

## COMPANY DIRECTORS

### DANIEL L. KRIEGER

Chairman & President

### BETTY A. BAUDLER HORRAS

President, Baudler Enterprises, Inc.

### ROBERT L. CRAMER

Retired President,  
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

## AMES NATIONAL CORPORATION

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# QUARTERLY REPORT TO SHAREHOLDERS



## 4<sup>TH</sup> QUARTER 2006

## CHAIRMAN'S LETTER

### DEAR SHAREHOLDERS,

#### Fourth Quarter Results

For the quarter ending December 31, 2006, net income for Ames National Corporation totaled \$2,721,000, or \$0.29 per share, which was slightly higher than the \$2,709,000, or \$0.29 per share earned in the fourth quarter of 2005. An increase in security gains and other income associated with an increase in net ATM fees offset the lower net interest income for the quarter compared to the same period a year ago. Net interest income declined 5% to \$5,731,000 for the quarter ending December 31, 2006 compared to \$6,053,000 for the same quarter in 2005. Fourth quarter 2006 interest expense increased 25% while interest income rose 8% compared to fourth quarter 2005. The Company's annual net interest margin for the quarter declined to 3.29% in 2006 compared to 3.45% posted in 2005.

Fourth quarter 2006 return on average assets of 1.32% was unchanged compared to the same period in 2005. Return on average equity was 9.74% for the three months ending December 31, 2006 compared to 9.94% posted a year ago. Average equity for the quarter was higher than posted in 2005 due to an increase in net unrealized gains in the Company and banks' investment portfolios. The efficiency ratio for fourth quarter was 52.23%, compared to 50.67% last year. Non-interest expense increased 2% for the quarter compared to the same quarter in 2005.

#### ANNUAL RESULTS FOR 2006

Net income for the year ending December 31, 2006 decreased 6% to \$10,944,000 or \$1.16 per share compared to 2005 results of \$11,609,000 or \$1.23 per share. Rising market interest rates through the first half of 2006 resulted in annual net interest income declining 9% as deposits re-priced more quickly than loans and investments. The flat yield curve in 2006 also contributed to lower net interest income of \$22,990,000 for the year ending December 31, 2006 compared to \$25,373,000 recorded in 2005. The Company's net interest margin declined to 3.29% in 2006 from 3.56% posted in 2005.

Annual interest expense rose to \$21,306,000, a 34% increase over the \$15,933,000 posted for 2005. The higher interest expense was offset by a 7% increase in interest income to \$44,296,000 for 2006 compared to the \$41,306,000 recorded for 2005. Partially offsetting the lower net interest income were \$339,000 more in gains on security transactions; gains on the foreclosure or sale of real estate properties of \$482,000 and a 2006 credit provision for loan losses of \$183,000.

Return on average assets and return on equity for 2006 and 2005 was 1.34% and 1.40%, and 9.99% and 10.57%, respectively. The efficiency ratio for the year ending December 31, 2006 was 52.26% compared to 49.09% the previous year. The decline in the efficiency ratio in 2006 was primarily the result of lower net interest income as non-interest expense increased less than 2% compared to the same period in 2005.

Deposits increased to \$680,356,000 on December 31, 2006, a 2% increase over the \$668,342,000 recorded at year-end 2005. Demand and interest bearing checking accounts showed the highest percentage growth.

Net loans as of December 31, 2006 declined 3% to \$429,123,000 compared to the \$440,318,000 recorded a year ago as the result of softening loan demand in the local markets.

The allowance for loan losses on December 31, 2006 totaled \$6,533,000 compared to \$6,765,000 on December 31, 2005. Net charge-offs for the year ending December 31, 2006 were \$50,000 compared to \$41,000 the previous year.

Year-end equity capital grew 3% to \$112,923,000 compared to \$109,227,000 on December 31, 2005 as the result of higher unrealized gains on securities available for sale and the retention of earnings. Capital represented over 13% of total assets at the end of 2006 and 2005.

#### Company Stock

Company stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at \$21.00 on December 31, 2006. During the fourth quarter, the price ranged from \$19.82 to \$22.69. The 2006 dividends paid of \$1.03 per share were 13% higher than the \$0.91 per share paid in 2005.

#### Affiliate Updates

**Ankeny Branch Update.** Progress continues on the construction of the new First National Bank facility in Ankeny, Iowa. Tom Friedman, who joined the bank as the Ankeny Market President, has over 25 years of banking experience and is an active Ankeny community leader. The branch is scheduled to open in April of 2007.

**Sales and Service Training.** Ames National is implementing a company-wide sales and service initiative to provide consistent customer service training. The goal is to provide employees' tools to help them identify customer needs and effectively match bank products and services to customer needs.

#### Our People

The Ad Hoc Search Committee for a new president at First National Bank is in the process of identifying candidates. The interview process will begin in early 2007 with the goal to name a new president during the first quarter of 2007.

#### Economy

The Federal Reserve has left interest rates unchanged since June of 2006 with the prime rate currently at 8.25%. Rates will likely remain relatively flat through most of 2007. It is yet to be seen if the housing boom experienced over the past several years will become a real drag on the economy with the determining factor being consumer spending.

The farm economy remains strong in central Iowa as farmers experienced very good crop yields with excellent prices for corn and soybeans. The ethanol industry is providing a strong demand for corn.

