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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2023 or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 0-32637

AMES NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Iowa

(State or other jurisdiction of incorporation or organization)

42-1039071

(I.R.S. Employer Identification No.)

405 5TH Street, Ames, Iowa
(Address of principal executive offices)

50010
(Zip Code)

(515) 232-6251
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Common Stock, \$2.00 par value

Trading Symbol(s)

ATLO

Name of each exchange on which registered

The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error in previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2023, the aggregate market value of voting stock held by non-affiliates of the registrant, based upon the closing sale price for the registrant's common stock in the NASDAQ Capital Market, was \$ 159,160,907 .

The number of shares outstanding of the registrant's common stock on February 29, 2024, was 8,992,167 .

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, as filed with the Securities and Exchange Commission on or about March 12, 2024, are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Ames National Corporation (the "Company") is an Iowa corporation and bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company owns 100% of the stock of six bank subsidiaries consisting of one national bank and five state-chartered banks, as described below. All of the Company's operations are conducted in the State of Iowa and primarily within the central, north-central and south-central Iowa counties of Boone, Clarke, Hancock, Marshall, Polk, Story, Taylor and Union where the Company's banking subsidiaries are located. The Company does not engage in any material business activities apart from its ownership of its banking subsidiaries and the management of its own loan portfolios. The principal executive offices of the Company are located at 405 5th Street, Ames, Iowa 50010. The Company's telephone number is (515) 232-6251 and website address is www.amesnational.com.

The Company was organized and incorporated on January 21, 1975 under the laws of the State of Iowa to serve as a holding company for its principal banking subsidiary, First National Bank, Ames, Iowa ("First National") located in Ames, Iowa. In 1983, the Company acquired the stock of State Bank & Trust Co. ("State Bank") located in Nevada, Iowa; in 1991, the Company, through a newly-chartered state bank known as Boone Bank & Trust Co. ("Boone Bank"), acquired certain assets and assumed certain liabilities of the former Boone State Bank & Trust Company located in Boone, Iowa; in 1995, the Company acquired the stock of Reliance State Bank, ("Reliance Bank") located in Story City, Iowa; in 2002, the Company chartered and commenced operations of a new banking organization, United Bank & Trust Co. ("United Bank"), located in Marshalltown, Iowa; and in 2019, the Company acquired the stock of Iowa State Savings Bank ("Iowa State Bank") located in Creston, Iowa. First National, State Bank, Boone Bank, Reliance Bank, United Bank and Iowa State Bank are each operated as a wholly-owned subsidiary of the Company. These six financial institutions are referred to in this Form 10-K collectively as the "Banks" and individually as a "Bank".

The principal sources of Company revenue are: (i) interest and fees earned on loans made or held by the Company and Banks; (ii) interest on investments, primarily on bonds, held by the Banks; (iii) fees on wealth management services; (iv) service charges on deposit accounts maintained at the Banks; (v) merchant and card fees; (vi) gain on the sale of loans; and (vii) securities gains. The Company's principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) salaries and employee benefits; (iii) data processing costs primarily associated with maintaining the Banks' loan and deposit functions; (iv) occupancy expenses for maintaining the Banks' facilities; (v) professional fees; and (vi) business development. The largest component contributing to the Company's net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest-bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning assets and interest paid on interest-bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

The Banks' lending activities consist primarily of short-term and medium-term commercial, multi-family and agricultural real estate loans, residential real estate loans, agricultural and business operating loans and lines of credit, equipment loans, vehicle loans, personal loans and lines of credit, home improvement loans and origination of mortgage loans for sale into the secondary market. The Banks also offer a variety of checking, savings and time deposits, cash management services, merchant credit card processing, safe deposit boxes, wire transfers, direct deposit and automated/video teller machine access. Five of the six Banks also offer trust services, which includes wealth management services.

The Company provides various services to the Banks which include, but are not limited to, management assistance, internal auditing services, human resources services and administration, compliance management, marketing assistance and coordination, support with respect to computer systems and related procedures, financial reporting, property appraisals, training and the coordination of management activities.

Banking Subsidiaries

First National Bank, Ames, Iowa. First National is a nationally-chartered, commercial bank insured by the FDIC. It was organized in 1903 and became a wholly owned subsidiary of the Company in 1975 through a bank holding company reorganization whereby the then shareholders of First National exchanged all of their First National stock for stock in the Company. In 2014, First National completed the purchase of a bank with offices in West Des Moines, Iowa. In 2018, First National completed the purchase of a bank with offices located in Osceola, Iowa. First National provides full-service banking to businesses and residents within the Ames community through its three Ames offices; the Greater Des Moines area through its three offices located in Ankeny and West Des Moines; and South Central Iowa through its two offices in Osceola. It provides a variety of products and services designed to meet the needs of the markets it serves. It has an experienced staff of bank officers including many who have spent the majority of their banking careers with First National and who emphasize long-term customer relationships.

As of December 31, 2023, First National had capital of \$84.8 million and 119 full-time equivalent employees. Full-time equivalents represent the number of people a business would employ if all its employees were employed on a full-time basis. It is calculated by dividing the total number of hours worked by all full and part-time employees by the number of hours a full-time individual would work for a given period of time. First National had net income for the years ended December 31, 2023 and 2022 of approximately \$5.5 million and \$10.4 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$1.14 billion and \$1.12 billion, respectively.

State Bank & Trust Co., Nevada, Iowa. State Bank is an Iowa, state-chartered, FDIC insured commercial bank. State Bank was acquired by the Company in 1983 through a stock transaction whereby the then shareholders of State Bank exchanged all their State Bank stock for stock in the Company. State Bank was organized in 1939 and provides full-service banking to businesses and residents within the Nevada area from its Nevada location. It has a strong presence in agricultural, commercial and residential real estate lending.

As of December 31, 2023, State Bank had capital of \$15.2 million and 21 full-time equivalent employees. State Bank had net income for the years ended December 31, 2023 and 2022 of approximately \$1.4 million and \$2.6 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$201.7 million and \$215.5 million, respectively.

Boone Bank & Trust Co., Boone, Iowa. Boone Bank is an Iowa, state-chartered, FDIC insured commercial bank. Boone Bank was organized in 1992 by the Company under a new state charter in connection with a purchase and assumption transaction whereby Boone Bank purchased certain assets and assumed certain liabilities of the former Boone State Bank & Trust Company in exchange for a cash payment. It provides full-service banking to businesses and residents within the Boone community and surrounding area. It is actively engaged in agricultural, consumer and commercial lending, including real estate, operating and equipment loans. It conducts business from its main office and a full-service office, both located in Boone.

As of December 31, 2023, Boone Bank had capital of \$9.7 million and 20 full-time equivalent employees. Boone Bank had net income for the years ended December 31, 2023 and 2022 of approximately \$740 thousand and \$1.3 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$149.4 million and \$158.2 million, respectively.

Reliance State Bank, Story City, Iowa. Reliance Bank is an Iowa, state-chartered, FDIC insured commercial bank. Reliance Bank was organized in 1928. Reliance Bank was acquired by the Company in 1995 through a stock transaction whereby the then shareholders of Reliance Bank exchanged all their Reliance Bank stock for stock in the Company. In 2012, Reliance Bank completed the purchase of a bank office of Liberty Bank, F.S.B. located in Garner, Iowa. Reliance Bank provides full-service banking to businesses and residents within the Story City and Garner communities and surrounding areas. While its primary emphasis is in agricultural lending, Reliance Bank also provides the traditional lending services typically offered by community banks. It conducts business from its main office located in Story City and a full-service office located in Garner.

As of December 31, 2023, Reliance Bank had capital of \$23.8 million and 32 full-time equivalent employees. Reliance Bank had net income for the years ended December 31, 2023 and 2022 of approximately \$1.7 million and \$2.4 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$313.3 million and \$303.0 million, respectively.

United Bank & Trust Co., Marshalltown, Iowa. United Bank is an Iowa, state-chartered, FDIC insured commercial bank. It was chartered as a national bank in 2002 and converted to a state charter in 2022. It offers a broad range of deposit and loan products, as well as wealth management services to customers located in the Marshalltown and surrounding Marshall County area. It conducts business from its main office and a full-service office, both located in Marshalltown.

As of December 31, 2023, United Bank had capital of \$9.9 million and 18 full-time equivalent employees. United Bank had net income for the years ended December 31, 2023 and 2022 of approximately \$1.0 million and \$1.2 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$118.5 million and \$129.8 million, respectively.

Iowa State Savings Bank, Creston, Iowa. Iowa State Bank is an Iowa, state-chartered, FDIC insured commercial bank. Iowa State Bank was organized in 1883. Iowa State Bank was acquired by the Company in 2019 through a stock transaction for cash ("Iowa State Bank Acquisition"). Iowa State Bank provides full-service banking to businesses and residents within Creston, Iowa and the surrounding areas. While its primary emphasis is in agricultural lending, Iowa State Bank also provides the traditional lending services typically offered by community banks. It conducts business from its main office located in Creston and full-service offices located in Creston and Lenox.

As of December 31, 2023, Iowa State Bank had capital of \$23.4 million and 34 full-time equivalent employees. Iowa State Bank had net income for year ended December 31, 2023 and 2022 of approximately \$2.0 million and \$2.3 million, respectively. Total assets as of December 31, 2023 and 2022 were approximately \$254.7 million and \$258.5 million, respectively.

Business Strategy and Operations

As a multi-bank holding company for six community banks, the Company emphasizes strong personal relationships to provide products and services that meet the needs of the Banks' customers. The Company seeks to achieve growth and maintain a strong return on equity. To accomplish these goals, the Banks focus on small-to-medium size businesses that traditionally wish to develop an exclusive relationship with a single bank. The Banks, individually and collectively, have the size to give the personal attention required by business owners, in addition to the credit expertise to help businesses meet their goals.

The Banks offer a full range of deposit services that are typically available in most financial institutions, including checking accounts, savings accounts and time deposits of various types, ranging from money market accounts to longer-term certificates of deposit. One major goal in developing the Banks' product mix is to keep the product offerings as simple as possible, both in terms of the number of products and the features and benefits of the individual services. The transaction accounts and time certificates are tailored to each Bank's principal market area at rates competitive in that Bank's market. In addition, retirement accounts such as Individual Retirement Accounts (IRAs) are available. The FDIC insures all deposit accounts up to the maximum coverage limits. The Banks solicit these accounts from small-to-medium sized businesses in their respective primary trade areas, from individuals who live and/or work within these areas, and from public entities within these areas. No material portion of the Banks' deposits has been obtained from a single person or from a few persons. Therefore, the Company believes that the loss of the deposits of any person or of a few persons would not have an adverse effect on the Banks' operations or erode their deposit base.

Loans are provided to creditworthy borrowers regardless of their race, color, national origin, religion, sex, age, marital status, disability, receipt of public assistance or any other basis prohibited by law. The Banks intend to fulfill this commitment while maintaining prudent credit standards. In the course of fulfilling this obligation to meet the credit needs of the communities which they serve, the Banks give consideration to each credit application regardless of the fact that the applicant may reside in a low to moderate income neighborhood, and without regard to the geographic location of the residence, property or business within their market areas.

The Banks provide innovative, quality financial services, such as: Online Banking, Mobile Banking, Private Banking and Wealth Management that meet the evolving banking needs of their customers and communities. The loan programs and acceptance of certain loans may vary from time-to-time depending on the funds available and regulations governing the banking industry. The Banks offer all basic types of credit to their local communities and surrounding rural areas, including commercial, agricultural and consumer loans. The types of loans within these categories are as follows:

Commercial and Construction Loans. Commercial loans are typically made to sole proprietors, partnerships, corporations, limited liability companies and other business entities including municipalities where the loan is to be used primarily for business purposes. These loans are typically secured by assets owned by the borrower and may involve personal guarantees given by the owners of the business. Approximately 55% of the loan portfolio consists of loans made for commercial purposes.

The types of commercial loans the Banks offer include:

- commercial real estate loans, including owner occupied properties
- multi-family real estate loans
- operating and working capital loans
- loans to finance equipment and other capital purchases
- business lines of credit
- term loans
- construction loans
- financing guaranteed under Small Business Administration programs
- letters of credit

Agricultural Loans. The Banks, by virtue of their location in central, north-central and south-central Iowa, are directly and indirectly involved in agriculture and agri-business lending. This includes short-term seasonal lending associated with cyclical crop and livestock production, intermediate term lending for machinery, equipment and breeding stock acquisition and long-term real estate lending. These loans are typically secured by the crops, livestock, equipment or real estate being financed. The basic tenets of the Banks' agricultural lending philosophy are strong, positive cash flows, adequate collateral positions, and sufficient liquidity to withstand short-term negative impacts if necessary. Applicable governmental subsidies and affiliated programs are utilized if warranted to accomplish these parameters. Approximately 22% of the loan portfolio consists of loans made for agricultural purposes.

1-4 Family Residential Loans. 1-4 family residential loans are typically available to finance homes, home improvements and home equity lines of credit. These loans are made on a secured basis. Approximately 22% of the loan portfolio consists of loans made for 1-4 family residential purposes.

Consumer Loans. Consumer loans are typically available to finance consumer purchases, such as automobiles, household furnishings and boats. These loans are made on both a secured and an unsecured basis. Approximately 1% of the loan portfolio consists of loans made for consumer purposes. The following types of consumer loans are available:

- automobiles and trucks
- boats and recreational vehicles
- personal loans and lines of credit

Other types of credit programs, such as loans to nonprofit organizations, to public entities, for community development and to other governmental programs also are available.

First National, Boone Bank, State Bank, United Bank and Iowa State Bank offer wealth management services typically found in a commercial bank with trust powers, including the administration of estates, conservatorships, personal and corporate trusts and agency accounts. Assets under management amount to \$416.0 million and \$379.5 million as of December 31, 2023 and 2022, respectively. The Banks also provide farm management, investment and custodial services for individuals, businesses and non-profit organizations.

The Banks earn income from the origination and referral of residential mortgages that are sold in the secondary real estate market without retaining the mortgage servicing rights.

The Banks offer traditional banking services, such as safe deposit boxes, wire transfers, direct deposit, automated/video teller machine access and automatic drafts (ACH) for various accounts.

Lending Credit Management

The Company strives to achieve sound credit risk management. In order to achieve this goal, the Company has established uniform credit policies and underwriting criteria for the Banks' loan portfolios. The Banks diversify the types of loans offered and are subject to regular credit examinations, annual internal audits and annual review of large loans, as well as quarterly reviews of loans experiencing deterioration in credit quality. The Company attempts to identify potential problem loans early, charge off loans promptly and maintain an adequate allowance for credit losses. The Company has established credit guidelines for the Banks' lending portfolios which include guidelines relating to the more commonly requested loan types, as follows:

Commercial Real Estate Loans - Commercial real estate loans, including agricultural real estate loans, are normally based on loan to appraisal value ratios that do not exceed 80% and are secured by a first priority lien position. Loans are typically subject to interest rate adjustments between five and seven years from origination. Fully amortized monthly repayment terms normally do not exceed twenty five years. Projections and cash flows that show ability to service debt within the amortization period are required. Property and casualty insurance is required to protect the Banks' collateral interests. Commercial and agricultural real estate loans represent approximately 55% of the loan portfolio. Major risk factors for commercial real estate loans, as well as the other loan types described below, include a geographic concentration in Iowa; the dependence of the local economy upon several large governmental entities, including Iowa State University and the Iowa Department of Transportation; and the health of Iowa's agricultural sector that is heavily dependent on commodity prices, weather conditions, government programs and trade policies.

Commercial and Agricultural Operating Lines - These loans are typically made to businesses and farm operations with terms up to twelve months. The credit needs are generally seasonal with the source of repayment coming from the entity's normal business cycle. Cash flow reviews are completed to establish the ability to service the debt within the terms of the loan. A first priority lien on the general assets of the business normally secures these types of loans. Loan-to-value limits vary and are dependent upon the nature and type of the underlying collateral and the financial strength of the borrower. Crop and hail insurance is required for most agricultural borrowers. Loans are generally guaranteed by the principal(s).

Commercial and Agricultural Term Loans – These loans are made to businesses and farm operations to finance equipment, breeding stock and other capital expenditures. Term loans are normally secured by the asset being financed and are often additionally secured with the general assets of the business. Loan-to-value ratios generally do not exceed 75% of the cost or value of the assets. Loans are normally guaranteed by the principal(s). Commercial and agricultural operating and term loans represent approximately 16% of the loan portfolio.

Residential First Mortgage Loans – Proceeds of these loans are used to buy or refinance the purchase of residential real estate with the loan secured by a first lien on the real estate. Most of the residential mortgage loans originated by the Banks (including servicing rights) are sold in the secondary mortgage market due to the higher interest rate risk inherent in the 15 and 30 year fixed rate terms consumers prefer. Loans that are originated and not sold in the secondary market generally have fixed rates of up to fifteen years. The maximum amortization of first mortgage residential real estate loans is 30 years. First mortgage residential loans are also referred to an unaffiliated company that originates these loans in exchange for a fee. The loan-to-value ratios normally do not exceed 90% without credit enhancements such as mortgage insurance. Property insurance is required on all loans to protect the Banks' collateral position.

Home Equity Term Loans – These loans are normally for the purpose of home improvement or other consumer purposes and are secured by a junior mortgage on residential real estate. Loan-to-value ratios normally do not exceed 90% of market value.

Home Equity Lines of Credit - The Banks offer a home equity line of credit generally with a maximum term of 60 months unless the rate is variable, in which case the maximum term may be up to 15 years. These loans are secured by a junior mortgage on the residential real estate and normally do not exceed a loan-to-market value ratio of 90% with the interest adjusted quarterly. Residential first mortgage loans, home equity term loans and home equity lines of credit represent approximately 22% of the loan portfolio.

Consumer Loans – Consumer loans are normally made to consumers under the following guidelines. Automobiles - loans on new and used automobiles generally will not exceed 90% and 75% of the value, respectively. Recreational vehicles and boats will not exceed 90% and 66% of the value, respectively. Each of these loans is secured by a first priority lien on the assets and requires insurance to protect the Banks' collateral position. Unsecured - Terms for unsecured loans generally do not exceed 12 months. Consumer and other loans represent approximately 1% of the loan portfolio.

Investments available-for-sale

The investment policy of the Company generally is to invest funds among various categories of investments and maturities based upon the Company's need for liquidity, to achieve the proper balance between its desire to minimize risk and maximize yield, and to fulfill the Company's asset/liability management policies. The Company's investment portfolios are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy to purchase investment securities which are U.S. Government securities, U.S. government agency, state and local government obligations, corporate debt securities and overnight federal funds.

Environmental, Social and Governance ("ESG")

Human Capital

The Company is a bank holding company of six community banks, headquartered in Ames, Iowa. Our workforce is located in the following Iowa communities: Ames, Ankeny, Boone, Creston, Garner, Lenox, Marshalltown, Nevada, Osceola, Story City and West Des Moines. Our markets are comprised of metropolitan and rural areas alike, which results in a diversified customer base and workforce.

The Board of Directors is responsible for the benefit programs offered to our employees. The Company has a human resources officer, as does each affiliate Bank. The Presidents of the Banks and the human resources officers are responsible for compensation, recruitment, development and retention. The Company annually reviews a succession plan for key employees.

The Company employs approximately 273 employees, of which 93% are full-time employees and the remaining 7% are part-time employees. Of the 273 employees, 127 employees were considered officers of the Company. As of December 31, 2023, approximately 66% of our current workforce was female and 34% was male. Approximately 3% of our workforce consisted of ethnically diverse employees as of December 31, 2023. There are no labor unions involved with the Company and we consider our relationship with our employees to be satisfactory. There are no employment contracts between the Company and any of its employees as of December 31, 2023.

As part of our compensation philosophy, we believe that we must offer and maintain market competitive compensation and benefit programs for our employees in order to attract and retain talent. The goal of our compensation program is to create superior long-term value for our stockholders by attracting, motivating and retaining outstanding employees who serve our customers while generating financial performance that is consistently better than our peers. In addition to competitive base wages, the Company provides its employees with a comprehensive program of benefits, including comprehensive medical, vision and dental plans, long-term and short-term disability coverage, employee assistance programs, a 401(k) profit sharing plan, and a cash bonus based on bank performance. Our approach also produces longevity in our workforce. The average tenure of our employees is approximately eleven years.

The Company is committed to improving our recruiting and retention related to diversity and inclusion. To such ends, the Company has developed a Diversity and Inclusion Vision Statement. As the Company prepares for the workforce of the future, we are mindful of the importance of diversity and inclusion as a core component of these efforts.

Social/Sustainability

The Company encourages our employees to be engaged in our communities. This engagement consists of sponsorship of local activities and donations to charitable organizations in our communities. The United Way is one organization that our Company and employees are involved with through time and generous donations.

The Company contributed over \$205 thousand to various charitable and community organizations in 2023. Company employees volunteered approximately 10,600 hours serving various charitable organizations in our Banks' communities. A number of our employees serve in leadership positions for nonprofit or community service organizations.

Corporate Governance

The Board of Directors has separated the CEO and Board Chair positions, with the Board Chair being a director who is independent under the NASDAQ governance standards. Nine of the eleven board members are independent directors. All directors serving on Board committees are independent under NASDAQ governance standards. The Company has established an age limitation policy for directors. Three of the eleven directors are female. All directors own Company stock and in their capacities as directors of the Banks participated in the Director Stock Incentive Plan adopted by each of the Banks. The Company CEO is excluded from the Director Stock Incentive Plan. Certain transactions in Company stock are prohibited, including short-selling and hedging.

A significant portion of compensation of the executive officers is dependent on the Company's operating results. Executive officer performance is evaluated annually. The Company provides a limited amount of perquisites to its executive officers.

Market Area

The Company operates six commercial banks with locations in Boone, Clarke, Hancock, Marshall, Polk, Story, Taylor and Union Counties in central, north-central and south-central Iowa that all offer a full line of business and consumer loan and retail and commercial deposit services. All banks, except Reliance Bank, offer wealth management services.

First National is headquartered in Ames, Iowa with a population of 66,300. The major employers are Iowa State University, Ames Laboratory, Iowa Department of Transportation, Mary Greeley Medical Center, Ames Community Schools, City of Ames, Danfoss and McFarland Clinic. First National maintains three offices in the Des Moines metro area with a population of approximately 740,000. The major employers in the Des Moines metro market are Principal Financial Group, Wells Fargo, UnityPoint Health, MercyOne Medical, Nationwide Insurance, Amazon, Hy-Vee Food Inc. and John Deere. First National maintains two offices in Osceola, Iowa with a population of 5,500. Osceola is the county seat of Clarke County. The major employers in Clarke County are Hormel Foods, Miller Products Co., SIMCO Drilling Equipment, Inc., Clarke County Hospital, and Lakeside Casino. Loan services primarily include commercial and consumer types of credit, including operating lines, equipment loans and real estate loans.

Boone Bank is located in Boone, Iowa with a population of 12,500. Boone is the county seat of Boone County. The major employers are Fareway Stores, Inc., Iowa National Guard, Union Pacific Railroad, Boone County Hospital and CDS Global. Boone Bank provides lending services to the agriculture, commercial and real estate markets.

State Bank is located in Nevada, Iowa with a population of 6,900. Nevada is the county seat of Story County. The major employers are Story County Medical Center, Mid-American Manufacturing, Mid-States Millwright & Builders, Inc., Burke Corporation and Almaco. State Bank provides various types of loans with a major agricultural presence.

Reliance Bank is headquartered in Story City, Iowa with a population of 3,400. The major employers in the Story City area are Bethany Manor, American Packaging, M.H. Eby, Inc. and Record Printing. The Bank also maintains an office in Garner, Iowa with a population of 3,100. Garner is the county seat of Hancock County. The major employers in the Garner area are Iowa Mold & Tooling and Stellar Industries. All locations are in agricultural areas and the Bank has a strong presence in this type of lending.

United Bank is located in Marshalltown, Iowa with a population of 27,500. The major employers are Iowa Veterans Home, Marshalltown School District, JBS Swift & Co., Emerson Process Management/Fisher Division, Lennox Industries and UnityPoint Health. Marshalltown is the county seat of Marshall County. Loan services include primarily commercial and consumer types of credit including operating lines, equipment loans and real estate loans.

