

\$93,439,000 as of September 30, 2001. Included in the September 30, 2002 total stockholder's equity figure was \$8.55 million in unrealized gains on securities, nearly \$3 million more than a year ago. Stockholders' equity as of September 30, 2002, was 15.3% of total assets.

Dividends paid during the twelve-month period ending September 30, 2002, totaled \$1.74 per share compared to \$1.22 per share paid during the same period in 2001. The \$1.72 per share includes an extra \$.44 per share dividend paid August 15, 2002.

During the third quarter, Ames National Corporation common stock traded in the \$43 to \$46.75 per share range, ending the quarter at \$46.

United Bank & Trust, Marshalltown, which opened its doors for business in late June, has performed close to expectations through September 30, 2002, its first full quarter of operation. The new 5,300 square foot bank building is ahead of schedule and slated for occupancy in early December. The early completion will allow for an open house to be held before the holiday season.

The lack of oversight in the accounting process by some large public companies has raised the question of governance. The Company Audit Committee, comprised of independent, outside directors is working to ensure that proper internal controls are in place. The Sarbanes-Oxley Act of 2002 contains explicit requirements on such issues as CEO/CFO certification of financial reports, insider trading disclosure and financial reporting.

Our organization continues to emphasize customer service by educating our employees on the wide array of products and services offered by the affiliate banks. The most important aspect of providing our employees with this knowledge is the personal approach in dealing with the customer. We strongly embrace this concept and feel it helps distinguish us from our competition.

Sincerely,


DANIEL L. KRIEGER
President



COMPANY DIRECTORS

ROBERT W. STAFFORD

Chairman of the Board

DANIEL L. KRIEGER

President

BETTY A. BAUDLER

President, Baudler Enterprises, Inc.

DALE F. COLLINGS

Former President, State Bank & Trust Co.

JAMES R. CHRISTY

Chairman, State Bank & Trust Co.

DOUGLAS C. GUSTAFSON, DVM

Boone Veterinary Hospital

CHARLES D. JONS, MD

Medical Consultant

JAMES R. LARSON, II

President, ACI Mechanical

MARVIN J. WALTER

President

Dayton Road Development Corporation

AFFILIATE BANKS



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 \$2,952,000, or \$0.94 per share for the three months ended September 30, 2002, compared to net income of \$2,682,000, or \$0.86 per share, for the three months ended September 30, 2001, an increase of 10.06%. The Company's return on average assets was 1.87% and 1.76%, respectively, for the three-month periods ending September 30, 2002, and 2001. The Company's return on average equity was 11.80% and 11.65%, respectively for the three-month periods ending September 30, 2002, and 2001.

The Company earned net income of \$8,634,000, or \$2.76 per share for the nine months ended September 30, 2002, compared to net income of \$7,980,000, or \$2.55 per share, for the nine months ended September 30, 2001, an increase of 8.2%. The Company's return on average assets was 1.83% and 1.73%, respectively for the nine-month periods ending September 30, 2002, and 2001. The Company's return on average equity was 11.83% and 11.80%, respectively for the nine-month periods ending September 30, 2002, and 2001.

Deposits increased by \$25,426,000 from December 31, 2001, and are \$33,017,000 higher than September 30, 2001.

Loan demand has decreased compared to the past two years with the economic slowdown negatively affecting expansion plans. This lower interest rate environment has prompted some large borrowers to seek refinancing at more favorable terms.

We continue to emphasize credit quality in our loan underwriting with the borrower's character paramount in driving our decisions. The affiliate banks have made progress in the past year by lowering impaired loans from \$3,448,000 as of September 30, 2001, to \$1,917,000 as of September 30 of this year. Net charge offs were \$177,000 for the nine months ending September 30, 2002, down considerably from the \$508,000 for the same period in 2001.

Company total assets were \$659,759,000 for the quarter ending September 30, 2002, compared to total assets of \$625,425,000 ending September 30, 2001, an increase of 5.5%.

