Real Estate | | | | | |
| Construction | \$61,042 | \$66,268 | \$36,016 | \$23,928 | \$17,077 |
| 1-4 family residential | 149,507 | 127,076 | 122,777 | 108,289 | 104,268 |
| Commercial | 315,702 | 251,889 | 257,054 | 206,112 | 178,660 |
| Agricultural | 73,032 | 62,530 | 57,449 | 53,834 | 43,868 |
| Commercial | 74,378 | 102,515 | 92,703 | 86,823 | 80,264 |
| Agricultural | 76,994 | 79,533 | 85,609 | 81,326 | 77,483 |
| Consumer and other | 12,130 | 21,599 | 15,763 | 12,795 | 16,340 |
| Total loans | 762,785 | 711,410 | 667,371 | 573,107 | 517,960 |
| Deferred loan fees, net | (96) | (94) | (92) | (34) | (62) |
| Total loans net of deferred fees | \$762,689 | \$711,316 | \$667,279 | \$573,073 | \$517,898 |

The Company's loan portfolio consists of real estate, commercial, agricultural and consumer loans. As of December 31, 2016, gross loans totaled approximately \$763 million, which equals approximately 67.8% of total deposits and 55.0% of total assets. The Company's peer group (consisting of 325 bank holding companies with total assets of \$1 to \$3 billion) loan to deposit ratio as of September 30, 2016 was a much higher 86%. The primary factor relating to the lower loan to deposit ratio for the Company compared to peer group averages, based upon net charge offs, is a more conservative underwriting philosophy. As of December 31, 2016, 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.

Table of Contents*Maturities and Sensitivities of Loans to Changes in Interest Rates as of December 31, 2016*

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

| | Within one year | After one year but within five years | After five years | Total |
|-------------------------------|--------------------|---|---------------------|-----------|
| <i>(dollars in thousands)</i> | | | | |
| Real Estate | | | | |
| Construction | \$41,149 | \$18,172 | \$1,721 | \$61,042 |
| 1-4 family residential | 24,685 | 49,971 | 74,851 | 149,507 |
| Commercial | 27,237 | 216,693 | 71,772 | 315,702 |
| Agricultural | 8,165 | 25,977 | 38,890 | 73,032 |
| Commercial | 47,481 | 20,800 | 6,097 | 74,378 |
| Agricultural | 65,707 | 9,496 | 1,791 | 76,994 |
| Consumer and other | 3,667 | 6,885 | 1,578 | 12,130 |
| Total loans | \$218,091 | \$347,994 | \$196,700 | \$762,785 |

| | After one year but within five years | After five years |
|--------------------------------------|---|---------------------|
| Loan maturities after one year with: | | |
| Fixed rates | \$303,060 | \$194,310 |
| Variable rates | 44,934 | 2,390 |
| | \$347,994 | \$196,700 |

Loans Held For Sale

Mortgage origination funding awaiting delivery to the secondary market totaled \$243,000 and \$539,000 as of December 31, 2016 and 2015, respectively. Residential mortgage loans are originated by the Banks and sold to several secondary mortgage market outlets based upon customer product preferences and pricing considerations. The mortgages are sold in the secondary market to eliminate interest rate risk and to generate secondary market fee income. It is not anticipated at the present time that loans held for sale will become a significant portion of total assets.

Investment Portfolio

Total investments as of December 31, 2016 were \$516,080,000, a decrease of \$21.6 million or 4.0% from the prior year end. As of December 31, 2016 and 2015, the investment portfolio comprised 38% and 41% of total assets, respectively.

Table of Contents

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, 2016, 2015 and 2014, respectively. This portfolio provides the Company with a significant amount of liquidity.

| | 2016 | 2015 | 2014 |
|--|------------------|------------------|------------------|
| <i>(dollars in thousands)</i> | | | |
| U.S. government treasuries | \$4,368 | \$1,467 | \$1,448 |
| U.S. government agencies | 110,209 | 106,445 | 87,307 |
| U.S. government mortgage-backed securities | 82,858 | 98,079 | 120,985 |
| State and political subdivisions | 264,448 | 277,597 | 281,776 |
| Corporate bonds | 51,184 | 50,889 | 47,319 |
| Equity securities | 3,013 | 3,156 | 3,667 |
| Total | \$516,080 | \$537,633 | \$542,502 |

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, 2016 and 2015 and also included a publically traded common stock as of December 31, 2014.

During the years ended December 31, 2016, 2015 and 2014, 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, 2016; however, it is possible that the Company may incur impairment losses in 2017 and thereafter.

As of December 31, 2016, 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.

Table of Contents

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, 2016

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

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

| | ten years | | | | | | | | | |
|--|-----------------|------------------|------------------|-----------------|------------------|----------|-------------|----------|-------------|----------|
| <i>(dollars in thousands)</i> | | | | | | | | | | |
| U.S. government treasuries | \$- | \$1,475 | \$2,893 | \$- | \$4,368 | | | | | |
| U.S. government agencies | 1,545 | 71,420 | 37,244 | - | 110,209 | | | | | |
| U.S. government mortgage-backed securities | 90 | 72,058 | 6,853 | 3,857 | 82,858 | | | | | |
| States and political subdivisions (1) | 30,704 | 128,355 | 86,030 | 19,359 | 264,448 | | | | | |
| Corporate bonds | 2,577 | 30,484 | 18,123 | - | 51,184 | | | | | |
| Total | \$34,916 | \$303,792 | \$151,143 | \$23,216 | \$513,067 | | | | | |
| Weighted average yield | | | | | | | | | | |
| U.S. government treasuries | 0.00 | % | 2.00 | % | 2.07 | % | 0.00 | % | 2.05 | % |
| U.S. government agencies | 3.62 | % | 1.96 | % | 2.22 | % | 0.00 | % | 2.07 | % |
| U.S. government mortgage-backed securities | 4.33 | % | 2.45 | % | 2.13 | % | 2.88 | % | 2.44 | % |
| States and political subdivisions (1) | 3.32 | % | 3.20 | % | 3.52 | % | 3.58 | % | 3.35 | % |
| Corporate bonds | 3.62 | % | 2.18 | % | 2.77 | % | 0.00 | % | 2.46 | % |
| Total | 3.36 | % | 2.62 | % | 3.02 | % | 3.46 | % | 2.83 | % |

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

Table of Contents

At December 31, 2016 and 2015, the Company's investment securities portfolio included securities issued by 286 and 283 government municipalities and agencies located within 25 and 24 states with a fair value of \$264,448,000 and \$277,597,000, 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, 2016 and 2015 was \$5.1 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 as of December 31, 2016 and 2015.

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, 2016 and 2015 identifying the state in which the issuing government municipality or agency operates.

| <i>(dollars in thousands)</i> | 2016 | | 2015 | |
|---|----------------|----------------------|----------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Obligations of states and political subdivisions: | | | | |
| General Obligation bonds: | | | | |
| Iowa | \$75,142 | \$74,408 | \$77,735 | \$78,255 |
| Texas | 11,091 | 11,065 | 10,712 | 10,967 |
| Pennsylvania | 8,728 | 8,654 | 8,389 | 8,448 |
| Washington | 7,221 | 6,957 | 7,249 | 7,303 |
| Other (2016: 17 states; 2015: 16 states) | 28,064 | 28,258 | 27,601 | 28,123 |
| Total general obligation bonds | \$130,246 | \$129,342 | \$131,686 | \$133,096 |

Edgar Filing: HAASE BRUCE N - Form 4

| | | | | |
|--|------------|------------|------------|------------|
| Revenue bonds: | | | | |
| Iowa | \$ 126,750 | \$ 126,964 | \$ 134,333 | \$ 136,705 |
| Other (2016: 9 states; 2015: 9 states) | 8,208 | 8,142 | 7,752 | 7,796 |
| Total revenue bonds | \$ 134,958 | \$ 135,106 | \$ 142,085 | \$ 144,501 |
| Total obligations of states and political subdivisions | \$ 265,204 | \$ 264,448 | \$ 273,771 | \$ 277,597 |

40

Table of Contents

As of December 31, 2016 and 2015, 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 and 11 revenue sources in 2016 and 2015, respectively. The revenue sources that represent 5% or more, individually, as a percent of the total revenue bonds are summarized in the following table.

| <i>(dollars in thousands)</i> | 2016 | | 2015 | |
|--|----------------|----------------------|----------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Revenue bonds by revenue source | | | | |
| Sales tax | \$77,586 | \$78,085 | \$88,299 | \$90,145 |
| College and universities, primarily dormitory revenues | 11,283 | 11,296 | 12,153 | 12,298 |
| Water | 14,105 | 13,907 | 10,446 | 10,548 |
| Leases | 9,106 | 8,960 | 9,900 | 9,939 |
| Electric Power | 8,446 | 8,459 | 8,950 | 9,141 |
| Other | 14,432 | 14,399 | 12,337 | 12,430 |
| Total revenue bonds by revenue source | \$134,958 | \$135,106 | \$142,085 | \$144,501 |

Deposits

Total deposits were \$1,109,409,000 and \$1,074,193,000 as of December 31, 2016 and 2015, respectively. The increase of \$35,216,000 between the periods can be primarily attributed to increases in commercial and retail money market accounts and commercial demand deposit accounts, 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 57% 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 \$7,110,000 and \$3,247,000 of brokered deposits as of December 31, 2016 and 2015, 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, 2016, 2015 and 2014.

| | 2016 | | 2015 | | 2014 | | | |
|-------------------------------------|--------------|--------|--------------|--------|--------------|--------|--|--|
| | Average | Rate | Average | Rate | Average | Rate | | |
| <i>(dollars in thousands)</i> | Amount | | Amount | | Amount | | | |
| Noninterest bearing demand deposits | \$ 191,899 | 0.00 % | \$ 192,112 | 0.00 % | \$ 171,407 | 0.00 % | | |
| Interest bearing demand deposits | 301,073 | 0.19 % | 300,285 | 0.16 % | 293,181 | 0.18 % | | |
| Money market deposits | 281,997 | 0.22 % | 271,838 | 0.21 % | 244,461 | 0.21 % | | |
| Savings deposits | 86,684 | 0.15 % | 79,940 | 0.13 % | 69,633 | 0.15 % | | |
| Time certificates > \$100,000 | 86,400 | 0.92 % | 90,574 | 0.89 % | 96,244 | 0.97 % | | |
| Time certificates < \$100,000 | 124,894 | 0.75 % | 138,387 | 0.77 % | 145,704 | 0.90 % | | |
| | \$ 1,072,947 | | \$ 1,073,136 | | \$ 1,020,629 | | | |

Table of Contents

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, 2016, 2015 and 2014.

| | 2016 | 2015 | 2014 |
|-------------------------------|-----------------|-----------------|-----------------|
| <i>(dollars in thousands)</i> | | | |
| 3 months or less | \$16,600 | \$13,370 | \$18,632 |
| Over 3 through 12 months | 34,033 | 46,643 | 37,425 |
| Over 12 through 36 months | 23,152 | 23,704 | 29,308 |
| Over 36 months | 10,931 | 6,503 | 8,443 |
| Total | \$84,716 | \$90,220 | \$93,808 |

Securities Sold Under an Agreement to Repurchase

Securities sold under agreements to repurchase totaled \$58,337,000 and \$54,290,000 as of December 31, 2016 and 2015, respectively an increase of 7.5%.