Iowa State Bank is headquartered in Union County in Creston, Iowa with a population of 7,500. Iowa State Bank has one additional office in Creston and an additional office located in Taylor County in Lenox, Iowa with a population of 1,500. The major employers are Bunn-O-Matic Corporation, Wellman Dynamics Corporation, Greater Regional Health, Southwestern Community College, and Michael Foods, Inc. Creston is the county seat of Union County. All locations are in agricultural areas and the Bank has a strong presence in this type of lending.

Competition

The geographic market area served by the Banks is highly competitive with respect to both loans and deposits. The Banks compete principally with other commercial banks, savings and loan associations, credit unions, mortgage companies, finance divisions of auto and farm equipment companies, agricultural suppliers and other financial service providers. Some of these competitors are local, while others are statewide or nationwide. The major commercial bank competitors include First Interstate Bank, U.S. Bank National Association and Wells Fargo Bank, each of which maintains an office or offices within the Banks' primary central Iowa trade areas. Among the advantages such larger banks have are their ability to finance extensive advertising campaigns and to allocate their investment assets to geographic regions of higher yield and demand. These larger banking organizations have much higher legal lending limits than the Banks and thus are better able to finance large regional, national and global commercial customers.

In order to compete with the other financial institutions in their primary trade areas, the Banks use, to the fullest extent possible, the flexibility which is accorded by independent status. This includes an emphasis on specialized services, local promotional activity and personal contacts by the Banks' officers, directors and employees. In particular, the Banks compete for deposits principally by offering depositors a wide variety of deposit programs, convenient office locations, hours and other services. The Banks compete for loans primarily by offering competitive interest rates, experienced local lending personnel and quality products and services.

As of December 31, 2023, there were 48 FDIC insured institutions having approximately 126 locations within Boone, Clarke, Hancock, Marshall, Polk, Story, Taylor and Union County, Iowa where the Banks' offices are located. First National, State Bank and Reliance Bank together have the largest percentage of deposits in Story County. Reliance Bank has the largest percentage of deposits in Hancock County.

The Banks also compete with the financial markets for funds. Yields on corporate and government debt securities and commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for funds with equity, money market, and insurance products offered by brokerage and insurance companies. This competitive trend will likely continue in the future.

The Company anticipates bank competition will continue to change materially over the next several years as more financial institutions, including the major regional and national banks, continue to consolidate. Credit unions, which are not subject to income taxes, have a significant competitive advantage and provide additional competition in the Company's local markets. Financial technology, or fintech, companies and other non-bank competitors emerging provide competition in key areas of banking.

Supervision and Regulation

The following discussion refers to certain statutes and regulations affecting the banking industry in general. These references provide brief summaries and therefore do not purport to be complete and are qualified in their entirety by reference to those statutes and regulations. In addition, due to the numerous statutes and regulations that apply to and regulate the banking industry, many are not referenced below.

The Company and the Banks are subject to extensive federal and state regulation and supervision. Regulation and supervision of financial institutions is primarily intended to protect depositors and the FDIC rather than shareholders of the Company. The laws and regulations affecting banks and bank holding companies have changed significantly over recent years. There is reason to expect that similar changes may continue in the future. Any change in applicable laws, regulations or regulatory policies may have a material effect on the business, operations and prospects of the Company. The Company is unable to predict the nature or the extent of the effects on its business and earnings that any fiscal or monetary policies or new federal or state legislation may have in the future.

The Company

The Company is a bank holding company by virtue of its ownership of the Banks, and is registered as such with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHCA"), which subjects the Company and the Banks to supervision and examination by the Federal Reserve. Under the BHCA, the Company files with the Federal Reserve annual reports of its operations and such additional information as the Federal Reserve may require.

Source of Strength to the Banks. The Federal Reserve takes the position that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the Federal Reserve's position that in serving as a source of strength to its subsidiary banks, bank holding companies should use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. It should also maintain the financial flexibility and capital raising capacity to obtain additional resources for providing assistance to its subsidiary banks. A bank holding company's failure to meet its obligation or to serve as a source of strength to its subsidiary banks, will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice, or a violation of the Federal Reserve's regulations, or both.

Federal Reserve Approval. Bank holding companies must obtain the approval of the Federal Reserve before they: (i) acquire direct or indirect ownership or control of any voting stock of any bank if, after such acquisition, they would own or control, directly or indirectly, more than 5% of the voting stock of such bank; (ii) merge or consolidate with another bank holding company; or (iii) acquire substantially all of the assets of any additional banks.

Non-Banking Activities. With certain exceptions, the BHCA also prohibits bank holding companies from acquiring direct or indirect ownership or control of voting stock in any company other than a bank or a bank holding company unless the Federal Reserve finds the company's business to be incidental to the business of banking. When making this determination, the Federal Reserve in part considers whether allowing a bank holding company to engage in those activities would offer advantages to the public that would outweigh possible adverse effects. A bank holding company may engage in permissible non-banking activities on a de novo basis, if the holding company meets certain criteria and notifies the Federal Reserve within ten (10) business days after the activity has commenced.

Financial Holding Company. Under the Financial Services Modernization Act, eligible bank holding companies may elect (with the approval of the Federal Reserve) to become a "financial holding company." Financial holding companies are permitted to engage in certain financial activities through affiliates that had previously been prohibited activities for bank holding companies. Such financial activities include securities and insurance underwriting and merchant banking. At this time, the Company has not elected to become a financial holding company, but may choose to do so at some time in the future.

Control Transactions. The Change in Bank Control Act of 1978, as amended, requires a person or group of persons acquiring "control" of a bank holding company to provide the Federal Reserve with at least 60 days prior written notice of the proposed acquisition. Following receipt of this notice, the Federal Reserve has 60 days to issue a notice disapproving the proposed acquisition, but the Federal Reserve may extend this time period for up to another 30 days. An acquisition may be completed before the disapproval period expires if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, would constitute the acquisition of control. In addition, any "company" would be required to obtain the approval of the Federal Reserve under the BHCA before acquiring 25% (or 5% if the "company" is a bank holding company) or more of the outstanding shares of the Company, or otherwise obtain control over the Company.

Affiliate Transactions. The Company and the Banks are deemed affiliates within the meaning of the Federal Reserve Act, and transactions between affiliates are subject to certain restrictions. Generally, the Federal Reserve Act: (i) limits the extent to which the financial institution or its subsidiaries may engage in "covered transactions" with an affiliate; and (ii) requires all transactions with an affiliate, whether or not "covered transactions," to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions.

State Law on Acquisitions. Iowa law permits bank holding companies to make acquisitions throughout the state. However, Iowa currently has a deposit concentration limit of 15% on the amount of deposits in the state that any one banking organization can control and continue to acquire banks or bank deposits (by acquisitions), which applies to all depository institutions doing business in Iowa.

Banking Subsidiaries

Applicable federal and state statutes and regulations governing a bank's operations relate, among other matters, to capital adequacy requirements, required reserves against deposits, investments, loans, legal lending limits, certain interest rates payable, mergers and consolidations, borrowings, issuance of securities, payment of dividends, establishment of branches and dealings with affiliated persons.

First National is a national bank subject to primary federal regulation and supervision by the Office of Comptroller of the Currency ("OCC"). The FDIC, as an insurer of the deposits to the maximum extent permitted by law, also has some limited regulatory authority over First National, as a national bank. State Bank, Boone Bank, Reliance Bank, United Bank and Iowa State Bank are state banks subject to regulation and supervision by the Iowa Division of Banking. The state Banks are also subject to regulation and examination by the FDIC, which insures their respective deposits to the maximum extent permitted by law. The federal laws that apply to the Banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for loans. The laws and regulations governing the Banks generally have been promulgated to protect depositors and the deposit insurance fund of the FDIC and not to protect stockholders of such institutions or their holding companies.

The OCC and FDIC each have authority to prohibit banks under their supervision from engaging in what it considers to be an unsafe and unsound practice in conducting their business. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires federal banking regulators to adopt regulations or guidelines in a number of areas to ensure bank safety and soundness, including internal controls, credit underwriting, asset growth, management compensation, ratios of classified assets to capital and earnings. FDICIA also contains provisions which are intended to change independent auditing requirements, restrict the activities of state-chartered insured banks, amend various consumer banking laws, limit the ability of "undercapitalized banks" to borrow from the Federal Reserve's discount window, require regulators to perform periodic on-site bank examinations and set standards for real estate lending.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("the Dodd-Frank Act"). Pursuant to the Dodd-Frank Act, the Banks are subject to regulations promulgated by the consumer protection bureau housed within the Federal Reserve, known as the Consumer Financial Protection Bureau (the "Bureau" or "CFPB"). The Bureau promulgates rules and orders with respect to consumer financial products and services and has substantial power to define the rights of consumers and responsibilities of lending institutions, such as the Banks. The Bureau will not, however, examine or supervise the Banks for compliance with such regulations; rather, enforcement authority will remain with the Banks' primary federal regulator although the Banks may be required to submit reports or other materials to the Bureau upon its request.

Borrowing Limitations. Each of the Banks is subject to limitations on the aggregate amount of loans that it can make to any one borrower, including related entities. Subject to numerous exceptions based on the type of loans and collateral, applicable statutes and regulations generally limit loans to one borrower of 15% of total equity and reserves. Each of the Banks is in compliance with applicable loans to one borrower requirements.

FDIC Insurance. The deposit insurance coverage limit is \$250,000 per depositor, per insured depository institution for each account ownership category. The FDIC has adopted a risk-based insurance assessment system under which depository institutions contribute funds to the FDIC insurance fund based on their risk classification. The FDIC may terminate the deposit insurance of any insured depository institution if it determines after an administrative hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law.

Capital Adequacy Requirements. The Federal Reserve, the FDIC and the OCC (collectively, the "Agencies") have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. The Agencies have also provided an optional community bank leverage ratio framework to provide a simple measure of capital adequacy for certain community banking organizations. Failure to achieve and maintain adequate capital levels may give rise to supervisory action through the issuance of a capital directive to ensure the maintenance of required capital levels. Each of the Banks is in compliance with capital level requirements as of December 31, 2023.

Basel III Capital Requirements. Basel III Capital Rules: (i) introduced a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expanded the scope of the deductions from and adjustments to capital as compared to prior regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for credit losses, in each case, subject to the Basel III Capital Rules' specific requirements.

Pursuant to the Basel III Capital Rules, the Company and Banks are subject to regulatory capital adequacy requirements promulgated by the Federal Reserve and the OCC. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by the regulators that could have a material adverse effect on the Company's consolidated financial statements. Under the capital requirements and the regulatory framework for prompt corrective action, the Company and Banks must meet specific capital guidelines that involve quantitative measures of the Company and Banks' assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Banks' capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

With respect to the Banks, the Basel III Capital Rules revised the Prompt Corrective Action ("PCA") regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well capitalized status being 8%; and (iii) eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules did not change the total risk-based capital requirement for any PCA category.

The Basel III Capital Rules prescribe a standardized approach for risk weightings for a large and risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. Government and agency securities to 600% for certain equity exposures, and resulting in high-risk weights for a variety of asset classes.

Should the Company or Banks not meet the requirements of the Basel III Capital Rules, the Company and Banks would be subject to adverse regulatory action by their regulators, which action could result in material adverse consequences for the Company, Banks, and Company shareholders.

As of December 31, 2023, the Banks exceeded all of their regulatory capital requirements and were designated as "well capitalized" under federal guidelines. See Note 15 to the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Prompt Corrective Action. Regulations adopted by the Agencies impose even more stringent capital requirements under prompt corrective action. The FDIC and other Agencies must take certain "prompt corrective action" when a bank fails to meet capital requirements. The regulations establish and define five capital levels: (i) "well capitalized," (ii) "adequately capitalized," (iii) "undercapitalized," (iv) "significantly undercapitalized" and (v) "critically undercapitalized." Increasingly severe restrictions are imposed on the payment of dividends and management fees, asset growth and other aspects of the operations of institutions that fall below the category of being "adequately capitalized." Undercapitalized institutions are required to develop and implement capital plans acceptable to the appropriate federal regulatory agency. Such plans must require that any company that controls the undercapitalized institution must provide certain guarantees that the institution will comply with the plan until it is adequately capitalized. As of December 31, 2023, each of the Banks was categorized as "well capitalized" under regulatory prompt corrective action provisions.

Restrictions on Dividends. The dividends paid to the Company by the Banks are the major source of Company cash flow. Various federal and state statutory provisions limit the amount of dividends banking subsidiaries are permitted to pay to their holding companies without regulatory approval. Federal Reserve policy further limits the circumstances under which bank holding companies may declare dividends. For example, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. In addition, the Federal Reserve and the FDIC have issued policy statements which provide that insured banks and bank holding companies should generally pay dividends only out of current operating earnings. Federal and state banking regulators may also restrict the payment of dividends by order.

First National Bank, as a national bank, generally may pay dividends, without obtaining the express approval of the OCC, in an amount up to its retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits as defined by the OCC, consists of net income less dividends declared during the period. Boone Bank, Reliance Bank, State Bank, United Bank and Iowa State Bank are also restricted under Iowa law to paying dividends only out of their undivided profits. Additionally, the payment of dividends by the Banks is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and the Banks generally are prohibited from paying any dividends if, following payment thereof, the Bank would be undercapitalized.

Reserves Against Deposits

Prior to March 26, 2020, the Federal Reserve required all depository institutions to maintain reserves against their transaction accounts (primarily checking accounts) and non-personal time deposits. Generally, reserves of 3% had to be maintained against total transaction accounts of \$691.7 million or less (subject to an exemption not in excess of the first \$36.1 million of transaction accounts). A reserve of \$19.668 million plus 10% of amounts in excess of \$691.7 million had to be maintained in the event total transaction accounts exceeded \$691.7 million. The balances maintained to meet the reserve requirements imposed by the Federal Reserve could be used to satisfy applicable liquidity requirements. Because required reserves were maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement was to reduce the earning assets of the Banks.

The Federal Reserve announced on March 15, 2020, that the reserve requirement ratios would be reduced to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. The annual indexation of the reserve requirement exemption amount and the low reserve tranche for 2023 is required by statute but will not affect depository institutions' reserve requirements, which will remain zero. Currently the Board has no plans to re-impose reserve requirements but retains the right to do so.

Regulatory Enforcement Authority

The enforcement powers available to federal and state banking regulators are substantial and include, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, enforcement actions must be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions, or inactions, may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Applicable law also requires public disclosure of final enforcement actions by the federal banking agencies.

National Monetary Policies

In addition to being affected by general economic conditions, the earnings and growth of the Banks are affected by the regulatory authorities' policies, including the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply, credit conditions and interest rates. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, changes in reserve requirements against bank deposits and the Federal Reserve Discount Rate, which is the interest rate charged member banks to borrow from the Federal Reserve Bank. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

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

Availability of Information on Company Website

The Company files periodic reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The Company makes available on or through its website free of charge all periodic reports filed by the Company with the SEC, including any amendments to such reports, as soon as reasonably practicable after such reports have been electronically filed with the SEC. The internet address of the Company's website is: www.amesnational.com.

The Company will provide a paper copy of these reports free of charge upon written or telephonic request directed to John L. Pierschbacher, CFO, 405 5th Street, Ames, Iowa 50010 or (515) 232-6251 or by email request at info@amesnational.com. The information found on the Company's website is not part of this or any other report the Company files with the SEC.

Information about our Executive Officers

The following table sets forth summary information about the executive officers of the Company and certain executive officers of the Banks. Each executive officer has served in his current position for the past five years with the exception of Dan E. Johnson, Adam R. Snodgrass, Robert A. Thomas and Michael A. Wilson. Mr. Johnson was appointed President of State Bank on January 16, 2023. Mr. Snodgrass was appointed as president of Iowa State Bank on October 25, 2019. Mr. Thomas was appointed as president of United Bank on July 1, 2020. Michael A. Wilson was appointed as Chief Lending Officer on November 9, 2023.

Name	Age	Position with the Company or Bank and Principal Occupation and Employment During the Past Five Years
Scott T. Bauer	61	President and Director of First National.
Dan E. Johnson	52	President and Director of State Bank; previously Senior Loan Officer of State Bank.
John P. Nelson	57	Chief Executive Officer, President and Director of the Company. Director and Chairman of First National, State Bank and United Bank and Director of Iowa State Bank.
John L. Pierschbacher	64	Chief Financial Officer, Director and Secretary of the Company. Director and Chairman of Boone Bank and Reliance Bank.
Jeffrey K. Putzier	62	President and Director of Boone Bank.
Richard J. Schreier	56	President and Director of Reliance Bank.
Adam R. Snodgrass	43	President and Director of Iowa State Bank; previously CEO, CFO and director of Iowa State Bank prior to the Iowa State Bank Acquisition.
Robert A. Thomas	64	President and Director of United Bank; previously Senior Loan Officer of United Bank.
Michael A. Wilson	59	Chief Lending Officer; previously Executive Vice President of Innovation and Corporate Services of the Company and Chief Lending Officer of a privately held bank in Iowa.

ITEM 1A. RISK FACTORS

Set forth below is a description of risk factors related to the Company's business, provided to enable investors to assess, and be appropriately apprised of, certain risks and uncertainties the Company faces in conducting its business. An investor should carefully consider the risks described below and elsewhere in this Report, which could materially and adversely affect the Company's business, results of operations or financial condition. The risks and uncertainties discussed below are also applicable to forward-looking statements contained in this Report and in other reports filed by the Company with the Securities and Exchange Commission. Given these risks and uncertainties, investors are cautioned not to place undue reliance on forward-looking statements.

Economic and Market Condition Risks

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

Our earnings and financial condition are affected by general business, economic and political conditions. For example, a depressed economic environment increases the likelihood of lower employment levels and recession, which could adversely affect our earnings and financial condition. General business and economic conditions that could affect us include short-term and long-term interest rates, inflation, fluctuations in both debt and equity capital markets and the strength of the national and local economies in which we operate. Political conditions can also affect our earnings through the introduction of new regulatory policies, changes in tax laws and changes in trade policies.

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.

In particular, the national economy is facing challenges due to inflationary pressures that began building during late 2021 and throughout the course of 2022 and 2023, resulting in significant upward pressure on consumer and wholesale prices. In response, the FOMC has initiated a series of increases in the short-term federal funds interest rate in an effort to dampen economic activity and bring the rate of inflation back to the FOMC's target range of two to three percent. These rate increases have the potential to overly reduce economic activity and tip the domestic economy into a recessionary period of slower or negative growth. As noted above, a period of depressed economic activity could adversely affect our business, financial condition and results of operation by, among other things, increasing the likelihood of borrower defaults on loan obligations, reducing collateral values and weakening demand for the Banks' loan and deposit services.

Higher inflation may affect the Company 's interest rates, credit loss expenses and general operating expenses.

Consumer inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI") has increased 3.4% and 6.5% for the years ended December 31, 2023 and 2022, respectively. This increase in inflation creates upward pressure on the cost of hiring, training, and retaining employees, other general operating expense and interest rates. The challenge for the Company will be keeping wages competitive and maintaining general operating expenses at their current levels, while balancing a potential decrease in net interest income due to the Company's greater sensitivity to the repricing of its interest-bearing liabilities than its interest-earning assets in the short-term. The Company's credit loss expenses may be impacted by the borrower's ability to service their debt if inflation is prolonged.

Credit Risks

The Company's business depends on our ability to successfully manage credit risk.

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

The commercial real estate loan portfolio is a significant part of the Company 's business and subject to the risk of fluctuating collateral values.

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2023. The market value of real estate securing these loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts, and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that was anticipated at the time of originating the loan, which could cause an increase in charge-offs, resulting in the need to increase our credit loss expense and adversely affecting our operating results and financial condition.

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

The allowance for credit losses for loans represents management's estimate of all expected credit losses over the expected contractual life of our 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.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. 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 credit losses to be funded through credit loss expense. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the allowance for credit 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 credit losses or increase significantly; we will need additional credit loss expenses to increase the allowance. Any increase in credit loss expense 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.

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

A significant portion of our loan portfolio consists of loans to borrowers who are directly or indirectly affected by the health of the Iowa agricultural economy. 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, changes in governmental support programs and uncertainty regarding governmental mandates affecting ethanol production, 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. Moreover, uncertainty as to the status of tariffs on products that our agricultural borrowers export to foreign markets could result in further volatility and deterioration of the price of agricultural products, providing further challenges and risk to our portfolio of agricultural loans. 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.

Liquidity and Interest Rate Risks

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

As of December 31, 2023, the fair value of our securities portfolio was approximately \$736.4 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 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 further reduce our liquidity and stockholders' equity. The fair value of the securities portfolio has an unrealized loss of \$62.3 million as of December 31, 2023, resulting primarily from the negative impact of increased interest rates on the fair value of the portfolio. To mitigate the risk of selling securities in an unrealized loss position to fund cash flow needs, we have access to lines of credit that provide additional liquidity, if needed.

Our investment securities are analyzed quarterly to determine whether, in the opinion of management, any of the securities have credit losses. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have credit loss, we will recognize a charge to our earnings in the quarter during which such determination is made, and our earnings and capital ratios will be adversely impacted. Generally, a fixed income security is determined to have credit losses 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.

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

Our earnings depend substantially on our interest rate spread, which is the difference between (i) the interest rates we earn on loans, securities, and other interest-earning assets, and (ii) the interest rates we pay on deposits, other borrowings, and other interest-bearing liabilities. We are exposed to interest rate risk because our interest-earning assets and interest-bearing liabilities do not react uniformly or concurrently to changes in interest rates since the two have different time periods for adjustment and can be tied to different measures of rates. Market interest rates are highly sensitive to many factors beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities, including the Federal Reserve. Throughout 2022 and 2023, the FOMC has raised the federal funds rate to its current targeted rate between 5.25% and 5.5% in an effort to curb inflation. As market interest rates rise, we experience competitive pressures to increase the rates we pay on deposits, which may decrease our net interest income. In addition, inflationary pressures will increase our operating costs and could have a significant negative effect on our borrowers and the values of collateral securing loans, which could negatively affect our financial performance. In addition, certain of our noninterest income and noninterest expenses are subject to adverse effect in a rising interest rate environment. We monitor our interest rate risk exposure; however, we can provide no assurance that our efforts will appropriately protect us in the future from interest rate risk exposure.

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

Maintaining adequate liquidity is essential to the banking business. We maintain liquidity primarily through customer deposits and through access to 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 governmental programs or economic conditions change and generate excess liquidity due to increases in deposit balances, we might experience excess liquidity issues. Conversely, our liquidity could be negatively impacted if we are unable to maintain appropriate levels of liquidity through deposits, borrowing, sale of securities or other sources. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated increase or reductions in our liquidity. In such events, our cost of funds may decrease, but our investments options may become limited, thereby reducing our net interest income. This situation could have a material adverse impact on our results of operations and financial condition.

The Company relies on dividends and other payments from its Banks for substantially all of its revenue.

We are a separate and distinct legal entity from our Banks, and we receive substantially all of our operating cash flows from dividends and other payments from our Banks. These dividends and payments are the principal source of funds to pay dividends on our common stock and pay our operating expenses. Various federal and state laws and regulations limit the amounts of dividends that our Banks may pay to us. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event our Banks are unable to pay dividends to us, we may not be able to pay our obligations or pay dividends on our common stock. The inability to receive dividends from our Banks could have a material adverse effect on our business, financial condition or results of operations.

Operational Risks

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

Our success depends, in large part, on the skills of our management team and our ability to recruit, retain and motivate key officers and employees. Our senior management team has significant industry experience, and their knowledge and relationships would be difficult to replace. None of our executive officers have employment agreements in keeping with the past practice of the Company and the Banks. Leadership changes will occur from time to time, and we cannot predict whether significant resignations or retirements will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is considerable, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of commercial and agricultural banking services, we must attract and retain qualified banking personnel to continue to grow our business, and competition for such personnel can be intense. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations. The loss of the services of any senior executive or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition or results of operations. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings or have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

Security breaches involving us, the Banks or any third parties with which we do business could expose us to liability and litigation, adversely affecting our reputation and operating revenues.

In connection with our business, we collect and retain significant volumes of sensitive business and personally identifiable information, including social security numbers of our customers and other personally identifiable information of our customers and employees, on our data systems. We and the third parties with which we conduct business are subject to the risk of security breaches, which may be due to the failure of our data encryption technologies or otherwise, involving the receipt, transmission, and storage of confidential customer and other personally identifiable information, including account takeovers, unavailability of service, computer viruses, or other malicious code, cyberattacks, or other events, any of which may arise from human error, fraud or malice on the part of employees or third parties or from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential customer information, impairment of our ability to provide products and services to our customers, damage to our reputation with our customers and the market, additional costs (such as costs for repairing systems or adding new personnel or protection technologies), regulatory penalties, and financial losses for us, our customers and other third parties. Such events could also cause interruptions or malfunctions in the operations of our customers, or other third parties with which we engage in business. Such events could also damage our reputation with customers and third parties with whom we do business, which could lead to loss of customers and business opportunities and have a material adverse effect on our financial condition and results of operation.

