

QUARTERLY REPORT TO SHAREHOLDERS



4TH 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



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

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

As of December 31, 2003, record numbers were posted for net income, total assets, deposits, loans, and capital. Net income for the year ended December 31, 2003 increased 2.5% to \$11,625,000 or \$3.71 per share compared to 2002 results of \$11,340,000 or \$3.63 per share. The improvement in net income is the result of higher net interest income, secondary market fees and security gains.

Net income for the quarter ending December 31, 2003, was \$2,864,000, 6% higher than the \$2,706,000 earned in the fourth quarter last year. Earnings per share were \$.91 for the quarter compared to \$.87 for the same period in 2002. Interest paid on deposits was nearly 12% lower this quarter than the amount paid in fourth quarter 2002, which helped offset the 6% increase in non-interest expense compared to the same period a year ago. The higher non-interest expense included increased amounts paid for salaries and benefits, occupancy and data processing. Return on average assets was 1.52% this quarter compared to 1.65% in fourth quarter 2002. Return on average equity was 10.83%, which was slightly higher than the 10.71% posted a year ago. The efficiency ratio for fourth quarter was 49.66% compared to the 47.09% for the same period last year.

Deposits increased to \$618,549,000 as of December 31, 2003, a 13% increase over the \$550,622,000 recorded at the end of 2002. This growth was a result of increases in all categories of interest bearing and demand deposits. Loans rose 8% to \$355,533,000, a \$26 million increase over year-end 2002. The increase was primarily in commercial real estate loans.

As of December 31, 2003, capital was \$107,325,000, 6% more than December 31, 2002. Included in capital are unrealized capital gains on securities available for sale of \$8,916,000 compared to \$7,819,000 last year. Year-end capital represented 14.3% of total assets.

Company stock, which is listed on the Bulletin Board under the symbol ATLO, closed at \$58.25 on December 31, 2003. During fourth quarter, the price ranged from \$57.00 to \$59.75. The fourth quarter dividend paid was \$.46 per share compared to \$.44 per share in the fourth quarter a year ago.

There were two senior officer changes at affiliate banks in the fourth quarter. Stephen C. McGill, whose previous experience included 15 years with Farm Credit Services and 12 years in banking, was named president of State Bank & Trust Co., Nevada, Iowa. He has been a senior officer with State Bank & Trust Co. since 1999. Harold Thompson, who has worked for over 30 years at Randall-Story State Bank, Story City, Iowa, was named bank president. He had previously been in charge of the lending function.

The fourth quarter ended on a positive note with the stock market showing substantial gains for the year. There are many factors, including the upcoming presidential election, which may influence the 2004 economy. The most prevalent at this time is the continued military action in Iraq. Others issues which provide a degree of uncertainty include: when and how much interest rates will rise, the dollar's weakness, the question of continued strength in the stock market and ongoing concerns with corporate governance. If the economy continues to gain strength, it could lead to additional inflationary pressure in 2004.

This year, the annual meeting will be held at Reiman Gardens in Ames, Iowa on April 28, 2004. We hope you will mark this date on your calendar and join us. In mid-March, we will send the 2003 Annual Report to Shareholders, Proxy information and registration materials for the annual meeting.

