

\$6,936,000, compared to \$6,924,000 for the same period in 2009. The increase in non-interest income related to higher trust department income, offset in part by decreases in service fees, security gains and gain on sale of loans held for sale. Non-interest expense for the year ended December 31, 2010, totaled \$18,321,000, compared to \$22,732,000 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.

For the year ended December 31, 2010, the Company's efficiency ratio was 50.26%, which compares favorably to 63.87% for the same period in 2009.

#### BALANCE SHEET REVIEW

Assets reached record levels as of December 31, 2010. Total assets were \$962,975,000, a \$47,405,000 increase compared to December 31, 2009. Securities available-for-sale grew significantly, funded primarily by a growth in deposits and securities sold under agreements to repurchase and a reduction of interest bearing deposits in financial institutions. Securities available-for-sale as of December 31, 2010, increased to \$469,908,000, compared to \$418,655,000 as of December 31, 2009, mainly as a result of increases in U.S. government mortgage backed securities and state and political subdivisions bonds, offset in part by a decline in U.S. government agencies.

Net loans as of December 31, 2010, increased to \$418,094,000, compared to \$415,434,000 as of December 31, 2009, or 0.6%, in spite of a continued weakness in loan demand. The allowance for loan losses on December 31, 2010, totaled \$7,521,000, or 1.76% of gross loans, compared to \$7,652,000 or 1.81% of gross loans as of December 31, 2009. Impaired loans as of December 31, 2010, were \$5,987,000, or 1.4% of gross loans, compared to \$9,188,000, or 2.2% of gross loans as of December 31, 2009.

Record deposits totaled \$743,862,000 on December 31, 2010, a 3.0% increase from the \$722,164,000 recorded at December 31, 2009. The increase in deposits was primarily due to an increase in public funds. Also the mix of deposits has changed, as depositors have moved deposits to demand, NOW and money market accounts from time deposit accounts.

The Company's stockholders' equity represented 12.6% of total assets as of December 31, 2010 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total stockholders' equity totaled \$121,363,000 as of December 31, 2010, and \$112,340,000 as of December 31, 2009.

#### SHAREHOLDER INFORMATION

Return on average assets was 1.40% for the year ended December 31, 2010, compared to 1.02% for the same period in 2009. Return on average equity was 10.91% for the year ended December 31, 2010, compared to the 8.31% for the same period in 2009.

The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$21.67 on December 31, 2010. During the fourth quarter of 2010, the price ranged from \$19.00 to \$22.10.

#### ANNUAL MEETING

In March, you will receive the 2010 Annual Report, proxy information and registration materials for your review. The annual shareholder's meeting will be held at Reiman Gardens in Ames, Iowa, on Wednesday, April 27, 2011. Please mark your calendar and plan to join us.

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, Ames National Corporation

#### BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

#### ROBERT L. CRAMER

Retired President,  
Fareway Stores, Inc.

#### STEVEN D. FORTH

Farmer

#### DOUGLAS C. GUSTAFSON, DVM

Retired Veterinarian

#### CHARLES D. JONS, MD

Retired Physician

#### 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



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## LETTER TO SHAREHOLDERS

The Ames National Corporation Board of Directors is pleased to report the fourth quarter and 2010 overall results for the Company. The Company posted record earnings, record assets and record deposits for 2010. The following report outlines the highlights.

#### FOURTH QUARTER 2010

For the quarter ended December 31, 2010, net income for Ames National Corporation totaled \$3,019,000, or \$0.32 per share, compared to \$1,582,000, or \$0.17 per share, for the same period in 2009. Net income increased primarily due to lower other real estate owned costs and provision for loan losses, which declined \$1,964,000 and \$271,000, respectively, offset in part by a decrease in securities gains of \$371,000. The decline in other real estate owned costs was due to impairment charges in 2009, with no impairment charges in 2010.

For the quarter ended December 31, 2010, net interest income increased \$73,000, or 1.0%, compared to the same period in 2009. The Company's net interest margin was 3.61% for the quarter ended December 31, 2010, compared to 3.73% for the quarter ended December 31, 2009. The decrease in the net interest margin was due to decreases in the interest rates on loans and investments, offset in part by decreases in the interest rates on deposits. Also, the net interest margin decreased as the mix of investments to total assets changed.

The provision for loan losses was \$95,000 for the fourth quarter of 2010, compared to \$367,000 for the same period in 2009. Net charge-offs for the quarter ended December 31, 2010, were \$146,000, compared to \$16,000 for the same period in 2009.

Non-interest income for the fourth quarter of 2010 totaled \$1,524,000, compared to \$1,819,000 for the same period in 2009. The lower non-interest income primarily relates to decreased securities gains. Non-interest expense for the fourth quarter of 2010 totaled \$4,647,000, compared to \$6,850,000 recorded in the same period in 2009. The lower non-interest expense can be mainly attributed to lower other real estate costs.

The efficiency ratio provides a benchmark for how well a company effectively manages expenses. The efficiency ratio for the fourth quarter of 2010 was 52.90%, which compares favorably to the 76.06% recorded for the same period in 2009.

#### TWELVE MONTHS 2010 RESULTS

For the year ended December 31, 2010, net income for the Company totaled \$12,966,000, or \$1.37 per share, compared to \$9,006,000, or \$0.95 per share, for the same period in 2009. This reflects a 43.9% increase in net income. Net income increased primarily due to lower other real estate owned costs, interest expense, provision for loan losses and FDIC insurance assessments, offset in part by a decrease in interest income. For the year ended December 31, 2010, other real estate owned costs, interest expense, provision for loan losses and FDIC insurance assessments declined \$4,004,000, \$2,451,000, \$895,000 and \$555,000, respectively.

