

Ames National Corporation is forecasting earnings for the year ending December 31, 2003, of \$3.27 per share. This figure compares to the \$3.63 per share earned for the year ending December 31, 2002. Lower earnings are forecast as a result of operating costs associated with the de novo chartering of United Bank and anticipation of lower net interest margins in 2003.

The annual meeting of shareholders was held on April 23, 2003, in Ames, Iowa, with over 240 people in attendance. Two new directors, Robert L. Cramer and Warren R. Madden were elected to replace the two retiring directors, Robert W. Stafford and Dale E. Collings.

Following the business meeting, a dinner was held to celebrate the 100th anniversary of First National Bank, Ames, Iowa. After the presentation of a 100-year history of the bank, shareholders honored Robert W. Stafford for his leadership and many contributions to the success of the Bank and the Company over his nearly 50 years of service.

The military action in Iraq is an assured victory. Now the difficult part begins; how to bring stability to the government and economy of a nation which has been under totalitarian rule for 25 years. The cost of this task including the war will play an important role in the outcome of President Bush's proposed tax plan.

The road to economic recovery in the United States could take some time and depends on business capital investment that has been delayed by the high level of economic and political uncertainty. By the end of 2003, we should have a better idea of how the economy is responding.

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 \$2,870,000, or \$0.92 per share for the three months ended March 31, 2003, compared to net income of \$2,941,000, or \$0.94 per share, for the three months ended March 31, 2002, a decrease of 2%. The Company's return on average assets was 1.67% and 1.91%, respectively, for the three-month periods ending March 31, 2003 and 2002. The Company's return on average equity was 11.26% and 12.26%, respectively for the three month periods ending March 31, 2003, and 2002. Total assets increased from \$646 million for the quarter ended March 31, 2002, to \$737 million for the quarter ended March 31, 2003, an increase of 14%.

While net interest income was relatively unchanged for the first quarter of 2003 compared to the same period in 2002, non-interest expense was significantly higher in 2003 as a result of higher overhead expenses associated with the opening of United Bank & Trust NA (United Bank) in Marshalltown, Iowa. Non-interest expenses for United Bank totaled \$324,000 for the quarter ended March 31, 2003. The higher non-interest expense was partially offset by higher securities gains in the Company's investment portfolio and an increase in secondary market loan fees for the first quarter of 2003 compared to the same period a year ago. Secondary mortgage market activity continues to be strong at affiliate banks but is not anticipated to remain at current levels once interest rates begin to increase.

Loans grew 12% to \$340 million, a \$35 million increase since March 31, 2002. Commercial real estate loans accounted for a large part of the growth with United Bank generating most of the increase. Deposits showed a strong 16% gain over first quarter 2002 with all deposit categories reflecting significant growth. United Bank has made an impact in the Marshalltown area with over \$46 million in deposits since it began operation in mid-June 2002.

Capital increased 8% to \$103 million, which included over \$7 million in net unrealized gains on securities available for sale. Capital at the end of March 2003, represented 14% of total assets. Ames National Corporation stock, under the symbol ATLO, traded in the \$46.05 to \$48.90 range in the first quarter of 2003 and closed at \$48.90 on March 31, 2003.

# QUARTERLY REPORT TO SHAREHOLDERS



1<sup>ST</sup> QUARTER 2003

## CONSOLIDATED BALANCE SHEETS

(unaudited)	March 31, 2003	March 31, 2002
<b>Assets</b>		
Cash and due from banks	\$26,870,928	\$40,864,403
Federal funds sold	100,320,000	60,960,000
Interest bearing deposits in financial institutions	1,000,000	600,000
Securities available-for-sale	254,003,860	225,187,867
Loans receivable, net	340,383,399	304,510,264
Bank premises and equipment, net	8,623,103	7,483,997
Accrued income receivable	5,701,244	5,836,053
Other assets	357,811	324,837
<b>Total assets</b>	<b>\$737,260,345</b>	<b>\$645,767,421</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Deposits:</b>		
Demand	\$61,686,441	\$51,991,931
NOW accounts	144,079,506	131,319,934
Savings and money market	174,326,939	145,667,064
Time, \$100,000 and over	63,441,854	49,064,946
Other time	170,359,656	152,358,206
<b>Total deposits</b>	<b>613,894,396</b>	<b>530,402,081</b>
Federal funds purchased and securities sold under agreements to repurchase	13,362,019	13,830,133
Dividends payable	1,376,752	1,312,596
Deferred taxes	2,539,121	1,224,826
Accrued interest and other liabilities	3,454,538	3,685,309
<b>Total liabilities</b>	<b>634,626,826</b>	<b>550,454,945</b>
<b>Stockholders' Equity:</b>		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at March 31, 2003 and 2002; outstanding 3,128,982 and 3,125,229 at March 31, 2003 and 2002, respectively	15,766,150	15,766,150
Surplus	25,354,014	25,393,028
Retained earnings	55,411,117	51,025,345
Treasury stock, at cost; 24,248 and 28,001 shares at March 31, 2003, and 2002, respectively	(1,333,640)	(1,530,805)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	7,435,878	4,658,758
<b>Total stockholders' equity</b>	<b>102,633,519</b>	<b>95,312,476</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$737,260,345</b>	<b>\$645,767,421</b>

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	2003	2002
<b>Interest and dividend income:</b>		
Loans	\$5,556,035	\$5,865,172
Securities		
Taxable	1,883,539	1,980,131
Tax-exempt	770,300	718,954
Federal funds sold	163,694	200,784
Dividends	340,665	330,803
<b>Total interest income</b>	<b>8,714,233</b>	<b>9,095,844</b>
<b>Interest expense:</b>		
Deposits	2,625,990	2,987,959
Other borrowed funds	64,219	74,135
<b>Total interest expense</b>	<b>2,690,209</b>	<b>3,062,094</b>
<b>Net interest income</b>	<b>6,024,024</b>	<b>6,033,750</b>
Provision for loan losses	119,745	104,219
<b>Net interest income after provision for loan losses</b>	<b>5,904,279</b>	<b>5,929,531</b>
<b>Non-interest income:</b>		
Trust department income	327,329	250,730
Service fees	358,924	357,675
Securities gains, net	365,825	188,733
Loan and secondary market fees	248,120	135,627
Other	295,215	190,372
<b>Total non-interest income</b>	<b>1,595,413</b>	<b>1,123,137</b>
<b>Noninterest expense:</b>		
Salaries and employee benefits	2,169,684	1,782,335
Occupancy expenses	268,608	203,362
Data processing	467,800	404,411
Other operating expenses	591,510	542,148
<b>Total non-interest expense</b>	<b>3,497,602</b>	<b>2,932,256</b>
<b>Income before income taxes</b>	<b>4,002,090</b>	<b>4,120,412</b>
Income tax expense	1,131,765	1,179,482
<b>Net income</b>	<b>\$2,870,325</b>	<b>\$2,940,930</b>
Basic earnings per share	\$0.92	\$0.94
Declared dividends per share	\$0.44	\$0.42
<b>Comprehensive income</b>	<b>\$2,487,415</b>	<b>\$3,003,074</b>