

# QUARTERLY REPORT TO SHAREHOLDERS



3<sup>RD</sup> QUARTER 2003

## COMPANY DIRECTORS

**DANIEL L. KRIEGER**

Chairman & President

**BETTY A. BAUDLER**

President, Baudler Enterprises, Inc.

**JAMES R. CHRISTY**

Chairman, State Bank & Trust Co.

**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, ACI Mechanical

**WARREN R. MADDEN**

Vice President for Business & Finance,  
Iowa State University

**MARVIN J. WALTER**

President, Dayton Road Development Corporation

## AFFILIATE BANKS



RANDALL-STORY  
STATE BANK

STATE BANK & TRUST CO.



UNITED BANK & TRUST

## AMES NATIONAL CORPORATION

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## PRESIDENT'S LETTER

### DEAR SHAREHOLDERS,

We are pleased to report that net income was \$3.241 million, or \$1.03 per share for third quarter 2003, a 10% increase over the \$2.952 million or \$.94 per share earned during the same quarter in 2002. Return on equity was 12.42% and return on assets was 1.78% for third quarter this year. For the same period in 2002, return on equity was 11.80% and return on assets was 1.87%. The efficiency ratio for third quarter was 44.02% compared to 44.35% for the same period last year.

Contributing to the higher earnings in third quarter 2003 was the \$1.932 million in non-interest income, a 47% increase over the previous year which included significant increases in ATM fees, fees from secondary market operations and gains from the sale of securities. The higher non-interest income helped offset a 9% increase in non-interest expense during the quarter which included higher figures for salaries and benefits, occupancy and data processing. These overhead categories all increased when a fifth financial institution, United Bank & Trust, Marshalltown, Iowa, was added in mid-2002.

Deposits recorded a 12% increase over third quarter 2002, reaching \$603 million. This figure compares to \$537 million as of September 30, 2002. United Bank & Trust contributed nearly \$50 million to this increase. It will be interesting to see how depositors react to a higher interest rate scenario which will undoubtedly happen as the economy improves. Monies waiting for longer term investment in the bond or equity markets may move out of banks as other opportunities arise.

Loans increased 11% to \$345 million, \$35 million higher than third quarter 2002 with commercial real estate lending as the major contributor to the increase. United Bank & Trust was again the primary originator of loan growth.

Total assets of \$739 million were 12% higher than the \$660 million recorded third quarter 2002. We have been pleased with the progress made by United Bank & Trust in the generation of both

loans and deposits and feel it is on target to exceed projected numbers in both categories by year-end.

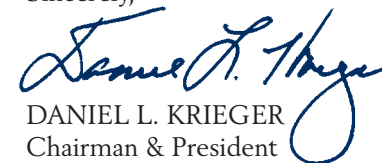
Third quarter 2003 capital rose 4% to \$105 million compared to \$101 million on September 30, 2002. Included in capital are unrealized capital gains on securities available for sale which amounted to \$7.8 million this period compared to \$8.6 million for the same quarter last year. Capital represented over 14% of total assets at the end of third quarter 2003.

During third quarter, Company stock which is listed on the Bulletin Board under the symbol ATLO, ranged from \$53.10 to \$57.25 per share and closed at \$57.00 on September 30, 2003. To date, \$1.82 per share has been declared compared to \$1.74 per share in 2002 which included \$.46 and \$.44 extra dividends in 2003 and 2002, respectively.

Crop yields in central Iowa are proving to be spotty based on the amount of rainfall received in the late growing season. Cattle feeders are experiencing record prices which should bode well for their 2003 farm income.

The factor which could put a damper on an economic recovery would be the Iraq war and the time it takes to bring stability to the country. Indicators are showing signs of progress and 2004 could well prove to be the beginning of an economic upturn.