Risks and exposures related to cybersecurity attacks have increased as a result of greater reliance on remote working, and are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, the proliferation of malicious actors internationally, and the expanding use of technology-based products and services by us and our customers. Cybersecurity risk and other security matters are also a major focus of regulatory authorities. We can provide no assurances that the safeguards we have in place or may implement in the future will prevent all unauthorized infiltrations or breaches and that we will not suffer losses related to a security breach in the future, which losses may be material. In addition, we may be required to expend additional resources to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures.

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

Because we have grown in part through acquisitions, goodwill and intangible assets are included in the consolidated assets reflected in our financial statements. Goodwill and intangible assets were \$13.9 million as of December 31, 2023. Under generally accepted accounting principles ("GAAP"), we are required to test the carrying value of goodwill and intangible assets at least annually or sooner if events occur that indicate impairment could exist. These events or circumstances could include a significant change in the business climate, including a sustained decline in a reporting unit's fair value, legal and regulatory factors, operating performance indicators, competition and other factors. GAAP requires us to assign and then test goodwill at the reporting unit level. If over a sustained period of time we experience a decrease in our stock price and market capitalization, which may serve as an estimate of the fair value of our reporting unit, this may be an indication of impairment. If the fair value of our reporting unit is less than its net book value, we may be required to record goodwill impairment charges in the future. In addition, if the revenue and cash flows generated from any of our other intangible assets are 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.

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

Our accounting policies are fundamental to determining and understanding our results of operation and financial condition. Some of these policies require use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Any changes in our accounting policies could materially affect our financial statements. From time to time, the Financial Accounting Standards Board (the "FASB") and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. In addition, accounting standard setters and those who interpret the accounting standards (such as the FASB, the SEC, banking regulators and our outside auditors) may change positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be difficult to predict and could materially affect how we report our results of operations and financial condition. We may be required to apply a new or revised standard retroactively or apply an existing standard differently and retroactively, which may result in the need to restate prior period financial statements in material amounts. Changes in these standards are continuously occurring, and given the current economic and regulatory environment, more significant changes may occur in the future. The implementation of such changes could have a material adverse effect on our financial condition and results of operations.

The Company's accounting policies and methods 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 prove to be 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 allowance for credit losses, (2) the fair value of securities available-for-sale, 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 allowance for credit losses, the fair value of securities available-for-sale, goodwill valuation and, accordingly, net income.

The Company's operations are concentrated in Iowa.

Our operations are concentrated primarily in central, north-central and south-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, north-central or south-central Iowa, particularly in the industries on which the area depends (including agriculture which, in turn, is dependent upon commodity prices, weather conditions, trade policies 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.

Damage to the Company's 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 other cybersecurity events, 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.

Changes in technology could be costly or difficult to implement.

The financial services industry is continually undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements and there is a risk we could become less competitive if we are unable to take advantage of these improvements due to the cost limitations, difficulties in implementation or otherwise.

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

We depend on data processing, communication and information exchange on a variety of computing platforms and networks over the Internet. A cyber-attack on our systems could result in the theft, loss or destruction of our information or the theft or improper use of confidential information about our customers, any of which could harm our reputation and expose us to financial losses. We cannot be certain all of our systems are entirely free from vulnerability to attack, despite safeguards which have been installed. We also outsource certain key aspects of our data processing and communication to certain third-party providers. While we have selected these third-party providers carefully, we cannot control their actions or their degree of compliance with their own systems of internal control. If information security is breached, or one of our service providers or vendors breaches compliance procedures, our or our customers' information could be lost or misappropriated, resulting in financial loss or costs to us or damage to our customers or others. If information security is breached either on our systems or those of our vendors, our financial condition, results of operations, reputation and future prospects could be adversely affected.

Strategic and External Risks

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 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.

The Company faces competition from other financial institutions.

The banking and financial services business in our market area continues to be a highly competitive field and is becoming more competitive as a result of:

- changes in regulations;
- changes in technology and product delivery systems;
- the accelerating pace of consolidation among financial services providers; and
- financial technology, or fintech, companies emerging in key areas of banking.

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, offer a broader array of financial services or, in the case of credit unions, do not pay federal income taxes. 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.

Federal Government spending and increase in monetary supply could adversely affect our business.

The banking and financial services business is negatively affected by increased federal government spending and increases in monetary supply. The increase in the balances of customers deposit accounts due to government stimulus programs and increase in the monetary supply puts a strain on the Company's capital ratios. The increase in the money supply also contributes to inflation. Our business, financial condition and results of operations may be adversely affected by these changes if continued over a period of time.

The Company may be adversely affected by risks associated with completed and potential acquisitions.

We have in the past, and may in the future, acquire other financial institutions or bank offices when we believe such acquisitions support our business strategy. Acquisitions involve many risks including: (i) incurring time and expense associated with identifying, evaluating and negotiating potential acquisitions, resulting in management's attention being diverted from operation of our existing business, (ii) the risk that the acquired business will not perform to our expectations, including a failure to realize anticipated synergies or costs savings, (iii) entering markets in which we have limited or no direct prior experience, (iv) difficulties or increased expenses associated with integrating the operations of the acquired business, (v) the potential for claims or unexpected liabilities arising out of the acquired business, and (vi) the potential loss of key employees or customers of the acquired business. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions we may undertake.

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 ability to provide or expand securities or trust services.

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 CFPB and required the CFPB and other federal agencies to implement many significant rules and regulations with which we must comply. 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, although the pace of the new and proposed regulations has slowed. The cost of compliance with future regulatory requirements may adversely affect our net income.

Severe weather, natural disasters, pandemics, acts of war or terrorism or other adverse external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics, acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. The occurrence of any of the events in the future could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Risks related to the Company's Stock

The Company may not pay dividends on its common stock in the future .

Holders of our common stock are entitled to receive only such dividends as our Board of Directors may declare out of funds legally available for such payments. However, our Board of Directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, we are a bank holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. In addition, our ability to pay dividends depends primarily on our receipt of dividends from our Banks, the payment of which is subject to numerous limitations under federal and state banking laws, regulations and policies. See "Item 1. Business—Supervision and Regulation—Dividends." As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock.

Risk related to volatility of the Company's stock.

The trading volume in our common stock on the NASDAQ Capital Market is relatively limited compared to those of companies with larger capitalization listed on the NASDAQ Capital Market, the NASDAQ Global Markets, the New York Stock Exchange or other consolidated reporting systems or stock exchanges. Consequently, a change in the supply or demand for our common stock, or other events affecting our business, may have a more significant impact on the price of our stock than would be the case for more actively traded companies.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Risk Management and Strategy

Our information security program includes administrative, technical and physical safeguards and is designed to provide an appropriate level of protection to maintain the confidentiality, integrity and availability of our Company's and our customers' information. This includes protecting against known and evolving threats to the security of customer records and information, and against unauthorized access, compromise, or loss of customer records or information.

Our information security program is designed to continuously adapt to an evolving landscape of emerging threats and available technology. Through data gathering and evaluation of emerging threats from internal and external incidents and technology investments, security controls are regularly monitored and adjusted on an as needed basis. We have developed a data security strategy that is integrated within our overall risk management strategy and implemented through layers of controls embedded throughout our technology environment that establish multiple control points between threats and our assets. We test the effectiveness of our controls and data protection processes through internal and independent external audits and assessments, including regular penetration tests, vulnerability scans, disaster recovery tests and cyber exercises to simulate hacker attacks. Our information security program is supported by regular training of information technology employees and awareness training and activities for executives, directors, and employees companywide through which we communicate our information security policies, standards, processes and practices.

Further, our information security program is designed to provide oversight of third parties who store, process or have access to sensitive Company or customer data, and we require similar levels of protection from third-party service providers as are required for the Company. We maintain supplier risk assessment processes to identify risks associated with third-party service providers.

We employ business continuity, backup and disaster recovery procedures for systems that are used for storing, processing and transferring customer information, and we periodically test and validate our disaster recovery plans to validate our resilience capabilities. Additionally, we maintain insurance coverage that, subject to applicable terms and conditions, may cover certain aspects of cybersecurity and information risks. However, there can be no assurance that liabilities or losses we may incur will be covered under such policies or that the amount of insurance will be adequate.

Our information security program is designed and managed to be consistent with the framework and guidelines of the FFIEC Information Security IT Examination Handbook, FFIEC Business Continuity Planning Handbook and FFIEC Cybersecurity Assessment Tool. In general, the Company seeks to address cybersecurity risks through a comprehensive, cross-functional approach that is focused on confidentiality, security and availability of the information that the Company collects and stores by identifying, preventing, and mitigating cybersecurity threats and effectively responding to cyber threats when they occur. Along with periodically being examined by our regulators, the Company regularly engages external experts to audit, evaluate and validate our controls against these standard frameworks, and we adjust our cybersecurity policies, standards, processes and practices as necessary based on the information provided by these examinations, audits and evaluations.

Cybersecurity threats, including as a result of any previous cybersecurity incidents, have not materially affected the Company to date. While we are not currently aware of any cybersecurity threats that are reasonably likely to materially affect the Company there is no assurance that we will not be materially affected by such threats in the future. For additional information on our risks related to cybersecurity, see Item 1A, Risk Factors—Operational Risks.

Governance

Our Board of Directors and executive officers are responsible for oversight of our information technology framework, including cybersecurity, information security, information technology and business continuity. The Chief Information Officer ("CIO") and other members of senior management report to the Board of Directors and executive officers at least annually and on an as needed basis. In the event of an immediate cyber threat to our business operations, the CIO would promptly initiate the Company's incident response plan including notifying executive officers, Board of Directors and regulators.

While our Board of Directors provides oversight of our information technology environment, the ultimate responsibility for our processes for identifying, assessing and managing cybersecurity risks resides with management. The CIO, with assistance from internal and external resources, is responsible for the implementation and providing oversight to our organization and maintaining the appropriate level of expertise to manage and implement cybersecurity policies, programs and strategies. The CIO has served for over 30 years in information technology and various roles within the Company.

ITEM 2. PROPERTIES

The Company's office is housed in the main office of First National located at 405 5th Street, Ames, Iowa and an office owned by the Company at 323 6th Street, Ames, Iowa. There is a lease agreement between the Company and First National. In addition to the main office owned by First National, First National conducts its business through seven full-service offices, the West Ames office, North Grand office, Ankeny office, West Glen office, Valley Junction office, Downtown Osceola office, and Jeffreys Drive office. The West Ames and North Grand offices are located in Ames, Iowa. The Ankeny office is located in Ankeny, Iowa. The West Glen office is located in West Des Moines, Iowa and is leased from the Company. The Valley Junction office is located in West Des Moines, Iowa. The Downtown Osceola and Jefferies Drive offices are located in Osceola, Iowa. A portion of the Ankeny and West Glen offices are leased to tenants for business purposes.

State Bank conducts its business from its main office located at 1025 Sixth Street, Nevada, Iowa.

Boone Bank conducts its business from its main office located at 716 Eighth Street, Boone, Iowa and from one additional office also located in Boone, Iowa.

Reliance Bank conducts its business from its main office located at 606 Broad Street, Story City, Iowa. Reliance also has a full-service office located in Garner, Iowa. A portion of the Story City office is leased to tenants for residential and business purposes.

United Bank conducts its business from its main office located at 2101 South Center Street, Marshalltown, Iowa and from a drive-up facility also located in Marshalltown, Iowa.

Iowa State Bank's main office is located at 401 West Adams Street, Creston, Iowa. In addition to its main office, Iowa State Bank conducts its business through two full-service offices, the Highway 34 office and Lenox office. The Highway 34 office is located in Creston, Iowa.

All of the Bank offices are owned by the respective Banks, with the exception of First National's West Glen office which is owned by the Company and leased to First National. All of the properties owned by the Banks are free of any mortgages. The West Glen office and Ames office owned by the Company are subject to a \$3.1 million and \$388 thousand mortgage, respectively.

ITEM 3. LEGAL PROCEEDINGS

The Banks are from time-to-time parties to various legal actions arising in the ordinary course of business. The Company believes that there is no threatened or pending proceeding against the Company or the Banks, which, if determined adversely, would have a material adverse effect on the business or financial condition of the Company or the Banks.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

On February 28, 2024, the Company had approximately 249 shareholders of record and approximately 3,298 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 \$18.46 on February 28, 2024.

The Company declared aggregate annual cash dividends in 2023 and 2022 of approximately \$9.7 million or \$1.08 per share. In February 2024, the Company declared a quarterly cash dividend of approximately \$2.4 million or \$0.27 per share, payable on May 15, 2024.

The decision to declare cash dividends in the future and the amount thereof rests within the discretion of the Board of Directors of the Company and will be subject to, among other things, the future earnings, capital requirements and financial condition of the Company and certain regulatory restrictions imposed on the payment of dividends by the Banks. Such restrictions are discussed in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and in Note 15 (Regulatory Matters) to the Company's financial statements included herein.

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

On November 8, 2023, 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 2022) that expired in November 2023. The Company did not purchase shares in 2023 and purchased 100,000 shares in 2022 under the Stock Repurchase Plans that were in effect during 2023 and 2022.

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, 2023.

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, 2023 to October 31, 2023 (1)	-	\$ -	-	100,000
November 1, 2023 to November 30, 2023 (1) and (2)	-	\$ -	-	100,000
December 1, 2023 to December 31, 2023 (2)	_____	\$ _____	_____	100,000
Total	_____	\$ _____	_____	100,000

- (1) The Stock Repurchase Plan adopted in November 2022 expired in November 2023 and no shares remain available for purchase under this plan as a result of the expiration.
- (2) A successor Stock Repurchase Plan was approved and became effective on November 9, 2023 and authorized the purchase of up to 100,000 shares. This plan is scheduled to expire on November 13, 2024. No shares were purchased under this plan during November or December 2023.

ITEM 6. RESERVED

Not applicable.

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

Overview

The following financial data of the Company for the three years ended December 31, 2021 through 2023 is derived from the Company's historical audited financial statements and related footnotes. The information set forth below should be read in conjunction with the consolidated financial statements and related notes contained elsewhere in this Annual Report.

(dollars in thousands, except per share amounts)	Years Ended December 31,		
	2023	2022	2021
STATEMENT OF INCOME DATA			
Interest income	\$ 74,301	\$ 61,553	\$ 60,482
Interest expense	29,676	8,309	4,485
Net interest income	44,625	53,244	55,997
Credit loss expense (benefit)	789	(874)	(757)
Net interest income after credit loss expense (benefit)	43,836	54,118	56,754
Noninterest income	9,215	9,687	10,537
Noninterest expense	40,162	38,644	36,618
Income before provision for income tax	12,889	25,161	30,673
Provision for income taxes	2,072	5,868	6,760
Net income	\$ 10,817	\$ 19,293	\$ 23,913
DIVIDENDS AND EARNINGS PER SHARE DATA			
Cash dividends declared*	\$ 9,712	\$ 9,739	\$ 11,753
Cash dividends declared per share*	1.08	1.08	1.29
Basic and diluted earnings per share	1.20	2.14	2.62
Weighted average shares outstanding	8,992,167	9,033,410	9,114,379
BALANCE SHEET DATA			
Total assets	\$ 2,155,481	\$ 2,134,926	\$ 2,137,041
Net loans	1,277,812	1,226,011	1,144,108
Deposits	1,811,831	1,897,957	1,878,019
Stockholders' equity	165,788	149,098	207,778
Equity to assets ratio	7.69%	6.98%	9.72%
FINANCIAL PERFORMANCE			
Net income	\$ 10,817	\$ 19,293	\$ 23,913
Average assets	2,140,034	2,134,947	2,082,705
Average stockholders' equity	153,530	168,752	209,135
Return on assets (net income divided by average assets)	0.51%	0.90%	1.15%
Return on equity (net income divided by average equity)	7.05%	11.43%	11.43%
Net interest margin (net interest income divided by average earning assets)**	2.20%	2.62%	2.83%
Efficiency ratio (noninterest expense divided by noninterest income plus net interest income)	74.60%	61.41%	55.04%
Dividend payout ratio (dividends per share divided by net income per share)*	90.00%	50.47%	49.24%
Dividend yield (dividends per share divided by closing year-end market price)*	5.06%	4.57%	5.27%
Equity to assets ratio (average equity divided by average assets)	7.17%	7.90%	10.04%

* Dividends are typically declared in one quarter and then paid in the subsequent quarter. Beginning in July 2020 the dividends were declared and paid in the same quarter before returning to the previous practice in August 2021.

** See page 32 for further discussion of this Non-GAAP financial measure.

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

The Company does not engage in any material business activities apart from its ownership of the Banks. Products and services offered by the Banks are for commercial and consumer purposes, including loans, deposits and wealth management services. Some Banks also offer investment services through a third-party broker-dealer. The Company employs 24 individuals to assist the Banks with financial reporting, human resources, marketing, audit, compliance, technology systems, property appraisals, training and the coordination of management activities, in addition to 243 full-time equivalent individuals employed by the Banks.

The Company's primary competitive strategy is to utilize seasoned and competent Bank management and local decision-making authority to provide customers with prompt response times and flexibility in the products and services offered. This strategy is viewed as providing an opportunity to increase revenues through the creation of a competitive advantage over other financial institutions. The Company also strives to remain operationally efficient to improve profitability while enabling the Banks to offer more competitive loan and deposit rates.

The principal sources of Company revenues and cash flows are: (i) interest and fees earned on loans made or held by the Company and Banks; (ii) interest on investments, primarily on bonds, held by the Banks; (iii) fees on wealth management services; (iv) service charges on deposit accounts maintained at the Banks; (v) merchant and card fees; (vi) gain on the sale of loans held for sale; and (vii) securities gains. The Company's principal expenses are: (i) interest expense on deposit accounts and other borrowings; (ii) salaries and employee benefits; (iii) data processing costs primarily associated with maintaining the Banks' loan and deposit functions; (iv) occupancy expenses for maintaining the Banks' facilities; (v) professional fees; and (vi) business development. The largest component contributing to the Company's net income is net interest income, which is the difference between interest earned on earning assets (primarily loans and investments) and interest paid on interest-bearing liabilities (primarily deposit accounts and other borrowings). One of management's principal functions is to manage the spread between interest earned on earning assets and interest paid on interest-bearing liabilities in an effort to maximize net interest income while maintaining an appropriate level of interest rate risk.

The Company reported net income of \$10.8 million for the year ended December 31, 2023 compared to \$19.3 million for the year ended December 31, 2022. This represents a decrease in net income of 44% when comparing 2023 with 2022. The decrease in earnings in 2023 from 2022 is primarily the result of higher interest expense on deposits and other borrowed funds and an increase in credit loss expense, offset in part by an increase in interest income on loans. Earnings per share for 2023 were \$1.20 compared to \$2.14 in 2022. All six Banks demonstrated profitable operations during 2023 and 2022.

The Company's return on average equity for 2023 was 7.05% compared to 11.43% in 2022. The return on average assets for 2023 was 0.51% compared to 0.90% in 2022. The decrease in return on average equity and return on average assets when comparing 2023 to 2022 was primarily a result of a reduction in earnings.

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

- Challenges, Risks and Uncertainties
- Critical Accounting Policies
- Non-GAAP Financial Measures
- 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, Risks and Uncertainties

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 short-term interest rates remain elevated or continue to increase over a relatively short period of time due to inflationary pressures or other factors, the interest rate environment may present a challenge to the Company. Increases in interest rates may negatively impact the Company's net interest margin if interest expense increases more quickly than interest income, thus placing downward pressure on net interest income. The Company's earning assets (primarily its loan and investment portfolio) have longer maturities than its interest-bearing liabilities (primarily deposits and other borrowings); therefore, in a rising interest rate environment, interest expense will tend to increase more quickly than interest income as the interest-bearing liabilities reprice more quickly than earning assets, resulting in a reduction in net interest income. In response to this challenge, the Banks model quarterly the changes in income that would result from various changes in interest rates. Based on this modeling, management believes Bank earning assets currently 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 generally reprice at short term interest rates, therefore the net interest income may decrease. Management believes Bank earning assets currently have the appropriate maturity and repricing characteristics to optimize earnings and the Banks' interest rate risk positions.
- The agricultural industry is subject to commodity price fluctuations and other risks. 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. Moreover, changes in U.S. trade policy could create further volatility for commodities prices as the volume of exports of agricultural products to these foreign markets could be adversely impacted. Lastly, uncertainty regarding governmental mandates affecting ethanol production could reduce the demand for corn in the Company's trade area, thus introducing further price volatility for this commodity. Any combination of these factors could produce losses within the Company's agricultural loan portfolio and in the commercial loan portfolio with respect to borrowers whose businesses are directly or indirectly impacted by the health of the agricultural economy. Such losses could result in an accelerated level of charge-offs and the need to increase provision expenses, thus resulting in reduced earnings.

The current economic environment, characterized by elevated short-term interest rates in response to inflationary pressures in the economy and the potential for a period of slower or negative economic growth resulting from efforts to dampen economic activity, has heightened the level of challenges, risks and uncertainties facing our business, including the following:

- Market interest rates may continue to increase during the course of 2024 in response to inflationary pressures on the economy which could adversely affect our net interest income, net interest margin and earnings;
- We may experience a potential slowdown in demand for our products and services, including the demand for traditional loans, although we believe the decline may be offset, in whole or in part, due to inflation and higher interest rates;
- We may experience an increase in risk of delinquencies, defaults and foreclosures, as well as declining collateral values and further impairment of the ability of our borrowers to repay their loans, all of which may result in additional credit charges and other losses in our loan portfolio;
- Goodwill is currently evaluated for impairment quarterly and goodwill has been determined to not be impaired as of December 31, 2023. In the future goodwill may be impaired if the effects of the economic slowdown negatively impacts our net income and fair value. An impairment of goodwill would decrease the Company's earnings during the period in which the impairment is recorded;
- We have experienced a decline in the fair value of our investment portfolio as a result of the increasing interest rate environment. This trend may continue in the near term, which could result in credit losses and increase the unrealized losses reported as part of our consolidated comprehensive income; and
- In meeting our objective to maintain our capital levels and liquidity position, our Board of Directors could reduce, or determine to altogether forego, payment of future dividends in order to maintain and/or strengthen our capital and liquidity position.

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 ("GAAP"). 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 credit losses, the fair value determination of investment securities and the assessment of goodwill to be the Company's most critical accounting policies.

Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the allowance for credit losses use the current expected credit loss (CECL) methodology. The following is a discussion of the methodologies used by the Company both pre- and post-adoption of ASC 326.

Post-ASC 326 CECL Adoption:

The allowance for credit losses for loans represents management's estimate of all expected credit losses over the expected contractual life of our existing loan portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods.

We employ a disciplined process and methodology to establish our allowance for credit losses that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Based upon this methodology, management establishes an asset-specific allowance for loans that do not share risk characteristics with other loans based on the amount of expected credit losses calculated on those loans and charges off amounts determined to be uncollectible. Factors we consider in measuring the extent of expected credit loss include payment status, collateral value, borrower financial condition, guarantor support and the probability of collecting scheduled principal and interest payments when due.

When a loan does not share risk characteristics with other loans, we measure expected credit loss as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with our appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or evaluations. If it is determined that market conditions, changes to the property, changes in intended use of the property or other factors indicate that an appraisal or evaluation is no longer reliable, we require a validation of the appraisal or evaluation to assess whether a change in collateral value requires an additional adjustment to carrying value. If the appraisal or evaluation cannot be validated, a new appraisal or evaluation will be obtained. When we receive an updated appraisal or evaluation, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed or nonrecoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses. Loans designated as having significantly increased credit risk are generally placed on nonaccrual and remain in that status until all principal and interest payments are current and the prospects for future payments in accordance with the loan agreement are reasonably assured, at which point the loan is returned to accrual status.

In estimating the component of the allowance for credit losses for loans that share common risk characteristics, loans are segregated into loan classes. Loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. Credit loss assumptions are estimated using a model that categorizes loan pools based on loan type and purpose. This model calculates an expected life-of-loan loss percentage for each loan category by using historical loss rate analysis for all loan pools.

