

PRESIDENT'S LETTER

DEAR SHAREHOLDERS,

Net income for second quarter 2004 was \$2,862,000, or \$.91 per share, an 8% increase over the \$2,649,000, or \$.85 per share earned during the same period in 2003. Return on average assets was 1.45% and 1.44%, respectively for the three month period ending June 30, 2004, and June 30, 2003, and the Company's return on average equity was 10.76% and 10.18%, respectively for those same periods. The efficiency ratio for the three month period ending June 30, 2004, and June 30, 2003, respectively was 46% and 49%. Average assets for second quarter 2004 of \$788 million were 7% higher than the \$737 million posted a year ago.

The stronger second quarter earnings can be attributed to increased net interest income on a higher level of earning assets in addition to lower interest expense compared to second quarter 2003. United Bank & Trust, Marshalltown, Iowa, our de novo bank which opened for business in late June 2002, reported the most improvement by posting positive earnings compared to a loss for the same period a year ago.

For the six month period ending June 30, 2004, the Company earned net income of \$5,827,000, or \$1.86 per share, a 6% increase over net income of \$5,520,000, or \$1.76 per share earned a year ago. Return on average assets for the first six months of 2004 was 1.51% compared to 1.55% for the same period in 2003 and return on average equity was 10.84% compared to 10.70% last year. The efficiency ratio for the six month period ending June 30, 2004, was 47%, which compares to 48% for the six months ending June 30, 2003.

The higher six month earnings were the result of an 11% decrease in interest expense while non-interest expense was nearly the same as posted for the six month period ending June 30, 2003. During the first half of 2004, realized securities gains were \$615,000 less and secondary market fees were \$223,000 less than the same period a year ago. For the first six months of 2004, four affiliate banks reported higher earnings over June 30, 2003. Our de novo bank, United Bank & Trust, Marshalltown, Iowa, after only 24 months of operation, recorded a profit compared to a loss of \$438,000 last year.

Loans reached a record \$384 million, increasing 11% over June 30, 2003, with commercial and multi-family mortgage loans the largest contributors to the increase. There is increased activity in this area as the economy shows signs of improving. A major concern of potential borrowers is the effect a prolonged war in Iraq would have on economic recovery.

Deposits rose 5% to \$634 million as of June 30, 2004 with interest bearing checking and money market accounts accounting for most of the increase over June 30, 2003, figures. Affiliate banks are intensifying their marketing efforts to attract more core deposits despite increased competition in all markets. The concern a few years ago was that the Internet would preclude the need for branch banks. This concern has not materialized; in fact just the opposite has occurred, since many banks have rushed to build branches in high traffic areas. This will undoubtedly lead to an over supply of banking offices in many communities.

Capital of \$104 million, 13% of total assets, was slightly less than the \$106 million in June 30, 2003. However, last year's capital included \$11 million in unrealized gains in securities, net of deferred tax liability, compared to \$4 million in unrealized gains on June 30, 2004. Company stock, under the symbol ATLO, traded in the \$60.00 to \$63.50 range in second quarter 2004 and closed at \$63.50 on June 30, 2004.

The board of directors declared an extra dividend of \$.49 per share payable October 1, 2004. With the lower federal tax rate on dividends, we are pleased to share these earnings with our shareholders.

Sincerely,



DANIEL L. KRIEGER
Chairman & President



COMPANY DIRECTORS

DANIEL L. KRIEGER

Chairman & President

BETTY A. BAUDLER

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, ACI Mechanical

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



STATE BANK & TRUST CO.



