

Affiliate Updates

Online Security Enhancements. On October 12, 2005, the Federal Financial Institutions Examination Council (FFIEC) ruled that passwords alone will no longer be acceptable as the sole means of achieving online security for banking transactions. By December 31, 2006, bank regulators will require that two forms of verification be used to access Internet Banking. In response to this mandate, all Ames National Corporation affiliate will be introducing Enhanced Login Security through Internet Banking during the fourth quarter of 2006. Now, not only will customers' passwords be recognized, their computers will be recognized as well. This service provides customers extra protection from fraud and identity theft, which is a high priority for the Company.

Health Savings Accounts (HSAs). During the third quarter, Ames National Corporation implemented HSAs. Created by Medicare legislation, a HSA is a tax-exempt account that was established for the purpose of paying medical expenses in conjunction with a High-Deductible Health Plan. HSA advantages include: tax deductibility, more control over dollars, savings through lower insurance premiums, and tax-free savings for retirement. According to the U.S. Department of the Treasury, currently 3.2 million individuals are covered by HSA-qualified health plans. This number is expected to reach 14 million by 2010. Ames National Corporation's affiliate banks will be ready to assist customers with their HSA needs as the popularity of these accounts continues to increase.

Our People

Orley Kilburn, a senior officer at Randall-Story State Bank, will retire in early 2007 and Rick Schrier, senior lender at State Bank & Trust will replace him. We are very fortunate to have experienced people in our affiliate banks willing to relocate to a sister bank if the opportunity is presented.

The Economy

The Dow Jones Industrial average is close to hitting a new high. Dropping oil prices have contributed to the rising market, allowing consumers to cut back on their expenditures for both transportation and heating. In addition, the Federal Reserve paused in August after increasing interest rates 17 times since June 2004. The consensus is that interest rates will begin to decline next year unless inflation increases above the Fed's target. Lower short term rates will lead to a more normal yield curve with the probability of longer term rates rising. This is good for the banking industry as lower short-term rates provide banks an opportunity to reprice their liabilities and extend their assets.

Farmers in Central Iowa are reporting slightly lower yields on both corn and bean compared to last year's record harvest. With corn prices steady and the price of beans moving up, it should bode well for farmers this year. Lower drying costs due to the dry weather and moderating fuel prices should help reduce the cost of the fall harvest.

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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QUARTERLY REPORT TO SHAREHOLDERS



3RD QUARTER 2006

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

Our Numbers

The Company had net income of \$2,546,000, or \$0.27 per share for the three months ending September 30, 2006, compared to net income of \$2,917,000, or \$.031 per share for the three months ending September 30, 2005, a 13% decrease. The decline in net income is attributed to a \$704,000, or 11% decrease in net interest income as the result of significantly higher deposit interest expense this quarter compared to the same period a year ago. Partially offsetting the higher costs of funds was an increase in interest income of \$730,000, or 7%, an increase in trust fees of \$65,000, or 24%, and an increase in securities gains of \$65,000, or 25%.

Return on equity was 9.36% and return on assets was 1.25% for third quarter this year. For the same period in 2005, return on equity was 10.54% and return on assets was 1.41%. The efficiency ratio for third quarter was 52.80% compared to 48.78% for the same period last year. Net interest margin for the third quarter 2006 was 3.25% compared to the 3.58% for third quarter 2005.

Earnings for the first nine months of 2006 were \$8.2 million, or \$0.87 per share, which was 8% lower than the \$8.9 million, or \$0.95 per share, posted for the first nine months of 2005. The lower earnings reflect a 42% increase in interest paid on deposits for this period compared to the first nine months in 2005. The lower earnings figure was partially offset by an 11% increase in loan interest, higher realized gains on investments and a one-time gain on other real estate.

Deposits were slightly lower at \$650 million compared to the \$656 million recorded third quarter 2005. With the inverted yield curve, financial institutions are offering short-term rates on money market accounts and time certificates equal to or above the 30-year U.S. treasury yield. Deposits at these rates are not only competitively priced but tend to drive net interest margins lower resulting in lower net income. Demand deposits increased slightly while checking-with-interest account balances dropped 8% as customers moved excess funds into higher yielding deposit options. Although total deposits were lower, First National Bank saw a modest increase of \$10 million in deposits.

Loans decreased \$11 million to \$425 million with all banks showing lower balances compared to a year ago except United Bank & Trust, which recorded a 7% increase. The 1½% increase in rates by the Federal Reserve Bank over the past year had a dampening effect on borrower's plans resulting in a reduction in loan volume.

Total assets ended the quarter at \$822 million, almost identical to the \$823 million on September 30, 2005. A slight increase on total securities offset the lower loan totals.