For the year ended December 31, 2010, net interest income increased \$854,000, or 3.0%, compared to the same period in 2009. This increase is primarily due to increases in average investment securities balances and the lower deposit interest rate environment, offset in part by lower interest rates on investment securities. The Company's net interest margin was 3.74% for the year ended December 31, 2010, compared to 3.78% for the same period in 2009.

The provision for loan losses was \$664,000 for the year ended December 31, 2010, compared to \$1,558,000 for the same period in 2009. Net charge-offs for the year ended December 31, 2010, were \$795,000, compared to \$686,000 for the same period in 2009.

Non-interest income for the year ended December 31, 2010, totaled

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Quarterly Report  
to Shareholders

## CONSOLIDATED BALANCE SHEETS

(unaudited)	December 31, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and due from banks	\$15,478,133	\$18,796,664
Federal funds sold	3,000,000	-
Interest bearing deposits in financial institutions	19,229,814	24,776,088
Securities available-for-sale	469,907,901	418,655,018
Loans receivable, net	418,093,571	415,434,236
Loans held for sale	1,993,108	1,023,200
Bank premises and equipment, net	11,538,588	11,909,404
Accrued income receivable	6,098,535	5,710,226
Deferred income taxes	3,305,983	3,867,523
Other real estate owned	10,538,883	10,480,449
Other assets	3,790,329	4,916,991
<b>Total assets</b>	<b>\$962,974,845</b>	<b>\$915,569,799</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits		
Demand, noninterest bearing	\$105,513,143	\$99,918,848
NOW accounts	201,230,880	197,393,459
Savings and money market	199,017,213	184,631,343
Time, \$100,000 and over	94,858,053	87,054,194
Other time	143,242,355	153,166,105
<b>Total deposits</b>	<b>743,861,644</b>	<b>722,163,949</b>
Federal funds purchased and securities sold under agreements to repurchase	54,858,701	40,489,505
Short-term borrowings	2,047,175	138,874
FHLB advances and other long-term borrowings	36,745,497	36,500,000
Dividend payable	1,037,621	943,292
Accrued expenses and other liabilities	3,061,183	2,994,291
<b>Total liabilities</b>	<b>841,611,821</b>	<b>803,229,911</b>
<b>STOCKHOLDERS' EQUITY</b>		
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	76,519,493	67,703,701
Accumulated other comprehensive income-net unrealized income on securities available-for-sale	3,326,479	3,119,135
<b>Total stockholders' equity</b>	<b>121,363,024</b>	<b>112,339,888</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$962,974,845</b>	<b>\$915,569,799</b>

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended December 31,		Year Ended December 31,	
	2010	2009	2010	2009
<b>Interest income:</b>				
Loans	\$5,843,340	\$6,116,080	\$24,061,277	\$25,212,884
Securities				
Taxable	1,629,293	1,819,745	6,964,979	7,966,594
Tax-exempt	1,503,059	1,333,000	5,778,722	5,213,031
Interest bearing deposits and federal funds sold	120,905	155,826	488,980	498,798
<b>Total interest income</b>	<b>9,096,597</b>	<b>9,424,651</b>	<b>37,293,958</b>	<b>38,891,307</b>
<b>Interest expense:</b>				
Deposits	1,417,776	1,837,569	6,096,504	8,428,163
Other borrowed funds	418,378	399,600	1,678,587	1,798,149
<b>Total interest expense</b>	<b>1,836,154</b>	<b>2,237,169</b>	<b>7,775,091</b>	<b>10,226,312</b>
Net interest income	7,260,443	7,187,482	29,518,867	28,664,995
Provision for loan losses	95,387	366,812	663,798	1,558,307
Net interest income after provision for loan losses	7,165,056	6,820,670	28,855,069	27,106,688
<b>Non-interest income:</b>				
Trust department income	429,613	357,231	1,948,519	1,541,831
Service fees	381,057	457,723	1,626,352	1,814,925
Securities gains, net	4,153	375,009	973,012	1,157,347
Gain on sale of loans held for sale	361,938	243,344	942,826	1,008,566
Merchant and ATM fees	171,142	142,382	724,725	621,316
Other	175,689	243,547	720,404	780,275
<b>Total non-interest income</b>	<b>1,523,592</b>	<b>1,819,236</b>	<b>6,935,838</b>	<b>6,924,260</b>
<b>Non-interest expense:</b>				
Salaries and employee benefits	2,830,710	3,011,997	10,826,307	10,757,475
Data processing	428,178	480,625	1,857,259	1,892,123
Occupancy expenses	371,707	354,008	1,488,100	1,436,485
FDIC insurance assessments	259,725	292,522	1,120,058	1,675,401
Other real estate owned	40,736	2,004,310	194,645	4,198,315
Other operating expenses	716,134	706,925	2,834,212	2,772,556
<b>Total non-interest expense</b>	<b>4,647,190</b>	<b>6,850,387</b>	<b>18,320,581</b>	<b>22,732,355</b>
Income before income taxes	4,041,458	1,789,519	17,470,326	11,298,593
Income tax expense	1,022,101	207,345	4,504,052	2,292,807
<b>Net income</b>	<b>\$3,019,357</b>	<b>\$1,582,174</b>	<b>\$12,966,274</b>	<b>\$9,005,786</b>
Basic and diluted earnings per share	\$0.32	\$0.17	\$1.37	\$0.95
Declared dividends per share	\$0.11	\$0.10	\$0.44	\$0.40