#### Annual Event

We will hold the annual shareholders' meeting at Reiman Gardens in Ames, Iowa on Wednesday, April 25, 2007. The 2006 Annual Report, Proxy information and registration materials will be mailed to you in March. We hope you will mark this date on your calendar and plan to join us.

Sincerely,

DANIEL L. KRIEGER  
Chairman & President



## CONSOLIDATED BALANCE SHEETS

Assets	December 31 2006	December 31 2005
Cash and due from banks	\$16,510,082	\$18,092,139
Federal funds sold	13,100,000	300,000
Interest bearing deposits in financial institutions	1,544,306	5,983,542
Securities available-for-sale	354,571,864	333,510,152
Loans receivable, net	429,122,541	440,317,685
Loans held for sale	525,999	981,280
Bank premises and equipment, net	12,617,741	11,030,840
Accrued income receivable	7,871,365	6,633,795
Deferred income taxes	-	343,989
Other assets	2,989,090	2,190,652
<b>Total assets</b>	<b>\$838,852,988</b>	<b>\$819,384,074</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits		
Demand, noninterest bearing	\$77,638,264	\$74,155,477
NOW accounts	158,584,115	151,680,984
Savings and money market	159,401,753	160,998,014
Time, \$100,000 and over	102,230,631	101,042,024
Other time	182,501,710	180,465,836
<b>Total deposits</b>	<b>680,356,473</b>	<b>668,342,335</b>
Federal funds purchased and securities sold under agreements to repurchase	34,727,897	34,659,983
Other short-term borrowings	1,470,116	2,861,130
FHLB term advances	2,000,000	-
Dividends payable	2,450,503	2,354,818
Deferred income taxes	1,187,948	-
Accrued expenses and other liabilities	3,736,739	1,938,507
<b>Total liabilities</b>	<b>725,929,676</b>	<b>710,156,773</b>
Stockholders' Equity		
Common stock, \$2 par value; authorized 18,000,000 shares; 9,425,013 shares issued and outstanding at December 31, 2006 9,419,271 issued and outstanding at December 31, 2005	18,850,026	18,838,542
Additional paid-in-capital	22,498,904	22,383,375
Retained earnings	65,856,627	64,713,530
Accumulated other comprehensive income, net unrealized gain on securities available-for-sale	5,717,755	3,291,854
<b>Total stockholders' equity</b>	<b>112,923,312</b>	<b>109,227,301</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$838,852,988</b>	<b>\$819,384,074</b>

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended December 31		Twelve Months Ended December 31	
	2006	2005	2006	2005
Interest and dividend income				
Loans, including fees	\$7,529,449	\$7,090,638	\$29,593,896	\$26,979,358
Securities:				
Taxable	2,341,644	2,087,397	8,830,356	8,558,156
Tax-exempt	1,105,260	1,027,592	4,226,941	4,190,268
Federal funds sold	79,971	-	224,882	130,182
Dividends	367,180	394,352	1,419,617	1,447,663
<b>Total interest income</b>	<b>11,423,504</b>	<b>10,599,979</b>	<b>44,295,692</b>	<b>41,305,627</b>
Interest expense:				
Deposits	5,226,996	4,143,093	19,742,379	14,380,214
Other borrowed funds	465,572	404,319	1,563,149	1,552,894
<b>Total interest expense</b>	<b>5,692,568</b>	<b>4,547,412</b>	<b>21,305,528</b>	<b>15,933,108</b>
<b>Net interest income</b>	<b>5,730,936</b>	<b>6,052,567</b>	<b>22,990,164</b>	<b>25,372,519</b>
Provision for loan losses	44,685	84,244	(182,686)	331,282
<b>Net interest income after provision for loan losses</b>	<b>5,686,251</b>	<b>5,968,323</b>	<b>23,172,850</b>	<b>25,041,237</b>
Non-interest income:				
Trust department income	373,449	360,048	1,462,734	1,375,308
Service fees	461,015	460,832	1,840,699	1,796,503
Securities gains, net	289,001	162,226	1,135,136	795,780
Loan and secondary market fees	107,669	137,444	564,819	606,277
Merchant and ATM fees	242,189	141,705	645,517	570,914
Gain on sale or foreclosure of real estate	-	-	482,203	-
Other	138,030	117,096	542,924	468,410
<b>Total non-interest income</b>	<b>1,611,353</b>	<b>1,379,351</b>	<b>6,674,032</b>	<b>5,613,192</b>
Non-interest expense:				
Salaries and employee benefits	2,279,647	2,143,307	9,408,293	9,208,902
Data processing	561,336	611,014	2,185,478	2,126,040
Occupancy expenses	267,758	284,368	1,159,750	1,148,738
Other operating expenses	726,314	726,940	2,750,341	2,726,222
<b>Total non-interest expense</b>	<b>3,835,055</b>	<b>3,765,629</b>	<b>15,503,862</b>	<b>15,209,902</b>
<b>Income before income taxes</b>	<b>3,462,549</b>	<b>3,582,045</b>	<b>14,343,020</b>	<b>15,444,527</b>
Income tax expense	741,689	873,122	3,399,403	3,835,992
<b>Net income</b>	<b>\$2,720,860</b>	<b>\$2,708,923</b>	<b>\$10,943,617</b>	<b>\$11,608,535</b>
Basic and diluted earnings per share	\$0.29	\$0.29	\$1.16	\$1.23