

QUARTERLY REPORT TO SHAREHOLDERS



1ST QUARTER 2004

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



RANDALL-STORY
STATE BANK



STATE BANK & TRUST CO.



UNITED BANK & TRUST

AMES NATIONAL CORPORATION

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PRESIDENT'S LETTER

DEAR SHAREHOLDERS,

The Company earned net income of \$2,965,000, or \$0.95 per share for the three months ended March 31, 2004, compared to net income of \$2,870,000, or \$0.92 per share, for the three months ended March 31, 2003, an increase of 3%. The Company's return on average assets was 1.56% and 1.67% respectively, for the three-month periods ending March 31, 2004 and 2003. The Company's return on average equity was 10.91% and 11.26%, respectively for the three-month periods ending March 31, 2004 and 2003. Total assets increased from \$737 million for the quarter ended March 31, 2003 to \$799 million for the quarter ended March 31, 2004, an increase of 8%.

Net interest income increased \$500,000 or 8% for the first quarter of 2004 compared to the same period in 2003. Non-interest expense was 4% higher in the first quarter of 2004 as the result of higher overhead expenses associated with data processing and equipment costs as well as employee salaries and benefits. Higher quarterly earnings were posted even though secondary market loan income and securities gains in the Company's investment portfolio were lower for first quarter 2004 compared to the same period a year ago.

Deposits increased 7% to a record \$660 million with the majority of the growth in interest-bearing checking and money market accounts. Boone Bank & Trust Co., State Bank & Trust Co. and United Bank & Trust accounted for most of the increase in this area. United Bank has made an impact in the Marshalltown area with over \$74 million in deposits since it began operations in mid-June 2002.

Loans increased 6% to \$360 million, a \$20 million increase since March 31, 2003 with steady growth in all loan categories.

Capital increased 8% to \$111 million from one year ago. Capital at the end of March 2004, which includes over \$10 million in net unrealized gains on securities available for sale, represented nearly 14% of total assets. Ames National Corporation stock, under the symbol ATLO, traded in the \$58.25 to \$61.00 range in the first quarter of 2004 and closed at \$61.00 on March 31, 2004.

Ames National Corporation is forecasting earnings for the year ending December 31, 2004, of \$3.85 to \$3.93 per share compared to the \$3.71 per share earned for the year ending December 31, 2003. Higher earnings are forecast as the result of a projected increase in net interest income that exceeds an expected reduction in realized capital gains on securities and a decrease in secondary market loan income.

The 29th Annual Meeting of Shareholders, held at Reiman Gardens on April 28, 2004, included the re-election of two directors and the election of one new director for three year terms. James R. Christy, who retired from the Company board and Kevin G. Deardorff, Company Vice President were honored for their many years of service to Ames National Corporation.

The Federal Reserve is poised to raise interest rates if inflation continues to move upward. Driven by higher energy prices, core inflation increased 0.4% in March, the fastest monthly rise in two years. It will be interesting to see if the Federal Reserve moves rates higher before the November elections.

The presidential election campaigns are already in full swing as both candidates strive to convince voters of their ability to lead the nation. With job creation showing strength and stronger corporate earnings being announced, the wild card is the Iraq conflict. How well the present administration handles the transition of government and the escalating U.S. casualties in Iraq may decide who is elected president this fall.

Sincerely,

DANIEL L. KRIEGER
Chairman & President



CONSOLIDATED BALANCE SHEETS

(unaudited)	March 31, 2004	March 31, 2003
Assets		
Cash and due from banks	\$26,268,260	\$26,870,928
Federal funds sold	38,690,000	100,320,000
Interest bearing deposits in financial institutions	8,588,576	1,000,000
Securities available-for-sale	350,165,660	254,003,860
Loans receivable, net	359,405,771	339,524,260
Loans held for sale	660,000	859,139
Bank premises and equipment, net	8,447,894	8,623,103
Accrued income receivable	5,981,800	5,701,244
Other assets	514,182	357,811
Total assets	<u>\$798,722,143</u>	<u>\$737,260,345</u>
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$64,423,914	\$61,686,441
NOW accounts	165,640,307	144,079,506
Savings and money market	185,799,563	174,326,939
Time, \$100,000 and over	67,780,557	63,441,854
Other time	176,115,766	170,359,656
Total deposits	659,760,107	613,894,396
Federal funds purchased and securities sold under agreements to repurchase	18,854,237	13,362,019
Dividends payable	1,441,204	1,376,752
Deferred taxes	4,340,041	2,539,121
Accrued interest and other liabilities	3,571,076	3,454,538
Total liabilities	<u>687,966,665</u>	<u>634,626,826</u>
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at March 31, 2004 and 2003; outstanding 3,133,053 and 3,128,982 at March 31, 2004 and 2003, respectively	15,766,150	15,766,150
Surplus	25,351,979	25,354,014
Retained earnings	59,923,998	55,411,117
Treasury stock, at cost; 20,177 and 24,248 shares at March 31, 2004, and 2003, respectively	(1,109,735)	(1,333,640)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	10,823,086	7,435,878
Total stockholders' equity	<u>110,755,478</u>	<u>102,633,519</u>
Total liabilities and stockholders' equity	<u>\$798,722,143</u>	<u>\$737,260,345</u>

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	2004	2003
Interest and dividend income:		
Loans	\$5,352,668	\$5,556,035
Securities		
Taxable	2,076,081	1,883,539
Tax-exempt	1,051,986	770,300
Federal funds sold	56,873	163,694
Dividends	377,196	340,665
Total interest income	<u>8,914,804</u>	<u>8,714,233</u>
Interest expense:		
Deposits	2,316,646	2,625,990
Other borrowed funds	74,528	64,219
Total interest expense	<u>2,391,174</u>	<u>2,690,209</u>
Net interest income	6,523,630	6,024,024
Provision for loan losses	58,355	119,745
Net interest income after provision for loan losses	<u>6,465,275</u>	<u>5,904,276</u>
Non-interest income:		
Trust department income	283,871	327,329
Service fees	356,931	358,924
Securities gains, net	31,542	365,825
Gain on sale of loans held for sale	164,188	248,120
Merchant and ATM fees	149,080	139,898
Other	155,321	155,317
Total non-interest income	<u>1,140,933</u>	<u>1,595,413</u>
Non-interest expense:		
Salaries and employee benefits	2,258,919	2,169,684
Occupancy expenses	267,977	268,608
Data processing	594,505	467,800
Other operating expenses	531,353	591,510
Total non-interest expense	<u>3,652,754</u>	<u>3,497,602</u>
Income before income taxes	3,953,454	4,002,090
Income tax expense	988,912	1,131,765
Net income	<u>\$2,964,542</u>	<u>\$2,870,325</u>
Basic and diluted earnings per share	<u>\$0.95</u>	<u>\$0.92</u>
Declared dividends per share	<u>\$0.46</u>	<u>\$0.44</u>