Borrowed Funds

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

The following table summarizes the outstanding amount of, and the average rate on, borrowed funds as of December 31, 2016, 2015 and 2014.

Explanation of Responses:

| | 2016 | | 2015 | | 2014 | |
|---|-------------|--------------|-------------|--------------|-------------|--------------|
| | Balance | Average Rate | Balance | Average Rate | Balance | Average Rate |
| <i>(dollars in thousands)</i> | | | | | | |
| Federal funds purchased and repurchase agreements | \$58,337 | 0.51 % | \$54,290 | 0.33 % | \$51,265 | 0.27 % |
| FHLB advances | 14,500 | 2.62 % | 18,542 | 2.24 % | 14,468 | 2.68 % |
| Other borrowings | 13,000 | 3.62 % | 13,000 | 3.62 % | 23,000 | 3.59 % |
| Total | \$85,837 | 1.33 % | \$85,832 | 1.24 % | \$88,733 | 1.52 % |

Table of Contents

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, 2016, 2015 and 2014.

| | 2016 | | 2015 | | 2014 | |
|---|-------------|---------|-------------|---------|-------------|---------|
| | Average | Average | Average | Average | Average | Average |
| | Balance | Rate | Balance | Rate | Balance | Rate |
| <i>(dollars in thousands)</i> | | | | | | |
| Federal funds purchased and repurchase agreements | \$47,827 | 0.35 % | \$52,187 | 0.28 % | \$51,536 | 0.28 % |
| FHLB advances | 22,039 | 1.94 % | 17,199 | 2.34 % | 15,888 | 2.50 % |
| Other borrowings | 12,716 | 3.68 % | 16,995 | 3.63 % | 17,822 | 3.48 % |
| Total | \$82,582 | 1.29 % | \$86,381 | 1.35 % | \$85,246 | 1.36 % |

Maximum Amount Outstanding during the Year

| | | | |
|---|----------|----------|----------|
| Federal funds purchased and repurchase agreements | \$58,762 | \$66,245 | \$71,485 |
| FHLB advances | \$52,500 | \$50,253 | \$39,598 |
| Other borrowings | \$13,000 | \$23,000 | \$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, 2016, the most likely impact of these financial instruments on revenues, expenses, or cash flows of the Company would come from unidentified credit risk causing higher provision expense for loan losses in future periods. These financial instruments are not expected to have a significant impact on the liquidity or capital resources of the Company. For additional information, including quantification of the amounts involved, see Note 15 of the "Notes to Consolidated Statements" and the "Liquidity and Capital Resources" section of this discussion.

Contractual Obligations

Explanation of Responses:

The following table sets forth the balance of the Company's contractual obligations by maturity period as of December 31, 2016.

| Contractual Obligations | Payments due by period | | | | |
|--|------------------------|--------------|-----------|-----------|-------|
| | Total | Less than | 1-3 | 3-5 | More |
| | | 1 year | years | years | than |
| | | | | | 5 |
| | | | | | years |
| <i>(dollars in thousands)</i> | | | | | |
| Deposits | \$ 1,109,409 | \$ 1,021,602 | \$ 62,824 | \$ 24,983 | \$ - |
| Securities sold under agreements to repurchase | 58,337 | 58,337 | - | - | - |
| Federal funds purchased | - | - | - | - | - |
| FHLB advances and other borrowings (1) | 27,500 | 1,000 | 24,500 | 2,000 | - |
| Leases | 245 | 92 | 153 | - | - |
| Purchase obligations (2) | 2,412 | 1,160 | 1,235 | 17 | - |
| Total | \$ 1,197,903 | \$ 1,082,191 | \$ 88,712 | \$ 27,000 | \$ - |

FHLB advances consist of various FHLB borrowings with fixed rates with final maturities through 2020. \$11.5 million of the FHLB advances are callable quarterly. Other borrowings also include \$13.0 million of term repurchase agreements having maturities greater than one year and can be called by the issuing financial institution quarterly. The term repurchase agreements have final maturities through 2018.

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

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

The Company's credit risk is centered in the loan portfolio, which on December 31, 2016, totaled \$752,182,000 as compared to \$701,328,000 as of December 31, 2015, an increase of 7.3%. Net loans comprise 55% of total assets as of the end of 2016. 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 increased by 80% from December 31, 2015 and total \$5,645,000 as of December 31, 2016 due primarily to two commercial operating loan relationships. The Company's level of non-performing assets as a percentage of assets of 0.41% as of December 31, 2016, is lower than the average for the Company's peer group of FDIC insured institutions as of September 30, 2016, of 0.80%. Management believes that the allowance for loan losses as of December 31, 2016 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, 2016.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| <i>(dollars in thousands)</i> | | | | | |
| Non-performing assets: | | | | | |
| Nonaccrual loans | \$5,077 | \$1,818 | \$2,407 | \$2,508 | \$5,567 |
| Loans 90 days or more past due | 22 | 75 | 36 | 27 | - |
| Total non-performing loans | 5,099 | 1,893 | 2,443 | 2,535 | 5,567 |
| Securities available-for-sale | - | - | - | - | - |
| Other real estate owned | 546 | 1,250 | 8,436 | 8,861 | 9,911 |
| Total non-performing assets | \$5,645 | \$3,143 | \$10,879 | \$11,396 | \$15,478 |

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 \$5,077,000 as of December 31, 2016 and were \$3,259,000 higher than the impaired loans as of December 31, 2015. The increase in impaired loans was due primarily to two loan relationships. 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 \$720,000 and \$439,000 at December 31, 2016 and 2015, respectively. The average balances of impaired loans for the years ended December 31, 2016 and 2015 were \$2,965,000 and \$2,104,000, respectively. For the years ended December 31, 2016, 2015 and 2014, interest income, which would have been recorded under the original terms of nonaccrual loans, was approximately \$272,000, \$162,000 and \$136,000, respectively, with \$72,000, \$164,000 and \$453,000, respectively, recorded. There was \$22,000 of loans greater than 90 days past due and still accruing interest as of December 31, 2016 and there was \$75,000 of loans greater than 90 days past due and still accruing interest at December 31, 2015.

Table of Contents

Summary of the Allowance for Loan Losses

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

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

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

Table of Contents

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.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|-----------|-----------|-----------|-----------|
| <i>(dollars in thousands)</i> | | | | | |
| Balance at beginning of period | \$9,988 | \$8,838 | \$8,572 | \$7,773 | \$7,905 |
| Charge-offs: | | | | | |
| Real estate | | | | | |
| Construction | - | - | - | - | - |
| 1-4 Family residential | 15 | 25 | 151 | 81 | 154 |
| Commercial | - | - | - | - | - |
| Agricultural | - | - | - | - | - |
| Commercial | 78 | - | 17 | - | 30 |
| Agricultural | - | 39 | - | - | - |
| Consumer and other | 39 | 5 | 77 | 36 | 48 |
| Total charge-offs | 132 | 69 | 245 | 117 | 232 |
| Recoveries: | | | | | |
| Real estate | | | | | |
| Construction | 30 | 50 | 25 | - | - |
| 1-4 Family residential | 5 | 26 | 18 | 54 | 3 |
| Commercial | - | 4 | - | 51 | 4 |
| Agricultural | - | - | - | - | - |
| Commercial | 83 | - | 19 | 3 | 24 |
| Agricultural | - | 28 | - | - | - |
| Consumer and other | 9 | 12 | 20 | 22 | 47 |
| Total recoveries | 127 | 120 | 82 | 130 | 78 |
| Net charge-offs (recoveries) | 5 | (51) | 163 | (13) | 154 |
| Provisions charged to operations | 524 | 1,099 | 429 | 786 | 22 |
| Balance at end of period | \$10,507 | \$9,988 | \$8,838 | \$8,572 | \$7,773 |
| Average loans outstanding | \$726,838 | \$681,824 | \$527,627 | \$482,699 | \$431,368 |
| Ratio of net charge-offs (recoveries) during the period to average loans outstanding | 0.00 % | -0.01 % | 0.03 % | 0.00 % | 0.04 % |

Explanation of Responses:

Ratio of allowance for loan losses to total loans net of deferred fees 1.38 % 1.40 % 1.32 % 1.50 % 1.50 %

46

Table of Contents

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. The allowance for loan losses increased to \$8,572,000 at the end of 2013 in comparison to the allowance of \$7,773,000 at year end 2012 as a result of provisions of \$786,000 and net recoveries of \$13,000. The higher provision for loan losses in 2013 as compared to 2012 was due primarily to a higher provision required as a result of an increase in the loan portfolio. This increase was offset in part by to improved credit quality indicators such as lower impaired loans, as well as a decrease in the allowance for loan loss on impaired loans.

General reserves for loan categories range from 1.07% to 1.83% of the outstanding loan balances as of December 31, 2016. In general as loan volume increases, the general reserve levels increase with that growth and as loan volume decreases, the general reserve levels decrease with that decline. The loan provisions recognized in 2016 and 2015 were due primarily to increases in the loan portfolio. The loan provisions recognized in 2014 were due primarily to increases in the loan portfolio, offset in part by lower provisions needed due to improved credit quality indicators, excluding loans acquired as a part of the First Bank Acquisition, impaired loans, as well as a decrease in the allowance for loan loss on impaired loans. The allowance relating to commercial real estate and 1-4 family residential are the largest reserve components. Construction, commercial operating and agricultural operating loans have higher general reserve levels as a percentage than the other loan categories as management perceives more risk in this type of lending. Elements contributing to the higher risk level include a higher percentage of watch, special mention, substandard and impaired loans and less favorable economic conditions for those portfolios. As of December 31, 2016, commercial real estate loans have general reserves ranging from 1.27% to 1.43%.

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

losses will remain at the relatively favorable levels experienced over the past five years.

Loans that the Banks have identified as having higher risk levels are reviewed individually in an effort to establish adequate loss reserves. These reserves are considered specific reserves and are directly impacted by the credit quality of the underlying loans. Normally, as the actual or expected level of non-performing loans increase, the specific reserves also increase. As of December 31, 2016, the specific reserve increased to \$720,000 from \$439,000, as the volume of problem credits increased. As of December 31, 2015, the specific reserve increased to \$439,000 from \$337,000, though the volume of problem credits decreased slightly. As of December 31, 2014, the specific reserve decreased to \$337,000 from \$477,000, as the volume of problem credits decreased. As of December 31, 2013, the specific reserve decreased to \$477,000 from \$702,000, as the volume of problem credits decreased. As of December 31, 2012, the specific reserve decreased to \$702,000 from \$876,000, as the volume of problem credits decreased. The specific reserves are dependent upon assumptions regarding the liquidation value of collateral and the cost of recovering collateral including legal fees. Changing the amount of specific reserves on individual loans has historically had the largest impact on the reallocation of the allowance among different parts of the portfolio.

