

Non-interest expense for the six months ended June 30, 2010, totaled \$9,169,000, compared to \$10,364,000 recorded in the same period in 2009. The lower non-interest expense can be mainly attributed to lower other real estate costs and FDIC insurance assessments, offset in part by higher salaries and employee benefits. The efficiency ratio for the six months ended June 30, 2010, was 50.06%, an improvement from the 60.57% reported for the same period in 2009.

BALANCE SHEET REVIEW

As of June 30, 2010, total assets were \$926,978,000, a \$43,053,000 increase, compared to June 30, 2009. Securities available for sale grew significantly, funded primarily by a growth in deposits and a reduction in loan volume and interest-bearing deposits in financial institutions.

Securities available-for-sale as of June 30, 2010, increased to \$436,929,000, compared to \$369,919,000 as of June 30, 2009, mainly as a result of increases in U.S. government agencies, U.S. government mortgage backed securities, and state and political subdivisions bonds.

Net loans as of June 30, 2010, decreased to \$410,433,000, compared to \$422,261,000 as of June 30, 2009, or 2.8%, primarily as a result of a decrease in loan volume as a result of a continuing weakness in loan demand. The allowance for loan losses on June 30, 2010, totaled \$7,850,000, or 1.88% of gross loans, compared to \$7,652,000 or 1.81% of gross loans as of December 31, 2009, and \$6,688,000 or 1.56% of gross loans as of June 30, 2009. Impaired loans as of June 30, 2010, were \$6,834,000, or 1.6% of gross loans, compared to \$9,188,000, or 2.2% of gross loans as of December 31, 2009, and \$9,614,000, or 2.2% of gross loans as of June 30, 2009.

Other real estate owned was \$10,630,000 this quarter, compared to \$13,197,000 as of June 30, 2009. The net change in other real estate is primarily due to impairment write-offs.

Deposits totaled \$715,205,000 on June 30, 2010, a 4.5% increase from the \$684,121,000 recorded at June 30, 2009. The increase in deposits was due to an increase of public funds, commercial and retail deposits. The mix of deposits has also changed, as depositors have moved deposits to demand and NOW accounts from savings, money market and time deposit accounts.

SHAREHOLDER INFORMATION

The Company's stockholders' equity represented 12.8% of total assets as of June 30, 2010 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total stockholder equity totaled \$118,698,000 as of June 30, 2010, \$112,340,000 as of December 31, 2009, and \$107,358,000 as of June 30, 2009. The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$19.54 on June 30, 2010. During the second quarter of 2010, the price ranged from \$17.26 to \$20.84.

At the May Board of Directors' meeting, Marvin J. Walter was elected Chairman of the Ames National Corporation Board. Mr. Walter has served as a director of the Company since 1978. He is the President of Dayton Road Development Corporation, a real estate development business located in Ames, Iowa. He has also served on the board of directors of First National Bank since 1978.

On the national front, Congress has passed the Financial Reform Bill focused on preventing another financial meltdown similar to 2008. The bill addresses a number of important issues, but the overall implications will be onerous for community banks. The sheer volume of new regulations and new reporting burdens will flow from the new rules set by the Consumer Financial Protection Bureau. Although challenging, we are confident we have the people and infrastructure in place to address these changes and continue to deliver exceptional banking service to our customers.

Sincerely,



MARVIN J. WALTER
Chairman



THOMAS H. POHLMAN
President

COMPANY DIRECTORS

MARVIN J. WALTER

Chairman of the Board
President, Dayton Road Development Corporation

THOMAS H. POHLMAN

President

BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

ROBERT L. CRAMER

Retired President,
Fareway Stores, Inc.

STEVEN D. FORTH

Farmer

DOUGLAS C. GUSTAFSON, DVM

Boone Veterinary Hospital

CHARLES D. JONS, MD

Medical Consultant

JAMES R. LARSON, II

President, Larson Development Corporation

WARREN R. MADDEN

Vice President for Business & Finance,
Iowa State University

LARRY A. RAYMON

Chief Executive Officer
Raymon Enterprises, Inc.

FREDERICK C. SAMUELSON

President, James Michael & Associates, Inc.

