

their homes to take advantage of the lowest rates in four decades. We do not believe this trend will continue at the same pace in 2003. A resolution to the situation in the Middle East would help to restore consumer confidence.

Company stock, which is listed on the Bulletin Board under the symbol ATLO, closed at \$46.75 on December 31, 2002. During fourth quarter, the price ranged from \$45.90 to \$47.50. The fourth quarter dividend paid was \$.44 per share compared to \$.42 per share paid in the fourth quarter a year ago.

United Bank & Trust, Marshalltown, Iowa, has performed above projections in the generation of both deposits and loans in its first six months of operation. We are pleased with these results and feel the opportunity for additional growth in 2003 remains strong.

We were saddened by the passing of Carroll B. Kineth in December. He was a former member of the Company board of directors and former president and chairman of our affiliate, Randall-Story State Bank, Story City, Iowa. His advice and counsel will be missed.

This year the annual meeting will be held on April 23, 2003. We plan to celebrate the 100th anniversary of First National Bank, Ames, Iowa, with a shareholder dinner following the business meeting. We hope you will mark this date on your calendar and join us. We will send Proxy information for the annual meeting and the 2002 Annual Report to Shareholders in mid-March, including registration materials for the annual meeting.

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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QUARTERLY REPORT TO SHAREHOLDERS



4TH QUARTER 2002

PRESIDENT'S LETTER

DEAR SHAREHOLDERS,

Net income for the quarter ending December 31, 2002, was \$2,706,000, 5% higher than the \$2,568,000 earned in the fourth quarter last year. Earnings per share were \$.87 for the quarter compared to \$.82 for the same period in 2001. Interest paid on deposits was nearly 25% lower this quarter than the amount paid in fourth quarter 2001, which helped offset the 10% decrease in interest income compared to the same period a year ago. Return on average assets was 1.65% this quarter compared to 1.64% in fourth quarter 2001. Return on average equity was 10.71%, which was slightly lower than the 10.82% posted a year ago. The efficiency ratio for fourth quarter was 47.07% compared to the 42.49% for the same period last year. The additional costs associated with the start up of United Bank & Trust, Marshalltown, Iowa, increased total overhead.

Deposits increased to \$550,622,000 for fourth quarter 2002, an 8% increase over the \$511,509,000 recorded at the end of 2001. All categories of interest bearing deposits increased while demand deposits were nearly the same as a year ago.

Loans rose 3% to \$332,306,000, reversing the downward trend and recording the highest total since second quarter 2001. Although loans were higher than a year ago, the increase came primarily in commercial real estate loans with nearly all other categories experiencing lower quarter-end figures compared to last year. Most business borrowers are waiting for more favorable economic news before committing to additional debt.

As of December 31, 2002, capital rose 8% to \$101,523,000, nearly \$8,000,000 more than December 31, 2001. Included in capital are unrealized capital gains on securities available for sale which amounted to \$7,819,000 compared to \$4,597,000 for the same quarter last year. Year-end capital represented 15% of total assets.

Affiliate banks realized higher secondary market fees in 2002 as consumers continued to re-finance

CONSOLIDATED BALANCE SHEET

(unaudited)	December 31, 2002	December 31, 2001
Assets		
Cash and due from banks	\$51,688,784	\$42,459,156
Federal funds sold	32,500,000	29,350,000
Interest bearing deposits in financial institutions	1,000,000	250,000
Securities available-for-sale	244,575,026	213,778,175
Loans receivable, net	332,306,497	323,043,166
Bank premises and equipment, net	8,726,397	7,183,655
Accrued income receivable	5,849,017	5,977,353
Other assets	582,849	238,477
Total assets	\$677,228,570	\$622,279,982
Liabilities and Stockholders' Equity		
Deposits:		
Demand	62,557,937	62,796,265
NOW accounts	121,325,104	108,509,319
Savings and money market	153,296,259	138,342,052
Time, \$100,000 and over	54,564,283	47,716,458
Other time	158,878,796	154,145,161
Total deposits	550,622,379	511,509,255
FHLB advances	—	1,000,000
Federal funds purchased and securities sold under agreements to repurchase	18,325,574	10,596,174
Dividends payable	1,376,752	1,312,596
Deferred taxes	2,879,057	1,188,670
Accrued interest and other liabilities	2,501,952	3,051,289
Total liabilities	575,705,714	528,657,984
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares	15,766,150	15,766,150
Additional paid-in capital	25,354,014	25,393,028
Retained earnings	53,917,544	49,397,011
Treasury stock, at cost; 24,248 and 28,001 shares at December 31, 2002, and 2001, respectively	(1,333,640)	(1,530,805)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	7,818,788	4,596,614
Total stockholders' equity	101,522,856	93,621,998
	\$677,228,570	\$622,279,982

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended December 31		Twelve Months Ended December 31	
	2002	2001	2002	2001
Interest and dividend income:				
Loans	\$5,745,208	\$6,715,653	\$23,207,184	\$27,891,379
Securities	2,698,867	2,654,883	10,869,464	11,590,918
Federal funds sold	172,018	277,033	810,675	829,083
Dividends	336,505	335,332	1,383,350	1,162,176
Total interest income	8,952,598	9,982,901	36,270,673	41,473,556
Interest expense:				
Deposits	2,689,839	3,562,529	11,397,125	17,791,314
Other borrowed funds	70,062	157,248	265,845	1,091,319
Total interest expense	2,759,901	3,719,777	11,662,970	18,882,633
Net interest income	6,192,697	6,263,124	24,607,703	22,590,923
Provision for loan losses	392,307	340,403	688,431	897,540
Net interest income after provision for loan losses	5,800,390	5,922,721	23,919,272	21,693,383
Noninterest income:				
Trust department income	235,131	220,679	1,032,500	948,499
Service fees	391,379	405,001	1,492,344	1,585,036
Securities gains, net	327,501	43,047	889,923	1,197,050
Loan and secondary market fees	329,298	190,218	739,907	589,215
Other	347,182	192,417	980,140	760,244
Total noninterest income	1,630,491	1,051,362	5,134,814	5,080,044
Noninterest expense:				
Salaries and employee benefits	2,129,020	1,774,685	8,074,181	6,834,588
Data processing	651,306	503,770	1,934,006	1,772,726
Occupancy expenses	272,089	183,921	927,287	726,049
Other operating expenses	629,679	645,769	2,340,098	2,253,920
Total noninterest expense	3,682,094	3,108,145	13,275,572	11,587,283
Income before income taxes	3,748,787	3,865,938	15,778,514	15,186,144
Income tax expense	1,042,797	1,298,375	4,438,376	4,638,806
Net income	\$2,705,990	\$2,567,563	\$11,340,138	\$10,547,338
Basic earnings per share	\$0.87	\$0.82	\$3.63	\$3.38
Declared dividends per share	\$0.44	\$0.42	\$2.18	\$1.66
Comprehensive income	\$1,973,578	\$1,495,596	\$14,562,312	\$12,520,408