Table of Contents

Allocation of the Allowance for Loan Losses

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

| <i>(dollars in thousands)</i> | 2016 | | 2015 | | 2014 | | 2013 | | 2012 | |
|---|----------|------|---------|------|---------|------|---------|------|---------|------|
| | Amount | % * | Amount | % * | Amount | % * | Amount | % * | Amount | % * |
| Balance at end of period applicable to: | | | | | | | | | | |
| Real Estate | | | | | | | | | | |
| Construction | \$908 | 8 % | \$999 | 9 % | \$495 | 5 % | \$392 | 4 % | \$375 | 3 % |
| 1-4 family residential | 1,711 | 20 % | 1,806 | 18 % | 1,648 | 18 % | 1,523 | 19 % | 1,433 | 21 % |
| Commercial | 3,960 | 41 % | 3,557 | 36 % | 3,214 | 38 % | 3,230 | 36 % | 2,859 | 35 % |
| Agricultural | 861 | 9 % | 760 | 9 % | 737 | 10 % | 686 | 10 % | 523 | 8 % |
| Commercial | 1,728 | 10 % | 1,371 | 14 % | 1,247 | 14 % | 1,435 | 15 % | 1,461 | 15 % |
| Agricultural | 1,216 | 10 % | 1,256 | 11 % | 1,312 | 13 % | 1,165 | 14 % | 945 | 15 % |
| Consumer and other | 123 | 2 % | 239 | 3 % | 185 | 2 % | 141 | 2 % | 177 | 3 % |
| | \$10,507 | 100% | \$9,988 | 100% | \$8,838 | 100% | \$8,572 | 100% | \$7,773 | 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, 2016, 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, 2016, 2015 and 2014 totaled \$61,215,000; \$50,999,000; and \$55,200,000, respectively. The higher balance of liquid assets at December 31, 2016 primarily relates to an increase in funds at a correspondent bank and the Federal Reserve Bank.

Other sources of liquidity available to the Banks include borrowing capacity with the FHLB of \$177,905,000 and federal funds borrowing capacity at correspondent banks of \$107,133,000. As of December 31, 2016, the Company had outstanding FHLB advances of \$14,500,000, no federal funds purchased, securities sold under agreements to repurchase of \$58,337,000 and other borrowings of \$13,000,000.

Table of Contents

Total investments as of December 31, 2016, were \$516,080,000 compared to \$537,633,000 as of year-end 2015. As of December 31, 2016 and 2015, the investment portfolio as a percentage of total assets was 38% and 41%, 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, 2016 and 2015 and have pretax net unrealized gains (losses) of \$(915,000) and \$5,527,000, 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, 2016, 2015 and 2014 totaled \$21,417,000, \$22,622,000 and \$19,508,000, respectively. 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. The increase in net cash provided by operating activities in 2015 as compared to 2014 was primarily due to a decrease in deferred income taxes and lower gain on disposal of bank premises and equipment.

Net cash provided by (used in) investing activities for the years ended December 31, 2016, 2015 and 2014 was \$(43,470,000), \$(34,376,000) and \$16,184,000, respectively. The change in net cash provided by (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. The change in net cash provided by (used in) investing activities in 2015 was primarily due to changes in securities available-for-sale and change in cash acquired, net of cash paid for acquired bank offices acquired in the First Bank Acquisition.

Net cash provided by (used in) financing activities for the years ended December 31, 2016, 2015 and 2014 totaled \$27,525,000, \$12,029,000 and \$(36,232,000), respectively. The change in net cash provided by (used in) financing activities in 2016 was due primarily to an increase in deposits. The change in net cash provided by (used in) financing activities in 2015 was due primarily to a change in deposits. As of December 31, 2016, the Company did not have any external debt financing, off balance sheet financing arrangements or derivative instruments linked to its stock.

Review of Company Only Cash Flows

The Company's liquidity on an unconsolidated basis is heavily dependent upon dividends paid to the Company by the Banks. The Company requires adequate liquidity to pay its expenses and pay stockholder dividends. In 2016, dividends from the Banks amounted to \$9,350,000 compared to \$8,350,000 in 2015. 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 \$11,181,000 that were available at December 31, 2016 to provide additional liquidity to the Banks.

Table of Contents

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

Commitments to extend credit totaled \$164,066,000 as of December 31, 2016 compared to a total of \$158,566,000 at the end of 2015. 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, 2016. 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, 2016, that are of concern to management.

Capital Resources

The Company's total stockholders' equity increased to \$165,105,000 at December 31, 2016, from \$161,250,000 at December 31, 2015. At December 31, 2016 and 2015, stockholders' equity as a percentage of total assets was 12.1 % and 12.2%, respectively. The increase in stockholders' equity was primarily the result of net income, offset in part by lower fair value on the securities available-for-sale as reflected in the decrease in accumulated other comprehensive income, and dividends declared. The capital levels of the Company currently exceed applicable regulatory guidelines as of December 31, 2016.

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 2016 and 2015. 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.

Table of Contents

Forward-Looking Statements and Business Risks

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

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

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

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.

Table of Contents

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. It 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 2016 changed when compared to 2015.

Based on a simulation modeling analysis performed as of December 31, 2016, 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, 2017

| <i>(dollars in thousands)</i> | \$ | % |
|-------------------------------|------------|----------|
| | Change | Change |
| +300 Basis Points | \$(4,623) | -11.57 % |
| +200 Basis Points | (2,942) | -7.36 % |
| +100 Basis Points | (1,404) | -3.52 % |
| -100 Basis Points | (956) | -2.39 % |

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

As shown above, at December 31, 2017, the estimated effect of an immediate 300 basis point increase in interest rates would decrease the Company's net interest income by 11.57% or approximately \$4,623,000 in 2017. In an increasing interest rate environment, the assets are repricing slower than the liabilities, thus a decrease in net interest income. The estimated effect of an immediate 100 basis point decrease in rates would decrease the Company's net interest income by 2.39% or approximately \$956,000 in 2017. 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.

Table of Contents

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, 2016. The expected maturities are presented on a contractual basis. Actual maturities may differ from contractual maturities because of prepayment assumptions, early withdrawal of deposits and competition.

| | Less than three months | Three months to one year | One to five years | Over five years | Cumulative Total |
|---|------------------------------|--------------------------------|-------------------------|-----------------------|---------------------|
| <i>(dollars in thousands)</i> | | | | | |
| Interest earning assets | | | | | |
| Interest bearing deposits | \$ 16,557 | \$ 3,653 | \$ 11,527 | \$- | \$ 31,737 |
| Investments (1) | 3,611 | 31,305 | 303,792 | 177,372 | 516,080 |
| Loans | 127,086 | 91,005 | 347,994 | 196,700 | 762,785 |
| Loans held for sale | 242 | - | - | - | 242 |
| Total interest - earning assets | \$ 147,496 | \$ 125,963 | \$ 663,313 | \$ 374,072 | \$ 1,310,844 |
| Interest bearing liabilities | | | | | |
| Interest bearing demand deposits | \$ 310,428 | \$- | \$- | \$- | \$ 310,428 |
| Money market and savings deposits | 381,852 | - | - | - | 381,852 |
| Time certificates > \$100,000 | 16,600 | 34,033 | 34,084 | - | 84,717 |
| Time certificates < \$100,000 | 21,092 | 45,522 | 53,723 | - | 120,337 |
| Other borrowed funds (2) | - | 1,000 | 24,500 | 2,000 | 27,500 |
| Total interest - bearing liabilities | \$ 729,972 | \$ 80,555 | \$ 112,307 | \$ 2,000 | \$ 924,834 |
| Interest sensitivity gap | \$ (582,476) | \$ 45,408 | \$ 551,006 | \$ 372,072 | \$ 386,010 |
| Cumulative interest sensitivity gap | \$ (582,476) | \$ (537,068) | \$ 13,938 | \$ 386,010 | \$ 386,010 |
| Cumulative interest sensitivity gap as a percent of total assets | -42.63 % | -39.30 % | 1.02 % | 28.25 % | |

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

(2) Includes \$14.5 million of advances from the FHLB. Of these advances, \$3.0 million are term advances and \$11.5 million are callable. The term advances have been categorized based upon their maturity date. The \$11.5 million of callable advances were also categorized based upon maturity, because the interest rates on such advances are above current market rates. Includes \$13.0 million of term repurchase agreements, of which all are callable. The term repurchase agreements were categorized based upon maturity, because the interest rates on such advances are

above current market rates.

As of December 31, 2016, the Company's cumulative gap ratios for assets and liabilities repricing within three months and within one year were a negative 43% and 39%, 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 repricable. 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.

Table of Contents

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, 2016. 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, 2016, 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, 2016 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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

We have audited the accompanying consolidated balance sheets of Ames National Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ames National Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ames National Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, 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 13, 2017 expressed an unqualified opinion.

West Des Moines, Iowa

March 13, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Ames National Corporation

Ames, Iowa

We have audited Ames National Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Ames National Corporation's management is responsible for maintaining effective internal control over the financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

Table of Contents

Board of Directors and Stockholders

Ames National Corporation

Page 2

In our opinion, Ames National Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based upon criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ames National Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 13, 2017 expressed an unqualified opinion.

West Des Moines, Iowa

March 13, 2017

57

Table of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****December 31, 2016 and 2015**

| ASSETS | 2016 | 2015 |
|---|------------------------|------------------------|
| Cash and due from banks | \$29,478,068 | \$24,005,801 |
| Interest bearing deposits in financial institutions | 31,737,259 | 26,993,091 |
| Securities available-for-sale | 516,079,506 | 537,632,990 |
| Loans receivable, net | 752,181,730 | 701,328,171 |
| Loans held for sale | 242,618 | 539,370 |
| Bank premises and equipment, net | 16,049,379 | 17,007,798 |
| Accrued income receivable | 7,768,689 | 7,565,791 |
| Other real estate owned | 545,757 | 1,249,915 |
| Deferred income taxes | 3,485,689 | 1,276,571 |
| Other intangible assets, net | 1,352,812 | 1,308,731 |
| Goodwill | 6,732,216 | 6,732,216 |
| Other assets | 799,306 | 1,106,698 |
| Total assets | \$1,366,453,029 | \$1,326,747,143 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits | | |
| Demand, noninterest bearing | \$212,074,792 | \$202,542,011 |
| NOW accounts | 310,427,812 | 298,227,493 |
| Savings and money market | 381,852,433 | 354,026,475 |
| Time, \$250,000 and over | 39,031,663 | 36,956,653 |
| Other time | 166,022,165 | 182,440,490 |
| Total deposits | 1,109,408,865 | 1,074,193,122 |
| Securities sold under agreements to repurchase | 58,337,367 | 54,289,915 |
| Federal Home Loan Bank (FHLB) advances | 14,500,000 | 18,542,203 |
| Other borrowings | 13,000,000 | 13,000,000 |
| Dividends payable | 1,955,292 | 1,862,183 |
| Accrued expenses and other liabilities | 4,146,262 | 3,609,663 |
| Total liabilities | 1,201,347,786 | 1,165,497,086 |
| STOCKHOLDERS' EQUITY | | |
| | 18,621,826 | 18,621,826 |

Explanation of Responses:

| | | |
|---|------------------------|------------------------|
| Common stock, \$2 par value, authorized 18,000,000 shares; issued and outstanding 9,310,913 shares as of December 31, 2016 and 2015 | | |
| Additional paid-in capital | 20,878,728 | 20,878,728 |
| Retained earnings | 126,181,376 | 118,267,767 |
| Accumulated other comprehensive income (loss) | (576,687) | 3,481,736 |
| Total stockholders' equity | 165,105,243 | 161,250,057 |
| Total liabilities and stockholders' equity | \$1,366,453,029 | \$1,326,747,143 |

See Notes to Consolidated Financial Statements.