AFFILIATE BANKS



UNITED BANK & TRUST



AMES NATIONAL CORPORATION

405 Fifth Street • Ames, IA 50010

Phone 515-232-6251

Fax 515-663-3033

Email info@amesnational.com

www.amesnational.com

LETTER TO SHAREHOLDERS

SECOND QUARTER 2010 RESULTS

On behalf of the Ames National Corporation Board of Directors, we are pleased to report the second quarter results. Net income totaled \$3,126,000, or \$0.33 per share, compared to \$2,409,000, or \$0.26 per share, for the same period in 2009. Return on average assets was 1.35% for the quarter, compared to 1.08% for the same period in 2009. Second quarter return on average equity was 10.73%, compared to 9.09% for the same period in 2009.

The higher earnings can primarily be attributed to lower other real estate owned costs and FDIC insurance assessments which declined \$665,000 and \$279,000, respectively. The reduction in the FDIC insurance assessment was mostly due to lower FDIC assessment rates and a one-time assessment in 2009, while the decline in other real estate owned costs was due to impairment charges in 2009, with no significant impairment charges in 2010.

Second quarter net interest income increased \$221,000, or 3.1%, compared to the same period in 2009. This increase is primarily due to lower interest expense on deposit balances as interest rates have fallen more quickly on deposits and other borrowing liabilities than on the Company's earning assets. The Company's net interest margin was 3.73% for both of the quarters ended June 30, 2010, and 2009.

The provision for loan losses was \$170,000 for the second quarter of 2010, compared to \$327,000 for the same period in 2009. Net charge-offs for the quarter ended June 30, 2010, were \$2,000 compared to \$571,000 for the same period in 2009.

Non-interest income for the second quarter totaled \$1,612,000 as compared to \$1,729,000 for the same period in 2009. The lower non-interest income related to decreased securities gains and gain on loans held for sale, offset in part by an increase in trust department income.

Non-interest expense totaled \$4,636,000 for the second quarter of 2010, compared to \$5,537,000 recorded in the same period in 2009. The lower non-interest expense can be mainly attributed to lower other real estate costs and FDIC insurance assessments. The efficiency ratio for the second quarter was 51.51%, an improvement from the 62.25% reported for the same period in 2009.

SIX MONTHS 2010 RESULTS

For the six months ended June 30, 2010, net income for the Company totaled \$6,396,000, or \$0.68 per share, compared to \$4,850,000, or \$0.51 per share, for the same period in 2009. Return on average assets was 1.39% for the six months ended June 30, 2010, compared to 1.12% for the same period in 2009. Return on average equity was 11.09% for the six months, compared to the 9.20% for the same period in 2009. Net income increased primarily due to higher net interest income, net securities gains and lower non-interest expense. Net securities gains totaled \$672,000 for the six months ended June 30, 2010 compared to net securities losses of \$96,000 for the same period one year ago. For the six months ended June 30, 2010, other real estate costs and FDIC insurance assessments declined \$1,035,000 and \$446,000, respectively. The decline in other real estate owned costs was due to impairment charges in 2009, with no significant impairment charges in 2010. The reduction in the FDIC insurance assessment was due primarily to lower FDIC assessment rates and a one-time assessment in 2009.

For the six months, net interest income increased \$370,000, or 2.6%, compared to the same period in 2009. This increase is primarily due to lower interest expense on deposit balances as interest rates have fallen more quickly on deposits and other borrowing liabilities than on the Company's earning assets. The Company's net interest margin was 3.76% for the six months ended June 30, 2010, compared to 3.83% for the same period in 2009.

The provision for loan losses was \$494,000 for the six months ended June 30, 2010, compared to \$556,000 for the same period in 2009. Net charge-offs for the six months ended June 30, 2010, were \$296,000, compared to \$647,000 for the same period in 2009.

Non-interest income for the six months ended June 30, 2010, totaled \$3,569,000, as compared to \$2,735,000 for the same period in 2009. The increase in non-interest income related to security gains and higher trust department income, offset in part by a decrease in gain on loans held for sale.

