

second quarter a year ago with large time certificates of deposits showing the most gain.

Capital of \$112 million, or 13% of total assets, was 8% higher than the \$104 million in June 30, 2004. This year's capital included \$7 million in unrealized gains in securities, net of deferred tax liability, compared to \$4 million in unrealized gains on June 30, 2004.

Company stock, under the symbol ATLO, traded in the \$90.00 to \$120.00 range during the second quarter of 2005 and closed at \$110.56 on June 30, 2005. In June, Ames National Corporation stock (ATLO) was added to the Russell 2000 Stock Index and to America's Community Bankers NASDAQ Index. These indexes are used by investment managers and institutional investors for index funds and as benchmarks for both passive and active investment strategies. Trading activity in Company stock has increased dramatically since the three-for-one stock split was approved on June 15, 2005 with 142,200 shares traded on June 24, 2005 and over 269,600 shares traded during the month. On or about July 15, 2005, shareholders of record as of July 1, 2005 will receive two additional shares for each share owned. ATLO is listed on the NASDAQ, under SmallCap issues. Current ATLO stock information is available online at www.amesnational.com.

Oil prices continue to float in the high \$50 and low \$60 range with the stock market reacting to a swing in either direction. The Iraq war continues to dominate the news media with little hope of a quick end to the conflict.

The Federal Reserve increased the fed funds rate ¼% for the ninth consecutive time since it began tightening on June 30, 2004. This is the longest streak of uninterrupted increases since the late 1970s. The financial markets are anticipating another ¼% increase when the Open Market Committee meets on August 9. Net interest margins have narrowed as short term rates have risen at a relatively rapid rate with a decline on the long end of the yield curve. With the short end of the curve expected to rise through 2005, pressure will be put on bank earnings in the second half of the year.

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

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CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

Net income for second quarter 2005 was \$2,968,000, which on a three-for-one split adjusted basis was \$.32 per share, a 4% increase over the \$2,862,000, or \$.30 per share earned during the same period in 2004. Return on average assets was 1.42% and 1.45%, respectively for the three month periods ended June 30, 2005 and June 30, 2004 and the Company's return on average equity was 10.89% and 10.76%, respectively for those same periods. The efficiency ratio for the three month period ending June 30, 2005 and June 30, 2004, was 49% and 46%, respectively. Average assets for second quarter 2005 of \$836 million were 6% higher than the \$788 million posted a year ago.

The stronger second quarter earnings can be attributed to increased interest income on a higher level of earning assets in addition to higher security gains, lower provision expense and higher trust income. These helped offset higher interest expense that caused a 4% decrease in net interest income. Three of the five affiliate banks had higher quarterly earnings compared to a year ago.

For the six-month period ending June 30, 2005, the Company earned net income of \$5,982,000, which on a three-for-one split adjusted basis was \$.64 per share, a 3% increase over net income of \$5,827,000, or \$.62 per share earned a year ago. Return on average assets for the first six months of 2005 was 1.42% compared to 1.51% for the same period in 2004 and return on average equity was 10.90% compared to 10.84% last year. The efficiency ratio for the six-month period ending June 30, 2005 was 48% and 47% for the six months ending June 30, 2004.

The first six months earnings rose due to higher gains on securities, lower loan provision expense and a rise in trust income. The positive earnings factors were offset by significantly higher interest expense. Net interest income declined 2% for the six-months ended June 30, 2005 compared to the same period one year ago.

Loans reached a record \$431 million, increasing 12% over June 30, 2004, with commercial, residential and multi-family mortgage loans the largest contributors. All affiliate banks posted higher loan numbers compared to last year with United Bank & Trust, State Bank & Trust and First National Bank all recording double digit growth.

