

2005 was 52% and 48%, respectively. The net interest margin for the most recent quarter was 3.31% compared to 3.61% for the same period in 2005.

Ames National Corporation forecasted 2006 earnings of \$1.14 to \$1.19 per share. Through the first six months of the year earnings were \$.60 per share compared to the \$.64 per share earned in the first six months of 2005. The lower second half earnings includes a 39% increase in total interest expense compared to the amount paid in the same period in 2005.

United Bank & Trust's grand opening for its new downtown Courthouse Branch was held on June 9, 2006 with over 800 people attending the event. The Bank board and management feel this location will provide a marketing opportunity to attract new customers. Bank president Leo Herrick and other senior officers are helping staff the office during the initial months of operation to take advantage of the new downtown location.

First National Bank's Ankeny Office is under construction with completion expected in late first quarter 2007. First National hired Tom Friedman as market president for the new location. Friedman, with over 25 years banking experience; served as president of First State Bank Iowa, Polk City and has 11 years experience with Brenton Bank and Wells Fargo in Ankeny. He is president of the Ankeny Rotary Club and was named Citizen of the Year in 2005.

Marvin Walter reported on the progress for Company executive management succession at the April 26, 2006 Company Annual Meeting. Thomas H. Pohlman will assume the title of Executive Vice President and Chief Operating Officer of Ames National Corporation on July 1, 2006. He joined First National in 1998 and was named president in 1999. Pohlman spent 21 years with Norwest Bank before joining First National. He will remain as president of First National Bank until a replacement is identified. I plan to reduce my work schedule during 2007 and have agreed to remain as Chairman of the Board until 2010.

Our new Human Resources Officer, Jennifer Thompson, PHR, replaced Jacki Foley, and has proved to be a good addition to our staff. She has previous human resource experience with American Packaging Corporation and a local accounting and employee placement firm.

Our affiliate banks participated in the American Bankers Association Teach Children to Save program. Bankers spoke to over 500 children in the local schools to educate them on the benefits of saving.

There is a great deal of uncertainty as to how the economy will perform the second half of the year. The fact that oil may sell for \$80 a barrel, including the \$10-\$30 terror premium, and the risk of higher inflation have a negative effect on the economy. With congressional elections in November, the Iraq war will play an important role in which party has control of Congress for the next two years. The crops in central Iowa are in relatively good shape but need additional rain to ensure another high yielding year.

The Federal Reserve increased rates ¼% on June 29, 2006 for the seventeenth time since it began tightening in June, 2004. This most recent increase is the fourth this year with the possibility they may increase again in August. Each additional upward move in interest rates puts pressure on earnings as the cost of funds continues to rise.

Sincerely,



DANIEL L. KRIEGER
Chairman & President



COMPANY DIRECTORS

DANIEL L. KRIEGER

Chairman & President

BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

ROBERT L. CRAMER

Retired President,
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



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CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

The Company earned net income of \$2,765,000, or \$0.29 per share for the three months ended June 30, 2006, which was 7% less than the \$2,968,000, or \$0.32 per share, earned in second quarter 2005. Lower quarterly earnings were posted primarily as the result of a \$1,364,000, or 35% increase in total interest expense paid in second quarter 2006 compared to second quarter 2005. Return on average assets was 1.35% and 1.42% and return on average equity was 10.22% and 10.89%, respectively for the three-month periods ending June 30, 2006 and 2005.

Net interest income fell \$613,000, which was 10% lower than second quarter 2005. An improvement in credit quality and lower loan demand allowed for a reduction in the allowance for loan losses of \$303,000 which offset nearly half of the decline in the net interest income. Non-interest income increased \$85,000, or 6%, primarily as the result of higher securities gains and service fees during the quarter. Net interest margin for the quarter was 3.29% compared to 3.53% for second quarter 2005. Non-interest expense increased 3% in the second quarter of 2006 due to slightly higher operating costs in marketing, professional and other real estate expenses. The efficiency ratio for the three months ended June 30, 2006 and 2005 was 54% and 49%, respectively.

Total assets of \$822,000 million decreased 1% from the \$834 million reported for the quarter ended June 30, 2005. The decline in total assets was primarily due to fewer securities available for sale compared to a year ago.

Deposits were \$672 million, 3% higher than the \$654 million as of June 30, 2005. Demand deposits, NOW accounts and other time certificates all increased over second quarter 2005. First National Bank, Ames, State Bank & Trust Co., Nevada, Randall-Story State Bank, Story City and United Bank & Trust, Marshalltown, all posted higher deposits this quarter compared to a year ago.

Loans were nearly flat at \$430 million, \$1 million less than the \$431 million posted on June 30, 2005. Boone Bank & Trust, Boone, Randall-Story State Bank and United Bank & Trust, all increased their loan portfolios over second quarter 2005 with United Bank posting a 16% increase. The slight drop in loans outstanding reflects the 2% increase in interest rates since June 30, 2005. The allowance for loan losses as of June 30, 2006 and June 30, 2005 totaled \$6,468,000 and \$6,629,000 respectively. Net loan losses for the past quarter were \$11,000 compared to \$38,000 in recoveries a year ago.