2
N
D
Q
U
A
R
T
E
R
2
O
T
O



Quarterly Report
to Shareholders

CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30 2010	June 30 2009
ASSETS		
Cash and due from banks	\$ 16,671,320	\$ 16,091,796
Interest bearing deposits in financial institutions	25,357,030	37,303,384
Securities available-for-sale	436,928,802	369,918,685
Loans receivable, net	410,432,696	422,261,193
Loans held for sale	2,510,258	2,657,569
Bank premises and equipment, net	11,666,390	12,201,689
Accrued income receivable	5,918,291	5,478,330
Deferred income taxes	2,513,174	4,194,872
Other real estate owned	10,630,371	13,197,056
Other assets	4,350,105	621,215
Total assets	\$ 926,978,437	\$ 883,925,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits		
Demand, noninterest bearing	\$ 91,706,784	\$ 81,211,180
NOW accounts	208,779,142	173,626,736
Savings and money market	179,879,101	188,908,676
Time, \$100,000 and over	86,614,339	83,791,254
Other time	148,225,335	156,583,479
Total deposits	715,204,701	684,121,325
Federal funds purchased and securities sold under agreements to repurchase	50,279,602	46,461,406
Short-term borrowings	6,819	325,219
FHLB advances and other long-term borrowings	38,500,000	40,500,000
Dividend payable	1,037,620	943,292
Accrued expenses and other liabilities	3,251,797	4,217,006
Total liabilities	808,280,539	776,568,248
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 18,000,000 shares; 9,432,915 issued and outstanding	18,865,830	18,865,830
Additional paid-in capital	22,651,222	22,651,222
Retained earnings	72,024,066	65,434,543
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	5,156,780	405,946
Total stockholders' equity	118,697,898	107,357,541
Total liabilities and stockholders' equity	\$ 926,978,437	\$ 883,925,789

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income:				
Loans	\$6,023,730	\$6,389,627	\$12,123,209	\$13,000,802
Securities				
Taxable	1,770,707	2,027,630	3,598,228	4,139,125
Tax-exempt	1,429,568	1,319,607	2,795,150	2,598,263
Federal funds sold	—	8,253	—	19,328
Interest bearing deposits	129,198	81,151	259,311	186,222
Total interest and dividend income	9,353,203	9,826,268	18,775,898	19,943,740
Interest expense:				
Deposits	1,563,610	2,183,150	3,225,964	4,624,680
Other borrowed funds	402,304	476,498	805,462	944,882
Total interest expense	1,965,914	2,659,648	4,031,426	5,569,562
Net interest income	7,387,289	7,166,620	14,744,472	14,374,178
Provision for loan losses	170,416	326,670	494,214	556,324
Net interest income after provision for loan losses	7,216,873	6,839,950	14,250,258	13,817,854
Non-interest income:				
Trust department income	465,298	390,882	996,014	773,434
Service fees	435,365	449,382	835,188	870,832
Securities gains (losses), net	134,830	255,088	671,813	(95,587)
Gain on sale of loans held for sale	171,453	256,776	324,989	519,682
Merchant and ATM fees	195,137	153,159	360,524	299,169
Other	209,460	223,337	380,780	367,066
Total non-interest income	1,611,543	1,728,624	3,569,308	2,734,596
Non-interest expense:				
Salaries and employee benefits	2,706,545	2,703,106	5,304,584	5,049,865
Data processing	494,681	541,678	945,645	1,020,313
Occupancy expenses	364,955	302,240	766,109	695,044
FDIC insurance assessments	278,109	557,091	591,466	1,037,002
Other real estate owned	62,954	727,793	119,307	1,154,637
Other operating expenses	728,405	705,236	1,441,477	1,406,703
Total non-interest expense	4,635,649	5,537,144	9,168,588	10,363,564
Income before income taxes	4,192,767	3,031,430	8,650,978	6,188,886
Income tax expense	1,066,761	622,525	2,255,372	1,338,841
Net income	\$3,126,006	\$2,408,905	\$6,395,606	\$4,850,045
Basic and diluted earnings per share	\$0.33	\$0.26	\$0.68	\$0.51
Declared dividends per share	\$0.11	\$0.10	\$0.22	\$0.20