The component of the allowance for credit losses for loans that share common risk characteristics also considers factors for each loan class to adjust for differences between the historical period used to calculate historical loss rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- Lending policies and procedures, including changes in underwriting standards and collections;
- International, national, regional and local economic conditions;
- The nature and volume of the portfolio and terms of loans;
- The experience, depth, and ability of lending management;
- The volume and severity of past due loans and other similar conditions;
- The quality of the organization's loan review system;
- The value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the levels of such concentrations; and
- The effect of other external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

Such factors are used to adjust the historical loss rates so that they reflect management's expectation of future conditions based on a reasonable and supportable forecast. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, we reduce, on a straight-line basis over one year, the adjustments so that the model reverts back to the historical loss rates.

The expense for credit loss recorded through earnings is the amount necessary to maintain the allowance for credit losses at the amount of expected credit losses inherent within the loans held for investment portfolio. The amount of expense and the corresponding level of allowance for credit losses for loans are based on our evaluation of the collectability of the loan portfolio based on historical loss experience, reasonable and supportable forecasts, and other significant qualitative and quantitative factors.

The allowance for credit losses for loans, as reported in our consolidated balance sheet, is adjusted by a credit loss expense, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries. For further information on the allowance for credit losses for loans, see Note 1 - Summary of Significant Accounting Policies and Note 4 - Loans Receivable and Credit Disclosures in the notes to the financial statements of this Annual Report.

Pre-ASC 326 CECL Adoption:

The allowance for credit losses is established through a credit loss expense that is treated as an expense which would be charged against earnings. Loans are charged against the allowance for credit 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 credit 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 credit losses may be greater or lesser than future charge-offs. Due to potential changes in conditions, including economic disruption, high inflation levels, and rising interest rates, 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 credit 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 Credit Losses".

Fair Value 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 are evaluated for credit losses and reflected in earnings as a credit loss expense. In estimating credit 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 and (2) 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 credit losses may occur in the near term and that such changes could be material to the amounts reported in the Company's financial statements.

Goodwill

Goodwill arose in connection with four acquisitions consummated in previous periods. 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. The Company completed a quantitative assessment of goodwill as of October 1, 2023 which indicated that goodwill was not impaired. Subsequently, the Company determined there were no adverse changes in criteria and key considerations to the previous assessment. Accordingly, the Company concluded that there is no impairment of goodwill as of December 31, 2023. Goodwill may be impaired in the future if actual future test results differ from the present evaluation of impairment due to changes in the conditions used in the current evaluation. An impairment of goodwill would decrease the Company's earnings during the period in which the impairment is recorded.

Non-GAAP Financial Measures

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

Reconciliation of net interest income and annualized net interest margin on an FTE basis to GAAP:

	2023	2022
Net interest income (GAAP)	\$ 44,625	\$ 53,244
Tax-equivalent adjustment (1)	609	690
Net interest income on an FTE basis (non-GAAP)	45,234	53,934
Average interest-earning assets	\$ 2,059,506	\$ 2,060,959
Net interest margin on an FTE basis (non-GAAP)	2.20%	2.62%

(1) Computed on a tax-equivalent basis using an incremental federal income tax rate of 21 percent for the years ended December 31, 2023 and 2022, adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt securities and loans.

Income Statement Review

The following highlights a comparative discussion of the major components of net income and their impact for the last two years.

Average Balances and Interest Rates

The following two tables are used to calculate the Company's non-GAAP net interest margin on an FTE basis. The first table includes the Company's average assets and the related income to determine the average yield on earning assets. The second table includes the average liabilities and related expense to determine the average rate paid on interest-bearing liabilities. The net interest margin is equal to the interest income less the interest expense divided by average earning assets. Refer to the net interest income discussion following the tables for additional detail (*dollars in thousands*).

	2023			2022		
	Average balance	Revenue/expense	Yield/rate	Average balance	Revenue/expense	Yield/rate
ASSETS						
Interest-earning assets						
Loans (1)						
Commercial	\$ 85,914	\$ 4,888	5.69%	\$ 72,844	\$ 3,381	4.64%
Agricultural	93,813	6,396	6.82%	95,029	4,576	4.82%
Real estate	1,047,109	44,792	4.28%	985,084	37,342	3.79%
Consumer and other	16,403	734	4.47%	16,200	657	4.06%
Total loans (including fees)	1,243,239	56,810	4.57%	1,169,157	45,956	3.93%
Investment securities (2)						
Taxable	654,718	12,674	1.94%	693,636	12,101	1.74%
Tax-exempt (3)	111,401	2,901	2.60%	130,474	3,285	2.52%
Total investment securities	766,119	15,575	2.03%	824,110	15,386	1.87%
Other interest-earning assets	50,148	2,525	5.04%	67,692	901	1.33%
Total interest-earning assets	2,059,506	\$ 74,910	3.64%	2,060,959	\$ 62,243	3.02%
Noninterest-earning assets						
Cash and due from banks	21,236			23,390		
Premises and equipment, net	20,904			18,213		
Other, less allowance for loan losses (2)	38,388			32,385		
Total noninterest-earning assets	80,528			73,988		
TOTAL ASSETS	\$ 2,140,034			\$ 2,134,947		

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

(2) Average investment balances include unrealized gains and losses. In reports prior to December 31, 2023 investment unrealized gains and losses were included in other noninterest-earning assets.

(3) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental tax rate of 21% for the years ended December 31, 2023 and 2022.

Average Balances and Interest Rates (continued)

	2023			2022		
	Average balance	Revenue/expense	Yield/rate	Average balance	Revenue/expense	Yield/rate
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Deposits						
Savings, interest-bearing checking and money markets accounts	\$ 1,212,630	\$ 16,794	1.38%	\$ 1,297,503	\$ 5,498	0.42%
Time deposits	255,434	7,677	3.01%	206,401	1,818	0.88%
Total deposits	1,468,064	24,471	1.67%	1,503,904	7,316	0.49%
Other borrowed funds	132,918	5,205	3.92%	55,874	993	1.78%
Total interest-bearing liabilities	1,600,982	29,676	1.85%	1,559,778	8,309	0.53%
Noninterest-bearing liabilities						
Noninterest-bearing checking	373,704			397,436		
Other liabilities	11,818			8,981		
Stockholders' equity	153,530			168,752		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,140,034			\$ 2,134,947		
Net interest income (FTE)(4)	\$ 45,234			\$ 53,934		
Net interest spread (FTE)		1.79%			2.49%	
Net interest margin (FTE)(4)		2.20%			2.62%	

(4) Net interest income (FTE) is a non-GAAP financial measure. For further information, refer to the Non-GAAP Financial Measures section of this report.

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 \$7.4 million in 2023 compared to 2022. Increased volume of real estate loans increased interest income in 2023 by \$2.4 million and higher interest rates increased interest income in 2023 by \$5.0 million.

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 (in thousands).

	2023 Compared to 2022		
	Volume	Rate	Total (1)
Interest income			
Loans			
Commercial	\$ 666	\$ 841	\$ 1,507
Agricultural	(60)	1,880	1,820
Real estate	2,440	5,010	7,450
Consumer and other	8	69	77
Total loans (including fees)	3,054	7,800	10,854
Investment securities			
Taxable	(722)	1,295	573
Tax-exempt	(487)	103	(384)
Total investment securities	(1,209)	1,398	189
Other interest and dividend income	(289)	1,913	1,624
Total interest-earning assets	1,556	11,111	12,667
Interest-bearing liabilities			
Deposits			
Savings, interest-bearing checking and money market	(378)	11,674	11,296
Time deposits	523	5,336	5,859
Total deposits	145	17,010	17,155
Other borrowed funds	2,250	1,962	4,212
Total interest-bearing liabilities	2,395	18,972	21,367
Net interest income-earning assets	\$ (839)	\$ (7,861)	\$ (8,700)

(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, 2023 and 2022, the Company's non-GAAP net interest margin was 2.20% and 2.62%, respectively, computed on an FTE basis. For further information, refer to the Non-GAAP Financial Measures section of this report.

Net interest income during 2023 and 2022 totaled \$44.6 million and \$53.2 million, respectively, representing a 15.9% decrease in 2023 compared to 2022. Net interest income decreased in 2023 as compared to 2022 due primarily to an increase in market interest rates on deposits in excess of rate increases on interest-earning assets.

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

Credit Loss Expense (Benefit)

The credit loss expense reflects management's judgment of the expense to be recognized in order to maintain an adequate allowance for credit losses. The Company's credit loss expense for the year ended December 31, 2023 was \$789 thousand compared to a credit loss benefit of (\$874) thousand for the previous year. Net loan charge-offs totaled \$213 thousand for the year ended December 31, 2023 compared to net loan charge-offs of \$50 thousand for the previous year. The credit loss expense in 2023 was primarily due to growth in the loan portfolio and charge-offs in the agriculture loan portfolio. The credit loss benefit in 2022 was primarily due to a reduction in specific reserves and offset in part by growth in the loan portfolio. Loans classified as substandard and substandard-impaired, excluding 1-4 family and consumer loans, decreased \$7.5 million to \$29.0 million in 2023 primarily due to improving credit quality. Refer to the "Asset Quality Review and Credit Risk Management" discussion for additional details with regard to credit loss expense.

Noninterest Income and Expense

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

Noninterest income during the years ended 2023 and 2022 totaled \$9.2 million and \$9.7 million, respectively. The decrease in noninterest income in 2023 compared to 2022 is primarily due to fewer gains on sale of residential loans held for sale as refinancing volume has slowed and a decrease in wealth management income primarily due to a decline in estate fees.

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 59% of noninterest expense in 2023 and 2022.

Noninterest expense during the years ended 2023 and 2022 totaled \$40.2 million and \$38.6 million, respectively. The increase in noninterest expense is primarily due to a wire fraud loss of \$523 thousand in 2023, higher FDIC assessments and normal increases in salaries and benefits. The percentage of noninterest expense to average assets was 1.88% in 2023, compared to 1.81% during 2022.

Provision for Income Taxes

The provision for income taxes for 2023 and 2022 was \$2.1 million and \$5.9 million, respectively. This amount represents an effective tax rate of 16.1% and 23.3%, respectively. The Company's federal income tax rate was 21% for the years ended December 31, 2023 and 2022. The decrease in income tax expense and higher than expected tax rate in 2022 was due to a \$780 thousand adjustment to deferred taxes for the reduction in future Iowa bank franchise tax rates enacted in the second quarter of 2022. The lower than expected tax rate in 2023 was primarily due to a higher proportion of tax-exempt interest income and New Markets Tax Credits to pretax income as compared to 2022.

Balance Sheet Review

The Company's assets are comprised primarily of loans and investment securities. The majority of 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 regarding changes in interest rates.

Total assets increased to \$2.16 billion in 2023 compared to \$2.13 billion in 2022, or 1.0%. The increase was primarily due to interest-bearing deposit and loan growth funded by other borrowings. The increase was offset in part by a decrease in securities available-for-sale due primarily to maturities in the investment portfolio.

Loan Portfolio

Net loans as of December 31, 2023 totaled \$1.28 billion, an increase of 4.2% from the \$1.23 billion as of December 31, 2022. Loans increased primarily due to increases in the commercial operating, construction and multi-family loan portfolios. Loans are the primary contributor to the Company's revenues and cash flows. The average yield on loans was 254 and 206 basis points higher in 2023 and 2022, respectively, in comparison to the average tax-equivalent investment portfolio yields.

Types of Loans

The Company's loan portfolio consists of real estate, commercial, agricultural and consumer loans. As of December 31, 2023, gross loans totaled approximately \$1.29 billion, which equals approximately 71.4% of total deposits and 60.0% of total assets. The Iowa State Average Report (consisting of 237 banks in the State of Iowa) loan to deposit ratio as of December 31, 2023 was 77%. As of December 31, 2023, 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, agricultural, and multifamily 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 provided to contractors to construct 1-4 family residence and commercial buildings. 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 of less than five years, 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. Most of the Banks' consumer lending is for vehicles, consolidation of personal debts and home improvements.

The interest rates charged on loans vary with the degree of risk and the amount and maturity terms 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 credit losses. Loans are approved by the Banks' board of directors and/or designated officers in accordance with respective guidelines and underwriting policies of the Company. Credit limits generally vary according to the type of loan and the individual loan officer's experience. Loans to any one borrower are limited by applicable state and federal banking laws.

Maturities and Sensitivities of Loans to Changes in Interest Rates as of December 31, 2023

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 (*in thousands*).

	Within one year	After one year but within five years	After five years but within 15 years	After 15 years	Total
Real Estate					
Construction	\$ 32,992	\$ 13,120	\$ 16,391	\$ 547	\$ 63,050
1-4 family residential	9,522	109,744	123,169	46,969	289,404
Multi-family	9,610	153,050	15,802	17,074	195,536
Commercial	24,489	210,558	68,267	55,952	359,266
Agricultural	5,787	27,612	51,857	76,261	161,517
Commercial	31,390	36,138	21,156	1,045	89,729
Agricultural	86,797	29,002	2,956	381	119,136
Consumer and other	1,465	9,221	5,749	105	16,540
Total loans	\$ 202,052	\$ 588,445	\$ 305,347	\$ 198,334	\$ 1,294,178

The following table shows the contractual maturities after one year of the Company's loan portfolio by fixed- and variable-rate loans as of December 31, 2023 (*in thousands*):

	After one year but within five years	After five years but within 15 years	After 15 years
Fixed-rate loans			
Real Estate			
Construction	\$ 8,379	\$ 243	\$ 317
1-4 family residential	105,055	101,779	2,385
Multi-family	152,250	14,637	74
Commercial	201,911	39,089	-
Agricultural	26,000	19,021	834
Commercial	33,109	11,722	-
Agricultural	22,770	1,651	381
Consumer and other	8,797	5,749	8
Total fixed-rate loans	558,271	193,891	3,999
Variable-rate loans			
Real Estate			
Construction	4,741	16,148	230
1-4 family residential	4,689	21,390	44,584
Multi-family	800	1,165	17,000
Commercial	8,647	29,178	55,952
Agricultural	1,612	32,836	75,427
Commercial	3,029	9,434	1,045
Agricultural	6,232	1,305	-
Consumer and other	424	-	97
Total variable-rate loans	30,174	111,456	194,335
Total loans	\$ 588,445	\$ 305,347	\$ 198,334

Loans Held For Sale

There was \$124 thousand of mortgage origination funding awaiting delivery to the secondary market as of December 31, 2023 and \$154 thousand as of December 31, 2022. 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, 2023 were \$736.4 million, a decrease of \$50.0 million or 6.4% from the prior year end. As of December 31, 2023 and 2022, the investment portfolio comprised 34% and 37% of total assets, respectively. The decrease in investments during 2023 is primarily due to maturities in excess of purchases. The decrease is offset in part by lower unrealized losses in the investment portfolio.

Management's process for obtaining and validating the fair value of investment securities is discussed in Note 16 of the "Notes to Consolidated Financial Statements," which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report.

Investment Maturities as of December 31, 2023

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 (*in thousands*).

	Within one year	After one year but within five years	After five years but within ten years	After ten years	Total
U.S. government treasuries	\$ 42,176	\$ 148,455	\$ 9,457	\$ -	\$ 200,088
U.S. government agencies	11,936	59,543	21,136	-	92,615
U.S. government mortgage-backed securities	261	32,118	69,252	233	101,864
States and political subdivisions (1)	15,371	133,008	114,062	7,450	269,891
Corporate bonds	11,498	29,095	31,338	-	71,931
Total	\$ 81,242	\$ 402,219	\$ 245,245	\$ 7,683	\$ 736,389
Weighted average yield					
U.S. government treasuries	1.06%	1.16%	1.48%	n/a	1.15%
U.S. government agencies	2.07%	1.76%	2.40%	n/a	1.95%
U.S. government mortgage-backed securities	2.42%	1.84%	0.96%	2.14%	1.23%
States and political subdivisions (1)	2.13%	2.29%	2.40%	2.83%	2.35%
Corporate bonds	2.51%	2.91%	2.72%	n/a	2.77%
Total	1.62%	1.83%	1.99%	2.81%	1.87%

(1) Yields on tax-exempt obligations of states and political subdivisions have been computed on a tax-equivalent basis using a federal income tax rate of 21 percent.

The Company's investment portfolio had an expected duration of 3.55 years and 4.06 years as of December 31, 2023 and 2022, respectively.

At December 31, 2023 and 2022, the Company's investment securities portfolio included securities issued by 272 and 289 government municipalities and agencies located within 30 states with a fair value of \$269.9 million and \$286.0 million, respectively. No one municipality or agency represents a concentration within this segment of the investment portfolio. Omaha, Nebraska, sewer revenue bonds with a fair value of \$5.2 million (approximately 1.9% of the fair value of the government municipalities and subdivisions) represent the largest exposure to any one municipality or subdivision for the Company as of December 31, 2023.

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, 2023 and 2022 identifying the state in which the issuing government municipality or agency operates (*in thousands*):

	2023		2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of states and political subdivisions:				
General Obligation bonds:				
Iowa	\$ 59,721	\$ 55,827	\$ 66,168	\$ 60,884
Texas	29,199	26,721	29,750	26,241
Nebraska	19,660	17,202	20,165	16,845
Oregon	9,885	9,299	11,049	10,079
Washington	9,632	8,860	10,911	9,898
Connecticut	8,700	8,183	8,701	7,936
Other (2023: 15 states; 2022: 15 states)	32,698	30,257	33,327	29,868
Total general obligation bonds	\$ 169,495	\$ 156,349	\$ 180,071	\$ 161,751
Revenue bonds:				
Iowa	\$ 48,645	\$ 45,953	\$ 57,330	\$ 53,649
Texas	14,794	13,193	14,824	12,680
Nebraska	9,397	8,238	9,777	8,265
Other (2023: 23 states; 2022: 23 states)	50,144	46,158	55,177	49,658
Total revenue bonds	\$ 122,980	\$ 113,542	\$ 137,108	\$ 124,252
Total obligations of states and political subdivisions	\$ 292,475	\$ 269,891	\$ 317,179	\$ 286,003

As of December 31, 2023 and 2022, 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 16 revenue sources in 2023 and 2022. The revenue sources that represent 5% or more, individually, as a percent of the total revenue bonds are summarized in the following table (*in thousands*):

	2023		2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Revenue bonds by revenue source				
Sales tax				
Sales tax	\$ 29,409	\$ 27,284	\$ 31,768	\$ 28,917
Water	20,394	18,968	21,754	19,792
College and universities, primarily dormitory revenues	16,944	15,340	19,550	17,368
Sewer	12,771	11,465	13,333	11,592
Leases	8,060	7,421	10,863	9,929
Other	35,402	33,064	39,840	36,654
Total revenue bonds by revenue source	\$ 122,980	\$ 113,542	\$ 137,108	\$ 124,252

Deposits

Total deposits were \$1.81 billion and \$1.90 billion as of December 31, 2023 and 2022, respectively. The decrease of \$86.1 million between the periods can be primarily attributed to decreases in savings and money market accounts as customers seek higher interest rates. A portion of the decline in savings and money market accounts was offset by an increase in time deposits. Balances fluctuate as customer liquidity needs vary and could be impacted by prevailing market interest rates, competition, and economic conditions. Approximately 12% of deposits are tied to external indexes as of December 31, 2023. Deposit interest expense related to these deposits increase more quickly than our other deposit products in a rising interest 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 87.0% of the Banks' certificates of deposit mature in the next year, it is anticipated that many of these certificates will be renewed. Rate sensitive certificates of deposits in excess of \$250,000 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 believes it 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 operations and liquidity. The Company had \$6.9 million and \$11.4 million of brokered deposits as of December 31, 2023 and 2022, respectively. The Company has approximately \$590 million of estimated uninsured deposits as of December 31, 2023. Approximately \$173 million of estimated uninsured deposits were collateralized by pledged assets.

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, 2023 and 2022 (*dollars in thousands*).

	2023		2022	
	Average Amount	Rate	Average Amount	Rate
Non-interest bearing checking deposits	\$ 373,704	0.00%	\$ 397,436	0.00%
Interest bearing checking deposits	609,965	1.61%	612,419	0.47%
Money market deposits	395,351	1.45%	457,053	0.48%
Savings deposits	207,314	0.59%	228,031	0.18%
Time certificates	255,434	3.01%	206,401	0.88%
	\$ 1,841,768		\$ 1,901,340	

Deposit Maturity

The following table shows the amounts and remaining maturities of time certificates of deposit that had balances in excess of the FDIC insurance limit of \$250 thousand as of December 31, 2023 and 2022 (*in thousands*).

	2023	2022
3 months or less	\$ 32,036	\$ 14,444
Over 3 through 6 months	15,808	13,261
Over 6 through 12 months	16,427	7,166
Over 12 months	3,961	8,015
Total	\$ 68,232	\$ 42,886

The following table shows the amounts and remaining maturities of estimated uninsured time certificates of deposit as of December 31, 2023 and 2022 (in thousands).

	2023	2022
3 months or less	\$ 21,942	\$ 8,862
Over 3 through 6 months	11,174	8,010
Over 6 through 12 months	18,355	5,109
Over 12 months	7,701	8,616
Total	\$ 59,172	\$ 30,597

Borrowed Funds

Borrowed funds that may be utilized by the Company are comprised of the Federal Reserve Bank Term Funding Program (BTFP), FHLB advances, federal funds purchased and securities sold under agreements to repurchase (repurchase agreements). Borrowed funds are an alternative funding source to deposits and can be used to fund the Company's assets and unforeseen liquidity needs. The BTFP offers loans of up to one year in length to banks pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. The BTFP allows for borrowing from the Federal Reserve Bank up to the par value of the pledged collateral. 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. 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's repurchase agreements reprice daily.

The following table summarizes the outstanding amount of, and the average rate on, borrowed funds as of December 31, 2023 and 2022 (dollars in thousands).

	2023		2022	
	Balance	Average Rate	Balance	Average Rate
Federal funds purchased and repurchase agreements	\$ 53,994	2.83%	\$ 40,676	2.50%
Other borrowings	110,588	4.63%	39,120	4.39%
Total	\$ 164,582	4.04%	\$ 79,796	3.43%

Average Annual Borrowed Funds

The following table sets forth the average amount of and the average rate paid on borrowed funds for the years ended December 31, 2023 and 2022 (dollars in thousands).

	2023		2022	
	Balance	Average Rate	Balance	Average Rate
Federal funds purchased and repurchase agreements	\$ 48,602	2.80%	\$ 41,143	1.17%
Other borrowings	84,316	4.56%	14,731	3.49%
Total	\$ 132,918	3.92%	\$ 55,874	1.78%

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, 2023, 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 credit loss expense in future periods. These financial instruments are not expected to have a significant impact on the liquidity or capital resources of the Company. For additional information, including quantification of the amounts involved, see Note 14 of the "Notes to Consolidated Statements" and the "Liquidity and Capital Resources" section of this Annual Report.

Asset Quality Review and Credit Risk Management

The Company's credit risk is centered in the loan portfolio, which on December 31, 2023, totaled \$1.28 billion as compared to \$1.23 billion as of December 31, 2022, an increase of 4.2%. Net loans comprise approximately 59% of total assets as of the end of 2023. The objective in managing loan portfolio risk is to reduce the risk of loss resulting from a customer's failure to perform according to the terms of a transaction and to quantify and manage credit risk on a portfolio basis. As the following chart indicates, the Company's non-performing assets have decreased by 5% from December 31, 2022 and total \$13.9 million as of December 31, 2023. The Company's level of non-performing loans as a percentage of loans of 1.08% as of December 31, 2023, is higher than the Iowa State Average peer group of FDIC insured institutions as of December 31, 2023, of 0.39%. Management believes that the allowance for credit losses as of December 31, 2023 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 three years ended December 31, 2023 (*dollars in thousands*):

	2023	2022	2021
Nonperforming assets:			
Nonaccrual loans	\$ 13,811	\$ 14,722	\$ 12,670
Loans 90 days or more past due	108	-	169
Total nonperforming loans	13,919	14,722	12,839
Securities available-for-sale	-	-	-
Other real estate owned	-	-	218
Total nonperforming assets	\$ 13,919	\$ 14,722	\$ 13,057
Ratio of nonaccrual loans to total loans outstanding	1.07%	1.19%	1.09%
Ratio of allowance for credit losses to nonaccrual loans	121.47%	106.62%	131.18%

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.

