impairment write downs. The efficiency ratio for the six months ended June 30, 2011 was 50.37%, compared to 50.06% for the same period in 2010.

### Balance Sheet Review

As of June 30, 2011, total assets were $1,000,556,000, a $73,578,000 increase compared to June 30, 2010. The increase in assets was primarily due to a significant increase in securities available-for-sale and to a lesser extent loans, funded primarily by a growth in deposits.

Securities available-for-sale as of June 30, 2011 totaled $496,471,000, compared to $436,929,000 as of June 30, 2010, mainly as a result of increases in U.S. government mortgage backed securities and state and political subdivision bonds, offset in part by a decline in U.S. government agencies.

Net loans as of June 30, 2011 increased to $424,979,000, compared to $410,433,000 as of June 30, 2010, or 3.5%, mainly as a result of increases in commercial operating loans. The allowance for loan losses on June 30, 2011, totaled $7,876,000, or 1.82% of gross loans, compared to $7,850,000 or 1.88% of gross loans as of June 30, 2010. Impaired loans as of June 30, 2011, were $5,581,000, or 1.3% of gross loans, compared to $6,834,000, or 1.6% of gross loans as of June 30, 2010.

Other real estate owned was $10,159,000 as of June 30, 2011, which is lower than $10,630,000 as of June 30, 2010, primarily due to sales of other real estate owned.

Deposits totaled $781,775,000 on June 30, 2011, a 9.3% increase from the $715,205,000 recorded at June 30, 2010. This increase occurred in all deposit categories except time deposits under $100,000.

The Company's stockholders' equity represented 13.0% of total assets as of June 30, 2011 with all of the Company's five affiliate banks considered well-capitalized as defined by federal capital regulations. Total stockholder's equity was $130,277,000 as of June 30, 2011, and $118,698,000 as of June 30, 2010.

### Shareholder Information

Return on average assets was 1.28% for the quarter ended June 30, 2011, compared to 1.35% for the same period in 2010. Return on average equity was 10.20% for the quarter ended June 30, 2011, compared to the 10.73% for the same period in 2010. Return on average assets was 1.34% for the six months ended June 30, 2011, compared to 1.39% for the same period in 2010. Return on average equity was 10.74% for the six months ended June 30, 2011, compared to the 11.09% for the same period in 2010.

The Company's stock, which is listed on the NASDAQ Capital Market under the symbol ATLO, closed at $18.16 on June 30, 2011. During the second quarter of 2011, the price ranged from $16.55 to $19.25.

On May 11, 2011, the Company declared a quarterly cash dividend on its common stock, payable on August 15, 2011 to stockholders of record as of August 1, 2011, equal to $0.13 per share.

### A Tribute to Marvin J. Walter

On June 1, 2011, we lost a dear friend, long-time director and chairman, Marvin J. Walter. Marv served with distinction as a director for First National Bank and Ames National Corporation for over 30 years. He was a supporter of many community and Bank initiatives and his guidance and counsel will most certainly be missed.

### Board of Director Changes

The Ames National Corporation Board of Directors elected Dr. Douglas C. Gustafson, DVM as Chairman of the Board on June 22, 2011. Dr. Gustafson has served as a director of the Company since 1999. He is a retired veterinarian and was formerly a partner in Boone Veterinary Hospital located in Boone, Iowa. He has served on the board of directors of Boone Bank & Trust Co. since 1993. In addition, David W. Benson, Attorney at Nyemaster Goode, P.C., was elected to the Board. Mr. Benson has served as a director for First National Bank in Ames since 2008.

DOUGLAS C. GUSTAFSON
Chairman

THOMAS H. POHLMAN
President

## Company Directors

**DOUGLAS C. GUSTAFSON, DVM**
Chairman of the Board
Retired Veterinarian

**THOMAS H. POHLMAN**
President, Ames National Corporation

**BETTY A. BAUDLER HORRAS**
President, Baudler Enterprises, Inc.

**DAVID W. BENSON**
Attorney, Nyemaster Goode, P.C.

**ROBERT L. CRAMER**
Retired President, Fareway Stores, Inc.

**STEVEN D. FORTH**
Farmer

**CHARLES D. JONS, MD**
Retired Physician

**JAMES R. LARSON, II**
President, Larson Development Corporation

**WARREN R. MADDEN**
Vice President for Business & Finance,
Iowa State University

**LARRY A. RAYMON**
Chief Executive Officer
Raymon Enterprises, Inc.

**FREDERICK C. SAMUELSON**
President, James Michael & Associates, Inc.

## Affiliate Banks

Boone Bank & Trust Co.
First National Bank, Ames • Ankeny
United Bank & Trust
State Bank & Trust Co.
Randall Story State Bank


## Ames National Corporation

405 5th Street • Ames, IA 50010
Phone 515-232-6251
Fax 515-663-3033
Email info@amesnational.com
www.amesnational.com


2ND QUARTER 2011

Ames National Corporation

*Quarterly Report to Shareholders*

## Letter To Shareholders

### Second Quarter 2011 Results

The second quarter of 2011 proved to be another quarter of solid growth for Ames National Corporation (the Company). Net income, deposits, loans and assets all topped second quarter 2010 results.

