

share to \$0.26 per share beginning with the dividend paid to shareholders on May 15, 2006. If the \$0.26 quarterly dividend is continued for the remainder of 2006, total dividends paid for the year would be \$1.03, a 13% increase over the \$0.91 paid in 2005.

Ames National Corporation is forecasting earnings for the year 2006 of \$1.14 to \$1.19 per share compared to the \$1.23 earned in 2005. The lower projected earnings are the result of a projected decrease in net interest income as interest expense on deposits is expected to increase more quickly than interest income on earning assets.

Randall-Story State Bank, Story City, closed its Randall, Iowa office on March 31, 2006 after keeping it open half days for the past year. Bank management was pleased to report that the necessity for closing the branch was generally understood by bank customers.

United Bank & Trust is nearly finished remodeling its new downtown branch which is slated to open in late April of this year. This new location will provide another banking opportunity for the Marshalltown community and for the bank's customers.

State Bank & Trust, Nevada, has finished both the interior remodeling and the improvements to its drive-up facilities which include easier and more convenient customer access. In addition, the bank's visibility on the city's main street has been greatly enhanced.

Bids for First National Bank's new Ankeny branch were received in late March and a contractor has been selected with completion scheduled for first quarter 2007. Bank management is interviewing candidates for a market president for their new branch bank.

The 31st Annual Meeting of Shareholders will be held on April 26, 2006 at Reiman Gardens in Ames, Iowa. The three directors standing for re-election for three-year terms to the Board of Directors are Robert L. Cramer, James R. Larson, II, and Warren R. Madden. Marvin J. Walter, chairman of the Company's Audit Committee will report on 2005 audit activity, including the continued impact of section 404 of the Sarbanes-Oxley Act and the change in the Company's external auditing firm. A report will be given on the progress made to identify the individual who will join Ames National Corporation to begin the process of Company executive management succession.

The threat of even higher energy prices, the growing federal deficit and the risk of higher inflation will continue to have a negative effect on the economy in 2006. The Iraq war is at a critical stage with the different factions in the country fighting what appears to be a civil war in order to establish control.

The Federal Reserve has already hiked interest rates twice this year and will likely increase them again. These increases put pressure on bank earnings with balance sheet management extremely important in order to keep margins from slipping.

Sincerely,



DANIEL L. KRIEGER  
Chairman & President



## COMPANY DIRECTORS

### DANIEL L. KRIEGER

Chairman & President

### BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

### 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, Larson Development Corporation

### WARREN R. MADDEN

Vice President for Business & Finance,  
Iowa State University

### FREDERICK C. SAMUELSON

President, James Michael & Associates, Inc.

### MARVIN J. WALTER

President, Dayton Road Development Corporation

## AFFILIATE BANKS



STATE BANK & TRUST CO.



UNITED BANK & TRUST

## AMES NATIONAL CORPORATION

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## CHAIRMAN'S LETTER

### DEAR SHAREHOLDERS,

The Company earned net income of \$2,912,000, or \$0.31 per share for the three months ended March 31, 2006, which was 3% lower than the \$3,014,000, or \$0.32 per share, earned in first quarter 2005. Lower quarterly earnings were posted primarily as the result of a 43% increase in total interest expense paid in first quarter 2006 compared to first quarter 2005. Return on average assets was 1.43% and 1.45% and return on average equity was 10.66% and 10.90%, respectively for the three-month periods ending March 31, 2006 and 2005.

Net interest income dropped \$744,000, an 11% decrease compared to first quarter 2005. Non-interest income increased \$617,000, or 48%, primarily as the result a \$471,000 gain on the foreclosure of a commercial real estate property where the fair market value determined by an independent appraisal exceeded the loan carrying amount. A higher level of net security gains on the Company's equity portfolio and improved trust department income helped push non-interest income higher. Net interest margin for the quarter ended March 31, 2006 was 3.34% compared to 3.69% for first quarter 2005. Non-interest expense increased 2% in the first quarter of 2006 primarily due to higher employee salaries and benefits. The efficiency ratio for the three months ended March 31, 2006 and 2005 was 50.30% and 48.38%, respectively.

Total assets of \$835,000 million decreased 3% from the \$863 million reported for the quarter ended March 31, 2005. The decline in total assets was anticipated as a customer had significant temporary construction funds invested with an affiliate bank as repurchase agreements as of March 31, 2005.

Deposits reached a record \$697 million, only slightly higher than the \$691 million as of March 31, 2005. Time certificates and demand deposits increased over first quarter 2005 while interest bearing checking and money market account balances declined. First National Bank, Ames, State Bank & Trust Co. Nevada, and United Bank & Trust, Marshalltown, posted higher deposit numbers this quarter compared to a year ago.

Loans rose 3% to a record \$439 million compared to \$425 million on March 31, 2005. Randall-Story Bank, Story City, State Bank & Trust, Nevada, United Bank & Trust, Marshalltown and First National Bank, Ames, all increased their loan portfolios this past year. The higher numbers reflect increased activity in the tax exempt loan area and in agricultural lending as farmers borrowed additional funds to hold corn to take advantage of government programs. The allowance for loan losses as of March 31, 2006 and March 31, 2005 totaled \$6,782,000 and \$6,516,000 respectively. Net loan losses for the past two quarters totaled \$13,000.