Sincerely,

DANIEL L. KRIEGER
Chairman & President

CONSOLIDATED BALANCE SHEETS

| (unaudited) | December 31, 2003 | December 31, 2002 |
|--|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$31,982,144 | \$51,688,784 |
| Federal funds sold | 20,380,000 | 32,500,000 |
| Interest bearing deposits in financial institutions | 6,363,538 | 1,000,000 |
| Securities available-for-sale | 323,115,914 | 244,575,026 |
| Loans held for sale | 859,139 | 2,713,446 |
| Loans receivable, net | 355,533,119 | 329,593,052 |
| Bank premises and equipment, net | 8,377,807 | 8,726,397 |
| Accrued income receivable | 5,842,247 | 5,849,017 |
| Other assets | 332,556 | 582,849 |
| Total assets | <u>\$752,786,464</u> | <u>\$677,228,570</u> |
| Liabilities and Stockholders' Equity | | |
| Deposits: | | |
| Demand | \$71,372,534 | \$62,557,937 |
| NOW accounts | 138,308,140 | 121,325,104 |
| Savings and money market | 166,387,319 | 153,296,259 |
| Time, \$100,000 and over | 69,486,570 | 54,564,283 |
| Other time | 173,993,964 | 158,878,796 |
| Total deposits | 619,548,527 | 550,622,379 |
| Federal funds purchased and securities sold under agreements to repurchase | 18,198,403 | 18,325,574 |
| Dividends payable | 1,441,204 | 1,376,752 |
| Deferred taxes | 3,238,665 | 2,879,057 |
| Accrued interest and other liabilities | 3,034,670 | 2,501,952 |
| Total liabilities | 645,461,469 | 575,705,714 |
| Stockholders' Equity: | | |
| Common stock, \$5 par value; authorized 6,000,000 shares; issued 2003 and 2002 3,153,230 shares; outstanding 2003 3,133,053 shares, 2002 3,128,982 | 15,766,150 | 15,766,150 |
| Additional paid-in capital | 25,351,979 | 25,354,014 |
| Retained earnings | 58,400,660 | 53,917,544 |
| Treasury stock, at cost; 2003 20,177 shares, 2002 24,248 shares | (1,109,735) | (1,333,640) |
| Accumulated other comprehensive income – net unrealized gain on securities available-for-sale | 8,915,941 | 7,818,788 |
| Total stockholders' equity | 107,324,995 | 101,522,856 |
| | <u>\$752,786,464</u> | <u>\$677,228,570</u> |

CONSOLIDATED STATEMENTS OF INCOME

| (unaudited) | Three Months Ended December 31 | | Twelve Months Ended December 31 | |
|--|-----------------------------------|--------------------|------------------------------------|---------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Interest and dividend income | | | | |
| Loans | \$5,413,257 | \$5,745,208 | \$22,197,335 | \$23,207,184 |
| Securities | | | | |
| Taxable | 1,992,467 | 1,934,834 | 7,510,671 | 7,931,041 |
| Tax-exempt | 1,051,491 | 764,033 | 3,604,641 | 2,938,423 |
| Federal funds sold | 93,338 | 172,018 | 628,203 | 810,675 |
| Dividends | 354,787 | 336,505 | 1,372,890 | 1,383,350 |
| Total interest income | 8,905,340 | 8,952,598 | 35,313,740 | 36,270,673 |
| Interest expense: | | | | |
| Deposits | 2,380,561 | 2,689,839 | 10,045,178 | 11,397,125 |
| Other borrowed funds | 77,535 | 70,062 | 293,604 | 265,845 |
| Total interest expense | 2,458,096 | 2,759,901 | 10,338,782 | 11,662,970 |
| Net interest income | 6,447,244 | 6,192,697 | 24,974,958 | 24,607,703 |
| Provision for loan losses | 132,707 | 392,307 | 645,447 | 688,431 |
| Net interest income after provision for loan losses | 6,314,537 | 5,800,390 | 24,329,511 | 23,919,272 |
| Noninterest income: | | | | |
| Trust department income | 343,840 | 235,131 | 1,225,099 | 1,032,500 |
| Service fees | 376,474 | 391,379 | 1,513,964 | 1,492,344 |
| Securities gains, net | 209,090 | 327,501 | 1,395,320 | 889,923 |
| Loan and secondary market fees | 217,337 | 329,298 | 1,155,311 | 739,907 |
| Other | 249,566 | 347,182 | 1,145,781 | 980,140 |
| Total noninterest income | 1,396,307 | 1,630,491 | 6,435,475 | 5,134,814 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 2,345,763 | 2,129,020 | 9,044,896 | 8,074,181 |
| Data processing | 598,708 | 651,306 | 2,188,488 | 1,934,006 |
| Occupancy expenses | 246,530 | 272,089 | 1,088,438 | 927,287 |
| Other operating expenses | 704,011 | 629,679 | 2,497,692 | 2,340,098 |
| Total noninterest expense | 3,895,012 | 3,682,094 | 14,819,514 | 13,275,572 |
| Income before income taxes | 3,815,832 | 3,748,787 | 15,945,472 | 15,778,514 |
| Income tax expense | 951,342 | 1,042,797 | 4,320,787 | 4,438,376 |
| Net income | <u>\$2,864,490</u> | <u>\$2,705,990</u> | <u>\$11,624,685</u> | <u>\$11,340,138</u> |
| Basic and diluted earnings per share | <u>\$0.91</u> | <u>\$0.87</u> | <u>\$3.71</u> | <u>\$3.63</u> |
| Declared dividends per share | <u>\$0.46</u> | <u>\$0.44</u> | <u>\$2.28</u> | <u>\$2.18</u> |