The Company's total stockholder's equity increased to a record \$100,926,000 as of September 30, 2002, from

QUARTERLY REPORT TO SHAREHOLDERS



3RD QUARTER 2002

CONSOLIDATED BALANCE SHEET

(unaudited)	September 30, 2002	September 30, 2001
Assets		
Cash and due from banks	\$44,259,802	\$20,531,354
Federal funds sold	51,970,000	43,850,000
Interest bearing deposits in financial institutions	500,000	250,000
Securities available-for-sale	237,956,813	220,578,969
Loans receivable, net	310,278,405	326,561,537
Bank premises and equipment, net	8,136,170	6,385,697
Accrued income receivable	6,067,313	6,903,620
Other assets	590,583	403,814
Total assets	<u>\$659,759,086</u>	<u>\$625,464,991</u>
Liabilities and Stockholders' Equity		
Deposits:		
Demand	60,268,609	49,474,677
NOW accounts	129,636,309	118,025,760
Savings and money market	139,436,493	125,573,633
Time, \$100,000 and over	53,729,760	53,908,140
Other time	153,864,537	156,936,539
Total deposits	536,935,708	503,918,749
FHLB advances	—	4,500,000
Federal funds purchased and securities sold under agreements to repurchase	14,855,341	17,001,322
Dividends payable	1,376,752	1,312,596
Deferred taxes	2,645,231	1,826,396
Accrued interest and other liabilities	3,020,023	3,466,930
Total liabilities	558,833,055	532,025,993
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at September 30, 2002, and 2001	15,766,150	15,766,150
Treasury stock, at cost; 24,248 and 28,001 shares at September 30, 2002, and 2001, respectively	(1,333,640)	(1,530,805)
Surplus	25,354,014	25,393,028
Retained earnings	52,588,307	48,142,044
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	8,551,200	5,668,581
Total stockholders' equity	100,926,031	93,438,998
	<u>\$659,759,086</u>	<u>\$625,464,991</u>

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Interest and dividend income:				
Loans	\$5,830,765	\$6,797,377	\$17,461,976	\$21,175,726
Securities	2,693,049	2,883,736	8,170,597	8,936,035
Federal funds sold	186,630	206,529	638,657	552,050
Dividends	341,174	319,251	1,046,845	826,844
Total interest income	9,051,618	10,206,893	27,318,075	31,490,655
Interest expense:				
Deposits	2,747,913	4,258,811	8,707,285	14,228,785
Other borrowed funds	61,884	237,721	195,784	934,071
Total interest expense	2,809,797	4,496,532	8,903,069	15,162,856
Net interest income	6,241,821	5,710,361	18,415,006	16,327,799
Provision for loan losses	80,640	283,229	296,124	557,137
Net interest income after provision for loan losses	6,161,181	5,427,132	18,118,882	15,770,662
Noninterest income:				
Trust department income	270,214	240,018	797,369	727,820
Service fees	381,772	395,323	1,100,965	1,180,035
Securities gains, net	239,748	2,472	562,422	1,154,003
Other	421,621	337,103	1,043,567	966,822
Total noninterest income	1,313,355	974,916	3,504,323	4,028,680
Noninterest expense:				
Salaries and employee benefits	2,087,159	1,659,592	5,945,161	5,059,903
Occupancy expenses	225,634	173,179	655,198	542,128
Data processing	440,660	380,094	1,282,700	1,268,956
Other operating expenses	597,064	534,436	1,710,419	1,608,148
Total noninterest expense	3,350,517	2,747,301	9,593,478	8,479,135
Income before income taxes	4,124,019	3,654,747	12,029,727	11,320,207
Income tax expense	1,171,736	972,427	3,395,579	3,340,431
Net income	<u>\$2,952,283</u>	<u>\$2,682,320</u>	<u>\$8,634,148</u>	<u>\$7,979,776</u>
Basic earnings per share	<u>\$0.94</u>	<u>\$0.86</u>	<u>\$2.76</u>	<u>\$2.55</u>
Declared dividends per share	<u>\$0.44</u>	<u>\$0.42</u>	<u>\$1.74</u>	<u>\$1.22</u>
Comprehensive income	<u>\$4,209,682</u>	<u>\$4,262,327</u>	<u>\$12,588,734</u>	<u>\$11,024,813</u>