Non-performing loans totaled \$13.9 million as of December 31, 2023 and were \$803 thousand lower than the non-performing loans as of December 31, 2022. The decrease in non-performing loans was due primarily to payments on nonaccrual loans. The Company considers non-performing loans to generally include nonaccrual loans, 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 credit losses related to these impaired loans was approximately \$118 thousand and \$95 thousand at December 31, 2023 and 2022, respectively. The average balances of impaired loans for the years ended December 31, 2023 and 2022 were \$12.7 million and \$13.0 million, respectively. For the years ended December 31, 2023 and 2022, interest income, which would have been recorded under the original terms of nonaccrual loans, was approximately \$768 thousand and \$733 thousand, respectively. There were \$109 thousand and no loans greater than 90 days past due and still accruing interest as of December 31, 2023 and 2022, respectively.

Summary of the Allowance for Credit Losses

The expense for credit losses recorded through earnings is the amount necessary to maintain the allowance for credit losses at the amount of expected credit losses inherent within the loans held for investment portfolio as of the balance sheet date. The amount of expense and the corresponding level of allowance for credit losses for loans are based on our evaluation of the collectability of the loan portfolio based on historical loss experience, reasonable and supportable forecasts, and other significant qualitative and quantitative factors.

The adequacy of the allowance for credit 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 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.

Analysis of the Allowance for Credit 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 net charge-offs to average loans outstanding by loan type during the years ended December 31, 2023 and 2022 (*in thousands*).

	2023			2022			Net charge-offs (recoveries) to average loans
	Net charge-offs (recoveries)	Average Loans	Net charge-offs (recoveries) to average loans	Net charge-offs (recoveries)	Average Loans		
Net charge-offs (recoveries):							
Real estate							
Construction	\$ -	\$ 62,056	0.00%	\$ -	\$ 43,905	0.00%	
1-4 Family residential	(5)	287,062	0.00%	15	266,029	0.01%	
Multi-family	-	190,525	0.00%	-	175,154	0.00%	
Commercial	(5)	347,267	0.00%	(3)	344,007	0.00%	
Agricultural	-	160,199	0.00%	-	155,989	0.00%	
Commercial	28	85,914	0.03%	37	72,844	0.05%	
Agricultural	198	93,813	0.21%	7	95,029	0.01%	
Consumer and other	(3)	16,403	-0.02%	(6)	16,200	-0.04%	
Totals	\$ 213	\$ 1,243,239	0.02%	\$ 50	\$ 1,169,157	0.00%	

Pooled reserves for loan categories range from 0.64% to 2.69% of the outstanding loan balances as of December 31, 2023. In general, as loan volume increases, the pooled reserve levels increase with that growth and as loan volume decreases, the pooled reserve levels decrease with that decline. The allowance relating to commercial real estate is the largest reserve component. As of December 31, 2023, commercial real estate loans have a pooled reserve of 1.50%.

Other factors considered when determining the adequacy of the pooled reserve include historical losses; watch, substandard and impaired loan volume; the ability to collect 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 Iowa; the local economy's dependence upon several large governmental entity employers, including Iowa State University; and the health of Iowa's agricultural sector that, in turn, is dependent on crop and livestock prices, weather conditions, trade policies and government programs. No assurances can be made that losses will remain at the relatively favorable levels experienced over the past five years.

Loans that the Banks have identified as having higher risk levels are reviewed individually in an effort to establish adequate loss reserves. These reserves are considered specific reserves and are directly impacted by the credit quality of the underlying loans. The specific reserves are dependent upon assumptions regarding the liquidation value of collateral and the cost of recovering collateral including legal fees. Changing the amount of specific reserves on individual loans has historically had a significant impact on the reallocation of the allowance among different parts of the portfolio. The following table sets forth information regarding changes in the Company's specific reserve on loans individually evaluated for impairment and loans individually evaluated for impairment for the most recent three years (*dollars in thousands*):

	2023	2022	2021
Specific reserve on loans individually evaluated for credit losses	\$ 118	\$ 95	\$ 1,392
Loans individually evaluated for credit losses	\$ 13,794	\$ 14,386	\$ 12,312
Percentage increase (decrease) in specific reserve on loans individually evaluated for credit losses	24%	-93%	-23%
Percentage increase (decrease) in loans individually evaluated for credit losses	-4%	17%	-19%

Allocation of the Allowance for Credit Losses

The following table sets forth information concerning the Company's allocation of the allowance for credit losses for the most recent three years (*dollars in thousands*):

	2023		2022		2021	
	Amount	% *	Amount	% *	Amount	% *
Balance at end of period applicable to:						
Real Estate						
Construction	\$ 408	5%	\$ 730	4%	\$ 675	4%
1-4 family residential	3,333	22%	3,028	23%	2,752	21%
Multi-family	2,542	15%	2,493	15%	2,501	15%
Commercial	5,236	28%	4,742	29%	5,905	29%
Agricultural	1,238	13%	1,625	13%	1,584	13%
Commercial	1,955	7%	1,153	6%	1,170	7%
Agricultural	1,607	9%	1,705	9%	1,836	10%
Consumer and other	457	1%	221	1%	198	1%
	\$ 16,776	100%	\$ 15,697	100%	\$ 16,621	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, Federal Reserve BTFP, FHLB advances and other capital market sources.

As of December 31, 2023, management believes that 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 and 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, 2023 and 2022 totaled \$55.1 million and \$27.9 million, respectively. The higher balance of liquid assets as of December 31, 2023 primarily relates to increased deposits at the Federal Reserve Bank.

Other sources of liquidity available to the Banks as of December 31, 2023 include available borrowing capacity with the FHLB of \$280.9 million and federal funds borrowing capacity at correspondent banks of \$101.5 million. As of December 31, 2023, the Company had outstanding FHLB advances and other borrowings of \$110.6 million, no federal funds purchased, and securities sold under agreements to repurchase of \$54.0 million.

Total investments as of December 31, 2023, were \$736.4 million compared to \$786.4 million as of year-end 2022. 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, 2023 and 2022. The investments have pretax net unrealized losses of \$62.3 million and \$83.6 million as of December 31, 2023 and 2022, 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, 2023 and 2022 totaled \$19.5 million and \$21.2 million, respectively. The change in net cash provided by operating activities in 2023 was primarily due to higher interest expense paid on deposits and other borrowings resulting in a decrease in net income.

Net cash provided by (used in) investing activities for the years ended December 31, 2023 and 2022 was \$18.8 million and (\$127.4) million, respectively. The change in net cash provided by (used in) investing activities in 2023 was primarily due to fewer purchases of securities.

Net cash provided by (used in) financing activities for the years ended December 31, 2023 and 2022 totaled (\$11.1) million and \$44.9 million, respectively. The change in net cash provided by (used in) financing activities in 2023 was due primarily to a decrease in deposits and partially offset by new borrowings.

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 2023, dividends from the Banks amounted to \$10.0 million compared to \$10.2 million in 2022. 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, as a national bank, generally may pay dividends, without obtaining the express approval of the OCC, in an amount up to its retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained net profits, as defined by the OCC, consists of net income less dividends declared during the period. Boone Bank, Reliance Bank, State Bank, United Bank and Iowa 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 \$1.9 million that is available as of December 31, 2023 to provide additional liquidity to the Banks.

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

Commitments to extend credit totaled \$262.7 million as of December 31, 2023 compared to a total of \$262.9 million at the end of 2022. The timing of these credit commitments varies with the underlying borrowers; however, the Company believes it has satisfactory liquidity to fund these obligations as of December 31, 2023. 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, 2023, that are of concern to management.

Capital Resources

The Company's total stockholders' equity increased to \$165.8 million at December 31, 2023, from \$149.1 million at December 31, 2022. As of December 31, 2023 and 2022, stockholders' equity as a percentage of total assets was 7.7% and 7.0%, respectively. The increase in stockholders' equity was primarily the result of a decrease in unrealized losses on the investment portfolio and the retention of net income in excess of dividends. The capital levels of the Company currently exceed applicable regulatory guidelines to be considered "well capitalized" as of December 31, 2023. Unrealized losses on the investment portfolio are excluded from regulatory capital.

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 2023 and 100,000 shares of common stock were repurchased in 2022. 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 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.

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, asset quality, liquidity, 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" and other 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 statement 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 credit losses, collateral values and fair value of other real estate owned. Of particular relevance are the economic conditions in the concentrated geographic area in central, north-central and south-central Iowa in which the Banks conduct their operations.
- Adequacy of the allowance for credit losses and changes in the level of nonperforming assets and charge-offs.
- Inflation and interest rate, securities market and monetary fluctuations, including increases in interest rates initiated during 2022 and 2023 in response to significant inflationary pressures affecting the national economy.
- Changes in the fair value of securities available-for-sale and management's evaluation of credit losses 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.

- Political instability, acts of war or terrorism, natural disasters and pandemics.
- 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 allowance for credit losses.
- Technological changes and operational and reputational risks related to breaches of data security and cyber-attacks.
- The ability to increase market share and control expenses.
- Changes in the competitive environment among financial or bank holding companies and other financial service providers.
- The effect of changes in laws and regulations with which the Company and the Banks must comply, including developments and changes related to the implementation of the Dodd-Frank Act and the effect of any Federal tax reform on the operations of the Company and its customers.
- Changes in the securities markets.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the FASB, International Financial Reporting Standards and other accounting standard setters.
- 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.
- Recent changes in the U.S. trade policy, including imposition of tariffs by the U.S. government and retaliatory tariffs imposed by foreign governments and the potential negative effect of these actions on the Company's borrowers.
- The ability of the Company to successfully integrate the operations of financial institutions it has acquired or may acquire in the future.
- The Company's success at managing the risks involved in the foregoing items.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors, and Audit Committee
Ames National Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Ames National Corporation (the "Company") as of December 31, 2023, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 1 and 4 to the financial statements, the Company changed its method of accounting for the allowance for credit losses effective January 1, 2023 due to the adoption of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. As discussed below, auditing the Company's allowance for credit losses on loans, including adoption of the new accounting guidance related to the estimate of allowance for credit losses, was a critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses on Loans

As described in *Notes 1* and *4* to the consolidated financial statements, the Company adopted Topic 326 effective January 1, 2023. The Company's allowance for credit losses on loans (ACL) was \$16.78 million as of December 31, 2023. The Company primarily uses loss rate based undiscounted cash flow (UDCF) methods to estimate credit losses by portfolio segment. For loans that share similar risk characteristics, loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. The model calculates an expected loss percentage for each loan class by considering the historical loss rate of similar peers. The component of the allowance for credit losses for loans that share similar risk characteristics also considers qualitative factors for each loan class to adjust for differences between the historical period used to calculate historical loss rates and expected conditions over the remaining lives of the loans in the portfolio to reflect management's expectation of future conditions based on a reasonable and supportable forecast. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, the Company reduces, on a straight-line basis over one year, the adjustments so that the model reverts back to the historical loss rates. Loans that do not share similar risk characteristics are evaluated on an individual basis.

We identified the ACL as a critical audit matter. The principal considerations for our determination included the high degree of judgment and subjectivity in auditing management's estimate of the ACL, specifically management's identification and measurement of the qualitative factor adjustments. This required a high degree of subjectivity and auditor effort due to the complexities of the model and the nature of the qualitative factor adjustments, which had a significant effect on the ACL.

The primary procedures we performed to address this critical audit matter included:

- Obtained an understanding of the Company's process for establishing the ACL, including management's process for developing and applying qualitative factor adjustments
- Obtained an understanding, evaluated the design, and tested the operating effectiveness of controls relating to management's determination of the ACL, including:
 - Controls over the completeness and accuracy of data used to determine the ACL, and
 - Controls over management's review and approval of the ACL, including the determination of the qualitative factor adjustments
- Tested the mathematical accuracy of the calculation of the ACL, including the mathematical application of the qualitative factor adjustments on the loan segments
- Evaluated the reasonableness of management's identification and application of qualitative factor adjustments to the ACL, including evaluating management's judgements for reasonableness based on changes in economic conditions and the loan portfolio, as well as relevant internal and third-party data

/s/ FORVIS, LLP

We have served as the Company's auditor since 2023.

Springfield, Missouri

March 8, 2024



CliftonLarsonAllen LLP
CLAconnect.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Ames National Corporation Consolidated

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Ames National Corporation Consolidated and Subsidiaries (the Company) as of December 31, 2022, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ CliftonLarsonAllen LLP

We have served as the Company's auditor from 2006 to 2022.
West Des Moines, Iowa
March 10, 2023

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2023 and 2022

(in thousands, except share and per share data)

	2023	2022
ASSETS		
Cash and due from banks	\$ 24,105	\$ 20,819
Interest-bearing deposits in financial institutions and federal funds sold	30,996	7,065
Total cash and cash equivalents	55,101	27,884
Interest-bearing time deposits	8,904	14,669
Securities available-for-sale	736,389	786,438
Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock, at cost	3,086	4,613
Loans receivable, net	1,277,812	1,226,011
Loans held for sale	124	154
Bank premises and equipment, net	22,549	18,895
Accrued income receivable	12,953	11,275
Bank-owned life insurance	3,131	3,054
Deferred income taxes, net	16,496	22,130
Other intangible assets, net	1,429	1,931
Goodwill	12,424	12,424
Other assets	5,083	5,448
Total assets	\$ 2,155,481	\$ 2,134,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing checking	\$ 370,942	\$ 391,576
Interest-bearing checking	611,891	617,379
Savings and money market	552,275	675,031
Time, \$250 and over	67,733	42,886
Other time	208,990	171,085
Total deposits	1,811,831	1,897,957
Securities sold under agreements to repurchase	53,994	40,676
Other borrowings	110,588	39,120
Dividends payable	2,428	2,428
Accrued interest payable	4,710	666
Accrued expenses and other liabilities	6,142	4,981
Total liabilities	1,989,693	1,985,828
STOCKHOLDERS' EQUITY		
Common stock, \$ 2 par value, authorized 18,000,000 shares; issued and outstanding 8,992,167 shares as of December 31, 2023 and 2022		
Additional paid-in capital	17,984	17,984
Retained earnings	14,253	14,253
Accumulated other comprehensive (loss)	180,438	179,931
Total stockholders' equity	(46,887)	(63,070)
Total liabilities and stockholders' equity	165,788	149,098
Total liabilities and stockholders' equity	\$ 2,155,481	\$ 2,134,926

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2023 and 2022

(in thousands, except per share data)

	2023	2022
Interest and dividend income:		
Loans, including fees	\$ 56,810	\$ 45,956
Securities:		
Taxable	12,674	12,101
Tax-exempt	2,292	2,595
Other interest and dividend income	2,525	901
Total interest and dividend income	74,301	61,553
Interest expense:		
Deposits	24,471	7,316
Other borrowed funds	5,205	993
Total interest expense	29,676	8,309
Net interest income	44,625	53,244
Credit loss expense (benefit)	789	(874)
Net interest income after credit loss expense (benefit)	43,836	54,118
Noninterest income:		
Wealth management income	4,649	4,938
Service fees	1,349	1,351
Securities gains, net	35	37
Gain on sale of loans held for sale	362	606
Merchant and card fees	1,665	1,817
Other noninterest income	1,155	938
Total noninterest income	9,215	9,687
Noninterest expense:		
Salaries and employee benefits	23,664	22,909
Data processing	5,985	6,153
Occupancy expenses, net	2,965	2,945
FDIC insurance assessments	1,095	608
Professional fees	2,081	1,888
Business development	1,360	1,427
Intangible asset amortization	502	574
New Markets Tax Credit projects amortization	767	755
Other operating expenses, net	1,743	1,385
Total noninterest expense	40,162	38,644
Income before income taxes	12,889	25,161
Provision for income taxes	2,072	5,868
Net income	\$ 10,817	\$ 19,293
Basic and diluted earnings per share	\$ 1.20	\$ 2.14

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years Ended December 31, 2023 and 2022

(in thousands)

	2023	2022
Net income	\$ 10,817	\$ 19,293
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on securities before tax:		
Unrealized holding gains (losses) arising during the period	21,279	(87,339)
Plus: reclassification adjustment for (gains) realized in net income	(35)	(37)
Other comprehensive income (loss) before tax	<u>21,244</u>	<u>(87,376)</u>
Tax benefit (expense) related to other comprehensive income	(5,056)	21,442
Other income tax effects from tax reform	(5)	-
Other comprehensive income (loss), net of tax	16,183	(65,934)
Comprehensive income (loss)	<u>\$ 27,000</u>	<u>\$ (46,641)</u>

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2021	9,092,167	\$ 18,184	\$ 16,353	\$ 170,377	\$ 2,864	\$ 207,778
Net income	-	-	-	19,293	-	19,293
Other comprehensive (loss)	-	-	-	-	(65,934)	(65,934)
Repurchase and retirement of stock	(100,000)	(200)	(2,100)	-	-	(2,300)
Cash dividends declared, \$ 1.08 per share	-	-	-	(9,739)	-	(9,739)
Balance, December 31, 2022	8,992,167	17,984	14,253	179,931	(63,070)	149,098
Cumulative change in accounting principle	-	-	-	(603)	-	(603)
Net income	-	-	-	10,817	-	10,817
Other income tax effects from tax reform	-	-	-	5	-	5
Other comprehensive income	-	-	-	-	16,183	16,183
Cash dividends declared, \$ 1.08 per share	-	-	-	(9,712)	-	(9,712)
Balance, December 31, 2023	8,992,167	\$ 17,984	\$ 14,253	\$ 180,438	\$ (46,887)	\$ 165,788

See Notes to Consolidated Financial Statements.

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,817	\$ 19,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense (benefit) for loans	774	(874)
Credit loss expense for off-balance sheet credit exposures	15	106
Amortization of securities available-for-sale, loans and deposits, net	1,524	2,133
Amortization of intangible assets	502	574
Depreciation	1,250	1,424
Provision for deferred income taxes	766	1,234
Securities gains, net	(35)	(37)
Increase in cash value of bank-owned life insurance	(77)	(69)
Gain on sales of loans held for sale	(362)	(606)
Proceeds from the sales of loans held for sale	18,678	26,905
Originations of loans held for sale	(18,286)	(26,453)
(Gain) on sale and disposal of bank premises and equipment, net	-	(76)
Amortization of investment in New Markets Tax Credit projects	767	755
Change in assets and liabilities:		
(Increase) in accrued income receivable	(1,678)	(1,151)
(Increase) in other assets	(365)	(1,439)
Increase in accrued interest payable	4,044	313
Increase (decrease) in accrued expenses and other liabilities	873	(801)
Net cash provided by operating activities	19,207	21,231
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in interest-bearing time deposits	5,765	2,253
Purchase of securities available-for-sale	(6,418)	(141,315)
Proceeds from sale of securities available-for-sale	2,069	10,548
Proceeds from maturities and calls of securities available-for-sale	73,917	85,582
Purchase of FHLB stock	(18,791)	(14,131)
Proceeds from the redemption of FHLB and FRB stock	20,318	12,940
Net (increase) in loans	(52,904)	(80,528)
Purchase of premises and equipment	(4,894)	(2,858)
Proceeds from the sale of premises and equipment	-	125
Net cash provided by (used in) investing activities	19,062	(127,384)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(86,126)	19,938
Increase in securities sold under agreements to repurchase	13,318	825
Payments on other borrowings	(186,962)	(3,300)
Proceeds from other borrowings	269,850	4,000
Net proceeds from (payments on) FHLB short-term borrowings	(11,420)	35,420
Dividends paid	(9,712)	(9,675)
Stock repurchases	-	(2,300)
Net cash provided by (used in) financing activities	(11,052)	44,908
Net increase (decrease) in cash and cash equivalents	27,217	(61,245)
CASH AND CASH EQUIVALENTS		
Beginning	27,884	89,129
Ending	\$ 55,101	\$ 27,884

AMES NATIONAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2023 and 2022

(in thousands)

	2023	2022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 25,632	\$ 8,560
Income taxes	1,813	4,969

See 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, Marshalltown and Creston, Iowa. Loan and deposit customers are located primarily in Boone, Clarke, Hancock, Polk, Marshall, Story and Union 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, Story City, Iowa (RSB); United Bank & Trust Co., Marshalltown, Iowa (UBT); and Iowa State Savings Bank, Creston, Iowa (ISSB) (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 credit losses ("ACL"), the assessment of goodwill impairment and the assessment of fair value for certain financial instruments.

Cash and cash equivalents: For purposes of reporting cash flows, cash and due from banks include cash on hand, amounts due from banks, interest-bearing deposits in financial institutions, and federal funds sold. The Company reports net cash flows for customer loan transactions, deposit transactions and short-term borrowings with maturities of 90 days or less.

Interest-bearing time deposits: Interest-bearing time deposits mature within five years and are carried at cost.

Securities available-for-sale and the allowance for credit losses on securities available-for-sale: Debt securities that might not be held until maturity are classified as available for sale ("AFS") and are reported at the fair value in the balance sheet. Fair value measurement is based upon quoted market prices in active markets, if available. If quoted prices in active markets are not available, fair value is measured using pricing models or other model-based valuation techniques such as present value of future cash flows, which consider prepayment assumptions and other factors such as credit losses and market liquidity. Unrealized gains and losses are excluded from earnings and reported, net of tax, in other comprehensive income ("OCI"). 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 or, in the case of callable securities, through the first call date, using the level yield method, is included in income as earned.

AFS debt securities in unrealized loss positions are evaluated for credit losses at least quarterly. For AFS debt securities, a decline in fair value due to credit loss results in recording an allowance for credit losses to the extent the fair value is less than the amortized cost basis. Declines in fair value that have not been recorded through an allowance for credit losses, such as declines due to changes in market interest rates, are recorded through other comprehensive income, net of applicable taxes.

Credit losses may result from credit deterioration of the issuer or collateral underlying the security. In performing an assessment of whether any decline in fair value is due to a credit loss, all relevant information is considered at the individual security level. For asset-backed securities performance indicators considered related to the underlying assets include default rates, delinquency rates, percentage of nonperforming assets, debt-to-collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, analyst reports and forecasts, credit ratings and other market data. In assessing whether a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount the fair value is less than amortized cost basis.

If the Company intends to sell a debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the debt security is written down to its fair value and the write down is charged against the allowance for credit losses with any incremental impairment reported in earnings.

Accrued interest receivable on AFS debt securities totaled \$ 3.5 million at December 31, 2023 and is excluded from the estimate of credit losses.

FHLB and FRB stock: The Banks, as members of the FHLB system, are required to maintain an investment in capital stock of the FHLB in an amount equal to 0.06 percent of the member bank's total assets plus 4.50 percent of outstanding advances from the FHLB and the outstanding principal balance of loans previously issued through the Mortgage Partnership Finance Program (MPF). All shares of FHLB stock are issued and redeemed at par value. The Banks, as members of the FRB system, must subscribe to the capital stock of its District Federal Reserve Bank in an amount equal to 6 percent of the member bank's paid-up capital and surplus and must pay in half of that amount. The other half is subject to call by the Board of Governors. The stock is issued and redeemed at par value. No ready market exists for the FHLB and FRB stock, and it has no quoted market value. The Company evaluates these assets for impairment on a quarterly basis and determined there was no impairment as of December 31, 2023.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses and other basis adjustments. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable on loans held for investment totaled \$ 9.4 million at December 30, 2023 and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Nonrefundable loan fees and origination costs are deferred and recognized as a yield adjustment over the life of the related loan.

The policy for charging off loans is consistent throughout all loan categories. A loan is charged off based on criteria that includes but is not limited to: delinquency status, financial condition of the entire customer credit line and underlying collateral coverage, economic or external conditions that might impact full repayment of the loan, legal issues, overdrafts, and the customer's willingness to work with the Company.

The accrual of interest income on loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payments of interest or principal when they become due, which is generally when a loan is 90 days or more past due unless the loan is well secured and in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed against interest income. Loans are returned to an accrual status when all of the principal and interest amounts contractually due are brought current and repayment of the remaining contractual principal and interest is expected. A loan may also return to accrual status if additional collateral is received from the borrower and, in the opinion of management, the financial position of the borrower indicates that there is no longer any reasonable doubt as to the collection of the amount contractually due. Payment received on nonaccrual loans are applied first to principal. Once principal is recovered, any remaining payments received are applied to interest income.

