

QUARTERLY REPORT TO SHAREHOLDERS



2ND QUARTER 2003

PRESIDENT'S LETTER

DEAR SHAREHOLDERS,

Net income for second quarter 2003 was \$.85 per share, or \$2.65 million, 3% lower than the \$.88 per share, or \$2.74 million earned in the same period a year ago. For the first six months of 2003, net income was \$1.76 per share or \$5.52 million, 3% lower than the \$1.82 per share or \$5.68 million earned in first half 2002. Lower net interest margins at all affiliate banks as well as additions to the loan reserve contributed to the lower earnings. Return on average assets for second quarter 2003 and first half 2003 were 1.44% and 1.55% respectively. These figures compare to 1.73% and 1.81% for the same periods in 2002. Return on average equity for second quarter was 10.18% compared to 11.32% for second quarter 2002. For the six months ending June 30, 2003, return on average equity was 10.70%, or 10% lower than the 11.84% for the first six months of 2002.

Deposits ended the second quarter at \$604 million, an 18% increase over the \$511 million on June 30, 2002. Both demand and time deposits increased during this period. Our de novo bank, United Bank & Trust, Marshalltown, Iowa, added \$53 million in deposits since its opening in late June 2002. Bank deposits have become a favorite place to park funds due to the uncertainty associated with the timing of an economic recovery.

Loans showed an increase of 12% over second quarter 2002 increasing \$38 million to \$346 million at the end of June 2003. This represents the fifth successive quarter that loans have increased and the \$346 million matches the high attained in third quarter 2000. United Bank & Trust has been a major contributor to the loan growth since it opened in 2002.

Total assets reached a new high of \$742 million, which was 18% higher than the \$629 million in second quarter 2002. All affiliate banks recorded increases in total assets over a year ago. Included in the \$742 million was \$79 million in Fed Funds compared to \$42 million as of June 30, 2002.

Capital rose 8% to \$106 million, an \$8 million increase over the same period a year ago. Included in this figure is \$11 million in unrealized securities gains net of deferred tax liability. Ames National Corporation stock which is traded under the symbol ATLO traded in the \$51.50 to \$55.25 range during the second quarter and closed at \$54.75 on June 30, 2003.

The historically low interest rates provide a challenge in maintaining affiliate bank net interest margins. The Federal Reserve is contemplating a 14th interest rate cut since they began reducing rates in early 2001. Interest rates are poised for an upturn in late 2003 or early 2004.

The board of directors has declared an extra dividend of \$.46 per share payable October 1, 2003, and is pleased to share these earnings with our shareholders.

Sincerely,

DANIEL L. KRIEGER
Chairman & President



COMPANY DIRECTORS

DANIEL L. KRIEGER

Chairman & President

BETTY A. BAUDLER

President, Baudler Enterprises, Inc.

JAMES R. CHRISTY

Chairman, State Bank & Trust Co.

ROBERT L. CRAMER

President & Chief Operating Officer,
Fareway Stores, Inc.

DOUGLAS C. GUSTAFSON, DVM

Boone Veterinary Hospital

CHARLES D. JONS, MD

Medical Consultant

JAMES R. LARSON, II

President, ACI Mechanical

WARREN R. MADDEN

Vice President for Business & Finance,
Iowa State University

MARVIN J. WALTER

President, Dayton Road Development Corporation

AFFILIATE BANKS



STATE BANK & TRUST CO.



UNITED BANK & TRUST

AMES NATIONAL CORPORATION

405 Fifth Street • Ames, IA 50010

Phone 515-232-6251

Fax 515-663-3033

Email info@amesnational.com

CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30, 2003	June 30, 2002
Assets		
Cash and due from banks	\$28,600,917	\$35,832,841
Federal funds sold	79,075,000	42,370,000
Interest bearing deposits in financial institutions	6,000,000	600,000
Securities available-for-sale	268,029,547	229,223,802
Loans receivable, net	345,748,025	307,575,129
Bank premises and equipment, net	8,710,669	7,894,748
Accrued income receivable	5,161,355	5,297,369
Other assets	177,583	489,338
Total assets	\$741,503,096	\$629,283,227
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$61,024,546	\$52,293,228
NOW accounts	128,917,809	112,399,121
Savings and money market	171,903,731	145,496,094
Time, \$100,000 and over	70,155,513	52,422,160
Other time	172,158,482	148,383,361
Total deposits	604,160,081	510,993,964
Federal funds purchased and securities sold under agreements to repurchase	20,783,016	12,037,383
Dividends payable	2,878,663	2,753,504
Deferred taxes	4,616,388	2,749,561
Accrued interest and other liabilities	2,902,027	2,655,714
Total liabilities	635,340,175	531,190,126
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at June 30, 2003, and June 30, 2002; outstanding 3,133,053 shares at June 30, 2003, and 3,128,982 shares at June 30, 2002	15,766,150	15,766,150
Surplus	25,351,979	25,354,014
Retained earnings	55,181,682	51,012,776
Treasury stock, at cost; 20,177 shares at June 30, 2003, and 24,248 shares at June 30, 2002	(1,109,735)	(1,333,640)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	10,972,845	7,293,801
Total stockholders' equity	106,162,921	98,093,101
Total liabilities and stockholders' equity	\$741,503,096	\$629,283,227

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Interest and dividend income				
Loans	\$5,651,200	\$5,766,039	\$11,207,235	\$11,631,211
Securities				
Taxable	1,792,746	2,058,776	3,676,285	4,038,907
Tax-exempt	842,090	719,688	1,612,390	1,438,642
Federal funds sold	249,908	251,243	413,602	452,027
Dividends	340,180	374,867	680,845	705,670
Total interest income	8,876,124	9,170,613	17,590,357	18,266,457
Interest expense:				
Deposits	2,646,208	2,971,413	5,272,198	5,959,373
Other borrowed funds	77,115	59,765	141,334	133,899
Total interest expense	2,723,323	3,031,178	5,413,532	6,093,272
Net interest income	6,152,801	6,139,435	12,176,825	12,173,185
Provision for loan losses	305,995	111,265	425,740	215,484
Net interest income after provision for loan losses	5,846,806	6,028,170	11,751,085	11,957,701
Noninterest income:				
Trust department income	274,773	276,425	602,102	527,155
Service fees	383,076	361,518	742,000	719,193
Securities gains, net	280,782	133,941	646,607	322,673
Loan and secondary market fees	322,876	93,250	570,996	228,877
Other	250,626	202,697	545,841	393,070
Total noninterest income	1,512,133	1,067,831	3,107,546	2,190,968
Noninterest expense:				
Salaries and employee benefits	2,324,737	2,075,667	4,494,421	3,858,002
Occupancy expenses	231,737	226,202	500,345	429,564
Data processing	617,875	436,629	1,085,675	841,040
Other operating expenses	606,720	572,207	1,198,230	1,114,355
Total noninterest expense	3,781,069	3,310,705	7,278,671	6,242,961
Income before income taxes	3,577,870	3,785,296	7,579,960	7,905,708
Income tax expense	928,641	1,044,361	2,060,406	2,223,843
Net income	\$2,649,229	\$2,740,935	\$5,519,554	\$5,681,865
Basic and diluted earnings per share	<u>\$0.85</u>	<u>\$0.88</u>	<u>\$1.76</u>	<u>\$1.82</u>
Declared dividends per share	<u>\$0.92</u>	<u>\$0.88</u>	<u>\$1.36</u>	<u>\$1.30</u>