Capital increased to \$109 million, a 1% increase compared to last year and equals 13% of total assets. Ames National Corporation stock, under the symbol ATLO, traded in the \$22.85 to \$28.57 range and closed at \$24.28 on March 31, 2006 with 260,700 shares traded during the quarter.

At the February board meeting, the board of directors voted to increase the quarterly dividend from the present \$0.25 per

# QUARTERLY REPORT TO SHAREHOLDERS



1<sup>ST</sup> QUARTER 2006

## CONSOLIDATED BALANCE SHEETS

(unaudited)	March 31, 2006	March 31, 2005
<b>Assets</b>		
Cash and due from banks	\$15,091,703	\$24,733,223
Federal funds sold	18,850,000	31,070,000
Interest bearing deposits in financial institutions	4,550,083	7,340,508
Securities available-for-sale	334,787,133	356,561,743
Loans receivable, net	439,199,870	424,922,071
Loans held for sale	1,211,099	202,000
Bank premises and equipment, net	11,387,490	8,706,945
Accrued income receivable	6,764,693	6,471,383
Deferred income taxes	658,506	837
Other assets	2,445,424	3,450,755
<b>Total assets</b>	<b><u>\$834,946,001</u></b>	<b><u>\$863,459,465</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Demand, noninterest bearing	\$71,272,091	\$65,577,644
NOW accounts	180,691,057	186,747,294
Savings and money market	164,790,815	188,598,917
Time, \$100,000 and over	99,319,446	79,171,833
Other time	181,323,699	170,999,798
<b>Total deposits</b>	<b>697,397,108</b>	<b>691,095,486</b>
Federal funds purchased and securities sold under agreements to repurchase	21,057,706	58,652,611
Dividend payable	2,449,010	2,352,800
Accrued expenses and other liabilities	5,153,245	3,773,689
<b>Total liabilities</b>	<b><u>726,057,069</u></b>	<b><u>755,874,586</u></b>
Stockholders' Equity:		
Common stock, \$2 par value, authorized 18,000,000 shares; 9,419,271 shares issued and outstanding March 31, 2006; 9,459,690 and 9,411,198 shares issued and outstanding at March 31, 2005, respectively	18,838,542	18,919,380
Additional paid-in capital	22,383,375	22,225,516
Retained earnings	65,176,887	63,861,476
Treasury stock, at cost; 48,492 shares at March 31, 2005	-	(889,020)
Accumulated other comprehensive income, net unrealized gain on securities available-for-sale		
Accumulated other comprehensive income, net unrealized gain on securities available-for-sale	2,490,128	3,467,527
<b>Total stockholders' equity</b>	<b><u>108,888,932</u></b>	<b><u>107,584,879</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$834,946,001</u></b>	<b><u>\$863,459,465</u></b>

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	2006	2005
<b>Interest and dividend income:</b>		
Loans, including fees	\$7,201,944	\$6,252,751
Securities:		
Taxable	2,040,230	2,230,118
Tax-exempt	1,036,363	1,060,849
Federal funds sold	11,303	52,567
Dividends	339,774	347,451
<b>Total interest income</b>	<b><u>10,629,614</u></b>	<b><u>9,943,736</u></b>
<b>Interest expense:</b>		
Deposits	4,436,184	2,982,306
Other borrowed funds	342,619	366,593
<b>Total interest expense</b>	<b><u>4,778,803</u></b>	<b><u>3,348,899</u></b>
<b>Net interest income</b>	<b>5,850,811</b>	<b>6,594,837</b>
Provision for loan losses	29,624	53,725
<b>Net interest income after provision for loan losses</b>	<b><u>5,821,187</u></b>	<b><u>6,541,112</u></b>
<b>Noninterest income:</b>		
Trust department income	363,403	332,509
Service fees	407,321	420,156
Securities gains, net	244,479	134,938
Gain on sale of loans held for sale	111,466	113,825
Merchant and ATM fees	143,060	145,930
Gain on foreclosure of real estate	471,469	
Other	151,541	128,236
<b>Total noninterest income</b>	<b><u>1,892,739</u></b>	<b><u>1,275,594</u></b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	2,415,206	2,375,948
Data processing	500,102	476,713
Occupancy expenses	309,959	310,175
Other operating expenses	669,630	644,820
<b>Total noninterest expense</b>	<b><u>3,894,897</u></b>	<b><u>3,807,656</u></b>
<b>Income before income taxes</b>	<b>3,819,029</b>	<b>4,009,050</b>
Provision for income taxes	906,661	995,126
<b>Net income</b>	<b><u>\$2,912,368</u></b>	<b><u>\$3,013,924</u></b>
Basic and diluted earnings per share	<u>\$0.31</u>	<u>\$0.32</u>
Dividends declared per share	<u>\$0.26</u>	<u>\$0.25</u>