Capital ended the quarter at \$112 million, 2% more than a year ago as both net unrealized gains on securities available for sale, and retained earnings were higher than the September 30, 2005 numbers. The capital-to-assets ratio ended the quarter at 13.6%.

During third quarter, Company stock listed on the NASDAQ Capital market under the symbol ATLO, ranged from \$19.95 to \$22.75 per share and closed at \$21.41 on September 29, 2006. At \$21.41, ATLO was trading at 18.5 times earnings, and 1.81 times book. To date, dividends of \$0.78 per share have been declared compared to \$0.75 per share in 2005.

CONSOLIDATED BALANCE SHEETS

(unaudited)	September 30 2006	September 30 2005
Assets		
Cash and due from banks	\$18,014,733	\$18,749,571
Federal funds sold	50,000	100,000
Interest bearing deposits in financial institutions	3,331,089	6,973,569
Securities available-for-sale	351,928,869	343,497,810
Loans receivable, net	424,848,430	435,708,073
Loans held for sale	591,185	756,219
Bank premises and equipment, net	11,913,843	9,221,385
Accrued income receivable	8,328,348	7,471,349
Other assets	2,895,230	420,048
Total assets	\$821,901,727	\$822,898,024
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$73,742,114	\$71,040,005
NOW accounts	150,119,248	163,803,373
Savings and money market	149,674,765	153,653,610
Time, \$100,000 and over	92,706,421	90,796,789
Other time	183,418,287	176,630,452
Total deposits	649,660,835	655,924,229
Federal funds purchased and securities sold under agreements to repurchase	49,069,784	50,678,317
Other short-term borrowings	2,272,894	
FHLB term advances	2,000,000	
Dividends payable	2,450,503	2,354,818
Deferred taxes	717,188	423,282
Accrued interest and other liabilities	3,954,891	3,623,182
Total liabilities	710,126,095	713,003,828
Stockholders' Equity:		
Common stock, \$2 par value; authorized 18,000,000 shares; 9,425,013 shares issued and outstanding at September 30, 2006; 9,419,271 shares issued and outstanding September 31, 2005	18,850,026	18,838,542
Additional paid-in-capital	22,498,904	22,383,375
Retained earnings	65,586,270	64,359,425
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	4,840,432	4,312,854
Total stockholders' equity	111,775,632	109,894,196
Total liabilities and stockholders' equity	\$821,901,727	\$822,898,024

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Interest and dividend income				
Loans	\$7,504,606	\$7,036,222	\$22,064,447	\$19,888,720
Securities				
Taxable	2,320,638	2,121,380	6,488,712	6,469,383
Tax-exempt	1,045,124	1,040,237	3,121,681	3,162,676
Federal funds sold	40,918	3,277	144,911	131,557
Dividends	353,659	333,722	1,052,437	1,053,311
Total interest income	11,264,945	10,534,838	32,872,188	30,705,647
Interest expense:				
Deposits	5,111,121	3,691,821	14,515,383	10,237,119
Other borrowed funds	497,354	482,849	1,097,577	1,148,575
Total interest expense	5,608,475	4,174,670	15,612,960	11,385,694
Net interest income	5,656,470	6,360,168	17,259,228	19,319,953
Provision (credit) for loan losses	45,859	118,431	(227,371)	247,038
Net interest income after provision (credit) for loan losses	5,610,611	6,241,737	17,486,599	19,072,915
Non-interest income:				
Trust department income	336,207	271,730	1,089,285	1,015,260
Service fees	474,633	465,027	1,379,684	1,335,672
Securities gains, net	330,827	265,771	846,135	633,554
Gain on sale of loans held for sale	173,163	186,812	457,150	468,833
Merchant and ATM fees	127,108	145,006	403,328	429,209
Gain on foreclosure of real estate	10,734	—	482,203	—
Other	118,701	110,473	404,894	351,314
Total non-interest income	1,571,373	1,444,819	5,062,679	4,233,842
Non-interest expense:				
Salaries and employee benefits	2,341,368	2,354,097	7,128,646	7,065,595
Data processing	541,865	469,622	1,624,142	1,515,026
Occupancy expenses	294,113	285,962	891,991	864,370
Other operating expenses	639,067	697,397	2,024,029	1,999,283
Total non-interest expense	3,816,413	3,807,078	11,668,808	11,444,274
Income before income taxes	3,365,571	3,879,478	10,880,470	11,862,483
Income tax expense	819,999	962,102	2,657,713	2,962,871
Net income	\$2,545,572	\$2,917,376	\$8,222,757	\$8,899,612
Basic and diluted earnings per share	\$0.27	\$0.31	\$0.87	\$0.95
Declared dividends per share	\$0.26	\$0.25	\$0.78	\$0.75