Table of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|
| Interest income: | | | |
| Loans, including fees | \$32,358,028 | \$30,780,496 | \$27,196,859 |
| Securities: | | | |
| Taxable | 5,853,146 | 6,179,492 | 7,104,563 |
| Tax-exempt | 5,439,908 | 5,808,011 | 6,354,147 |
| Interest bearing deposits and federal funds sold | 394,957 | 382,346 | 308,782 |
| Total interest income | 44,046,039 | 43,150,345 | 40,964,351 |
| Interest expense: | | | |
| Deposits | 3,073,658 | 3,019,273 | 3,385,099 |
| Other borrowed funds | 1,061,623 | 1,165,866 | 1,162,002 |
| Total interest expense | 4,135,281 | 4,185,139 | 4,547,101 |
| Net interest income | 39,910,758 | 38,965,206 | 36,417,250 |
| Provision for loan losses | 524,365 | 1,099,183 | 429,140 |
| Net interest income after provision for loan losses | 39,386,393 | 37,866,023 | 35,988,110 |
| Noninterest income: | | | |
| Wealth management income | 2,929,456 | 2,724,451 | 2,748,619 |
| Service fees | 1,633,178 | 1,740,740 | 1,649,169 |
| Securities gains, net | 423,601 | 888,179 | 1,110,953 |
| Gain on sale of loans held for sale | 1,082,347 | 907,875 | 704,051 |
| Merchant and card fees | 1,405,751 | 1,378,218 | 1,189,503 |
| Gain (loss) on disposal of premises and equipment, net | (25,772) | (5,388) | 1,239,581 |
| Other noninterest income | 638,973 | 633,118 | 610,203 |
| Total noninterest income | 8,087,534 | 8,267,193 | 9,252,079 |
| Noninterest expense: | | | |
| Salaries and employee benefits | 15,687,335 | 15,231,369 | 14,129,956 |
| Data processing | 3,297,079 | 3,027,203 | 2,609,185 |
| Occupancy expenses | 1,962,726 | 1,889,793 | 1,680,351 |
| FDIC insurance assessments | 540,237 | 680,563 | 645,997 |
| Professional fees | 1,178,924 | 1,274,298 | 1,274,111 |

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | | | |
|---|---------------------|---------------------|---------------------|
| Business development | 1,016,365 | 1,064,362 | 1,103,923 |
| Other real estate owned (income) expense, net | (172,628) | 613,812 | 1,502,408 |
| Intangible asset amortization | 368,259 | 421,500 | 317,333 |
| Other operating expenses, net | 1,056,348 | 1,109,121 | 1,110,199 |
| Total noninterest expense | 24,934,645 | 25,312,021 | 24,373,463 |
| | | | |
| Income before income taxes | 22,539,282 | 20,821,195 | 20,866,726 |
| | | | |
| Provision for income taxes | 6,804,506 | 5,806,544 | 5,615,519 |
| | | | |
| Net income | \$15,734,776 | \$15,014,651 | \$15,251,207 |
| | | | |
| Basic and diluted earnings per share | \$1.69 | \$1.61 | \$1.64 |

See Notes to Consolidated Financial Statements.

Table of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|
| Net income | \$15,734,776 | \$15,014,651 | \$15,251,207 |
| Other comprehensive income (loss), before tax: | | | |
| Unrealized gains (losses) on securities before tax: | | | |
| Unrealized holding gains (losses) arising during the period | (6,018,340) | (683,696) | 7,493,309 |
| Less: reclassification adjustment for gains realized in net income | 423,601 | 888,179 | 1,110,953 |
| Other comprehensive income (loss) before tax | (6,441,941) | (1,571,875) | 6,382,356 |
| Tax expense (benefit) related to other comprehensive income (loss) | (2,383,518) | (581,594) | 2,361,471 |
| Other comprehensive income (loss), net of tax | (4,058,423) | (990,281) | 4,020,885 |
| Comprehensive income | \$11,676,353 | \$14,024,370 | \$19,272,092 |

See Notes to Consolidated Financial Statements.

Table of Contents

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2016, 2015 and 2014

| | Common Stock | Additional Paid- in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|-----------------|-----------------------------------|----------------------|--|-------------------|----------------------------------|
| Balance, December 31, 2013 | \$18,865,830 | \$22,651,222 | \$102,154,498 | \$451,132 | \$(2,016,498) | \$142,106,184 |
| Net income | - | - | 15,251,207 | - | - | 15,251,207 |
| Retirement of 122,002 shares of treasury stock | (244,004) | (1,772,494) | - | - | 2,016,498 | - |
| Other comprehensive income | - | - | - | 4,020,885 | - | 4,020,885 |
| Cash dividends declared, \$0.72 per share | - | - | (6,703,858) | - | - | (6,703,858) |
| 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 |

See Notes to Consolidated Financial Statements.

61

Table of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|---|-------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$ 15,734,776 | \$ 15,014,651 | \$ 15,251,207 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | 524,365 | 1,099,183 | 429,140 |
| Provision for off-balance sheet commitments | 24,000 | 7,000 | 99,000 |
| Amortization of securities available-for-sale, loans and deposits, net | 3,065,740 | 3,404,299 | 4,038,355 |
| Amortization of intangible assets | 368,259 | 421,500 | 317,333 |
| Depreciation | 1,209,144 | 1,147,120 | 892,400 |
| Provision for deferred income taxes | 174,400 | 1,938,200 | 32,455 |
| Securities gains, net | (423,601) | (888,179) | (1,110,953) |
| Gain on sales of loans held for sale | (1,082,347) | (907,875) | (704,051) |
| Proceeds from the sales of loans held for sale | 47,700,123 | 39,670,999 | 27,714,043 |
| Originations of loans held for sale | (46,321,024) | (38,597,644) | (27,419,224) |
| Impairment of other real estate owned | 28,039 | 614,687 | 1,744,366 |
| (Gain) on sale of other real estate owned, net | (218,687) | (100,409) | (95,036) |
| (Gain) loss on sale and disposal of bank premises and equipment, net | 25,772 | 5,388 | (1,239,581) |
| Change in assets and liabilities: | | | |
| (Increase) decrease in accrued income receivable | (202,898) | (94,768) | 196,982 |
| Decrease in other assets | 298,656 | 109,864 | 17,711 |
| Increase (decrease) in accrued expenses and other liabilities | 512,599 | (221,667) | (655,991) |
| Net cash provided by operating activities | 21,417,316 | 22,622,349 | 19,508,156 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of securities available-for-sale | (78,120,246) | (100,805,716) | (65,944,859) |
| Proceeds from sale of securities available-for-sale | 25,142,516 | 25,031,910 | 47,315,935 |
| Proceeds from maturities and calls of securities available-for-sale | 65,294,571 | 75,946,662 | 69,892,969 |
| Net decrease (increase) in interest bearing deposits in financial institutions | (4,744,168) | 4,476,291 | (2,116,265) |
| Net (increase) in federal funds sold | - | - | (6,000) |
| Net (increase) in loans | (51,414,733) | (41,677,319) | (49,788,756) |
| Net proceeds from the sale of other real estate owned | 1,052,178 | 4,875,464 | 265,694 |
| Purchase of bank premises and equipment | (267,761) | (2,196,551) | (1,590,308) |
| Proceeds from the sale of bank premises and equipment | - | - | 1,746,444 |
| Other changes in other real estate owned | - | (26,612) | (19,673) |
| Purchase of customer list | (412,340) | - | - |

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | | | |
|--|---------------------|----------------------|---------------------|
| Cash acquired, net of cash paid for acquired bank offices | - | - | 16,428,981 |
| Net cash provided by (used in) investing activities | (43,469,983) | (34,375,871) | 16,184,162 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase (decrease) in deposits | 35,247,743 | 22,192,208 | (41,474,733) |
| Increase in securities sold under agreements to repurchase | 4,047,452 | 3,024,904 | 8,833,070 |
| Proceeds from FHLB and other borrowings | - | 4,500,000 | 10,000,000 |
| Payments on FHLB and other borrowings | (4,042,203) | (10,425,534) | (7,072,789) |
| Dividends paid | (7,728,058) | (7,262,512) | (6,517,640) |
| Net cash provided by (used in) financing activities | 27,524,934 | 12,029,066 | (36,232,092) |
| Net increase (decrease) in cash and due from banks | 5,472,267 | 275,544 | (539,774) |
| CASH AND DUE FROM BANKS | | | |
| Beginning | 24,005,801 | 23,730,257 | 24,270,031 |
| Ending | \$29,478,068 | \$24,005,801 | \$23,730,257 |

Table of Contents**AMES NATIONAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash payments for: | | | |
| Interest | \$4,172,526 | \$4,464,760 | \$4,772,793 |
| Income taxes | 5,822,394 | 4,291,621 | 5,694,894 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES | | | |
| Transfer of loans to other real estate owned | \$157,372 | \$74,609 | \$202,409 |
| Other real real estate owned sale financed by a loan receivable | - | 1,897,449 | - |
| Business Combination: (Asset acquired and liabilities assumed at fair value) | | | |
| Interest bearing deposits in financial institutions acquired | \$- | \$- | \$5,719,000 |
| Securities available-for-sale acquired | - | - | 10,602,454 |
| Loans receivable acquired | - | - | 44,620,021 |
| Bank premises and equipment acquired | - | - | 3,864,900 |
| Accrued interest receivable acquired | - | - | 230,332 |
| Other real estate owned acquired | - | - | 1,267,720 |
| Other tangible assets acquired | - | - | 748,511 |
| Goodwill | - | - | 1,131,467 |
| Core deposit intangible asset | - | - | 1,018,000 |
| Deposits assumed | - | - | 81,962,650 |
| Securities sold under repurchase agreements to repurchase assumed | - | - | 2,815,297 |
| Other liabilities assumed | - | - | 853,439 |

See Notes to Consolidated Financial Statements.

Table of Contents

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 changes in management's assessment of other-than-temporary impairment will occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

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.

Table of Contents

Acquired loans: Loans acquired in a business combination are stated at the principal amount outstanding with a discount attributable at least in part to credit quality. The difference between contractual payments at acquisition and the cash flows expected to be collected is referred to as the non-accretable difference. This amount is not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loans when there is reasonable expectation about the amount and timing of such cash flows. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. If the Company does not have the information necessary to reasonably estimate expected cash flows, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on the acquired impaired loans reflect only losses after the acquisition.

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.

Table of Contents

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, 2016, 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.

The only other significant intangible asset is a core deposit intangible. 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 15.

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.

Table of Contents

Earnings per share: Basic earnings per share computations for the years ended December 31, 2016, 2015 and 2014, 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.