Allowance for credit losses on loans: Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses for loans. The allowance for credit losses is an estimate of expected losses inherent within the Company's existing loans held for investment portfolio. Expected credit loss inherent in non-cancelable off-balance-sheet ("OBS") credit exposures is accounted for as a separate liability on the balance sheet. The allowance for credit losses for loans held for investment, as reported in our consolidated balance sheet, is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries.

The credit loss estimation process involves procedures to appropriately consider the unique characteristics of loan portfolio segments which consist of construction real estate, 1 to 4 family residential real estate, multi-family real estate, commercial real estate, agricultural real estate, commercial, agricultural and consumer and other lending. When computing allowance levels, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. The key components in this estimation process include the following:

- An initial forecast period of one year for all portfolio segments and OBS credit exposures. This period reflects management's expectation of losses based on forward-looking economic scenarios over that time.
- A historical loss forecast period covering the remaining contractual life, adjusted for prepayments, by portfolio segment based on the change in key historical economic variables.
- A reversion period of 1 year connecting the initial loss forecast to the historical loss forecast based on economic conditions at the measurement date.

The Company primarily utilizes loss rate based undiscounted cash flow (UDCF) methods to estimate credit losses by portfolio segment. The UDCF methods obtain estimated life-time credit losses using the conceptual components described above.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in underwriting new loans and in our process for estimation of expected credit losses. The following provides the credit quality indicators and risk elements that are most relevant and most carefully considered and monitored for each loan portfolio segment.

Determining the Contractual Term: Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Credit Loss Measurement: The allowance level is influenced by loan volumes, loan credit quality indicator migration or delinquency status, historic loss experience and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

For a loan that does not share risk characteristics with other loans, expected credit loss is measured based on net realizable value, that is, the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the amortized cost basis of the loan. For these loans, we recognize expected credit loss equal to the amount by which the net realizable value of the loan is less than the amortized cost basis of the loan (which is net of previous charge-offs and deferred loan fees and costs), except when the loan is collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In these cases, expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining a fair value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. Each quarter management reviews all collateral-dependent loans on a loan-by-loan basis to determine whether updated appraisals or evaluations are necessary based on loan performance, collateral type and guarantor support. At times, the Company measures the fair value of collateral-dependent loans using appraisals or evaluations with dates prior to one year from the date of review. Third-party appraisals are obtained from a pre-approved list of independent, third-party, local appraisal firms maintained by the credit underwriting department or the Company's appraiser. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. Generally, appraisals are internally reviewed to ensure the quality of the appraisal and the expertise and independence of the appraiser. Once the expected credit loss amount is determined an allowance is provided for equal to the calculated expected credit loss and included in the allowance for credit losses. If the calculated expected credit loss is determined to be permanent or not recoverable, the amount of expected credit loss will be charged off. Factors considered by management in determining if the expected credit loss is permanent or not recoverable include whether management judges the loan to be uncollectible, repayment is deemed to be protracted beyond reasonable time frames, or the loss becomes evident owing to the borrower's lack of assets unless both well-secured and in the process of collection.

In estimating the component of the allowance for credit losses for loans that share similar risk characteristics with other loans, such loans are segregated into loan classes. Loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. In determining the allowance for credit losses, we derive an estimated credit loss assumption from a model that categorizes loan pools based on loan type and purpose. This model calculates an expected loss percentage for each loan class by considering the historical loss rate of similar peers. The component of the allowance for credit losses for loans that share similar risk characteristics also considers qualitative factors for each loan class to adjust for differences between the historical period used to calculate historical loss rates and expected conditions over the remaining lives of the loans in the portfolio related to: (1) lending policies and procedures; (2) international, national, regional and local economic business conditions and developments that affect the collectability of the portfolio; (3) the nature and volume of the loan portfolio including the terms of the loans; (4) the experience, depth, and ability of the lending management and other relevant staff; (5) the volume and severity of past due loans and other similar conditions; (6) the quality of our loan review system and (7) the value of underlying collateral for collateralized loans. Additional qualitative factors include the existence and effect of any concentrations of credit, and changes in the level of such concentrations and the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. Such factors are used to adjust the historical loss rates so that they reflect management expectation of future conditions based on a reasonable and supportable forecast. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, the Company reduces, on a straight-line basis over one year, the adjustments so that the model reverts back to the historical loss rates.

Pre-ASC 326 CECL Adoption:

The allowance for credit losses is established through a credit loss expense that is treated as an expense which would be charged against earnings. Loans are charged against the allowance for credit 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 credit 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 credit losses may be greater or lesser than future charge-offs. Due to potential changes in conditions, including economic disruption, high inflation levels, and rising interest rates, 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.

Off-balance sheet credit exposures: The Company, in the normal course of business, extends credit to meet the financing needs of its customers, which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 14.

Allowance for credit losses on off-balance sheet credit exposures, including unfunded loan commitments: The Company maintains a separate allowance for credit losses from off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities. Management estimates the amount of expected losses by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the allowance for credit loss methodology to the results of the usage calculation to estimate the liability for credit losses related to unfunded commitments for each loan type. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement. The allowance for credit losses on OBS credit exposures is adjusted as a credit loss expense. Categories of OBS credit exposures correspond to the loan portfolio segments described previously.

Loans held for sale: Loans held for sale are the loans the Banks have the intent to sell in the foreseeable future. They are stated at the lower of aggregate cost or estimated fair value. Loans are sold on a non-recourse basis with servicing released and gains and losses are recognized based on the difference between sales proceeds and the carrying value of the loan. The Company has had very few experiences of repurchasing loans previously sold into the secondary market. A specific reserve was not considered necessary based on the Company's historical experience with repurchase activity.

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 40 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 credit 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. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available.

Bank-owned life insurance: The carrying amount of bank-owned life insurance consists of the initial premium paid, plus increases in cash value, less the carrying amount associated with any death benefit received. Death benefits paid in excess of the applicable carrying amount are recognized as income. A portion of the increases in cash value and the death benefits recognized as income are exempt from income taxes.

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 and begins with an estimation of the fair value of a reporting unit. Impairment would arise if the fair value of a reporting unit is less than its carrying value.

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. The Company completed a quantitative assessment of goodwill as of October 1, 2023 which indicated that goodwill was not impaired. Subsequently, the Company determined there were no adverse changes in criteria and key considerations to the previous assessment. Accordingly, the Company concluded that there is no impairment of goodwill as of December 31, 2023. Further goodwill impairment evaluations, which may result in goodwill impairment, may be necessary if events or circumstance changes would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The only other significant intangible assets are core deposit intangible and customer list assets. The core deposit intangible and customer list asset are determined to have finite lives and are amortized over the estimated useful lives. 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 and customer list asset 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.

Revenue from contracts with customers: Interest revenue from loans and investments is recognized on the accrual basis of accounting as the interest is earned according to the terms of the particular loan or investment. Income from service and other customer charges is recognized as earned. Revenue from service charges is earned in accordance with the terms of the various products or services provided. Services within the scope of Accounting Standards Codification ("ASC") 606 include service charges on deposits, interchange income, wealth management fees, investment brokerage fees, and the net gain on sale of foreclosed assets.

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 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 securities gains (losses) as a part of net income when realized upon sale.

Derivative financial instruments: The Company uses interest rate swaps as part of its interest rate risk management. FASB ASC Topic 815 establishes accounting and reporting standards for derivative instruments and hedging activities. The Company records all derivatives on the consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. To qualify for hedge accounting, the Company must comply with the detailed rules and documentation requirements at the inception of the hedge, and hedge effectiveness is assessed at inception and periodically throughout the life of the hedging relationship.

The Company has fair value hedging relationships at December 31, 2023. The Company uses hedge accounting in accordance with ASC 815, with the unrealized gains and losses, representing the change in fair value of the derivative and the change in fair value of the risk being hedged on the related loan, being recorded in the consolidated statements of income. The ineffective portions of the unrealized gains or losses, if any, are recorded in interest income and interest expense in the consolidated statements of income. The Company uses the dollar-offset method for assessing effectiveness using the cumulative approach. The dollar-offset method compares the fair value of the hedging derivative with the fair value of the hedged exposure. The cumulative approach involves comparing the cumulative changes in the hedging derivative's fair value to the cumulative changes in the hedged exposure's fair value.

The Company does not use derivatives for trading or speculative purposes.

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

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

Earnings per share: Basic earnings per share ("EPS") computations for the years ended December 31, 2023 and 2022 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 EPS for the years ended December 31, 2023 and 2022 (*in thousands, except share and per share data*):

	2023	2022
Basic earning per share computation:		
Net income	\$ 10,817	\$ 19,293
Weighted average common shares outstanding	8,992,167	9,033,410
Basic EPS	<u>\$ 1.20</u>	<u>\$ 2.14</u>

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

Adoption of New Financial Accounting Standard Codification 326 (ASC 326 (CECL)):

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires the recognition of the allowance for credit losses be estimated using the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to OBS credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and OBS credit exposures. Results for reporting periods beginning January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of \$ 603 thousand as of January 1, 2023 for the cumulative effect of adopting ASC 326, which includes deferred taxes of \$ 188 thousand. The transition adjustment includes a \$ 518 thousand increase to the Allowance for Credit Losses on loans and a \$ 273 thousand increase to the Allowance for Credit Losses on OBS Credit Exposures.

The following table illustrates the impact of ASC 326 (amounts in thousands).

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans receivable			
Allowance for credit losses on loans	\$ 16,215	\$ 15,697	\$ 518
Liabilities:			
Accrued expenses and other liabilities			
Allowance for credit losses on off-balance sheet credit exposures	\$ 1,071	\$ 798	\$ 273

New and Pending Accounting Pronouncements:

In March 2022, the FASB issued ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method. ASU 2022-01 further clarifies certain targeted improvements to the optional hedge accounting model that were made under ASU 2017-12. ASU 2022-01 expands the last-of-layer method and renames this method to portfolio layer method to reflect this expansion, as well as expanding the scope of the portfolio layer method to include nonprepayable financial assets. It also specifies eligible hedging instruments and provides additional guidance on the accounting for and disclosure of hedge basis adjustments that are applicable to the portfolio layer method. ASU 2022-01 permits an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets, thereby allowing consistent accounting for similar hedges. ASU 2022-01 became effective for the Company on January 1, 2023. The adoption of ASU 2022-01 did not have a material impact on the Company's consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using Proportional Amortization Method. The ASU is intended to improve the accounting and disclosures for investments in tax credit structures. It allows reporting entities to elect to adopt for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company is currently evaluating the impact of the ASU on the Company's consolidated financial statements.

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

The Federal Reserve announced on March 15, 2020, that the reserve requirement ratios would be reduced to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. Prior to March 26, 2020, the Federal Reserve Bank required member banks to maintain certain cash and due from bank reserves. The subsidiary banks did not have a reserve requirement at December 31, 2023 or 2022. The Federal Reserve Board currently has no plans to reinstate the reserve requirement but retains the right to reinstate it.

At December 31, 2023, the Company had approximately \$ 38.9 million on deposit at various financial institutions. Management does not believe these balances carry a significant risk of loss but cannot provide absolute assurance that no losses would occur if these institutions were to become insolvent.

Note 3. Debt 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
2023:				
U.S. government treasuries	\$ 213,646	\$ 29	\$ (13,587)	\$ 200,088
U.S. government agencies	99,455	2	(6,842)	92,615
U.S. government mortgage-backed securities	115,988	-	(14,124)	101,864
State and political subdivisions	292,475	93	(22,677)	269,891
Corporate bonds	77,139	11	(5,219)	71,931
Total	\$ 798,703	\$ 135	\$ (62,449)	\$ 736,389
2022:				
U.S. government treasuries	\$ 227,065	\$ -	\$ (19,468)	\$ 207,597
U.S. government agencies	110,370	4	(9,441)	100,933
U.S. government mortgage-backed securities	133,205	4	(16,468)	116,741
State and political subdivisions	317,179	27	(31,203)	286,003
Corporate bonds	82,177	7	(7,020)	75,164
Total	\$ 869,996	\$ 42	\$ (83,600)	\$ 786,438

The amortized cost and fair value of debt securities available-for-sale as of December 31, 2023, are shown below by expected maturity. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties (*in thousands*).

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 82,517	\$ 80,981
Due after one year through five years	395,006	370,101
Due after five years through ten years	196,227	175,993
Due after ten years	8,965	7,450
U.S. government mortgage-backed securities	\$ 682,715	\$ 634,525
Total	\$ 798,703	\$ 736,389

At December 31, 2023 and 2022, securities with a carrying value of approximately \$ 374.4 million and \$ 256.7 million, respectively, were pledged as collateral on public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. Securities sold under agreements to repurchase are held by the Company's safekeeping agent.

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

	2023	2022
Proceeds from sales of securities available-for-sale	\$ 2,069	\$ 10,548
Gross realized gains on securities available-for-sale	73	60
Gross realized losses on securities available-for-sale	(38)	(23)

No credit loss expense was recognized on securities available-for-sale for the year ended December 31, 2023 and no other-than-temporary impairments were recognized as a component of income for the year ended December 31, 2022.

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, 2023 and 2022, are summarized as follows (*in thousands*):

2023:	Less than 12 Months			12 Months or More			Total	
	Estimated Fair Value	Gross Unrealized Losses	No. of Securities	Estimated Fair Value	Gross Unrealized Losses	No. of Securities	Estimated Fair Value	Gross Unrealized Losses
Securities available for sale:								
U.S. government treasuries	\$ -	\$ -	-	\$ 196,432	\$ (13,587)	121	\$ 196,432	\$ (13,587)
U.S. government agencies	1,986	(11)	2	90,137	(6,831)	78	92,123	(6,842)
U.S. government mortgage-backed securities	467	(12)	4	101,265	(14,112)	155	101,732	(14,124)
State and political subdivisions	9,054	(73)	18	251,286	(22,604)	474	260,340	(22,677)
Corporate bonds	3,117	(108)	4	67,816	(5,111)	84	70,933	(5,219)
Total	\$ 14,624	\$ (204)	28	\$ 706,936	\$ (62,245)	912	\$ 721,560	\$ (62,449)

2022:	Less than 12 Months			12 Months or More			Total	
	Estimated Fair Value	Gross Unrealized Losses	No. of Securities	Estimated Fair Value	Gross Unrealized Losses	No. of Securities	Estimated Fair Value	Gross Unrealized Losses
Securities available for sale:								
U.S. government treasuries	\$ 57,882	\$ (3,960)	45	\$ 147,215	\$ (15,508)	89	205,097	(19,468)
U.S. government agencies	61,821	(4,293)	51	38,492	(5,148)	32	100,313	(9,441)
U.S. government mortgage-backed securities	45,440	(4,393)	104	70,854	(12,075)	57	116,294	(16,468)
State and political subdivisions	181,640	(14,556)	335	97,907	(16,647)	203	279,547	(31,203)
Corporate bonds	59,293	(4,281)	71	13,382	(2,739)	23	72,675	(7,020)
Total	\$ 406,076	\$ (31,483)	606	\$ 367,850	\$ (52,117)	404	\$ 773,926	\$ (83,600)

At December 31, 2023, debt securities have unrealized losses of \$ 62.4 million. 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 not credit related. 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.

Note 4. Loans Receivable and Credit Disclosures

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

	2023	2022
Real estate - construction	\$ 63,050	\$ 51,253
Real estate - 1 to 4 family residential	289,404	285,107
Real estate - multi-family	195,536	185,784
Real estate - commercial	359,266	353,285
Real estate - agricultural	161,517	159,448
Commercial	89,729	77,265
Agricultural	119,136	113,355
Consumer and other	16,540	16,211
	<u>1,294,178</u>	<u>1,241,708</u>
Unallocated portfolio layer basis adjustments ¹	410	-
Less allowance for credit losses	(16,776)	(15,697)
Total loans receivable, net	<u>\$ 1,277,812</u>	<u>\$ 1,226,011</u>

¹ This amount represents portfolio layer method basis adjustments related to loans hedged in a closed portfolio. Under the portfolio layer method basis adjustments are not allocated to individual loans, however, the amounts impact the net loan balance. These basis adjustments would be allocated to the amortized cost of specific loans within the pool if the hedge was de-designated. See Note 11 ("Derivative Financial Instruments") for additional information.

On January 1, 2023, the Company adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)," and results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Additionally, the Company reclassified its loan categories to breakout multi-family real estate from commercial real estate and all prior periods have been adjusted.

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 completed project. These estimates may prove to be inaccurate primarily due to unforeseen circumstances beyond the control of the borrower or lender. 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. National unemployment rate is a key economic forecast used in estimating expected credit losses for this segment.

The Company originates 1-4 family real estate loans utilizing credit reports to supplement the underwriting process. The Company's underwriting standards for 1-4 family loans are generally in accordance with FHLMC and FNMA manual underwriting guidelines. Properties securing 1-4 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 national unemployment rate is a key economic forecast used in estimating expected credit losses for this segment.

Multi-family, 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. Multi-family, 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. Loans are typically subject to interest rate adjustments between five and seven years from origination. Fully amortized monthly repayment terms normally do not exceed twenty-five years. Projections and cash flows that show ability to service debt within the amortization period are required. Property and casualty insurance is required to protect the Banks' collateral interests. Appraisals on properties securing these loans are generally performed by fee appraisers approved by the Board of Directors. Because payments on multi-family, 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 multi-family, commercial and agricultural real estate loans are secured primarily by properties located in its primary market areas. The national unemployment rate and the national real gross domestic product (GDP) are key economic forecasts used in estimating expected credit losses for the multi-family and commercial real estate segments. The national real GDP is a key economic forecast used in estimating expected credit losses for the agricultural real estate segment.

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. The national unemployment rate and the national real GDP are key economic forecasts used in estimating expected credit losses for the commercial operating segment. The national real GDP is a key economic forecast used in estimating expected credit losses for the agricultural operating segment.

Consumer and other loans utilize credit reports to supplement the underwriting process. The underwriting standards 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. The Iowa real GDP and Iowa retail trade earnings are key economic forecasts used in estimating expected credit losses for this segment.

The Company 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 credit losses for the years ended December 31, 2023 and 2022 are as follows *(in thousands)*:

	2023	2022
Balance, beginning	\$ 15,697	\$ 16,621
Impact of adopting ASC 326	518	-
Credit loss expense (benefit) ¹	774	(874)
Recoveries of loans charged-off	32	42
Loans charged-off	(245)	(92)
Balance, ending	<u>\$ 16,776</u>	<u>\$ 15,697</u>

¹ The difference in the credit loss expense reported herein as compared to the Consolidated Statements of Income is associated with the credit loss expense of \$ 15 thousand related to off-balance sheet credit exposures.

Activity in the allowance for credit losses, on a disaggregated basis, for the years ended December 31, 2023 and 2022 is as follows (in thousands):

2023:	1-4 Family Residential										Consumer		
	Construction		Multi-family		Commercial		Agricultural						
	Real Estate	Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	Total	Real Estate	Commercial	Agricultural	and Other
Balance, beginning	\$ 730	\$ 3,028	\$ 2,493	\$ 4,742	\$ 1,625	\$ 1,153	\$ 1,705	\$ 221	\$ 15,697				
Impact of adopting ASC 326	(395)	242	(24)	513	(398)	449	(61)	192	518				
Credit loss expense (benefit)	73	58	73	(24)	11	381	161	41	774				
Recoveries of loans charged-off	-	5	-	5	-	9	5	8	32				
Loans charged-off	-	-	-	-	-	(37)	(203)	(5)	(245)				
Balance, ending	\$ 408	\$ 3,333	\$ 2,542	\$ 5,236	\$ 1,238	\$ 1,955	\$ 1,607	\$ 457	\$ 16,776				

2022:	1-4 Family Residential										Consumer		
	Construction		Multi-family		Commercial		Agricultural						
	Real Estate	Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	Total	Real Estate	Commercial	Agricultural	and Other
Balance, beginning	\$ 675	\$ 2,752	\$ 2,501	\$ 5,905	\$ 1,584	\$ 1,170	\$ 1,836	\$ 198	\$ 16,621				
Provision (credit) for loan losses	55	291	(8)	(1,166)	41	20	(124)	17	(874)				
Recoveries of loans charged-off	-	8	-	3	-	4	-	27	42				
Loans charged-off	-	(23)	-	-	-	(41)	(7)	(21)	(92)				
Balance, ending	\$ 730	\$ 3,028	\$ 2,493	\$ 4,742	\$ 1,625	\$ 1,153	\$ 1,705	\$ 221	\$ 15,697				

The following table shows the balance in the allowance for credit losses and loans receivable as of December 31, 2022, disaggregated on the basis of measurement methodology (in thousands).

2022:	1-4 Family Residential										Consumer		
	Construction		Multi-family		Commercial		Agricultural						
	Real Estate	Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	Total	Real Estate	Commercial	Agricultural	and Other
Ending ACL balance: Individually evaluated for credit losses	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68	\$ 95	\$ -	\$ -	\$ 17	\$ 95
Ending ACL balance: Collectively evaluated for credit losses	730	3,018	2,493	4,742	1,625	1,153	1,637	204	15,602				
Ending ACL balance	\$ 730	\$ 3,028	\$ 2,493	\$ 4,742	\$ 1,625	\$ 1,153	\$ 1,705	\$ 221	\$ 15,697				

2022:	1-4 Family Residential										Consumer		
	Construction		Multi-family		Commercial		Agricultural						
	Real Estate	Real Estate	Real Estate	Real Estate	Real Estate	Commercial	Agricultural	and Other	Total	Real Estate	Commercial	Agricultural	and Other
Ending loans receivable balance: Individually evaluated for credit losses	\$ -	\$ 805	\$ -	\$ 12,853	\$ 165	\$ 200	\$ 342	\$ 21	\$ 14,386				
Ending loans receivable balance: Collectively evaluated for credit losses	51,253	284,302	185,784	340,432	159,283	77,065	113,013	16,190	1,227,322				
Ending loans receivable balance	\$ 51,253	\$ 285,107	\$ 185,784	\$ 353,285	\$ 159,448	\$ 77,265	\$ 113,355	\$ 16,211	\$ 1,241,708				

The following table presents the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans (in thousands):

December 31, 2023	Primary Type of Collateral					ACL Allocation
	Real Estate	Equipment	Other	Total		
Real estate - construction	\$ 66	\$ -	\$ -	\$ 66	\$ -	-
Real estate - 1 to 4 family residential	678	-	-	678	-	10
Real estate - multi-family	2,034	-	-	2,034	-	-
Real estate - commercial	8,993	-	-	8,993	-	-
Real estate - agricultural	449	-	-	449	-	-
Commercial	118	-	101	219	-	96
Agricultural	239	669	402	1,310	-	-
Consumer and other	-	-	-	-	-	-
	\$ 12,577	\$ 669	\$ 503	\$ 13,749	\$ 106	

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 loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in our market areas.

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

Ratings 1, 2 and 3 - These ratings include "Pass" 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 of less than \$100,000.

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. Under regulatory guideline definitions, 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) where a specific valuation allowance may be necessary, or (iv) where the borrower is unable to make contractual principal and interest payments. This rating is reviewed at least quarterly.