UNITED BANK & TRUST

AMES NATIONAL CORPORATION

405 Fifth Street • Ames, IA 50010

Phone 515-232-6251

Fax 515-663-3033

Email info@amesnational.com

www.amesnational.com

QUARTERLY REPORT TO SHAREHOLDERS



2ND QUARTER 2004

CONSOLIDATED BALANCE SHEETS

(unaudited)	June 30, 2004	June 30, 2003
Assets		
Cash and due from banks	\$22,365,358	\$28,600,917
Federal funds sold	1,400,000	79,075,000
Interest bearing deposits in financial institutions	9,053,035	6,000,000
Securities available-for-sale	358,055,848	268,029,547
Loans receivable, net	382,602,275	340,653,022
Loans held for sale	1,266,300	5,095,003
Bank premises and equipment, net	8,312,472	8,710,669
Accrued income receivable	5,696,966	5,161,355
Other assets	579,629	177,583
Total assets	<u>\$789,331,883</u>	<u>\$741,503,096</u>
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$64,153,372	\$ 61,024,546
NOW accounts	150,610,085	128,917,809
Savings and money market	177,314,085	171,903,731
Time, \$100,000 and over	67,585,809	70,155,513
Other time	174,206,039	172,158,482
Total deposits	633,869,390	604,160,081
Federal funds purchased and securities sold under agreements to repurchase	44,575,719	20,783,016
Dividends payable	3,070,392	2,878,663
Deferred taxes	445,010	4,616,388
Accrued interest and other liabilities	3,132,223	2,902,027
Total liabilities	<u>685,092,734</u>	<u>635,340,175</u>
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at June 30, 2004, and 2003; outstanding 3,137,066 shares at June 30, 2004, and 3,133,053 shares at June 30, 2003	15,766,150	15,766,150
Surplus	25,378,746	25,351,979
Retained earnings	59,715,644	55,181,682
Treasury stock, at cost; 16,164 shares at June 30, 2004, and 20,177 shares at June 30, 2003	(889,020)	(1,109,735)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	4,267,629	10,972,845
Total stockholders' equity	<u>104,239,149</u>	<u>106,162,921</u>
Total liabilities and stockholders' equity	<u>\$789,331,883</u>	<u>\$741,503,096</u>

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Interest and dividend income				
Loans	\$5,471,094	\$5,651,200	\$10,823,762	\$11,207,235
Securities				
Taxable	2,151,710	1,792,746	4,227,791	3,676,285
Tax-exempt	1,093,670	842,090	2,145,656	1,612,390
Federal funds sold	21,223	249,908	78,096	413,602
Dividends	371,334	340,180	748,530	680,845
Total interest income	<u>9,109,031</u>	<u>8,876,124</u>	<u>18,023,835</u>	<u>17,590,357</u>
Interest expense:				
Deposits	2,357,853	2,646,208	4,674,499	5,272,198
Other borrowed funds	94,099	77,115	168,627	141,334
Total interest expense	<u>2,451,952</u>	<u>2,723,323</u>	<u>4,843,126</u>	<u>5,413,532</u>
Net interest income	6,657,079	6,152,801	13,180,709	12,176,825
Provision for loan losses	210,353	305,995	268,708	425,740
Net interest income after provision for loan losses	<u>6,446,726</u>	<u>5,846,806</u>	<u>12,912,001</u>	<u>11,751,085</u>
Noninterest income:				
Trust department income	325,287	274,773	609,158	602,102
Service fees	460,937	383,076	817,868	742,000
Securities gains, net	0	280,782	31,542	646,607
Gain on sale of loans held for sale	183,553	322,876	347,741	570,996
Merchant and ATM fees	120,325	108,136	269,405	248,034
Other	159,805	142,490	315,126	297,807
Total noninterest income	<u>1,249,907</u>	<u>1,512,133</u>	<u>2,390,840</u>	<u>3,107,546</u>
Noninterest expense:				
Salaries and employee benefits	2,269,156	2,324,737	4,528,075	4,494,421
Occupancy expenses	236,975	231,737	504,952	500,345
Data processing	623,256	617,875	1,217,761	1,085,675
Other operating expenses	546,809	606,720	1,078,162	1,198,230
Total noninterest expense	<u>3,676,196</u>	<u>3,781,069</u>	<u>7,328,950</u>	<u>7,278,671</u>
Income before income taxes	4,020,437	3,577,870	7,973,891	7,579,960
Income tax expense	1,158,398	928,641	2,147,310	2,060,406
Net income	<u>\$2,862,039</u>	<u>\$2,649,229</u>	<u>\$5,826,581</u>	<u>\$5,519,554</u>
Basic and diluted earnings per share	<u>\$0.91</u>	<u>\$0.85</u>	<u>\$1.86</u>	<u>\$1.76</u>
Declared dividends per share	<u>\$0.98</u>	<u>\$0.92</u>	<u>\$1.44</u>	<u>\$1.36</u>