

FIRST EVANSTON BANCORP, INC.
Evanston, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

FIRST EVANSTON BANCORP, INC.
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Crowe Horwath LLP
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
First Evanston Bancorp, Inc.
Evanston, Illinois

We have audited the accompanying consolidated balance sheets of First Evanston Bancorp, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Evanston Bancorp, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the 2008 consolidated financial statements, rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Crowe Horwath LLP
Crowe Horwath LLP

Oak Brook, Illinois
January 22, 2009

FIRST EVANSTON BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and due from banks	\$ 10,719	\$ 12,368
Federal funds sold	<u>-</u>	<u>10,000</u>
Cash and cash equivalents	10,719	22,368
Securities available for sale	58,379	52,037
Other securities	2,452	1,704
Loans, net of allowance for loan losses	386,089	356,645
Premises and equipment, net	7,424	7,488
Accrued interest and other assets	<u>5,677</u>	<u>6,233</u>
	<u>\$ 470,740</u>	<u>\$ 446,475</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand and non-interest bearing	\$ 79,364	\$ 75,201
NOW and money market accounts	154,584	162,285
Savings	17,324	15,130
Time deposits	<u>160,284</u>	<u>137,585</u>
	411,556	390,201
Subordinated debentures	10,000	10,000
Accrued interest and other liabilities	<u>611</u>	<u>802</u>
	422,167	401,003
Stockholders' equity		
Common stock - no par value: 2,000,000 shares authorized; 1,522,331 shares issued in 2008 and 1,456,471 shares issued in 2007	350	347
Paid-in surplus	27,456	25,318
Retained earnings	25,425	22,270
Treasury stock at cost (121,085 shares in 2008 and 68,955 shares in 2007)	(5,424)	(2,831)
Accumulated other comprehensive income	<u>766</u>	<u>368</u>
	<u>48,573</u>	<u>45,472</u>
	<u>\$ 470,740</u>	<u>\$ 446,475</u>

See accompanying notes to consolidated financial statements.

FIRST EVANSTON BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007
(Dollars in thousands, except per share data)

	<u>2008</u>	<u>2007</u>
Interest income		
Loans, including fees	\$ 20,049	\$ 23,394
Securities	2,421	2,270
Federal funds sold	<u>352</u>	<u>973</u>
	22,822	26,637
Interest expense		
Deposits	7,498	11,560
Advances and subordinated debentures	585	662
Federal funds purchased	<u>85</u>	<u>6</u>
	<u>8,168</u>	<u>12,228</u>
Net interest income	14,654	14,409
Provision for loan losses	<u>500</u>	<u>300</u>
Net interest income after provision for loan losses	14,154	14,109
Other income		
Deposit service charges and fees	1,052	913
Loan brokerage and other fees	280	376
Trust Department income	1,047	1,010
Rental income	192	185
Other income	<u>423</u>	<u>437</u>
	2,994	2,921
Other expense		
Salaries and benefits	7,085	6,323
Occupancy expense	1,389	1,254
Furniture and equipment expense	463	400
Marketing expense	474	618
Data processing	913	886
Other expenses	<u>1,794</u>	<u>1,335</u>
	<u>12,118</u>	<u>10,816</u>
Income before income taxes	5,030	6,214
Provision for income taxes	<u>1,875</u>	<u>2,304</u>
Net income	<u>\$ 3,155</u>	<u>\$ 3,910</u>
Basic income per share	<u>\$ 2.32</u>	<u>\$ 2.87</u>
Diluted income per share	<u>\$ 2.18</u>	<u>\$ 2.69</u>

See accompanying notes to consolidated financial statements.

FIRST EVANSTON BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2008 and 2007
(Dollars in thousands)

	Common Shares <u>Outstanding</u>	Common Stock	Paid-In Surplus	Retained Earnings	Treasury Stock	Accumulated Other Compre- hensive Income (Loss)	Total Stock- holders' Equity
Balance at January 1, 2007	1,368,093	\$ 342	\$ 24,136	\$ 18,360	\$ (2,155)	\$ (35)	\$ 40,648
Comprehensive income							
Net income	-	-	-	3,910	-	-	3,910
Change in unrealized gain on securities available for sale, net	-	-	-	-	-	403	<u>403</u>
Total comprehensive income							4,313
Stock option expense	-	-	69	-	-	-	69
Exercise of stock options	26,460	7	693	-	-	-	700
Issuance of restricted performance shares	7,500	2	(2)	-	-	-	-
Expense from earned restricted performance shares	-	-	227	-	-	-	227
Tax benefit related to stock options and restricted performance shares	-	-	195	-	-	-	195
Purchase of treasury stock	<u>(14,537)</u>	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>(676)</u>	<u>-</u>	<u>(680)</u>
Balance at December 31, 2007	1,387,516	347	25,318	22,270	(2,831)	368	45,472
Comprehensive income							
Net income	-	-	-	3,155	-	-	3,155
Change in unrealized gain on securities available for sale, net	-	-	-	-	-	398	<u>398</u>
Total comprehensive income							3,553
Stock option expense	-	-	121	-	-	-	121
Exercise of stock options	53,460	13	1,069	-	-	-	1,082
Issuance of restricted performance shares	12,400	3	(3)	-	-	-	-
Expense from earned restricted performance shares	-	-	313	-	-	-	313
Tax benefit related to stock options and restricted performance shares	-	-	638	-	-	-	638
Purchase of treasury stock	<u>(52,130)</u>	<u>(13)</u>	<u>-</u>	<u>-</u>	<u>(2,593)</u>	<u>-</u>	<u>(2,606)</u>
Balance at December 31, 2008	<u>1,401,246</u>	<u>\$ 350</u>	<u>\$ 27,456</u>	<u>\$ 25,425</u>	<u>\$ (5,424)</u>	<u>\$ 766</u>	<u>\$ 48,573</u>