The following tables show the risk category of loans by loan category and year of origination as of December 31, 2023 (in thousands):

December 31, 2023

	Amortized Cost Basis of Term Loans by Year of Origination									Prior	Revolving	Total
	2023	2022	2021	2020	2019							
Real estate - construction												
Pass	\$ 45,404	\$ 14,501	\$ 746	\$ 11	\$ -	\$ 325	\$ 1,917	\$ 62,904				
Watch	80	-	-	-	-	-	-	-				80
Special Mention	-	-	-	-	-	-	-	-				-
Substandard	-	-	-	-	-	-	-	-				-
Substandard-Impaired	-	66	-	-	-	-	-	-				66
Total	\$ 45,484	\$ 14,567	\$ 746	\$ 11	\$ -	\$ 325	\$ 1,917	\$ 63,050				
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Real estate - 1-4 family residential												
Pass	\$ 55,051	\$ 66,190	\$ 59,250	\$ 47,865	\$ 8,607	\$ 17,154	\$ 18,649	\$ 272,766				
Watch	1,608	298	10,483	1,226	-	358	27	14,000				
Special Mention	-	-	-	-	-	-	-	-				-
Substandard	448	18	1,350	47	33	64	-	1,960				
Substandard-Impaired	115	-	140	-	199	144	80	678				
Total	\$ 57,222	\$ 66,506	\$ 71,223	\$ 49,138	\$ 8,839	\$ 17,720	\$ 18,756	\$ 289,404				
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Real estate - multi-family												
Pass	\$ 18,436	\$ 51,928	\$ 47,161	\$ 40,201	\$ 13,542	\$ 694	\$ 5,020	\$ 176,982				
Watch	4,603	1,427	8,192	-	-	-	-	14,222				
Special Mention	-	-	-	-	-	-	-	-				-
Substandard	-	-	-	2,298	-	-	-	2,298				
Substandard-Impaired	983	-	-	-	1,051	-	-	2,034				
Total	\$ 24,022	\$ 53,355	\$ 55,353	\$ 42,499	\$ 14,593	\$ 694	\$ 5,020	\$ 195,536				
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Real estate - commercial												
Pass	\$ 35,133	\$ 81,342	\$ 51,598	\$ 66,467	\$ 20,006	\$ 13,122	\$ 2,929	\$ 270,597				
Watch	8,379	13,580	14,669	14,607	78	583	2,988	54,884				
Special Mention	-	2,531	11,853	3,006	1,043	-	-	18,433				
Substandard	897	-	4,822	551	-	106	-	6,376				
Substandard-Impaired	8,517	-	99	-	360	-	-	8,976				
Total	\$ 52,926	\$ 97,453	\$ 83,041	\$ 84,631	\$ 21,487	\$ 13,811	\$ 5,917	\$ 359,266				
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Real estate - agricultural												
Pass	\$ 22,469	\$ 30,738	\$ 32,893	\$ 27,733	\$ 6,039	\$ 22,850	\$ 2,073	\$ 144,795				
Watch	4,163	379	2,263	1,760	333	3,601	-	12,499				
Special Mention	-	-	-	-	-	-	-	-				-
Substandard	2,302	1,439	114	-	-	214	-	4,069				
Substandard-Impaired	-	-	154	-	-	-	-	154				
Total	\$ 28,934	\$ 32,556	\$ 35,424	\$ 29,493	\$ 6,372	\$ 26,665	\$ 2,073	\$ 161,517				
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				

December 31, 2023

Amortized Cost Basis of Term Loans by Year of Origination

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial								
Pass	\$ 23,904	\$ 12,645	\$ 10,378	\$ 2,087	\$ 2,434	\$ 1,578	\$ 29,752	\$ 82,778
Watch	860	295	119	423	93	137	1,996	3,923
Special Mention	-	-	-	-	-	-	-	-
Substandard	600	256	-	421	-	-	1,484	2,761
Substandard-Impaired	94	-	5	96	-	72	-	267
Total	\$ 25,458	\$ 13,196	\$ 10,502	\$ 3,027	\$ 2,527	\$ 1,787	\$ 33,232	\$ 89,729
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ 33	\$ -	\$ 4	\$ -	\$ 37
Agricultural								
Pass	\$ 14,614	\$ 8,395	\$ 5,459	\$ 2,858	\$ 400	\$ 608	\$ 77,448	\$ 109,782
Watch	1,107	340	288	18	18	194	5,419	7,384
Special Mention	-	-	-	-	-	-	-	-
Substandard	866	14	25	58	-	-	-	963
Substandard-Impaired	95	140	383	-	-	-	389	1,007
Total	\$ 16,682	\$ 8,889	\$ 6,155	\$ 2,934	\$ 418	\$ 802	\$ 83,256	\$ 119,136
Current-period gross writeoffs	\$ 39	\$ 74	\$ 90	\$ -	\$ -	\$ -	\$ -	\$ 203
Consumer and other								
Pass	\$ 6,801	\$ 3,719	\$ 2,701	\$ 2,071	\$ 352	\$ 731	\$ 15	\$ 16,390
Watch	127	-	-	-	-	-	-	127
Special Mention	-	-	-	-	-	-	-	-
Substandard	10	-	-	-	-	-	-	10
Substandard-Impaired	-	-	-	13	-	-	-	13
Total	\$ 6,938	\$ 3,719	\$ 2,701	\$ 2,084	\$ 352	\$ 731	\$ 15	\$ 16,540
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 5
Total loans								
Pass	\$ 221,812	\$ 269,458	\$ 210,186	\$ 189,293	\$ 51,380	\$ 57,062	\$ 137,803	\$ 1,136,994
Watch	20,927	16,319	36,014	18,034	522	4,873	10,430	107,119
Special Mention	-	2,531	11,853	3,006	1,043	-	-	18,433
Substandard	5,123	1,727	6,311	3,375	33	384	1,484	18,437
Substandard-Impaired	9,804	206	781	109	1,610	216	469	13,195
Total	\$ 257,666	\$ 290,241	\$ 265,145	\$ 213,817	\$ 54,588	\$ 62,535	\$ 150,186	\$ 1,294,178
Current-period gross writeoffs	\$ 39	\$ 74	\$ 90	\$ 33	\$ -	\$ 9	\$ -	\$ 245

The credit risk profile by internally assigned grade, on a disaggregated basis, as of December 31, 2022 is as follows (in thousands):

2022:	Construction Real Estate	Multi-family Real Estate	Commercial Real Estate	Agricultural Real Estate	Commercial	Agricultural	Total
Pass	\$ 51,253	\$ 174,048	\$ 264,898	\$ 136,043	\$ 69,872	\$ 98,415	\$ 794,529
Watch	-	9,344	62,076	18,324	5,392	14,146	109,282
Special Mention	-	-	-	-	116	-	116
Substandard	-	2,392	13,458	4,916	1,685	452	22,903
Substandard-Impaired	-	-	12,853	165	200	342	13,560
Total	\$ 51,253	\$ 185,784	\$ 353,285	\$ 159,448	\$ 77,265	\$ 113,355	\$ 940,390

The credit risk profile based on payment activity, on a disaggregated basis, as of December 31, 2022 is as follows (in thousands):

2022:	1-4 Family Residential Real Estate	Consumer and Other	Total
Performing	\$ 284,302	\$ 16,190	\$ 300,492
Non-performing	805	21	826
Total	\$ 285,107	\$ 16,211	\$ 301,318

As of December 31, 2022, consumer and 1-4 family loans are considered non-performing when the loan is greater than 90 days past due or it is determined that the borrower is unable to make contractual principal and interest payments.

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 credit losses 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 credit losses.

The following is a Pre-ASC 326 (CECL) adoption recap of impaired loans, on a disaggregated basis, as of December 31, 2022 and the average recorded investment and interest income recognized on these loans for the year ended December 31, 2022 (*in thousands*):

2022:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific reserve recorded:					
Real estate - construction	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate - 1 to 4 family residential	687	721	-	715	70
Real estate - multi-family	-	-	-	-	-
Real estate - commercial	12,853	13,578	-	3,391	-
Real estate - agricultural	165	194	-	319	14
Commercial	200	249	-	227	6
Agricultural	78	88	-	147	-
Consumer and other	4	7	-	5	1
Total loans with no specific reserve:	<u>13,987</u>	<u>14,837</u>	-	<u>4,804</u>	<u>91</u>
With an allowance recorded:					
Real estate - construction	-	-	-	-	-
Real estate - 1 to 4 family residential	118	123	10	188	1
Real estate - multi-family	-	-	-	-	-
Real estate - commercial	-	-	-	7,667	-
Real estate - agricultural	-	-	-	-	-
Commercial	-	-	-	35	1
Agricultural	264	294	68	292	-
Consumer and other	17	19	17	19	-
Total loans with specific reserve:	<u>399</u>	<u>436</u>	<u>95</u>	<u>8,201</u>	<u>2</u>
Total					
Real estate - construction	-	-	-	-	-
Real estate - 1 to 4 family residential	805	844	10	903	71
Real estate - multi-family	-	-	-	-	-
Real estate - commercial	12,853	13,578	-	11,058	-
Real estate - agricultural	165	194	-	319	14
Commercial	200	249	-	262	7
Agricultural	342	382	68	439	-
Consumer and other	21	26	17	24	1
Total	<u>\$ 14,386</u>	<u>\$ 15,273</u>	<u>\$ 95</u>	<u>\$ 13,005</u>	<u>\$ 93</u>

The following table presents the amortized cost basis of loans on nonaccrual status and loans on nonaccrual status with no allowance for credit losses recorded by loan category (*in thousands*).

	Total Nonaccrual		Nonaccrual with no ACL	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Real estate - construction	\$ 66	\$ -	\$ 66	\$ -
Real estate - 1 to 4 family residential	678	805	563	687
Real estate - multi-family	2,034	-	2,034	-
Real estate - commercial	8,976	12,853	8,976	12,853
Real estate - agricultural	449	500	449	500
Commercial	268	200	172	200
Agricultural	1,310	342	1,310	78
Consumer and other	13	21	-	4
	\$ 13,794	\$ 14,721	\$ 13,570	\$ 14,322

The interest foregone on nonaccrual loans for the years ended December 31, 2023 and 2022 was approximately \$ 768 thousand and \$ 733 thousand, respectively.

Loan Modifications to Borrowers Experiencing Financial Difficulty. Loan modifications may include interest rate reductions or below market interest rates, extension of payments terms beyond the original maturity date, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a loss rate model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses, a change to the allowance for credit losses is generally not recorded upon modification.

The Company made three loan modifications to borrowers experiencing financial difficulty for the year ended December 31, 2023.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted (*in thousands*):

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

Loan Type	Term Extension		
	Amortized Cost Basis at December 31, 2023	% of Total Class of Financing Receivable	
Agricultural	\$ 336	0.3%	

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

Loan Type	Term Extension	Financial Effect
Agricultural	8	

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is charged-off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. The Company had \$ 34 thousand of net charge-offs for the year ended December 31, 2023.

There were two loan modifications with an amortized cost basis of \$ 42 thousand that had a payment default and were modified in the twelve months before default as of December 31, 2023. A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms.

Troubled Debt Restructurings. The restructuring of a loan is considered a TDR if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, extension of payments terms beyond the original maturity date, 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 TDR 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. If the TDR loan has a below market interest rate at the time of restructuring, it will be considered impaired until fully collected.

For TDR loans 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 credit losses and, as necessary, recognizes credit losses through the allowance. The Company had no net charge-offs for the year ended December 31, 2022.

The Company had loans meeting the definition of TDR of \$ 10.7 million as of December 31, 2022, all of which were included as impaired and nonaccrual loans.

The Company's TDRs, on a disaggregated basis, occurring in the year ended December 31, 2022 is as follows (*dollars in thousands*):

	2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate - construction	-	\$ -	\$ -
Real estate - 1 to 4 family residential	1	\$ 118	\$ 118
Real estate - commercial	-	-	-
Real estate - agricultural	-	-	-
Commercial	-	-	-
Agricultural	-	-	-
Consumer and other	-	-	-
Total	1	\$ 118	\$ 118

During the year ended December 31, 2022, the Company granted a concession to one borrower, with one contract, experiencing financial difficulties. The loan was restructured for an extended maturity and accrued interest was capitalized.

There were no TDR loans that were modified during the year ended December 31, 2022 with a payment default. A TDR loan is considered to have payment default when it is past due 60 days or more.

There was no significant financial impact from specific reserves for the TDR loans.

An aging analysis of the recorded investment in loans, on a disaggregated basis, as of December 31, 2023 and 2022, are as follows (in thousands):

2023:	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	\$ 359	\$ 66	\$ 425	\$ 62,625	\$ 63,050	\$ -
Real estate - 1 to 4 family residential	1,020	302	1,322	288,082	289,404	3
Real estate - multi-family	-	983	983	194,553	195,536	-
Real estate - commercial	119	106	225	359,041	359,266	106
Real estate - agricultural	-	-	-	161,517	161,517	-
Commercial	559	98	657	89,072	89,729	-
Agricultural	169	529	698	118,438	119,136	-
Consumer and other	16	-	16	16,524	16,540	-
Total	\$ 2,242	\$ 2,084	\$ 4,326	\$ 1,289,852	\$ 1,294,178	\$ 109

2022:	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	90 Days or Greater Accruing
Real estate - construction	\$ 66	\$ -	\$ 66	\$ 51,187	\$ 51,253	\$ -
Real estate - 1 to 4 family residential	944	11	955	284,152	285,107	-
Real estate - multi-family	-	-	-	185,784	185,784	-
Real estate - commercial	2,362	1,399	3,761	349,524	353,285	-
Real estate - agricultural	185	-	185	159,263	159,448	-
Commercial	592	7	599	76,666	77,265	-
Agricultural	218	30	248	113,107	113,355	-
Consumer and other	37	4	41	16,170	16,211	-
Total	\$ 4,404	\$ 1,451	\$ 5,855	\$ 1,235,853	\$ 1,241,708	\$ -

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, 2023, there were no material commitments to lend additional funds to customers whose loans were classified as substandard-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 as of December 31, 2023 and 2022 were as follows (in thousands):

	2023	2022
Balance, beginning of year	\$ 16,680	\$ 17,269
New loans	9,480	13,067
Repayments	(10,269)	(13,633)
Change in status	69	(23)
Balance, end of year	\$ 15,960	\$ 16,680

Note 5. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation as of December 31, 2023 and 2022 (*in thousands*):

	2023	2022
Land	\$ 4,210	\$ 3,994
Construction in process	-	1,206
Buildings and improvements	28,506	23,679
Furniture and equipment	8,334	8,324
	<u>41,050</u>	<u>37,203</u>
Less accumulated depreciation	18,501	18,308
Total bank premises and equipment, net	<u>\$ 22,549</u>	<u>\$ 18,895</u>

Note 6. Goodwill

Goodwill arose in connection with four acquisitions in previous periods. Accounting standards allow for goodwill to be tested for impairment by performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. There was no impairment of the carrying amount of goodwill in 2023 and 2022.

Note 7. Intangible Assets

The following sets forth the carrying amounts and accumulated amortization of all intangible assets as of December 31, 2023 and 2022 (*in thousands*):

	2023		2022	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposit intangible asset	\$ 6,411	\$ 4,982	\$ 6,411	\$ 4,539
Customer list	535	535	535	476
Total	\$ 6,946	\$ 5,517	\$ 6,946	\$ 5,015

The weighted average life of the intangible assets is approximately 2 years and 3 years as of December 31, 2023 and 2022, respectively.

The amortization expense for the intangible assets totaled \$ 502 thousand and \$ 574 thousand for the years ended December 31, 2023 and 2022, respectively. Estimated remaining amortization expense on intangible assets is as follows for the years ending December 31 (*in thousands*):

2024	337
2025	301
2026	268
2027	240
2028	190
After	93
Total	\$ 1,429

The following sets forth the activity related to intangible assets for the years ended December 31, 2023 and 2022 (*in thousands*):

	2023	2022
Beginning intangibles, net	\$ 1,931	\$ 2,505
Amortization	(502)	(574)
Ending intangible asset, net	\$ 1,429	\$ 1,931

Note 8. Deposits

At December 31, 2023, the maturities of time deposits are as follows (*in thousands*):

2024	\$ 240,732
2025	24,370
2026	5,763
2027	3,499
2028	2,359
Total time deposits	\$ 276,723

Interest expense on deposits for the years ended December 31, 2023 and 2022 is summarized as follows (*in thousands*):

	2023	2022
Interest-bearing checking	\$ 9,824	\$ 2,888
Savings and money market	6,970	2,610
Time deposits	7,677	1,818
Total deposit interest expense	\$ 24,471	\$ 7,316

Deposits held by the Company from related parties as of December 31, 2023 and 2022 totaled approximately \$ 22.7 million and \$ 19.7 million, respectively.

Note 9. Pledged Collateral Related to Securities Sold Under Repurchase Agreements

The repurchase agreements mature daily and the following sets forth the pledged collateral at estimated fair value related to securities sold under repurchase agreements (repurchase agreements) as of December 31, 2023 and 2022 (*in thousands*):

	2023	2022
Securities sold under agreements to repurchase:		
U.S. government treasuries	\$ 22,877	\$ 12,555
U.S. government agencies	44,960	39,226
U.S. government mortgage-backed securities	7,369	9,133
Total pledged collateral	\$ 75,206	\$ 60,914

The following table summarizes the outstanding amount of, and the average rate on, repurchase agreements as of December 31, 2023 and 2022 (dollars in thousands).

	2023		2022	
	Balance	Average Rate	Balance	Average Rate
Repurchase agreements	\$ 53,994	2.83%	\$ 40,676	2.50%

Note 10. Borrowings

FHLB advances are collateralized by FHLB stock, certain 1-4 family residential real estate loans, multifamily real estate loans, commercial real estate loans and agricultural real estate loans. The Banks had available borrowing capacity with the FHLB of Des Moines, Iowa of \$ 280.9 million and \$ 285.3 million at December 31, 2023 and 2022, respectively. As of December 31, 2023, the Company had \$ 24 million of FHLB advances maturing in 2024 with a weighted average interest rate of 5.51 %. As of December 31, 2022, the Company had \$ 35.4 million of FHLB advances maturing in 2023 with a weighted average interest rate of 4.50 %.

The Federal Reserve Board created the Bank Term Funding Program (BTFP) in 2023, offering loans of up to one year in length to banks pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. The BTFP allows for borrowing from the Federal Reserve Bank up to the par value of the pledged collateral. As of December 31, 2023, the Company had \$ 83.1 million borrowed under the BTFP maturing in 2024 with a weighted average interest rate of 4.41 %.

On August 15, 2023, the Company borrowed \$ 400 thousand on a credit agreement with a commercial bank. Principal and interest is payable quarterly over 15 years and the agreement matures in June 2038. The interest rate is fixed at 6.5 % for five years and variable beginning September 15, 2028. The outstanding balance was \$ 388 thousand as of December 31, 2023. The note is secured by property in Ames, Iowa.

On June 6, 2022, the Company borrowed \$ 4.0 million on a credit agreement with a commercial bank. The borrowings were used for general corporate purposes. Interest under the note is payable quarterly over four years. Required quarterly principal payments of \$ 150 thousand began in September 2022, with the remaining balance due June 2026. The interest rate is fixed at 3.35 % and the outstanding balance was \$ 3.1 million and \$ 3.7 million as of December 31, 2023 and 2022, respectively. The note is secured by property in West Des Moines, Iowa.

Future required principal payments for long-term debt as of December 31, 2023 are shown in the table below (in thousands).

2024	617
2025	618
2026	1,920
2027	21
2028	22
Thereafter	290
	<hr/>
	\$ 3,488

Note 11. Derivative Financial Instruments

In the normal course of business, the Company may use derivative financial instruments to manage its interest rate risk. These instruments carry varying degrees of credit, interest rate and market or liquidity risks. Derivative instruments are recognized as either assets or liabilities in the accompanying consolidated financial statements and are measured at fair value. The Company's objectives are to add stability to its net interest margin and to manage its exposure to movements in interest rates. The contract or notional amount of a derivative is used to determine, along with the other terms of the derivative, the amount to be exchanged between the counterparties. The Company is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. The Company minimizes this risk by entering into derivative contracts with large, stable financial institutions. The Company has not experienced any losses from nonperformance by counterparties. The Company monitors counterparty risk in accordance with the provisions of ASC 815.

Fair Value Hedges

The Company uses interest rate swaps to convert certain long term fixed rate loans to floating rates to hedge interest rate risk exposure. The Company uses hedge accounting in accordance with ASC 815, with the unrealized gains and losses, representing the change in fair value of the derivative and the change in fair value of the risk being hedged on the related loan, being recorded in the consolidated statements of income. The ineffective portions of the unrealized gains or losses, if any, are recorded in interest income and interest expense in the consolidated statements of income. The Company uses the dollar-offset method for assessing effectiveness using the cumulative approach. The dollar-offset method compares the fair value of the hedging derivative with the fair value of the hedged exposure. The cumulative approach involves comparing the cumulative changes in the hedging derivative's fair value to the cumulative changes in the hedged exposure's fair value.

During 2023, the Company executed an interest rate swap designated as a fair value hedge with an original notional amount of \$ 25.0 million to convert certain long-term fixed rate 1-4 family loans to floating rates to hedge interest rate risk exposure using the portfolio layer method.

The portfolio layer method allows the Company to designate as the hedged item a stated amount of the assets that are not expected to be affected by prepayments, defaults and other factors that would affect the timing and amount of cash flow. The fair value portfolio level basis adjustment on the hedged loans has not been attributed to the individual loans on the consolidated balance sheet.

The Company was required to pledge \$ 1.6 million and \$ 1.0 million of securities as collateral for these fair value hedges as of December 31, 2023 and 2022, respectively.

The table below identifies the notional amount, fair value and balance sheet category of the Company's interest rate swaps at December 31, 2023 and 2022 (in thousands):

	Notional Amount	Fair Value	Balance Sheet Category
December 31, 2023			
Interest rate swaps	\$ 8,930	\$ 891	Other assets
Interest rate swaps	25,000	(411)	Other liabilities
December 31, 2022			
Interest rate swaps	\$ 9,314	\$ 1,096	Other assets

The table below identifies the carrying amount of the hedged assets and cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets that are designated as a fair value hedge accounting relationship as of December 31, 2023 and 2022 (in thousands):

	Location in the consolidated balance sheet	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value	
			Hedging Adjustment Included in Carrying Amount of Hedged Assets	
December 31, 2023				
Interest rate swaps	Loans receivable, net	\$ 58,588	\$ (481)	
December 31, 2022				
Interest rate swaps	Loans receivable, net	\$ 8,494	\$ (1,096)	

Back-to-Back Loan Swaps

The Company has interest rate swap loan relationships with customers to assist them in managing their interest rate risk. Upon entering into these loan swaps, the Company enters into offsetting positions with counterparties in order to minimize interest rate risk. These back-to-back loan swaps qualify as free-standing financial derivatives with the fair values reported in other assets and other liabilities on the consolidated balance sheets. The Company posted collateral of \$429 thousand as of December 31, 2023 and was not required to post collateral at December 31, 2022, related to these back-to-back swaps. The Company's counterparties were not required to pledge collateral as of December 31, 2023 and 2022. Any gains and losses on these back-to-back swaps are recorded in noninterest income on the consolidated statements of income, and for the years ended December 31, 2023 and 2022, no gain or loss was recognized. The table below identifies the balance sheet category and fair values of the derivative instruments designated as loan swaps as of December 31, 2023 and 2022 (*in thousands*):

	Notional Amount	Fair Value	Balance Sheet Category	Weighted Average Receive Rate	Weighted Average Pay Rate
December 31, 2023					
Customer interest rate swaps	\$ 11,353	\$ 334	Other assets	7.36%	5.62%
Customer interest rate swaps	11,353	(334)	Other liabilities	5.62%	7.36%
December 31, 2022					
Customer interest rate swaps	\$ -	\$ -	Other assets	0.00%	0.00%
Customer interest rate swaps	-	-	Other liabilities	0.00%	0.00%

Note 12. Employee Benefit Plans

The Company has a qualified 401(k) profit-sharing plan. For the years ended December 31, 2023 and 2022, the Company matched employee contributions up to a maximum of 6 %. For the years ended December 31, 2023 and 2022, Company contributions to the plan were approximately \$ 1.1 million. The plan covers substantially all employees.

Note 13. Income Taxes

The components of income tax expense for the years ended December 31, 2023 and 2022 are as follows (*in thousands*):

	2023	2022
Federal:		
Current	\$ 746	\$ 3,453
Deferred	565	529
Total federal income tax expense	1,311	3,982
State:		
Current	560	1,781
Deferred	201	105
Total state income tax expense	761	1,886
Total income tax expense	\$ 2,072	\$ 5,868

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21 % to income before income taxes for the years ended December 31, 2023 and 2022 as shown in the following table (*in thousands*):

	2023	2022
Income taxes at 21%	\$ 2,707	\$ 5,284
Increase (decrease) resulting from:		
Tax-exempt interest	(414)	(541)
State taxes, net of federal tax benefit	334	1,684
New Markets Tax Credits	(725)	(713)
Valuation allowance	112	69
Other	58	85
Total income tax expense	\$ 2,072	\$ 5,868

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2023 and 2022 are as follows (*in thousands*):

	2023	2022
Deferred tax assets:		
Allowance for loan losses	\$ 3,987	\$ 3,731
Net unrealized losses on securities available-for-sale	14,831	19,887
State operating and alternative minimum tax carryforward	882	779
Fair value adjustments from acquisitions	41	61
Accrued vacation	275	267
Off balance sheet reserve	231	162
Other deferred tax assets	267	242
Total deferred tax assets	20,514	25,129
Deferred tax liabilities:		
Goodwill and other intangible assets	(1,267)	(1,168)
Bank premises and equipment	(1,300)	(600)
Deferred loan costs	(201)	(177)
Other deferred tax liabilities	(446)	(363)
Total deferred tax liabilities	(3,214)	(2,308)
Valuation allowance	(804)	(691)
Net deferred tax asset	\$ 16,496	\$ 22,130

The Company has approximately \$ 578 thousand and \$ 465 thousand of state income taxes associated with state net operating loss ("NOL") carryforwards as of December 31, 2023 and 2022, respectively. The Company has recorded a valuation allowance against the tax effect of the NOL, as management believes it is more likely than not that such carryforwards will not be utilized.