The following information was used in the computation of basic earnings per share (EPS) for the years ended December 31, 2016, 2015, and 2014.

| | 2016 | 2015 | 2014 |
|--|----------------|----------------|----------------|
| Basic earning per share computation: | | | |
| Net income | \$ 15,734,776 | \$ 15,014,651 | \$ 15,251,207 |
| Weighted average common shares outstanding | 9,310,913 | 9,310,913 | 9,310,913 |
| Basic EPS | \$ 1.69 | \$ 1.61 | \$ 1.64 |

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 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. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance 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 be 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 guidance does not apply to revenues associated with financial instruments, including loans and securities that are accounted for under U.S. GAAP. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

Table of Contents**Note 2. Branch Acquisitions**

On August 29, 2014, FNB completed the purchase of three bank branches of First Bank located in West Des Moines and Johnston, Iowa (the "First Bank Acquisition"). The First Bank Acquisition was consistent with the Bank's strategy to strengthen and expand its Iowa market share. The acquired assets and liabilities were recorded at fair value at the date of acquisition. These branches were purchased for cash consideration of \$4.1 million. As a result of the acquisition, the Company recorded a core deposit intangible asset of \$1,018,000 and goodwill of approximately \$1,131,000. The results of operations for this acquisition have been included since the transaction date of August 29, 2014. The fair value of credit deteriorated purchased loans at the transaction date related to the First Bank Acquisition was \$1,507,000. These purchase loans were and continue to be included in the impaired loan category in the financial statements. Since the acquisition date, there has been no significant credit deterioration of the acquired loans.

The following table summarizes the fair value of the total consideration transferred as a part of the First Bank Acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transactions. (*in thousands*)

| | |
|---|----------|
| Cash consideration transferred | \$4,148 |
| Recognized amounts of identifiable assets acquired and liabilities assumed: | |
| Cash and due from banks | \$20,577 |
| Interest bearing deposits in financial institutions | 5,719 |
| Securities available-for-sale | 10,602 |
| Loans receivable | 44,620 |
| Accrued interest receivable | 230 |
| Bank premises and equipment | 3,865 |
| Other real estate owned | 1,268 |
| Core deposit intangible asset | 1,018 |
| Other assets | 749 |
| Deposits | (81,963) |
| Securities sold under agreements to repurchase | (2,815) |
| Accrued interest payable and other liabilities | (854) |
| Total identifiable net assets (liabilities) | 3,016 |
| Goodwill | \$1,132 |

On August 29, 2014, associated with the First Bank Acquisition, the contractual balance of loans receivable acquired was \$45,584,000 and the contractual balance of the deposits assumed was \$81,841,000. Loans receivable acquired include commercial real estate, 1-4 family real estate, commercial operating and consumer loans.

The core deposit intangible asset associated with the First Bank Acquisition is amortized to expense on a declining basis over a period of nine years. The loan market valuation is accreted to income on a declining basis over a six year period. The time deposits market valuation is amortized to expense on a declining basis over a two year period.

Note 3. 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 \$5,707,000 and \$5,797,000 at December 31, 2016 and 2015, respectively.

At December 31, 2016, the Company had approximately \$19,409,000 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.

Table of Contents**Note 4. 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 |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| 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 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
| 2015: | | | | |
| U.S. government treasuries | \$ 1,444 | \$ 23 | \$ - | \$ 1,467 |
| U.S. government agencies | 105,948 | 797 | (300) | 106,445 |
| U.S. government mortgage-backed securities | 96,373 | 1,829 | (123) | 98,079 |
| State and political subdivisions | 273,771 | 4,359 | (533) | 277,597 |
| Corporate bonds | 51,414 | 226 | (751) | 50,889 |
| Equity securities, other | 3,156 | - | - | 3,156 |
| | \$ 532,106 | \$ 7,234 | \$ (1,707) | \$ 537,633 |

The amortized cost and fair value of debt securities available-for-sale as of December 31, 2016, are shown below by contractual 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 Estimated

| | Cost | Fair Value |
|--|------------|---------------|
| Due in one year or less | \$ 34,772 | \$ 34,916 |
| Due after one year through five years | 302,483 | 303,792 |
| Due after five years through ten years | 153,088 | 151,143 |
| Due after ten years | 23,639 | 23,216 |
| | 513,982 | 513,067 |
| Equity securities | 3,013 | 3,013 |
| | \$ 516,995 | \$ 516,080 |

At December 31, 2016 and 2015, securities with a carrying value of approximately \$177,234,000 and \$188,730,000, 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.

Table of Contents

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

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Proceeds from sales of securities available-for-sale | \$25,143 | \$25,032 | \$47,316 |
| Gross realized gains on securities available-for-sale | 430 | 911 | 1,264 |
| Gross realized losses on securities available-for-sale | 6 | 23 | 153 |
| Tax provision applicable to net realized gains on securities available-for-sale | 157 | 331 | 414 |

No other-than-temporary impairments were recognized as a component of income for the years ended December 31, 2016, 2015 and 2014.

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, 2016 and 2015, are summarized as follows (*in thousands*):

| 2016: | Less than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|-------------|-------------------|------------|-----------|-------------|
| | Estimated | Gross | Estimated | Gross | Estimated | Gross |
| | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |
| | Value | Losses | Value | Losses | Value | 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) |

| 2015: | Less than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|------------|-------------------|------------|-----------|------------|
| | Estimated | Gross | Estimated | Gross | Estimated | Gross |
| | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |
| | Value | Losses | Value | Losses | Value | Losses |
| Securities available for sale: | | | | | | |
| U.S. government agencies | \$30,245 | \$ (253) | \$3,121 | \$ (47) | \$33,366 | \$ (300) |
| U.S. government mortgage-backed securities | 22,842 | (123) | - | - | 22,842 | (123) |
| State and political subdivisions | 38,202 | (414) | 11,096 | (119) | 49,298 | (533) |

Explanation of Responses:

| | | | | | | |
|-----------------|-----------|-------------|----------|-----------|-----------|-------------|
| Corporate bonds | 22,091 | (249) | 14,614 | (502) | 36,705 | (751) |
| | \$113,380 | \$ (1,039) | \$28,831 | \$ (668) | \$142,211 | \$ (1,707) |

At December 31, 2016, debt securities have unrealized losses of \$4,298,000. 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.

Table of Contents**Note 5. Loans Receivable and Credit Disclosures**

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

| | 2016 | 2015 |
|---|-------------|-------------|
| Real estate - construction | \$61,042 | \$66,268 |
| Real estate - 1 to 4 family residential | 149,507 | 127,076 |
| Real estate - commercial | 315,702 | 251,889 |
| Real estate - agricultural | 73,032 | 62,530 |
| Commercial | 74,378 | 102,515 |
| Agricultural | 76,994 | 79,533 |
| Consumer and other | 12,130 | 21,599 |
| | 762,785 | 711,410 |
| Less: | | |
| Allowance for loan losses | (10,507) | (9,988) |
| Deferred loan fees | (96) | (94) |
| | \$752,182 | \$701,328 |

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.

Table of Contents

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, 2016, 2015 and 2014 are as follows (*in thousands*):

| | 2016 | 2015 | 2014 |
|---------------------------------|----------|---------|---------|
| Balance, beginning | \$9,988 | \$8,838 | \$8,572 |
| Provision for loan losses | 524 | 1,099 | 429 |
| Recoveries of loans charged-off | 127 | 120 | 82 |
| Loans charged-off | (132) | (69) | (245) |
| Balance, ending | \$10,507 | \$9,988 | \$8,838 |

Activity in the allowance for loan losses, on a disaggregated basis, for the years ended December 31, 2016, 2015 and 2014 is as follows (*in thousands*):

| 2016: | Construction | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial Real Estate | Agricultural Real Estate | Consumer and Other | Total |
|------------------------------------|--------------------|--|------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------|----------|
| | Balance, beginning | \$ 999 | \$ 1,806 | \$ 3,557 | \$ 760 | \$ 1,371 | \$ 1,256 | \$ 239 |
| 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 | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial Real Estate | Agricultural Real Estate | Consumer and Other | Total |
|-------|--------------|--|------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------|-------|
|-------|--------------|--|------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------|-------|

Edgar Filing: HAASE BRUCE N - Form 4

| | | Real Estate | | | | | | | |
|------------------------------------|--------|-------------|----------|--------|----------|----------|--------|----------|--|
| 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 | |

| 2014: | 1-4 Family | | Commercial Agricultural | | | | Consumer | | Total |
|------------------------------------|--------------|-------------|-------------------------|-------------|------------|--------------|-----------|----------|-------|
| | Construction | Residential | Real Estate | Real Estate | Commercial | Agricultural | and Other | | |
| | Real Estate | Real Estate | Real Estate | Real Estate | Commercial | Agricultural | and Other | | |
| Balance, beginning | \$ 392 | \$ 1,523 | \$ 3,230 | \$ 686 | \$ 1,435 | \$ 1,165 | \$ 141 | \$ 8,572 | |
| Provision (credit) for loan losses | 78 | 258 | (16) | 51 | (190) | 147 | 101 | 429 | |
| Recoveries of loans charged-off | 25 | 18 | - | - | 19 | - | 20 | 82 | |
| Loans charged-off | - | (151) | - | - | (17) | - | (77) | (245) | |
| Balance, ending | \$ 495 | \$ 1,648 | \$ 3,214 | \$ 737 | \$ 1,247 | \$ 1,312 | \$ 185 | \$ 8,838 | |

Table of Contents

Allowance for loan losses disaggregated on the basis of the impairment analysis method as of December 31, 2016 and 2015 is as follows (*in thousands*):

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

| 2015: | Construction | 1-4 Family Residential | Commercial | Agricultural | Commercial | Agricultural | Consumer and Other | Total |
|---|----------------|------------------------------|----------------|----------------|------------|--------------|--------------------------|----------|
| | Real Estate | Real Estate | Real Estate | Real Estate | Commercial | Agricultural | and Other | |
| Ending balance: Individually evaluated for impairment | \$ - | \$ 273 | \$ 2 | \$ - | \$ 164 | \$ - | \$ - | \$ 439 |
| Ending balance: Collectively evaluated for impairment | 999 | 1,533 | 3,555 | 760 | 1,207 | 1,256 | 239 | 9,549 |
| Ending balance | \$ 999 | \$ 1,806 | \$ 3,557 | \$ 760 | \$ 1,371 | \$ 1,256 | \$ 239 | \$ 9,988 |

Loans receivable disaggregated on the basis of the impairment analysis method as of December 31, 2016 and 2015 is as follows (*in thousands*):

| 2016: | Construction | 1-4 Family Residential | Commercial | Agricultural | Commercial | Agricultural | Consumer and Other | Total |
|--------------|----------------|------------------------------|----------------|----------------|------------|--------------|--------------------------|----------|
| | Real Estate | Real Estate | Real Estate | Real Estate | Commercial | Agricultural | and Other | |
| | \$ - | \$ 660 | \$ 399 | \$ - | \$ 3,942 | \$ - | \$ 76 | \$ 5,077 |

Explanation of Responses:

| | | | | | | | | |
|--|-----------|------------|------------|-----------|-----------|-----------|-----------|------------|
| Ending balance: Individually evaluated for impairment | | | | | | | | |
| 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 |

| | Construction | 1-4 Family Residential Real Estate | Commercial Real Estate | Agricultural Real Estate | Commercial Agricultural | Consumer and Other | Total | |
|--|--------------|--|------------------------------|--------------------------------|----------------------------|--------------------------|-----------|------------|
| 2015: | | | | | | | | |
| Ending balance: Individually evaluated for impairment | \$ - | \$ 1,050 | \$ 558 | \$ - | \$ 197 | \$ 11 | \$ 2 | \$ 1,818 |
| Ending balance: Collectively evaluated for impairment | 66,268 | 126,026 | 251,331 | 62,530 | 102,318 | 79,522 | 21,597 | 709,592 |
| Ending balance | \$ 66,268 | \$ 127,076 | \$ 251,889 | \$ 62,530 | \$ 102,515 | \$ 79,533 | \$ 21,599 | \$ 711,410 |

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.