Capital, which equals 13% of total assets, decreased 4% to \$107 million, due to a drop in unrealized gains on securities to \$414,000 this quarter from the \$6,757,000 last year. Ames National Corporation stock, under the symbol ATLO, traded in the \$19.75 to \$26.00 range and closed at \$21.88 on June 30, 2006. During the second quarter, 1,158,000 shares of Company stock changed hands.

For the six month period ending June 30, 2006, the Company earned net income of \$5,677,000, or \$0.60 per share, a 5% decrease from the net income of \$5,982,000, or \$0.64 per share, earned a year ago. As with the quarterly earnings results, the lower net income relates to a decrease in net interest income which declined 10% compared to the first half of 2005. Reducing the level of the allowance for loan losses by \$273,000 and a gain on the foreclosure of a real estate property of \$471,000 partially offset the lower net interest income. The Company's annualized return on average assets was 1.39% and 1.42% with an annualized return on average equity of 10.44% and 10.9% for the six month periods ending June 30, 2006 and 2005, respectively. The efficiency ratio for the six months ending June 30, 2006 and

QUARTERLY REPORT TO SHAREHOLDERS



2ND QUARTER 2006

CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30 2006	June 30 2005
Assets		
Cash and due from banks	\$18,632,106	\$26,971,695
Federal funds sold	11,150,000	30,000
Interest bearing deposits in financial institutions	4,373,148	6,936,900
Securities available-for-sale	333,959,950	352,469,540
Loans receivable, net	429,548,140	430,925,591
Loans held for sale	1,380,669	903,235
Bank premises and equipment, net	11,557,644	8,736,698
Accrued income receivable	6,567,073	6,147,784
Deferred income taxes	1,882,303	-
Other assets	2,893,674	1,035,802
Total assets	\$821,944,707	\$834,157,245
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$72,020,426	\$67,091,578
NOW accounts	151,090,394	144,682,035
Savings and money market	166,285,257	167,771,051
Time, \$100,000 and over	100,511,727	101,384,877
Other time	182,543,829	172,577,468
Total deposits	672,451,633	653,507,009
Federal funds purchased and securities sold under agreements to repurchase	36,017,887	61,334,723
Dividends payable	2,450,503	2,354,818
Deferred income taxes	-	1,925,302
Accrued interest and other liabilities	3,770,281	3,259,583
Total liabilities	714,690,304	722,381,435
Stockholders' Equity:		
Common stock, \$2 par value; authorized 18,000,000 shares; 9,425,013 shares issued and outstanding at June 30, 2006 9,419,271 shares issued and outstanding June 30, 2005	18,850,026	18,838,542
Additional paid-in capital	22,498,904	22,383,375
Retained earnings	65,491,202	63,796,866
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	414,271	6,757,027
Total stockholders' equity	107,254,403	111,775,810
Total liabilities and stockholders' equity	\$821,944,707	\$834,157,245

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Interest and dividend income				
Loans	\$7,357,897	\$6,599,747	\$14,559,841	\$12,852,498
Securities				
Taxable	2,127,842	2,117,885	4,168,073	4,348,004
Tax-exempt	1,040,194	1,061,590	2,076,557	2,122,439
Federal funds sold	92,691	75,714	103,994	128,281
Dividends	359,005	372,138	698,779	719,589
Total interest income	10,977,629	10,227,074	21,607,244	20,170,811
Interest expense:				
Deposits	4,968,077	3,562,992	9,404,262	6,545,298
Other borrowed funds	257,605	299,135	600,224	665,728
Total interest expense	5,225,682	3,862,127	10,004,486	7,211,026
Net interest income	5,751,947	6,364,947	11,602,758	12,959,785
Provision (credit) for loan losses	(302,854)	74,882	(273,230)	128,607
Net interest income after provision (credit) for loan losses	6,054,801	6,290,065	11,875,988	12,831,178
Noninterest income:				
Trust department income	389,676	411,021	753,078	743,530
Service fees	497,729	450,489	905,051	870,645
Securities gains, net	270,830	232,844	515,308	367,783
Gain on sale of loans held for sale	172,521	168,196	283,987	282,021
Merchant and ATM fees	133,160	138,273	276,220	284,202
Gain on foreclosure of real estate	-	-	471,469	-
Other	134,651	112,605	286,193	240,841
Total non-interest income	1,598,567	1,513,428	3,491,306	2,789,022
Non-interest expense:				
Salaries and employee benefits	2,372,072	2,335,550	4,787,278	4,711,498
Data processing	582,175	568,690	1,082,277	1,045,404
Occupancy expenses	287,920	268,233	597,879	578,408
Other operating expenses	715,330	657,065	1,384,961	1,301,885
Total non-interest expense	3,957,497	3,829,538	7,852,395	7,637,195
Income before income taxes	3,695,871	3,973,955	7,514,899	7,983,005
Income tax expense	931,053	1,005,643	1,837,714	2,000,769
Net income	2,764,818	2,968,312	5,677,185	5,982,236
Basic and diluted earnings per share	0.29	0.32	0.60	0.64
Declared dividends per share	0.26	0.25	0.52	0.50