

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

Financial Results

Net income was a record \$3.4 million, or \$1.08 per share for third quarter 2004, a 4% increase over the \$3.2 million or \$1.03 per share earned during the same quarter in 2003. Return on equity was 12.66% and return on assets was 1.70% for third quarter this year. For the same period in 2003, return on equity was 12.42% and return on assets was 1.78%. The efficiency ratio for third quarter was 45.85% compared to 44.02% for the same period last year. Net interest margin for the third quarter 2004 was 3.95%, slightly less than the 4.10% for third quarter 2003.

Contributing to the higher earnings in third quarter 2004 was an increase in net interest income of \$311,000. The improved net interest income was partially offset by the lack of realized securities gains and lower fees on the sale of secondary market residential mortgage loans.

Deposits of \$649 million recorded an 8% increase over third quarter 2003. This figure compares to \$603 million as of September 30, 2003 with most of the gain in interest-bearing checking accounts.

Loans increased 12% to a record \$388 million, \$43 million higher than third quarter 2003, with commercial real estate lending the major contributor to the increase. The increased lending activity appears to be the result of signs of an improving economy. However, there are many variables which could dampen any recovery as we move into 2005.

Total assets of \$800 million were 8% higher than the \$739 million recorded in third quarter 2003. This number was reached with the aid of strong deposits including public funds at State Bank & Trust Co.

Third quarter 2004 capital rose 5% to \$110 million compared to \$105 million on September 30, 2003. Included in capital are unrealized capital gains on securities available for sale of \$7.8 million which was nearly the same as reported third quarter 2003. Capital represented 13.7% of total assets at the end of third quarter 2004.

Boards of Directors

Herbert B. Howell, a founding director of Ames National Corporation and a First National Bank director for 24 years, passed away in July. His advice and counsel served both organizations well over his many years of service.

Two new directors joined the board of First National Bank, replacing Dr. David Topel and Richard Roseland. Dr. Tahira Hira, Assistant to the President for External Relations and Executive Administration at Iowa State

University, is a past Fulbright-Hays Fellow and is internationally recognized for her work in personal finances and consumer economics. Dean E. Hunziker, President of Hunziker & Associates, Realtors and managing partner of numerous real estate corporations, is active in the Ames community and serves on several Ames organizations' board of directors, including the Ames Economic Development Commission, United Way of Story County and the Ames Board of Realtors.

Company Stock

During the third quarter, Company stock, which is listed on the Bulletin Board under the symbol ATLO, ranged from \$62.25 to \$71.50 per share and closed at \$71.00 on September 30, 2004. To date, dividends of \$1.93 per share have been declared, compared to \$1.82 per share in 2003. These figures include \$.49 and \$.46 extra dividends paid in 2004 and 2003 respectively.

Ames National Corporation has made application to list its stock on the NASDAQ SmallCap Market. Approval is expected to be received in late 2004 or early 2005. The Company symbol, ATLO, will remain the same when registration is approved.

Economic and Political Factors

Central Iowa crop yields are higher than experienced in 2003 with reports of corn yields of over 180 bu. per acre and soybeans over 50 bu. per acre. These higher yields have produced lower grain prices but still bode well for farmers in our area this year. The price for central Iowa farmland has exceeded \$4,000 per acre in some instances and takes us back to the '80s, the last time farmland prices were this high.

The price of oil is creating a drag on the economy with \$55-60 a barrel possible with higher energy prices a concern for consumers as we enter the heating season. The Federal Reserve has raised the Fed Funds rate twice during this quarter to 1.75% and is in an accommodative policy mode with the possibility of measured rate increases in the future.

The war in Iraq and the upcoming presidential election have dominated the news. The struggle in Iraq does not seem to have a short term solution. The elections slated for early next year could be the first step in uniting the citizens of Iraq if those in power can bring a sense of stability to the country.