Table of Contents

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, 2016 and 2015 is as follows (*in thousands*):

| 2016: | Construction | Commercial | Agricultural | Commercial | Agricultural | Total |
|----------------------|--------------|-------------|--------------|------------|--------------|-----------|
| | Real Estate | Real Estate | Real Estate | | | |
| 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 |
| 2015: | Construction | Commercial | Agricultural | Commercial | Agricultural | Total |

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | Real Estate | Real Estate | Real Estate | | | |
|----------------------|-------------|-------------|-------------|------------|-----------|-----------|
| Pass | \$ 60,700 | \$ 227,425 | \$ 55,503 | \$ 91,096 | \$ 71,457 | \$506,181 |
| Watch | 4,487 | 17,523 | 6,865 | 8,329 | 7,156 | 44,360 |
| Special Mention | - | 388 | - | 224 | 81 | 693 |
| Substandard | 1,081 | 5,995 | 162 | 2,669 | 828 | 10,735 |
| Substandard-Impaired | - | 558 | - | 197 | 11 | 766 |
| | \$ 66,268 | \$ 251,889 | \$ 62,530 | \$ 102,515 | \$ 79,533 | \$562,735 |

74

Table of Contents

The credit risk profile based on payment activity, on a disaggregated basis, at December 31, 2016 and 2015 is as follows (*in thousands*):

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

| | 1-4 Family Residential Real Estate | Consumer and Other | Total |
|----------------|--|-----------------------|------------|
| 2015: | | | |
| Performing | \$ 125,951 | \$ 21,597 | \$ 147,548 |
| Non-performing | 1,125 | 2 | 1,127 |
| | \$ 127,076 | \$ 21,599 | \$ 148,675 |

Table of Contents

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, 2016, 2015 and 2014 and the average recorded investment and interest income recognized on these loans for the years ended December 31, 2016, 2015 and 2014 (*in thousands*):

| 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 |

Explanation of Responses:

\$ 5,077 \$ 5,897 \$ 720 \$ 2,965 \$ 72

76

Table of Contents

| 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 |

Table of Contents

| 2014: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| With no specific reserve recorded: | | | | | |
| Real estate - construction | \$ 195 | \$ 346 | \$ - | \$ 408 | \$ 152 |
| Real estate - 1 to 4 family residential | 24 | 29 | - | 188 | 12 |
| Real estate - commercial | 675 | 1,204 | - | 389 | 207 |
| Real estate - agricultural | - | - | - | - | - |
| Commercial | 456 | 535 | - | 218 | - |
| Agricultural | 19 | 19 | - | 19 | - |
| Consumer and other | 9 | 6 | - | 20 | - |
| Total loans with no specific reserve: | 1,378 | 2,139 | - | 1,242 | 371 |
| With an allowance recorded: | | | | | |
| Real estate - construction | - | - | - | - | - |
| Real estate - 1 to 4 family residential | 787 | 903 | 244 | 380 | - |
| Real estate - commercial | 158 | 158 | 33 | 114 | 4 |
| Real estate - agricultural | - | - | - | - | - |
| Commercial | 84 | 84 | 60 | 432 | 78 |
| Agricultural | - | - | - | 3 | - |
| Consumer and other | - | - | - | 2 | - |
| Total loans with specific reserve: | 1,029 | 1,145 | 337 | 931 | 82 |
| Total | | | | | |
| Real estate - construction | 195 | 346 | - | 408 | 152 |
| Real estate - 1 to 4 family residential | 811 | 932 | 244 | 568 | 12 |
| Real estate - commercial | 833 | 1,362 | 33 | 503 | 211 |
| Real estate - agricultural | - | - | - | - | - |
| Commercial | 540 | 619 | 60 | 650 | 78 |
| Agricultural | 19 | 19 | - | 22 | - |
| Consumer and other | 9 | 6 | - | 22 | - |
| | \$ 2,407 | \$ 3,284 | \$ 337 | \$ 2,173 | \$ 453 |

The interest foregone on nonaccrual loans for the years ended December 31, 2016, 2015 and 2014 was approximately \$272,000, \$162,000 and \$136,000, respectively.

Nonaccrual loans at December 31, 2016 and 2015 were \$5,077,000 and 1,818,000, 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 did not have any charge offs related to TDRs for the years ended December 31, 2016 and 2015.

Table of Contents

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 had loans meeting the definition of TDR of \$780,000 as of December 31, 2015, 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*):

| | 2016 | | 2015 | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|
| | Pre-Modification Outstanding | Post-Modification Outstanding | Pre-Modification Outstanding | Post-Modification Outstanding |
| | Number of Contracts | Investment | Number of Contracts | Investment |
| Real estate - construction | - | \$ - | - | \$ - |
| Real estate - 1 to 4 family residential | 1 | 149 | - | - |
| Real estate - commercial | - | - | - | - |
| Real estate - agricultural | - | - | - | - |
| Commercial | 11 | 3,273 | - | - |
| Agricultural | - | - | - | - |
| Consumer and other | 3 | 70 | - | - |
| | 15 | \$ 3,492 | - | \$ - |

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 was granted maturities were extended 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.

During the year ended December 31, 2015, the Company did not grant any concessions to borrowers experiencing financial difficulties.

There were three TDR loans to one borrower that were modified during the year ended December 31, 2016 with a payment default. There were no TDR loans that were modified during the year ended December 31, 2015 with subsequent payment defaults. 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, 2016 and 2015, are as follows (*in thousands*):

| 2016: | 30-89 | 90 Days | Total | | | 90 Days |
|---|---------|---------|---------|-----------|-----------|----------|
| | Days | or | Past | Current | Total | or |
| | Past | Past | Past | | | Greater |
| | Due | Due | Due | | | 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 |

Table of Contents

| 2015: | 30-89 | 90 Days | Total | | | 90 Days | | |
|---|---------|---------------|-------------|-------------|-------------|---------|-------|---------------------------|
| | Days | or Greater | Past Due | Past Due | Past Due | Current | Total | or Greater Accruing |
| Real estate - construction | \$- | \$ - | \$- | \$66,268 | \$66,268 | \$ - | | |
| Real estate - 1 to 4 family residential | 1,311 | 307 | 1,618 | 125,458 | 127,076 | 75 | | |
| Real estate - commercial | 1,356 | - | 1,356 | 250,533 | 251,889 | - | | |
| Real estate - agricultural | - | - | - | 62,530 | 62,530 | - | | |
| Commercial | 266 | 204 | 470 | 102,045 | 102,515 | - | | |
| Agricultural | - | - | - | 79,533 | 79,533 | - | | |
| Consumer and other | 79 | - | 79 | 21,520 | 21,599 | - | | |
| | \$3,012 | \$ 511 | \$3,523 | \$707,887 | \$711,410 | \$ 75 | | |

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, 2016, 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, 2016 and 2015 were as follows (*in thousands*):

| | 2016 | 2015 |
|----------------------------|-------------|-------------|
| Balance, beginning of year | \$9,049 | \$8,518 |
| New loans | 13,218 | 6,648 |
| Repayments | (11,931) | (7,746) |
| Change in status | 17 | 1,629 |
| Balance, end of year | \$10,353 | \$9,049 |

Note 6. Bank Premises and Equipment

Explanation of Responses:

The major classes of bank premises and equipment and the total accumulated depreciation at December 31, 2016 and 2015 are as follows (*in thousands*):

| | 2016 | 2015 |
|-------------------------------|-------------|-------------|
| Land | \$3,798 | \$3,798 |
| Buildings and improvements | 18,979 | 18,967 |
| Furniture and equipment | 6,379 | 6,287 |
| | 29,156 | 29,052 |
| Less accumulated depreciation | 13,107 | 12,044 |
| | \$16,049 | \$17,008 |

Table of Contents**Note 7. Other Real Estate Owned**

Changes in the other real estate owned for the years ended December 31, 2016 and 2015 are as follows (*in thousands*):

| | 2016 | 2015 |
|----------------------------|-------------|-------------|
| Balance, beginning of year | \$1,250 | \$8,436 |
| Transfer of loans | 157 | 75 |
| Impairment | (28) | (615) |
| Net proceeds from sale | (1,052) | (6,773) |
| Gain on sale, net | 219 | 100 |
| Other changes | - | 27 |
| Balance, end of year | \$546 | \$1,250 |

The following table provides the composition of other real estate owned at December 31, 2016 and 2015 are as follows (*in thousands*):

| | 2016 | 2015 |
|-----------------------------------|-------------|-------------|
| Construction and land development | \$320 | \$739 |
| 1 to 4 family residential houses | 226 | 511 |
| | \$546 | \$1,250 |

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 8. Goodwill

In conjunction with the 2014 First Bank Acquisition, FNB acquired three bank branches located in West Des Moines and Johnston, Iowa, which resulted in the recognition of \$1.1 million of goodwill. Goodwill recognized in the First Bank Acquisition was primarily attributable to an expanded market share and economies of scale expected from combining the operations of the West Des Moines and Johnston, Iowa branches with FNB.

The goodwill is not amortized but is evaluated for impairment at least annually. For income tax purposes, goodwill is amortized over 15 years.

Note 9. Intangible Assets

In conjunction with the acquisition of wealth management business in 2016, the Company recorded a \$412,000 customer list asset. The Company also recorded \$1.0 million in core deposit intangible assets as a part of the First Bank acquisition. The following sets forth the carrying amounts and accumulated amortization of intangible assets at December 31, 2016 and 2015 (*in thousands*):

| | 2016 | | 2015 | |
|-------------------------------|--------------|--------------------------|--------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Core deposit intangible asset | \$2,518 | \$ 1,563 | \$2,518 | \$ 1,209 |
| Customer list | 412 | 14 | - | - |
| Total | \$2,930 | \$ 1,577 | \$2,518 | \$ 1,209 |

The weighted average life of the intangible assets is 3 years as of December 31, 2016 and 2015.

