

COMPANY DIRECTORS

DANIEL L. KRIEGER

Chairman & President

BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

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, 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



RANDALL-STORY
STATE BANK

STATE BANK & TRUST CO.



UNITED BANK & TRUST

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QUARTERLY REPORT TO SHAREHOLDERS



4TH QUARTER 2005

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

Ames National Corporation fourth quarter net income was \$2,709,000, or \$0.29 per share, 15% lower than the \$3,191,000 or \$0.34 per share earned in fourth quarter last year. The lower quarterly earnings were the direct result of a 48% increase in interest paid on deposits this quarter compared to the amount paid during the same period in 2004. The higher interest expense also affected quarterly net interest income which was 13% lower than posted a year ago. Return on average assets was 1.32% this quarter compared to 1.53% in fourth quarter 2004 while return on average equity was 9.94%, compared to 11.56% posted a year ago. The efficiency ratio for fourth quarter was 50.67% compared to the 46.41% for the same period last year.

Net income for the year was \$11,609,000, or \$1.23 per share, a 6.3% decrease from the \$12,390,000, or \$1.32 per share reported in 2004. Loans recorded a new high, deposits increased slightly and total assets and capital both declined from the numbers posted in 2004. Even with record loan numbers, this did not translate into improved profitability for Ames National Corporation in 2005. The Federal Reserve raised market interest rates eight times in 2005 which caused net interest income to decline 5% as deposits were re-priced faster than loans and investments. Net interest income, the difference between interest earned and interest paid, was \$25,373,000 for the year ending December 31, 2005, compared to the \$26,790,000 recorded in 2004. The additional \$4,438,000 in interest paid on deposits in 2005 was 45% higher than paid on deposits in 2004. This higher number was a major factor in the Company's annual net interest margin declining to 3.56% compared to 3.97% in 2004.

Deposits increased slightly to \$668,342,000 as of December 31, 2005, compared to \$658,176,000 recorded at the end of 2004. The growth was primarily in a higher volume of time certificates. Loans rose 7% to \$440,318,000, which was \$29 million over year-end 2004 with the increase primarily in commercial operating loans.

Year-end 2005 capital of \$109,227,000 was 2% lower than the \$110,924,000 reported on December 31, 2004. The lower capital figure can be attributed to a \$4,176,000 decrease in unrealized capital gains on securities available for sale compared to the number reported at the end of 2004. On December 31, 2005, capital represented over 13% of total assets.

Company stock, which is listed on the NASDAQ SmallCap Market under the symbol ATLO, closed at \$25.71 on December 31, 2005 and ranged from \$23.12 to \$29.00 per share during the quarter. A \$0.25 per share dividend was paid in the fourth quarter compared to \$0.33 per share paid during the same period a year ago. In 2005, shareholders

received dividends of \$0.91 per share, a 14% increase over the \$0.80 per share paid in 2004.

In the fourth quarter, two of our banks made plans to add to their number of banking locations. First National Bank, Ames, bought land in Ankeny, Iowa and is in the design process for a new bank office which should be ready for business in late 2006. United Bank & Trust purchased a former bank office with drive-up facilities in downtown Marshalltown, Iowa. After installing equipment and furnishings, it should be open for business sometime in the first quarter of 2006.

Edward C. Jacobson, chairman of the board of Randall-Story State Bank, Story City, resigned from that position in October. Prior to joining the Randall-Story board, Jacobson was a senior officer at First National Bank, Ames, as well as vice president & treasurer of the Corporation. During his many years of service, he provided valuable advice and counsel. The Company Nominating Committee will meet in early 2006 to identify candidates for open board positions at our affiliate banks and Ames National Corporation.

The Ad Hoc Succession Plan Committee chaired by Marvin J. Walter, the senior outside Company board director, met several times in 2005 and is working to identify an individual who will become part of Company senior management. The committee plans to have this position filled no later than December 31, 2006.

The Federal Reserve continued raising short-term interest rates with two one quarter percent interest rate increases during fourth quarter resulting in a prime rate of 7.25% which is 2% higher than a year ago. As we enter 2006, the prospects for further rate hikes are strong. Such an increase would put further pressure on banks' net interest margins making it more difficult to generate higher earnings next year.

The upcoming year will be interesting with elections in November to determine the make-up of Congress for the next two years. The outcome will undoubtedly be influenced by the status of the war in Iraq and whether U.S. troop numbers can be reduced. Other major voter concerns are the cost of energy and the threat of rising inflation in 2006.

We will hold the annual shareholder's meeting at Reiman Gardens in Ames, Iowa on Wednesday, April 26, 2006, with the 2005 Annual Report, Proxy information and registration materials mailed to you in March. We hope that you will mark this date on your calendar and plan to join us.