Sincerely,

  
DANIEL L. KRIEGER  
Chairman & President



## CONSOLIDATED BALANCE SHEETS

(unaudited)	September 30, 2003	September 30, 2002
<b>Assets</b>		
Cash and due from banks	\$23,786,945	\$44,259,802
Federal funds sold	47,983,000	51,970,000
Interest bearing deposits in financial institutions	6,000,000	500,000
Securities available-for-sale	300,766,501	237,956,813
Loans receivable, net	345,003,127	310,278,405
Bank premises and equipment, net	8,551,794	8,136,170
Accrued income receivable	6,314,908	6,067,313
Other assets	358,198	590,583
<b>Total assets</b>	<b>\$738,764,473</b>	<b>\$659,759,086</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Demand	\$63,523,911	\$60,268,609
NOW accounts	137,857,750	129,636,309
Savings and money market	166,661,183	139,436,493
Time, \$100,000 and over	63,297,586	53,729,760
Other time	171,181,614	153,864,537
<b>Total deposits</b>	<b>602,522,044</b>	<b>536,935,708</b>
Federal funds purchased and securities sold under agreements to repurchase	22,452,228	14,855,341
Dividends payable	2,882,409	1,376,752
Deferred taxes	2,749,662	2,645,231
Accrued interest and other liabilities	3,322,574	3,020,023
<b>Total liabilities</b>	<b>633,928,917</b>	<b>558,833,055</b>
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at September 30, 2003, and September 30, 2002; outstanding 3,133,053 shares at September 30, 2003, and 3,128,982 shares at September 30, 2002	15,766,150	15,766,150
Surplus	25,351,979	25,354,014
Retained earnings	56,977,374	52,588,307
Treasury stock, at cost; 20,177 shares at September 30, 2003, and 24,248 shares at September 30, 2002	(1,109,735)	(1,333,640)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	7,849,788	8,551,200
<b>Total stockholders' equity</b>	<b>104,835,556</b>	<b>100,926,031</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$738,764,473</b>	<b>\$659,759,086</b>

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Interest and dividend income				
Loans	\$5,576,844	\$5,830,765	\$16,784,078	\$17,461,976
Securities				
Taxable	1,841,920	1,957,301	5,518,204	5,996,207
Tax-exempt	940,760	735,748	2,553,150	2,174,390
Federal funds sold	121,263	186,630	534,865	638,657
Dividends	337,259	341,174	1,018,103	1,046,845
<b>Total interest income</b>	<b>8,818,046</b>	<b>9,051,618</b>	<b>26,408,400</b>	<b>27,318,075</b>
Interest expense:				
Deposits	2,392,420	2,747,913	7,664,617	8,707,285
Other borrowed funds	74,735	61,884	216,069	195,784
<b>Total interest expense</b>	<b>2,467,155</b>	<b>2,809,797</b>	<b>7,880,686</b>	<b>8,903,069</b>
<b>Net interest income</b>	<b>6,350,891</b>	<b>6,241,821</b>	<b>18,527,714</b>	<b>18,415,006</b>
Provision for loan losses	87,000	80,640	512,740	296,124
<b>Net interest income after provision for loan losses</b>	<b>6,263,891</b>	<b>6,161,181</b>	<b>18,014,974</b>	<b>18,118,882</b>
Noninterest income:				
Trust department income	279,157	270,214	881,259	797,369
Service fees	395,491	381,772	1,137,490	1,100,965
Securities gains, net	539,623	239,748	1,186,230	562,422
Loan and secondary market fees	366,978	181,768	937,974	410,609
Other	350,372	239,853	896,215	632,958
<b>Total noninterest income</b>	<b>1,931,621</b>	<b>1,313,355</b>	<b>5,039,168</b>	<b>3,504,323</b>
Noninterest expense:				
Salaries and employee benefits	2,204,712	2,087,159	6,699,133	5,945,161
Occupancy expenses	341,562	225,634	841,908	655,198
Data processing	504,643	440,660	1,589,780	1,282,700
Other operating expenses	594,914	597,064	1,793,681	1,710,419
<b>Total noninterest expense</b>	<b>3,645,831</b>	<b>3,350,517</b>	<b>10,924,502</b>	<b>9,593,478</b>
<b>Income before income taxes</b>	<b>4,549,681</b>	<b>4,124,019</b>	<b>12,129,640</b>	<b>12,029,727</b>
Income tax expense	1,309,039	1,171,736	3,369,445	3,395,579
<b>Net income</b>	<b>\$3,240,642</b>	<b>\$2,952,283</b>	<b>\$8,760,195</b>	<b>\$8,634,148</b>
Basic and diluted earnings per share	\$1.03	\$0.94	\$2.80	\$2.76
Declared dividends per share	\$0.46	\$0.44	\$1.82	\$1.74