Table of Contents

The amortization expense for the intangible assets totaled \$368,259, \$421,500 and \$317,333 for the years ended December 31, 2016, 2015 and 2014, respectively. Estimated remaining amortization expense on intangible assets for the years ending is as follows (*in thousands*):

| | |
|-------|---------|
| 2017 | \$357 |
| 2018 | 310 |
| 2019 | 187 |
| 2020 | 130 |
| 2021 | 130 |
| After | 239 |
| | \$1,353 |

The following sets for the activity related to intangible assets for the years ended December 31, 2016, 2015 and 2014 (*in thousands*):

| | 2016 | 2015 | 2014 |
|------------------------------|-------------|-------------|-------------|
| Beginning intangibles, net | \$1,309 | \$1,730 | \$1,029 |
| Acquisition | 412 | - | 1,018 |
| Amortization | (368) | (421) | (317) |
| Ending intangible asset, net | \$1,353 | \$1,309 | \$1,730 |

Note 10. Deposits

At December 31, 2015, the maturities of time deposits are as follows (*in thousands*):

| | |
|------|-----------|
| 2017 | \$117,247 |
| 2018 | 40,303 |
| 2019 | 22,521 |
| 2020 | 13,562 |
| 2021 | 11,421 |
| | \$205,054 |

Interest expense on deposits for the years ended December 31, 2016, 2015 and 2014 is summarized as follows (*in thousands*):

| | 2016 | 2015 | 2014 |
|--------------------------|-------------|-------------|-------------|
| NOW accounts | \$585 | \$469 | \$529 |
| Savings and money market | 755 | 674 | 613 |
| Time deposits | 1,734 | 1,876 | 2,243 |
| | \$3,074 | \$3,019 | \$3,385 |

Deposits held by the Company from related parties at December 31, 2016 and 2015 amounted to approximately \$15,570,000 and \$14,550,000, respectively.

Table of Contents**Note 11. 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, 2016 and 2015 (*in thousands*):

| | 2016 | | | 2015 | | |
|---|------------------------|---|--|------------------------|---|--|
| | Remaining Overnight | Contractual Greater than 90 days | Maturity of the Total Agreements | Remaining Overnight | Contractual Greater than 90 days | Maturity of the Total Agreements |
| Securities sold under agreements to repurchase: | | | | | | |
| U.S. government treasuries | \$1,476 | \$- | \$1,476 | \$1,467 | \$- | \$1,467 |
| U.S. government agencies | 46,557 | - | 46,557 | 46,755 | - | 46,755 |
| U.S. government mortgage-backed securities | 30,376 | - | 30,376 | 41,657 | - | 41,657 |
| Total | \$78,409 | \$- | \$78,409 | \$89,879 | \$- | \$89,879 |
| Term repurchase agreements: | | | | | | |
| U.S. government agencies | \$- | \$15,068 | \$15,068 | \$- | \$12,503 | \$12,503 |
| U.S. government mortgage-backed securities | - | 354 | 354 | - | 676 | 676 |
| Total | \$- | \$15,422 | \$15,422 | \$- | \$13,179 | \$13,179 |
| Total pledged collateral | \$78,409 | \$15,422 | \$93,831 | \$89,879 | \$13,179 | \$103,058 |

Table of Contents**Note 12. Borrowings**

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

At December 31, 2016, FHLB advances and other borrowings consisted of the following (*in thousands*):

| | Amount | Weighted Average Interest Rate | Features |
|---------------------------------|-----------|---|---|
| FHLB advances maturing in: | | | |
| 2017 | \$ 1,000 | 1.08% | |
| 2018 | 11,500 | 2.94% | \$11,500,000 callable quarterly in 2017 and thereafter |
| 2020 | 2,000 | 1.58% | |
| Total FHLB advances | \$ 14,500 | 2.62% | |
| Other borrowings maturing in: | | | |
| 2018 | \$ 13,000 | 3.62% | \$13,000,000 term repurchase agreements callable quarterly in 2017 and thereafter |
| Total other borrowings | \$ 13,000 | 3.62% | |
| Total FHLB and other borrowings | \$ 27,500 | 3.09% | |

Borrowed funds at December 31, 2016 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.

Borrowed funds at December 31, 2015 included FHLB advances and term repurchase agreements of \$31,542,203. Such borrowings carried a weighted-average interest rate of 2.81% with maturities ranging from 2016 through 2025.

Note 13. Employee Benefit Plans

The Company has a qualified 401(k) profit-sharing plan. For the years ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, Company contributions to the plan were approximately \$722,000, \$678,000, and \$631,000, respectively. The plan covers substantially all employees.

Table of Contents**Note 14. Income Taxes**

The components of income tax expense for the years ended December 31, 2016, 2015 and 2014 are as follows (*in thousands*):

| | 2016 | 2015 | 2014 |
|--------------------|-------------|-------------|-------------|
| Federal: | | | |
| Current | \$5,370 | \$3,119 | \$4,568 |
| Deferred | (43) | 1,753 | 17 |
| | 5,327 | 4,872 | 4,585 |
| State: | | | |
| Current | 1,261 | 749 | 1,015 |
| Deferred | 217 | 186 | 16 |
| | 1,478 | 935 | 1,031 |
| Income tax expense | \$6,805 | \$5,807 | \$5,616 |

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, 2016, 2015 and 2014 as a result of the following (*in thousands*):

| | 2016 | 2015 | 2014 |
|---|-------------|-------------|-------------|
| Income taxes at 35% federal tax rate | \$7,889 | \$7,287 | \$7,303 |
| Increase (decrease) resulting from: | | | |
| Tax-exempt interest and dividends | (1,943) | (2,046) | (2,214) |
| State taxes, net of federal tax benefit | 729 | 506 | 700 |
| Other | 130 | 60 | (173) |
| Total income tax expense | \$6,805 | \$5,807 | \$5,616 |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities at December 31, 2016 and 2015 are as follows (*in thousands*):

2016 2015

Deferred tax assets:

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | | |
|--|---------|---------|
| Allowance for loan losses | \$3,823 | \$3,599 |
| Net unrealized losses on securities available-for-sale | 338 | - |
| Other real estate owned | 116 | 254 |
| Accrued vacation | 251 | 257 |
| State alternative minimum tax carryforward | 226 | 226 |
| Off balance sheet reserve | 191 | 182 |
| Other deferred tax assets | 460 | 418 |
| | 5,405 | 4,936 |
| Deferred tax liabilities: | | |
| Net unrealized gains on securities available-for-sale | - | (2,045) |
| Bank premises and equipment | (937) | (1,027) |
| Goodwill | (736) | (570) |
| Other deferred tax liabilities | (20) | (17) |
| | (1,693) | (3,659) |
| Valuation allowance | (226) | - |
| Net deferred tax asset | \$3,486 | \$1,277 |

Income taxes currently payable of approximately \$482,000 is included in other liabilities as of December 31, 2016.
Income taxes currently receivable of approximately \$315,000 is included in other assets as of December 31, 2015.

Table of Contents

The Company has approximately \$226,000 of state alternative minimum tax (“AMT”) credit carryforwards available to offset future state alternative minimum taxable income. The Company recorded in 2016 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 2013.

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, 2016 and 2015 that would require recognition. The Company had no significant unrecognized tax benefits as of December 31, 2016, 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, 2016 and 2015.

Note 15. 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, 2016 and 2015 is as follows (*in thousands*):

| | 2016 | 2015 |
|------------------------------|-------------|-------------|
| Commitments to extend credit | \$ 164,066 | \$ 158,566 |
| Standby letters of credit | 5,309 | 6,100 |
| | \$ 169,375 | \$ 164,666 |

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, 2016 and 2015, approximately \$138,473,000 and \$119,573,000 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, 2016 and 2015, the Banks have established liabilities totaling approximately \$512,000 and \$488,000, 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.

Table of Contents

Note 16. 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, 2016 and 2015, 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.

As of December 31, 2016, 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, 2016 and 2015 are also presented in the table.

Table of Contents

| | Actual | | For Capital | | To Be Well | |
|---|------------|--------|---------------------|---------|-------------------|--------|
| | Amount | Ratio | Amount | Ratio | Capitalized Under | |
| | | | | | Prompt Corrective | |
| | | | Adequacy Purposes * | | Action Provisions | |
| Amount | Ratio | Amount | Ratio | 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.

Table of Contents

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|--------|-------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | | | | |
| As of December 31, 2015: | | | | | | |
| Total capital (to risk- weighted assets): | | | | | | |
| Consolidated | \$157,926 | 16.6 % | \$76,179 | 8.0 % | N/A | N/A |
| Boone Bank & Trust | 14,525 | 15.5 | 7,477 | 8.0 | \$9,346 | 10.0 % |
| First National Bank | 74,210 | 15.3 | 38,859 | 8.0 | 48,574 | 10.0 |
| Reliance State Bank | 24,287 | 13.8 | 14,101 | 8.0 | 17,626 | 10.0 |
| State Bank & Trust | 19,658 | 16.2 | 9,729 | 8.0 | 12,161 | 10.0 |
| United Bank & Trust | 14,621 | 20.6 | 5,693 | 8.0 | 7,116 | 10.0 |
| Tier 1 capital (to risk- weighted assets): | | | | | | |
| Consolidated | \$147,430 | 15.5 % | \$57,134 | 6.0 % | N/A | N/A |
| Boone Bank & Trust | 13,569 | 14.5 | 5,608 | 6.0 | \$7,477 | 8.0 % |
| First National Bank | 69,157 | 14.2 | 29,144 | 6.0 | 38,859 | 8.0 |
| Reliance State Bank | 22,491 | 12.8 | 10,575 | 6.0 | 14,101 | 8.0 |
| State Bank & Trust | 18,135 | 14.9 | 7,297 | 6.0 | 9,729 | 8.0 |
| United Bank & Trust | 13,858 | 19.5 | 4,269 | 6.0 | 5,693 | 8.0 |
| Tier 1 capital (to average- weighted assets): | | | | | | |
| Consolidated | \$147,430 | 11.3 % | \$52,383 | 4.0 % | N/A | N/A |
| Boone Bank & Trust | 13,569 | 9.8 | 5,557 | 4.0 | \$6,946 | 5.0 % |
| First National Bank | 69,157 | 9.9 | 27,970 | 4.0 | 34,963 | 5.0 |
| Reliance State Bank | 22,491 | 10.7 | 8,380 | 4.0 | 10,476 | 5.0 |
| State Bank & Trust | 18,135 | 11.5 | 6,332 | 4.0 | 7,915 | 5.0 |
| United Bank & Trust | 13,858 | 12.5 | 4,452 | 4.0 | 5,565 | 5.0 |
| Common equity tier 1 capital (to risk-weighted assets): | | | | | | |
| Consolidated | \$147,430 | 15.5 % | \$42,851 | 4.5 % | N/A | N/A |
| Boone Bank & Trust | 13,569 | 14.5 | 4,206 | 4.5 | \$6,075 | 6.5 % |
| First National Bank | 69,157 | 14.2 | 21,858 | 4.5 | 31,573 | 6.5 |
| Reliance State Bank | 22,491 | 12.8 | 7,932 | 4.5 | 11,457 | 6.5 |
| State Bank & Trust | 18,135 | 14.9 | 5,473 | 4.5 | 7,905 | 6.5 |
| United Bank & Trust | 13,858 | 19.5 | 3,202 | 4.5 | 4,625 | 6.5 |

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. Except for the potential effect on the Company's level of dividends, management believes that these restrictions currently do not have a significant impact on the Company.

Table of Contents**Note 17. 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.