Sincerely,

DANIEL L. KRIEGER
Chairman & President



CONSOLIDATED BALANCE SHEETS

| | December 31 2005 | December 31 2004 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$18,092,139 | \$18,759,086 |
| Federal funds sold | 300,000 | 19,865,000 |
| Interest bearing deposits in financial institutions | 5,983,542 | 9,575,174 |
| Securities available-for-sale | 333,510,152 | 363,459,462 |
| Loans receivable, net | 440,317,685 | 411,638,565 |
| Loans held for sale | 981,280 | 234,469 |
| Bank premises and equipment, net | 11,030,840 | 8,790,636 |
| Accrued income receivable | 6,633,795 | 6,262,424 |
| Deferred income taxes | 343,989 | - |
| Other assets | 2,190,652 | 1,167,971 |
| Total assets | \$819,384,074 | \$839,752,787 |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Demand, noninterest bearing | \$74,155,477 | \$71,666,385 |
| NOW accounts | 151,680,984 | 172,313,429 |
| Savings and money market | 160,998,014 | 174,358,165 |
| Time, \$100,000 and over | 101,042,024 | 69,063,977 |
| Other time | 180,465,836 | 170,773,883 |
| Total deposits | 668,342,335 | 658,175,839 |
| Federal funds purchased and securities sold under agreements to repurchase | 35,521,113 | 64,072,475 |
| Dividends payable | 2,354,818 | 1,537,162 |
| Deferred income taxes | - | 2,334,670 |
| Accrued expenses and other liabilities | 3,938,507 | 2,708,701 |
| Total liabilities | 710,156,773 | 728,828,847 |
| Stockholders' Equity: | | |
| Common stock, \$2 par value; authorized 18,000,000 shares; 9,419,271 shares issued and outstanding at December 31, 2005; 9,459,690 and 9,411,198 shares issued and outstanding at December 31, 2004 | 18,838,542 | 18,919,380 |
| Additional paid-in-capital | 22,383,375 | 22,225,516 |
| Retained earnings | 64,713,530 | 63,200,352 |
| Treasury stock, at cost; 48,492 shares at December 31, 2004 | - | (889,020) |
| Accumulated other comprehensive income, net unrealized gain on securities available-for-sale | 3,291,854 | 7,467,712 |
| Total stockholders' equity | 109,227,301 | 110,923,940 |
| Total liabilities and stockholders' equity | \$819,384,074 | \$839,752,787 |

CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended December 31 | | Twelve Months Ended December 31 | |
|--|-----------------------------------|--------------------|------------------------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 |
| (unaudited) | | | | |
| Interest and dividend income | | | | |
| Loans, including fees | \$7,090,638 | \$6,327,758 | \$26,979,358 | \$22,872,764 |
| Securities: | | | | |
| Taxable | 2,087,397 | 2,151,337 | 8,558,156 | 8,536,759 |
| Tax-exempt | 1,027,592 | 1,067,308 | 4,190,268 | 4,274,033 |
| Federal funds sold | - | 78,277 | 130,182 | 159,438 |
| Dividends | 394,352 | 381,297 | 1,447,663 | 1,510,665 |
| Total interest income | 10,599,979 | 10,005,977 | 41,305,627 | 37,353,659 |
| Interest expense: | | | | |
| Deposits | 4,143,093 | 2,797,572 | 14,380,214 | 9,942,250 |
| Other borrowed funds | 404,319 | 260,380 | 1,552,894 | 621,077 |
| Total interest expense | 4,547,412 | 3,057,952 | 15,933,108 | 10,563,327 |
| Net interest income | 6,052,567 | 6,948,025 | 25,372,519 | 26,790,332 |
| Provision for loan losses | 84,244 | 274,467 | 331,282 | 479,355 |
| Net interest income after provision for loan losses | 5,968,323 | 6,673,558 | 25,041,237 | 26,310,977 |
| Non-interest income: | | | | |
| Trust department income | 360,048 | 309,984 | 1,375,308 | 1,185,681 |
| Service fees | 460,832 | 492,900 | 1,796,503 | 1,813,795 |
| Securities gains, net | 162,226 | 272,667 | 795,780 | 324,030 |
| Loan and secondary market fees | 137,444 | 136,572 | 606,277 | 610,077 |
| Merchant and ATM fees | 141,705 | 128,108 | 570,914 | 534,897 |
| Other | 117,096 | 120,473 | 468,410 | 800,835 |
| Total non-interest income | 1,379,351 | 1,460,704 | 5,613,192 | 5,269,315 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 2,143,307 | 2,250,850 | 9,208,902 | 9,019,139 |
| Data processing | 611,014 | 650,820 | 2,126,040 | 2,241,441 |
| Occupancy expenses | 284,368 | 292,589 | 1,148,738 | 1,048,323 |
| Other operating expenses | 726,940 | 707,900 | 2,726,222 | 2,626,451 |
| Total non-interest expense | 3,765,629 | 3,902,159 | 15,209,902 | 14,935,354 |
| Income before income taxes | 3,582,045 | 4,232,103 | 15,444,527 | 16,644,938 |
| Income tax expense | 873,122 | 1,041,525 | 3,835,992 | 4,255,392 |
| Net income | \$2,708,923 | \$3,190,578 | \$11,608,535 | \$12,389,546 |
| Basic and diluted earnings per share | \$0.29 | \$0.34 | \$1.23 | \$1.32 |