For the quarter ended June 30, 2011, net income for the Company increased 3.8% and totaled $3,243,000, or $0.34 per share, compared to $3,126,000, or $0.33 per share, for the same period in 2010. Net income increased primarily due to improvements in net interest income and trust department income.

Second quarter net interest income increased $419,000, or 5.7%, compared to the same quarter a year ago, primarily due to earnings from a larger investment securities portfolio and lower rates on deposits, offset in part by lower rates on loans and investment securities. The Company's net interest margin was 3.63% for the quarter ended June 30, 2011, a decrease from 3.73% for the quarter ended June 30, 2010.

A higher level of specific reserves allocated to impaired loans and an increase in outstanding loans resulted in an increase in the provision for loan losses of $405,000 in the second quarter of 2011 compared to $170,000 for the same period in 2010. Net loan charge offs for the quarter ended June 30, 2011 were $56,000, compared to net loan charge offs of $2,000 for the same period in 2010.

Non-interest income for the second quarter of 2011 totaled $1,732,000 compared to $1,612,000 for the same period in 2010. The increase in non-interest income is primarily due to higher trust department income, offset in part by a decrease in service fees. The increase in trust department income was due primarily to increases in the number of customer relationships and income related to improving fair values for fee-based managed assets. The decrease in service fees was primarily due to lower overdraft fees, due in part to regulatory changes associated with the Dodd-Frank Act.

Non-interest expense for the second quarter of 2011 totaled $4,852,000 compared to $4,636,000 recorded in the same period in 2010. The increase in non-interest expense can be mainly attributed to salaries and employee benefits and other real estate owned costs, offset in part by a decrease in FDIC insurance assessments. The higher salaries and employee benefit costs are due to normal salary increases and increasing incentive pay as the result of higher profitability. The higher other real estate owned costs are due primarily to impairment write downs. The lower FDIC insurance assessments are due primarily to lower assessment rates. The efficiency ratio for the second quarter of 2011 was 50.87%, compared to 51.51% for the same period in 2010.

### Six Months 2011 Results

For the six months ended June 30, 2011, net income for the Company increased 5.0% and totaled $6,716,000, or $0.71 per share, compared to $6,396,000, or $0.68 per share, for the same period in 2010. Net income increased primarily due to higher net interest income and higher gain on sale of loans held for sale.

For the six months ended June 30, 2011, net interest income increased $461,000, or 3.1%, compared to the same period in 2010, due primarily to earnings from a larger investment securities portfolio and lower rates on deposits, offset in part by lower rates on loans and investment securities. The Company's net interest margin was 3.58% for the six months ended June 30, 2011, a decrease from 3.76% for the six months ended June 30, 2010.

The provision for loan losses was $405,000 for the six months ended June 30, 2011, compared to $494,000 for the same period in 2010. Net loan charge offs for the six months ended June 30, 2011 were $50,000, compared to net loan charge offs of $296,000 for the same period in 2010.

Non-interest income for the six months ended June 30, 2011 totaled $3,579,000 as compared to $3,569,000 for the same period in 2010. The higher non-interest income is primarily due to higher gain on sale of loans held for sale, offset in part by a decrease in service fees. The increase in gain on sale of loans held for sale is due primarily to increased loan origination volume.

Non-interest expense for the six months ended June 30, 2011 totaled $9,462,000, compared to $9,169,000 recorded in the same period in 2010. The increase in non-interest expense can be mainly attributed to higher salaries and employee benefit costs and higher other real estate owned costs, offset in part by a decrease in FDIC