Edgar Filing: HAASE BRUCE N - Form 4

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, 2016 and 2015 (*in thousands*):

| Description | Total | Level 1 | Level 2 | Level 3 |
|--|-----------|------------|-----------|------------|
| 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 | \$ - |
| 2015 | | | | |
| U.S. government treasuries | \$1,467 | \$1,467 | \$- | \$ - |
| U.S. government agencies | 106,445 | - | 106,445 | - |
| U.S. government mortgage-backed securities | 98,079 | - | 98,079 | - |
| State and political subdivisions | 277,597 | - | 277,597 | - |
| Corporate bonds | 50,889 | - | 50,889 | - |
| Equity securities, other | 3,156 | - | 3,156 | - |
| | \$537,633 | \$1,467 | \$536,166 | \$ - |

Table of Contents

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, 2016 and 2015 (*in thousands*):

| Description | Total | Level 1 | Level 2 | Level 3 |
|-------------------------|---------|------------|------------|------------|
| 2016 | | | | |
| Loans | \$683 | \$ - | \$ - | \$683 |
| Other real estate owned | 546 | - | - | 546 |
| Total | \$1,229 | \$ - | \$ - | \$1,229 |
| 2015 | | | | |
| Loans | \$603 | \$ - | \$ - | \$603 |
| Other real estate owned | 1,250 | - | - | 1,250 |
| Total | \$1,853 | \$ - | \$ - | \$1,853 |

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.

Table of Contents

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, 2016 and 2015 are as follows (*in thousands*):

| | 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%) |
| | | | | | |
| | 2015 | | | | |
| | Fair Value | Valuation Techniques | Range of Unobservable Inputs | Range | (Average) |
| Impaired Loans | \$603 | Evaluation of collateral | Estimation of value | NM* | |
| Other real estate owned | \$1,250 | 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:

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

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.

Table of Contents

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.

The following table includes the carrying amounts and estimated fair values of financial assets and liabilities as of December 31, 2016 and 2015 (*in thousands*):

| Fair Value | 2016 | | 2015 | |
|------------|-------------|-----------|-------------|-----------|
| | Carrying | Estimated | Carrying | Estimated |

Explanation of Responses:

Edgar Filing: HAASE BRUCE N - Form 4

| | Hierarchy | Amount | Fair | Amount | Fair |
|--|--------------------|-------------|-------------|-------------|-------------|
| | Level | | Value | | Value |
| Financial assets: | | | | | |
| Cash and due from banks | Level 1 | \$29,478 | \$29,478 | \$24,006 | \$24,006 |
| Interest bearing deposits | Level 1 | 31,737 | 31,737 | 26,993 | 26,993 |
| Securities available-for-sale | See previous table | 516,080 | 516,080 | 537,633 | 537,633 |
| Loans receivable, net | Level 2 | 752,182 | 746,580 | 701,328 | 702,438 |
| Loans held for sale | Level 2 | 243 | 243 | 539 | 539 |
| Accrued income receivable | Level 1 | 7,769 | 7,769 | 7,566 | 7,566 |
| Financial liabilities: | | | | | |
| Deposits | Level 2 | \$1,109,409 | \$1,110,211 | \$1,074,193 | \$1,075,289 |
| Securities sold under agreements to repurchase | Level 1 | 58,337 | 58,337 | 54,290 | 54,290 |
| FHLB advances | Level 2 | 14,500 | 14,681 | 18,542 | 19,017 |
| Other borrowings | Level 2 | 13,000 | 13,386 | 13,000 | 13,807 |
| Accrued interest payable | Level 1 | 408 | 408 | 413 | 413 |

Note 18. 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, 2016, but prior to March 13, 2017, that provided additional evidence about conditions that existed at December 31, 2016. There were no other significant events or transactions that provided evidence about conditions that did not exist at December 31, 2016.

Table of Contents**Note 19. Ames National Corporation (Parent Company Only) Financial Statements**

Information relative to the Parent Company's balance sheets at December 31, 2016 and 2015, and statements of income and cash flows for each of the years in the three-year period ended December 31, 2016, is as follows (*in thousands*):

CONDENSED BALANCE SHEETS**December 31, 2016 and 2015**

| | 2016 | 2015 |
|--|------------------|------------------|
| ASSETS | | |
| Cash and due from banks | \$21 | \$34 |
| Interest bearing deposits in banks | 11,160 | 8,911 |
| Investment in bank subsidiaries | 149,962 | 147,377 |
| Loans receivable, net | 3,190 | 3,163 |
| Premises and equipment, net | 2,960 | 3,083 |
| Accrued income receivable | 10 | 13 |
| Other real estate owned | 320 | 739 |
| Deferred income taxes | - | 64 |
| Other assets | 22 | 113 |
| Total assets | \$167,645 | \$163,497 |
| LIABILITIES | | |
| Dividends payable | \$1,955 | \$1,862 |
| Deferred income taxes | 193 | - |
| Accrued expenses and other liabilities | 392 | 385 |
| Total liabilities | 2,540 | 2,247 |
| STOCKHOLDERS' EQUITY | | |
| Common stock | 18,622 | 18,622 |
| Additional paid-in capital | 20,879 | 20,879 |

Explanation of Responses:

| | | |
|---|-----------|-----------|
| Retained earnings | 126,181 | 118,268 |
| Accumulated other comprehensive income (loss) | (577) | 3,481 |
| Total stockholders' equity | 165,105 | 161,250 |
| | | |
| Total liabilities and stockholders' equity | \$167,645 | \$163,497 |

Table of Contents**CONDENSED STATEMENTS OF INCOME****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| Operating income: | | | |
| Equity in net income of bank subsidiaries | \$15,994 | \$15,083 | \$14,913 |
| Interest | 192 | 195 | 207 |
| Dividends | - | 28 | 27 |
| Rental income | 415 | 404 | 121 |
| Gain on the sale of premises and equipment | - | - | 1,257 |
| Gain on sale of other real estate owned | 207 | - | - |
| Other income | 1,769 | 1,737 | 1,525 |
| Securities gains | - | 279 | - |
| | 18,577 | 17,726 | 18,050 |
| Credit for loan losses | (153) | (30) | - |
| Operating income after credit for loan losses | 18,730 | 17,756 | 18,050 |
| Operating expenses | 2,789 | 2,776 | 2,610 |
| Income before income taxes | 15,941 | 14,980 | 15,440 |
| Income tax expense (benefit) | 206 | (35) | 189 |
| Net income | \$15,735 | \$15,015 | \$15,251 |

Table of Contents**CONDENSED STATEMENTS OF CASH FLOWS****Years Ended December 31, 2016, 2015 and 2014**

| | 2016 | 2015 | 2014 |
|---|-----------------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | \$15,735 | \$15,015 | \$15,251 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 124 | 131 | 63 |
| Credit for loan losses | (154) | (30) | - |
| Provision for deferred income taxes | 256 | 72 | 420 |
| Securities gains, net | - | (279) | - |
| Gain on sale of premises and equipment | - | - | (1,257) |
| Gain on sale of other real estate owned | (207) | - | - |
| Equity in net income of bank subsidiaries | (15,994) | (15,083) | (14,913) |
| Dividends received from bank subsidiaries | 9,350 | 8,350 | 7,600 |
| (Increase) decrease in accrued income receivable | 2 | (3) | 8 |
| (Increase) decrease in other assets | 90 | 129 | (142) |
| Increase in accrued expense and other liabilities | 8 | 5 | 92 |
| Net cash provided by operating activities | 9,210 | 8,307 | 7,122 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of securities available-for-sale | - | 909 | - |
| (Increase) decrease in interest bearing deposits in banks | (2,248) | (1,296) | 758 |
| Decrease in loans | 127 | 119 | 97 |
| Proceeds from sale of bank premises and equipment | - | - | 1,746 |
| Purchase of other real estate owned | - | (739) | - |
| Proceeds from the sale of other real estate owned | 626 | - | - |
| Purchase of bank premises and equipment | - | (33) | (3,200) |
| Net cash used in investing activities | (1,495) | (1,040) | (599) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | (7,728) | (7,263) | (6,518) |
| Net cash used in financing activities | (7,728) | (7,263) | (6,518) |
| Net increase (decrease) in cash and cash equivalents | (13) | 4 | 5 |
| CASH AND DUE FROM BANKS | | | |
| Beginning | 34 | 30 | 25 |
| Ending | \$21 | \$34 | \$30 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Cash receipts for income taxes | \$171 | \$237 | \$85 |

Table of Contents**Note 20. Selected Quarterly Financial Data (Unaudited)***(in thousands, except earnings per share):*

| | 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 |
| | 2015 | | | |
| | March 31 | June 30 | September 30 | December 31 |
| Total interest income | \$10,546 | \$10,859 | \$ 10,843 | \$ 10,903 |
| Total interest expense | 1,101 | 1,071 | 1,003 | 1,010 |
| Net interest income | 9,445 | 9,788 | 9,840 | 9,893 |
| Provision for loan losses | 77 | 922 | 38 | 63 |
| Net interest income after provision for loan losses | 9,368 | 8,866 | 9,802 | 9,830 |
| Noninterest income | 1,766 | 2,407 | 1,950 | 2,144 |
| Noninterest expense | 6,139 | 6,692 | 5,982 | 6,499 |
| Income before income taxes | 4,995 | 4,581 | 5,770 | 5,475 |
| Income tax expense | 1,360 | 1,216 | 1,670 | 1,560 |
| Net income | \$3,635 | \$3,365 | \$ 4,100 | \$ 3,915 |
| Basic and diluted earnings per common share | \$0.39 | \$0.36 | \$ 0.44 | \$ 0.42 |

Table of Contents

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, 2016 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

Explanation of Responses:

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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 26, 2017, as filed with the SEC on March 16, 2017 (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.

Table of Contents

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 Senior Vice President for Finance and Operations 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, 2016 and 2015

Consolidated Statements of Income for the Years ended December 31, 2016, 2015 and 2014

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the Years ended December 31, 2016, 2015 and 2014

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.

Table of Contents

(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 (incorporated by reference to Exhibit 99.2 to Form 8-K filed on November 19, 2012)*
 - 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.CALXBRL Taxonomy Extension Calculation Linkbase Document (1)

101.LABXBRL 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.

Table of Contents

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 13, 2017

By: /s/ Thomas H. Pohlman
Thomas H. Pohlman, Chief Executive
Officer and President

101

Table of Contents

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 13, 2017.

/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/ Douglas C. Gustafson, DVM

Douglas C. Gustafson, DVM, 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

Table of Contents

EXHIBIT INDEX

The following exhibits are filed herewith:

| Exhibit No. | Description |
|-------------|---|
| ----- | ----- |
| 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 |
| 101.INSXBRL | Instance Document (1) |
| 101.SCHXBRL | Taxonomy Extension Schema Document (1) |
| 101.CALXBRL | Taxonomy Extension Calculation Linkbase Document (1) |
| 101.LABXBRL | Taxonomy Extension Label Linkbase Document (1) |
| 101.PREXBRL | Taxonomy Extension Presentation Linkbase Document (1) |
| 101.DEFBRL | Taxonomy Extension Definition Linkbase Document (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 (1) 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.

103