The Company has approximately \$ 226 thousand of state alternative minimum tax ("AMT") credit carryforwards available to offset future state alternative minimum taxable income as of December 31, 2023 and 2022. The Company has recorded a valuation allowance against the tax effect of the AMT credit carryforwards, as management believes it is more likely than not that such carryforwards will not be utilized.

The Company and its subsidiaries file one income tax return in the U.S. federal jurisdiction and separate tax returns for the state of Iowa. The Company is no longer subject to U.S. federal income and state tax examinations for years before 2020.

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, 2023 and 2022 that would require recognition. The Company had no significant unrecognized tax benefits as of December 31, 2023, 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 next 12 months as of December 31, 2023 and 2022.

Note 14. Commitments, Contingencies and Concentrations of Credit Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. A summary of the Company's commitments as of December 31, 2023 and 2022 is as follows (*in thousands*):

	2023	2022
Commitments to extend credit	\$ 262,749	\$ 262,883
Standby letters of credit	7,927	4,963
Total commitments	\$ 270,676	\$ 267,846

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. As of December 31, 2023 and 2022, approximately \$ 157.7 million and \$ 161.7 million 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.

As of December 31, 2023 and 2022, the Banks have established liabilities totaling approximately \$ 1.1 million and \$ 798 thousand, 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, Clarke, Hancock, Marshall, Polk, Story and Union counties in Iowa, as well as adjacent counties. Although the Banks have diversified loan portfolios, a substantial portion of their borrowers' ability to repay loans is dependent upon economic conditions in the Banks' market areas.

Note 15. Regulatory Matters

The Company and the Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the 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. Regulators also have the ability to impose higher limits than those specified by capital adequacy guidelines if they so deem necessary. Management believes, as of December 31, 2023 and 2022, that the Company and each subsidiary bank met all capital adequacy requirements to which they are subject.

The Company's and each of the subsidiary bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are also presented in the tables. (dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023:						
Total capital (to risk-weighted assets):						
Consolidated	\$ 218,049	14.0%	\$ 164,005	10.50%	N/A	N/A
Boone Bank & Trust	16,232	13.6	12,510	10.50	11,914	10.0%
First National Bank	112,057	13.9	84,863	10.50	80,822	10.0
Iowa State Savings Bank	26,691	15.7	17,854	10.50	17,004	10.0
Reliance State Bank	28,755	11.9	25,293	10.50	24,089	10.0
State Bank & Trust	22,283	16.0	14,597	10.50	13,902	10.0
United Bank & Trust	12,989	16.1	8,486	10.50	8,082	10.0
Tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 200,187	12.8%	\$ 132,766	8.50%	N/A	N/A
Boone Bank & Trust	15,309	12.8	10,127	8.50	9,532	8.0%
First National Bank	102,634	12.7	68,699	8.50	64,658	8.0
Iowa State Savings Bank	24,619	14.5	14,453	8.50	13,603	8.0
Reliance State Bank	25,937	10.8	20,476	8.50	19,271	8.0
State Bank & Trust	20,676	14.9	11,817	8.50	11,122	8.0
United Bank & Trust	11,979	14.8	6,870	8.50	6,466	8.0
Tier 1 capital (to average assets):						
Consolidated	\$ 200,187	9.0%	\$ 88,992	4.00%	N/A	N/A
Boone Bank & Trust	15,309	9.6	6,393	4.00	7,991	5.0%
First National Bank	102,634	8.8	46,878	4.00	58,597	5.0
Iowa State Savings Bank	24,619	9.6	10,234	4.00	12,792	5.0
Reliance State Bank	25,937	8.3	12,464	4.00	15,580	5.0
State Bank & Trust	20,676	9.6	8,573	4.00	10,717	5.0
United Bank & Trust	11,979	9.5	5,039	4.00	6,299	5.0
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 200,187	12.8%	\$ 109,337	7.00%	N/A	N/A
Boone Bank & Trust	15,309	12.8	8,340	7.00	7,744	6.5%
First National Bank	102,634	12.7	56,576	7.00	52,534	6.5
Iowa State Savings Bank	24,619	14.5	11,903	7.00	11,052	6.5
Reliance State Bank	25,937	10.8	16,862	7.00	15,658	6.5
State Bank & Trust	20,676	14.9	9,731	7.00	9,036	6.5
United Bank & Trust	11,979	14.8	5,657	7.00	5,253	6.5

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Total capital (to risk-weighted assets):						
Consolidated	\$ 215,799	14.1%	\$ 160,370	10.50%	N/A	N/A
Boone Bank & Trust	15,962	12.9	12,984	10.50	12,366	10.0%
First National Bank	110,887	14.2	82,089	10.50	78,180	10.0
Iowa State Savings Bank	25,398	15.5	17,210	10.50	16,390	10.0
Reliance State Bank	28,385	12.4	24,103	10.50	22,955	10.0
State Bank & Trust	22,011	14.7	15,716	10.50	14,968	10.0
United Bank & Trust	12,633	15.1	8,759	10.50	8,342	10.0
Tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 199,069	13.0%	\$ 129,823	8.50%	N/A	N/A
Boone Bank & Trust	14,990	12.1	10,511	8.50	9,893	8.0%
First National Bank	101,976	13.0	66,453	8.50	62,544	8.0
Iowa State Savings Bank	24,113	14.7	13,932	8.50	13,112	8.0
Reliance State Bank	25,647	11.2	19,512	8.50	18,364	8.0
State Bank & Trust	20,392	13.6	12,723	8.50	11,974	8.0
United Bank & Trust	11,677	14.0	7,090	8.50	6,673	8.0
Tier 1 capital (to average assets):						
Consolidated	\$ 199,069	9.1%	\$ 87,392	4.00%	N/A	N/A
Boone Bank & Trust	14,990	8.7	6,868	4.00	8,585	5.0%
First National Bank	101,976	8.9	45,582	4.00	56,978	5.0
Iowa State Savings Bank	24,113	9.3	10,423	4.00	13,029	5.0
Reliance State Bank	25,647	8.5	12,001	4.00	15,001	5.0
State Bank & Trust	20,392	9.1	8,932	4.00	11,165	5.0
United Bank & Trust	11,677	8.9	5,274	4.00	6,592	5.0
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 199,069	13.0%	\$ 106,913	7.00%	N/A	N/A
Boone Bank & Trust	14,990	12.1	8,656	7.00	8,038	6.5%
First National Bank	101,976	13.0	54,726	7.00	50,817	6.5
Iowa State Savings Bank	24,113	14.7	11,473	7.00	10,654	6.5
Reliance State Bank	25,647	11.2	16,069	7.00	14,921	6.5
State Bank & Trust	20,392	13.6	10,477	7.00	9,729	6.5
United Bank & Trust	11,677	14.0	5,839	7.00	5,422	6.5

The Company and the Banks are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules include the implementation of a 2.5 percent capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. A banking organization with a capital conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments, and certain discretionary bonus payments to executive officers. At December 31, 2023 and 2022, the capital ratios for the Company and the Banks were sufficient to meet the conservation buffer.

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

Note 16. Fair Value Measurements

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

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

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

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

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

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis.

Securities available-for-sale: Level 1 securities include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. U.S. government agencies, mortgage-backed securities, state and political subdivisions, and most corporate bonds 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.

Derivative financial instruments and loans receivable: The Company's derivative financial instruments and loans receivable consist of interest rate swaps on loans accounted for as fair value hedges. The Company's derivative financial instruments also include back-to-back loan swaps to assist customers in managing their interest rate risk while executing offsetting interest rate swaps with dealer counterparties. The Company's derivative positions and related loans are classified within Level 2 of the fair value hierarchy and are valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivatives and loans are determined using discounted cash flow models. These models' key assumptions include the contractual terms of the respective contract along with significant observable inputs, including interest rates, yield curves, nonperformance risk and volatility.

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.

The following table presents the balances of assets measured at fair value on a recurring basis by level as of December 31, 2023 and 2022 (*in thousands*):

Description	Total	Level 1	Level 2	Level 3
2023				
Assets				
Securities available-for-sale				
U.S. government treasuries	\$ 200,088	\$ 200,088	\$ -	\$ -
U.S. government agencies	92,615	-	92,615	-
U.S. government mortgage-backed securities	101,864	-	101,864	-
State and political subdivisions	269,891	-	269,891	-
Corporate bonds	71,931	-	71,931	-
Loans	8,327	-	8,327	-
Derivative financial instruments	1,225	-	1,225	-
Liabilities				
Derivative financial instruments	\$ 745	\$ -	\$ 745	\$ -
2022				
Assets				
Securities available-for-sale				
U.S. government treasuries	\$ 207,597	\$ 207,597	\$ -	\$ -
U.S. government agencies	100,933	-	100,933	-
U.S. government mortgage-backed securities	116,741	-	116,741	-
State and political subdivisions	286,003	-	286,003	-
Corporate bonds	75,164	-	75,164	-
Loans	8,494	-	8,494	-
Derivative financial instruments	1,096	-	1,096	-

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, 2023 and 2022 (*in thousands*):

Description	Total	Level 1	Level 2	Level 3
2023				
Loans receivable	\$ 105	\$ -	\$ -	\$ 105
2022				
Loans receivable	\$ 304	\$ -	\$ -	\$ 304

As of December 31, 2023, individually analyzed loans with a carrying value of \$ 224 thousand were reduced by a specific reserve of \$ 119 thousand, resulting in a reported fair value of \$ 105 thousand. As of December 31, 2022, impaired loans with a carrying value of \$ 399 thousand were reduced by a specific reserve of \$ 95 thousand resulting in a reporting fair value of \$ 304 thousand.

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, 2023 and 2022 are as follows (*in thousands*):

	2023			
	Estimated Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Loans receivable	\$ 105	Evaluation of collateral	Estimation of value	NM*
2022				
	Estimated Fair Value	Valuation Techniques	Range of Unobservable Inputs	Range (Average)
Loans receivable	\$ 304	Evaluation of collateral	Estimation of value	NM*

* 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 following table includes the carrying amounts and estimated fair values of financial assets and liabilities as of December 31, 2023 and 2022 (*in thousands*):

	Fair Value Hierarchy Level	2023		2022	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$ 55,101	\$ 55,101	\$ 27,884	\$ 27,884
Interest-bearing time deposits	Level 2	8,904	8,444	14,669	14,340
Securities available-for-sale	See previous table	736,389	736,389	786,438	786,438
FHLB and FRB stock	Level 2	3,086	3,086	4,613	4,613
Loans receivable, net	Level 2	1,277,812	1,224,446	1,226,011	1,170,948
Loans held for sale	Level 2	124	124	154	154
Accrued income receivable	Level 1	12,953	12,953	11,275	11,275
Derivative financial instruments	Level 2	1,225	1,225	1,096	1,096
Financial liabilities:					
Deposits	Level 2	\$ 1,811,831	\$ 1,812,718	\$ 1,897,957	\$ 1,895,473
Securities sold under agreements to repurchase	Level 1	53,994	53,994	40,676	40,676
Other borrowings	Level 2	110,588	110,376	39,120	38,991
Accrued interest payable	Level 1	4,710	4,710	666	666
Derivative financial instruments	Level 2	745	745	-	-

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, considering 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.

Note 17. Subsequent Events

Subsequent events have been evaluated through March 8, 2024.

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

Information relative to the Parent Company's balance sheets as of December 31, 2023 and 2022, and statements of income and cash flows for each of the years in the two-year period ended December 31, 2023, is as follows (*in thousands*):

CONDENSED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from banks	\$ 124	\$ 96
Interest-bearing deposits in banks	1,783	3,511
Total cash and cash equivalents	1,907	3,607
Investment in bank subsidiaries	166,756	148,827
Loans receivable, net	906	1,084
Premises and equipment, net	2,793	2,378
Accrued income receivable	1	2
Other assets	103	70
Total assets	\$ 172,466	\$ 155,968
LIABILITIES		
Borrowings	\$ 3,488	\$ 3,700
Dividends payable	2,428	2,428
Accrued expenses and other liabilities	762	742
Total liabilities	6,678	6,870
STOCKHOLDERS' EQUITY		
Common stock	17,984	17,984
Additional paid-in capital	14,253	14,253
Retained earnings	180,438	179,931
Accumulated other comprehensive (loss)	(46,887)	(63,070)
Total stockholders' equity	165,788	149,098
Total liabilities and stockholders' equity	\$ 172,466	\$ 155,968

CONDENSED STATEMENTS OF INCOME
 Years Ended December 31, 2023 and 2022

	2023	2022
Operating income:		
Equity in net income of bank subsidiaries	\$ 12,355	\$ 20,282
Interest income	56	58
Rental income	398	390
Other income	<u>2,532</u>	<u>2,330</u>
	15,341	23,060
Credit loss (benefit)	(3)	(11)
Operating income after credit loss (benefit)	15,344	23,071
Interest expense	127	76
Operating expense	<u>4,809</u>	<u>3,965</u>
	4,936	4,041
Income before income taxes	10,408	19,030
Income tax (benefit)	(409)	(263)
Net income	<u>\$ 10,817</u>	<u>\$ 19,293</u>

CONDENSED STATEMENTS OF CASH FLOWS
 Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 10,817	\$ 19,293
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	96	96
Credit loss (benefit)	(3)	(11)
Provision (credit) for deferred income taxes	(15)	(20)
Equity in net income of bank subsidiaries	(12,355)	(20,282)
Dividends received from bank subsidiaries	10,010	10,160
Decrease in accrued income receivable	1	-
(Increase) in other assets	(33)	(12)
Increase in accrued expense and other liabilities	36	15
Net cash provided by operating activities	8,554	9,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in loans	181	654
Purchase of premises and equipment	(511)	-
Net cash provided by (used in) investing activities	(330)	654
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	400	4,000
Payments of long-term borrowings	(612)	(300)
Dividends paid	(9,712)	(9,675)
Stock repurchases	-	(2,300)
Net cash (used in) financing activities	(9,924)	(8,275)
Net increase (decrease) in cash and cash equivalents	(1,700)	1,618
CASH AND CASH EQUIVALENTS		
Beginning	3,607	1,989
Ending	\$ 1,907	\$ 3,607
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments (receipts) for:		
Interest paid	\$ 127	\$ 70
Income taxes	(421)	(253)

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Internal control over financial reporting of the Company includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; 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 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 Company's consolidated financial statements.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2023. This assessment was based on criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework in 2013. Based on this assessment, the Chief Executive Officer and Chief Financial Officer have concluded that the Company maintained effective internal control over financial reporting as of December 31, 2023 based on the specified criteria.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

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 24, 2024, as filed with the SEC on March 11, 2024 (the "Proxy Statement"), which information is incorporated herein by this reference.

Executive Officers

The information regarding the executive officers appears in Item 1 of Part I of this Annual Report under the heading "Information About our Executive Officers".

Section 16(a) Beneficial Ownership Reporting Compliance

Refer to the information under the caption "Delinquent Section 16(a) Reports" in the Proxy Statement, which information is incorporated herein by this reference.

Audit Committee

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

Audit Committee Financial Expert

The Board of Directors of the Company has determined that Lisa M. Eslinger, a director and member of the Audit Committee, qualifies as an "audit committee financial expert" under applicable SEC rules. The Board of Directors has further determined that Ms. Eslinger qualifies as an "independent" director under applicable SEC rules and the corporate governance rules of the NASDAQ stock market. The Board's affirmative determination was based, among other things, upon Ms. Eslinger's experience as Chief Financial and Administrative Officer for the Iowa State Foundation prior to her retirement. 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 (excluding the information contained under the sub-heading "Pay Versus Performance Table") 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 AND 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

Our independent registered public accounting firm for the year ended December 31, 2023 is FORVIS LLP, Springfield, MO, PCAOB ID: 686.

Our independent registered public accounting firm for the year ended December 31, 2022 is CliftonLarsonAllen LLP, West Des Moines, IA., PCAOB ID: 655.

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

The consolidated financial statements that appear in Item 8 of this Form 10-K are incorporated herein by reference.

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.

(b) List of Exhibits.

The exhibits listed below are filed with or incorporated by reference in this Annual Report on Form 10-K. Where such exhibit is incorporated by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses. Management contracts and compensatory plans or arrangements are specifically identified below.

Exhibit Number	Description
3.1	- Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to 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 Annual Report on Form 10-K filed on March 12, 2015).
4.1	- Description of Securities (incorporated by reference to Exhibit 4.1 to Annual Report on Form 10-K filed on March 12, 2021).
10.1*	- Management Incentive Compensation Plan (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed November 19, 2012).
10.2*	- Bank Director Stock Purchase Incentive Plan (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed April 30, 2021).
10.3	- Promissory Note and Credit Agreement with Green Belt Bank & Trust (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 15, 2021).
16	- Letter Regarding Change in Certifying Accountant (incorporated by reference to Exhibit 16.1 to Current Report on Form 8-K filed August 12, 2022).
21**	- Subsidiaries of the Company
23.1**	- Consent of Independent Registered Public Accounting Firm (FORVIS)
23.2**	- Consent of Independent Registered Public Accounting Firm (CLA)
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
97**	- Ames National Corporation Clawback Policy
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document) (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

* Indicates a management compensatory plan or arrangement.

**Filed herewith

(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.

ITEM 16. FORM 10-K SUMMARY

None

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 8, 2024

By: */s/ John P. Nelson*
John P. Nelson, Chief Executive Officer and
President

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 8, 2024.

/s/ John P. Nelson

John P. Nelson, Chief Executive Officer, President, and Director
(Principal Executive Officer)

/s/ John L. Pierschbacher

John L. Pierschbacher, Chief Financial Officer and Director
(Principal Financial and Accounting Officer)

/s/ Jeffery C. Baker

Jeffery C. Baker, Director

/s/ Betty A. Baudler Horras

Betty A. Baudler Horras, Director

/s/ David W. Benson

David W. Benson, Director

/s/ Michelle R. Cassabaum

Michelle R. Cassabaum, Director

/s/ Lisa M. Eslinger

Lisa M. Eslinger, Director

/s/ Steven D. Forth

Steven D. Forth, Director

/s/ Patrick G. Hagan

Patrick G. Hagan, Director

/s/ James R. Larson II

James R. Larson II, Director

/s/ Kevin L. Swartz

Kevin L. Swartz, Director

SUBSIDIARIES OF COMPANY

Parent

Ames National Corporation

Subsidiaries (1)Percentage of Ownership

First National Bank, Ames, Iowa, a National Bank	100%
Boone Bank and Trust Co., Boone, Iowa, an Iowa State Bank	100%
State Bank & Trust Co., Nevada, Iowa, an Iowa State Bank	100%
Reliance State Bank, Story City, Iowa, an Iowa State Bank	100%
United Bank & Trust Co., Marshalltown, Iowa, an Iowa State Bank	100%
Iowa State Savings Bank, Creston, Iowa, an Iowa State Bank	100%

Note:

(1) The operations of Ames National Corporation's six wholly owned subsidiaries are included in the financial statements set forth in this Form 10-K.

Consent of Independent Registered Public Accounting Firm

Shareholders, Board of Directors, and Audit Committee
Ames National Corporation
Ames, Iowa

We consent to the incorporation by reference in the registration statement (No. 333-146844) on Form S-8 of Ames National Corporation of our report dated March 8, 2024, with respect to the consolidated balance sheet of Ames National Corporation as of December 31, 2023, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 31, 2023, and the related notes, which report appears in the December 31, 2023 Annual Report on Form 10-K of Ames National Corporation.

/s/ FORVIS, LLP

Springfield, Missouri
March 8, 2024



CliftonLarsonAllen LLP
CLAconnect.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ames National Corporation
Ames, Iowa

We consent to the incorporation by reference in Registration Statement No. 333-146844 on Form S-8 of Ames National Corporation of our report, dated March 10, 2023, relating to our audit of the consolidated financial statements as of and for the year ended December 31, 2022, which appears in this Annual Report on Form 10-K of Ames National Corporation.

/s/ CliftonLarsonAllen LLP

West Des Moines, Iowa
March 8, 2024

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John P. Nelson, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2023 of Ames National Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2024

/s/ John P. Nelson
John P. Nelson, Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John L. Pierschbacher, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2023 of Ames National Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2024

/s/ John L. Pierschbacher
John L. Pierschbacher, Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the filing of the Annual Report on Form 10-K for the year ended December 31, 2023 (the "Report") by Ames National Corporation (the "Company"), the undersigned officer of the Company hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of the 8th day of March 2024.

/s/ John P. Nelson
John P. Nelson, Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the filing of the Annual Report on Form 10-K for the year ended December 31, 2023 (the "Report") by Ames National Corporation (the "Company"), the undersigned officer of the Company hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certification as of the 8th day of March 2024.

/s/ John L. Pierschbacher
John L. Pierschbacher, Chief Financial Officer

AMES NATIONAL CORPORATION
Ames, Iowa

CLAWBACK POLICY

Introduction

Ames National Corporation's (the "Company's") Board of Directors (the "Board") believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability that reinforces the Company's pay-for-performance compensation philosophy. The Board has therefore adopted this policy which provides for the recoupment of certain executive compensation in the event of an accounting restatement resulting from material noncompliance with financial reporting requirements under the federal securities laws (the "Policy"). This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934 (the "Exchange Act").

Administration

This Policy shall be administered by the Board with duties outside of regular board meetings to be administered by the Company's Personnel Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

Covered Executives

This Policy applies to the Company's current and former executive officers, as determined by the Board in accordance with Section 10D of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed, who may from time to time be deemed subject to the Policy by the Board ("Covered Executives").

Recoupment; Accounting Restatement

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Board will require reimbursement or forfeiture of any excess Incentive Compensation received by any Covered Executive during the three completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement.

Incentive Compensation

For purposes of this Policy, Incentive Compensation means semi-annual bonuses and other cash incentives; provided that, such compensation is granted, earned, or vested based wholly or in part on the attainment of a financial reporting measure.

Financial reporting measures include:

- Net income.
- Total assets
- Other earnings measures such as the provision for credit losses and net loan charge-offs.

Excess Incentive Compensation: Amount Subject to Recovery

The amount to be recovered will be the excess of the Incentive Compensation paid to the Covered Executive based on the erroneous data over the Incentive Compensation that would have been paid to the Covered Executive had it been based on the restated results, as determined by the Board. If the Board cannot determine the amount of excess Incentive Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

Method of Recoupment

The Board will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder which may include, without limitation:

- requiring reimbursement of cash Incentive Compensation previously paid;
- offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive;
- taking any other remedial and recovery action permitted by law, as determined by the Board.

No Indemnification

The Company shall not indemnify any Covered Executives against the loss of any incorrectly awarded Incentive Compensation.

Interpretation

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the Securities and Exchange Commission or any national securities exchange on which the Company's securities are listed.

Effective Date

This Policy shall be effective as of the date it is adopted by the Board (the "Effective Date") and shall apply to Incentive Compensation that is approved, awarded or granted to Covered Executives on or after October 1, 2023.

Amendment; Termination

The Board may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary to reflect final regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with any rules or standards adopted by a national securities exchange on which the Company's securities are listed. The Board may terminate this Policy at any time.

Other Recoupment Rights

The Board may require that any employment agreement or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement or similar agreement and any other legal remedies available to the Company.

Impracticability

The Board shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Board in accordance with Rule 10D-1 of the Exchange Act and the listing standards of the national securities exchange on which the Company's securities are listed.

Successors

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives. Covered Executives will be required to sign the Clawback Policy Acknowledgement (Attachment #1) to this policy in order to receive incentive

Attachment #1

AMES NATIONAL CORPORATION'S CLAWBACK POLICY

Clawback Policy Acknowledgment

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all of the terms and conditions of the Ames National Corporation's (the "Company") Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the "Policy"). In the event of any inconsistency between the Policy and the terms of any employment agreement to which I am a party, or the terms of any compensation plan, program or agreement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern. In the event it is determined by the Personnel Committee that any amounts granted, awarded, earned or paid to me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement.

By: _____ Date: _____

[Name]
[Title]