## CONSOLIDATED BALANCE SHEETS

| (unaudited) | June 30, 2011 | June 30, 2010 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $17,409,710 | $16,671,320 |
| Federal funds sold | 32,000 | - |
| Interest bearing deposits in financial institutions | 28,273,377 | 25,357,030 |
| Securities available-for-sale | 496,471,059 | 436,928,802 |
| Loans receivable, net | 424,979,404 | 410,432,696 |
| Loans held for sale | 1,553,454 | 2,510,258 |
| Bank premises and equipment, net | 11,411,585 | 11,666,390 |
| Accrued income receivable | 6,215,233 | 5,918,291 |
| Deferred income taxes | 540,007 | 2,513,174 |
| Other real estate owned | 10,159,075 | 10,630,371 |
| Other assets | 3,511,492 | 4,350,105 |
| **Total assets** | $1,000,556,396 | $926,978,437 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| LIABILITIES | | |
| Deposits | | |
| Demand, non-interest bearing | $108,530,544 | $91,706,784 |
| NOW accounts | 216,436,716 | 208,779,142 |
| Savings and money market | 214,625,416 | 179,879,101 |
| Time, $100,000 and over | 101,262,795 | 86,614,339 |
| Other time | 140,919,842 | 148,225,335 |
| **Total deposits** | 781,775,313 | 715,204,701 |
| Federal funds purchased and securities sold under agreements to repurchase | 46,820,461 | 50,279,602 |
| Short-term borrowings | 915,180 | 6,819 |
| FHLB advances and other long-term borrowings | 36,212,679 | 38,500,000 |
| Dividend payable | 1,226,279 | 1,037,620 |
| Accrued expenses and other liabilities | 3,329,092 | 3,251,797 |
| **Total liabilities** | 870,279,004 | 808,280,539 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $2 par value, authorized 18,000,000 shares; issuesd 9,432,915 shares; outstanding 9,410,882 and 9,432,915 shares as of June 30, 2011 and 2010, respectively | 18,865,830 | 18,865,830 |
| Additional paid-in capital | 22,651,222 | 22,651,222 |
| Retained earnings | 80,782,828 | 72,024,066 |
| Treasury stock, at cost; 22,033 shares and no shares at June 30, 2011 and 2010, resepctively | (374,533) | - |
| Accumulated other comprehensive income-net unrealized income on securities available-for-sale | 8,352,045 | 5,156,780 |
| **Total stockholders' equity** | 130,277,392 | 118,697,898 |
| **Total liabilities and stockholders' equity** | $1,000,556,396 | $926,978,437 |

## CONSOLIDATED STATEMENTS OF INCOME

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (unaudited) | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans | $5,999,888 | $6,023,730 | $11,740,320 | $12,123,209 |
| Securities | | | | |
| Taxable | 1,796,068 | 1,770,707 | 3,458,537 | 3,598,228 |
| Tax-exempt | 1,630,994 | 1,429,568 | 3,267,959 | 2,795,150 |
| Interest bearing deposits and federal funds sold | 116,767 | 129,198 | 224,693 | 259,311 |
| Total interest income | 9,543,717 | 9,353,203 | 18,691,509 | 18,775,898 |
| Interest expense: | | | | |
| Deposits | 1,382,703 | 1,563,610 | 2,753,614 | 3,225,964 |
| Other borrowed funds | 354,265 | 402,304 | 732,907 | 805,462 |
| Total interest expense | 1,736,968 | 1,965,914 | 3,486,521 | 4,031,426 |
| Net interest income | 7,806,749 | 7,387,289 | 15,204,988 | 14,744,472 |
| Provision for loan losses | 404,788 | 170,416 | 404,788 | 494,214 |
| Net interest income after provision for loan losses | 7,401,961 | 7,216,873 | 14,800,200 | 14,250,258 |
| Non-interest income: | | | | |
| Trust department income | 557,156 | 465,298 | 1,071,700 | 996,014 |
| Service fees | 364,660 | 435,365 | 694,218 | 835,188 |
| Securities gains, net | 164,971 | 134,830 | 586,126 | 671,813 |
| Gain on sale of loans held for sale | 207,523 | 171,453 | 428,388 | 324,989 |
| Merchant and ATM fees | 195,623 | 195,137 | 371,494 | 360,524 |
| Other non-interest income | 242,283 | 209,460 | 427,490 | 380,780 |
| Total non-interest income | 1,732,216 | 1,611,543 | 3,579,416 | 3,569,308 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 2,955,348 | 2,706,545 | 5,721,856 | 5,304,584 |
| Data processing | 481,003 | 494,681 | 926,818 | 945,645 |
| Occupancy expenses | 322,307 | 364,955 | 716,465 | 766,109 |
| FDIC insurance assessments | 205,754 | 278,109 | 478,496 | 591,466 |
| Other real estate owned | 210,935 | 62,954 | 286,730 | 119,307 |
| Other operating expense, net | 676,957 | 728,405 | 1,331,548 | 1,441,477 |
| Total non-interest expense | 4,852,304 | 4,635,649 | 9,461,913 | 9,168,588 |
| Income before income taxes | 4,281,873 | 4,192,767 | 8,917,703 | 8,650,978 |
| Income tax expense | 1,038,501 | 1,066,761 | 2,201,810 | 2,255,372 |
| Net income | $3,243,372 | $3,126,006 | $6,715,893 | $6,395,606 |
| Basic and diluted earnings per share | $0.34 | $0.33 | $0.71 | $0.68 |
| Declared dividends per share | $0.13 | $0.11 | $0.26 | $0.22 |