Sincerely,



DANIEL L. KRIEGER
Chairman & President



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, 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



RANDALL-STORY
STATE BANK

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



3RD QUARTER 2004

CONSOLIDATED BALANCE SHEETS

(unaudited)	September 30, 2004	September 30, 2003
Assets		
Cash and due from banks	\$30,392,905	\$23,786,945
Federal funds sold	335,000	47,983,000
Interest bearing deposits in financial institutions	9,214,595	6,000,000
Securities available-for-sale	356,253,991	300,766,501
Loans receivable, net	387,402,492	342,674,299
Loans held for sale	340,150	2,328,828
Bank premises and equipment, net	8,783,819	8,551,794
Accrued income receivable	6,716,873	6,314,908
Other assets	908,172	358,198
Total assets	<u>\$800,347,997</u>	<u>\$738,764,473</u>
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$65,855,704	\$63,523,911
NOW accounts	173,726,694	137,857,750
Savings and money market	171,534,487	166,661,183
Time, \$100,000 and over	66,861,191	63,297,586
Other time	170,939,177	171,181,614
Total deposits	648,917,253	602,522,044
Federal funds purchased and securities sold under agreements to repurchase	32,992,304	22,452,228
Dividends payable	3,074,325	2,882,409
Deferred taxes	2,553,015	2,749,662
Accrued interest and other liabilities	3,166,620	3,322,574
Total liabilities	690,703,517	633,928,917
Stockholders' Equity:		
Common stock, \$5 par value; authorized 6,000,000 shares; issued 3,153,230 shares at September 30, 2004, and September 30, 2003; outstanding 3,137,066 shares at September 30, 2004, and 3,133,053 shares at September 30, 2003	15,766,150	15,766,150
Surplus	25,378,746	25,351,979
Retained earnings	61,546,936	56,977,374
Treasury stock, at cost; 16,164 shares at September 30, 2004, and 20,177 shares at September 30, 2003	(889,020)	(1,109,735)
Accumulated other comprehensive income – net unrealized gain on securities available-for-sale	7,841,668	7,849,788
Total stockholders' equity	109,644,480	104,835,556
Total liabilities and stockholders' equity	<u>\$800,347,997</u>	<u>\$738,764,473</u>

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Interest and dividend income				
Loans	\$5,721,244	\$5,576,844	\$16,545,006	\$16,784,078
Securities				
Taxable	2,157,631	1,841,920	6,385,422	5,518,204
Tax-exempt	1,061,069	940,760	3,206,725	2,553,150
Federal funds sold	3,065	121,263	81,161	534,865
Dividends	380,838	337,259	1,129,368	1,018,103
Total interest income	9,323,847	8,818,046	27,347,682	26,408,400
Interest expense:				
Deposits	2,470,179	2,392,420	7,144,678	7,664,617
Other borrowed funds	192,070	74,735	360,697	216,069
Total interest expense	2,662,249	2,467,155	7,505,375	7,880,686
Net interest income	6,661,598	6,350,891	19,842,307	18,527,714
Provision for loan losses	(63,820)	87,000	204,888	512,740
Net interest income after provision for loan losses	6,725,418	6,263,891	19,637,419	18,014,974
Non-interest income:				
Trust department income	266,539	279,157	875,697	881,259
Service fees	503,027	395,491	1,320,895	1,137,490
Securities gains, net	19,821	539,623	51,363	1,186,230
Gain on sale of loans held for sale	125,764	366,978	473,505	937,974
Merchant and ATM fees	137,384	164,179	406,789	412,213
Other	365,236	186,193	680,362	484,002
Total non-interest income	1,417,771	1,931,621	3,808,611	5,039,168
Non-interest expense:				
Salaries and employee benefits	2,240,214	2,204,712	6,768,289	6,699,133
Occupancy expenses	250,782	341,562	755,734	841,908
Data processing	482,341	504,643	1,590,621	1,589,780
Other operating expenses	730,908	594,914	1,918,551	1,793,681
Total non-interest expense	3,704,245	3,645,831	11,033,195	10,924,502
Income before income taxes	4,438,944	4,549,681	12,412,835	12,129,640
Income tax expense	1,066,557	1,309,039	3,213,867	3,369,445
Net income	<u>\$3,372,387</u>	<u>\$3,240,642</u>	<u>\$9,198,968</u>	<u>\$8,760,195</u>
Basic and diluted earnings per share	<u>\$1.08</u>	<u>\$1.03</u>	<u>\$2.94</u>	<u>\$2.80</u>
Declared dividends per share	<u>\$0.49</u>	<u>\$0.46</u>	<u>\$1.93</u>	<u>\$1.82</u>