Deposits rose 3% to \$654 million as of June 30, 2005. Three of the five affiliate banks increased deposits over

QUARTERLY REPORT TO SHAREHOLDERS



2ND QUARTER 2005

CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30 2005	June 30 2004
Assets		
Cash and due from banks	\$26,971,695	\$22,365,358
Federal funds sold	30,000	1,400,000
Interest bearing deposits in financial institutions	6,936,900	9,053,035
Securities available-for-sale	352,469,540	358,055,848
Loans receivable, net	430,925,591	382,602,275
Loans held for sale	903,235	1,266,300
Bank premises and equipment, net	8,736,698	8,312,472
Accrued income receivable	6,147,784	5,696,966
Other assets	1,035,802	579,629
Total assets	\$834,157,245	\$789,331,883
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$67,091,578	\$64,153,372
NOW accounts	144,682,035	150,610,085
Savings and money market	167,771,051	177,314,085
Time, \$100,000 and over	101,384,877	67,585,809
Other time	172,577,468	174,206,039
Total deposits	653,507,009	633,869,390
Federal funds purchased and securities sold under agreements to repurchase	61,334,723	44,575,719
Dividends payable	2,354,818	3,070,392
Deferred taxes	1,925,302	445,010
Accrued interest and other liabilities	3,259,583	3,132,223
Total liabilities	722,381,435	685,092,734
Stockholders' Equity:		
Common stock, \$2 par value; authorized 18,000,000 shares; 9,419,271 shares issued and outstanding at June 30, 2005 9,459,690 and 9,411,198 shares issued and outstanding at June 30, 2004, respectively	18,838,542	18,919,380
Surplus	22,383,375	22,225,516
Retained earnings	63,796,866	59,715,644
Treasury stock, at cost; 48,592 shares at June 30, 2004	-	(889,020)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	6,757,027	4,267,629
Total stockholders' equity	111,775,810	104,239,149
Total liabilities and stockholders' equity	\$834,157,245	\$789,331,883

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Interest and dividend income				
Loans	\$6,599,747	\$5,471,094	\$12,852,498	\$10,823,762
Securities				
Taxable	2,117,885	2,151,710	4,348,004	4,227,791
Tax-exempt	1,061,590	1,093,670	2,122,439	2,145,656
Federal funds sold	75,714	21,223	128,281	78,096
Dividends	372,138	371,334	719,589	748,530
Total interest income	10,227,074	9,109,031	20,170,811	18,023,835
Interest expense:				
Deposits	3,562,992	2,357,853	6,545,298	4,674,499
Other borrowed funds	299,135	94,099	665,728	168,627
Total interest expense	3,862,127	2,451,952	7,211,026	4,843,126
Net interest income	6,364,947	6,657,079	12,959,785	13,180,709
Provision for loan losses	74,882	210,353	128,607	268,708
Net interest income after provision for loan losses	6,290,065	6,446,726	12,831,178	12,912,001
Noninterest income:				
Trust department income	411,021	325,287	743,530	609,158
Service fees	450,489	460,937	870,645	817,868
Securities gains, net	232,844	-	367,783	31,542
Gain on sale of loans held for sale	168,196	183,553	282,021	347,741
Merchant and ATM fees	138,273	120,325	284,202	269,405
Other	112,605	159,805	240,841	315,126
Total non-interest income	1,513,428	1,249,907	2,789,022	2,390,840
Non-interest expense:				
Salaries and employee benefits	2,335,550	2,269,156	4,711,498	4,528,075
Data processing	568,690	567,227	1,045,404	1,108,280
Occupancy expenses	268,233	236,975	578,408	504,952
Other operating expenses	657,065	602,838	1,301,885	1,187,643
Total non-interest expense	3,829,538	3,676,196	7,637,195	7,328,950
Income before income taxes	3,973,955	4,020,437	7,983,005	7,973,891
Income tax expense	1,005,643	1,158,398	2,000,769	2,147,310
Net income	2,968,312	\$2,862,039	5,982,236	\$5,826,581
Basic and diluted earnings per share	0.32	\$0.30	0.64	\$0.62
Declared dividends per share	0.25	\$0.33	0.50	\$0.48