See accompanying notes to consolidated financial statements.

FIRST EVANSTON BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007
(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net income	\$ 3,155	\$ 3,910
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	613	521
Net securities and other amortization/(accretion)	(76)	(191)
Provision for loan losses	500	300
Stock compensation expense	434	296
Change in accrued interest and other assets	303	(83)
Change in accrued interest and other liabilities	<u>(191)</u>	<u>(419)</u>
Net cash from operating activities	4,738	4,334
Cash flows from investing activities		
Purchases of securities available for sale	(44,659)	(37,430)
Purchases of other securities	(748)	(7)
Proceeds from calls and maturities of securities available for sale	39,044	21,321
Net change in loans	(29,944)	(33,367)
Premises and equipment expenditures	<u>(549)</u>	<u>(2,158)</u>
Net cash from investing activities	(36,856)	(51,641)
Cash flows from financing activities		
Net change in deposits	21,355	35,813
Repayments of advances	-	(3,000)
Purchase of treasury stock	(2,606)	(680)
Proceeds from issuance of common stock from exercise of options, including tax benefit	<u>1,720</u>	<u>895</u>
Net cash from financing activities	<u>20,469</u>	<u>33,028</u>
Net change in cash and cash equivalents	(11,649)	(14,279)
Cash and cash equivalents at beginning of year	<u>22,368</u>	<u>36,647</u>
Cash and cash equivalents at end of year	<u>\$ 10,719</u>	<u>\$ 22,368</u>
Supplemental disclosures of cash flow information		
Interest paid	\$ 8,297	\$ 12,230
Taxes paid	1,472	2,380

See accompanying notes to consolidated financial statements.

FIRST EVANSTON BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007
(Table dollars in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations: The consolidated financial statements include the accounts of First Evanston Bancorp, Inc. and its wholly owned subsidiary, First Bank & Trust (“the Bank”) (together referred to as “the Company”). All significant intercompany transactions and balances have been eliminated in consolidation.

The Company’s revenues, operating income, and assets are primarily from the banking industry. Loan customers are mainly located within Cook County, Illinois. Therefore, the Company’s exposure to credit risk is significantly affected by changes in the economy in the Cook County area. A major portion of loans and leases are secured by various forms of collateral, including business assets, consumer property, real estate, and other items, although borrower cash flow may also be a primary source of repayment.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of income and expenses, and disclosures concerning reported amounts of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates. The allowance for loan losses and the fair value of financial instruments are particularly subject to change.

Cash Flow Reporting: Cash and cash equivalents are defined as cash on hand, non-interest-bearing amounts due from banks, and federal funds transactions. Net cash flows are reported for customer loan and deposit transactions and federal funds purchases.

Securities: Securities are classified as available for sale since management may decide to sell those securities before maturity. Securities available for sale are carried at fair value. Unrealized gains and losses on securities available for sale are included as a separate component of stockholders’ equity, net of income taxes. Premium amortization is deducted from and discount accretion is added to interest income from securities using the interest method. Realized gains and losses on the sale of securities available for sale are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers the length of time and extent that fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

(Continued)

FIRST EVANSTON BANCORP, INC.
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December 31, 2008 and 2007
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience; the nature and volume of the portfolio; information about specific borrower situations; and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment.

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the lease term or the estimated useful lives of the assets.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

The Company elected to defer adoption of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), until January 1, 2009 as permitted by FASB Staff Position 48-3. Upon adoption in 2009, a tax position will be recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the

(Continued)

FIRST EVANSTON BANCORP, INC.
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(Table dollars in thousands, except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

“more likely than not” test, no tax benefit will be recorded. Currently, the Company accounts for any contingencies associated with certain tax positions in accordance with SFAS No. 5, *Accounting for Contingencies*, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a “more likely than not” recognition threshold.

Income Per Share: Basic income per share is net income divided by the weighted average number of common shares outstanding during the year. Restricted performance shares where restrictions, including vesting, have been satisfied are considered outstanding for this calculation. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options and restricted performance shares. Income per share is restated for all stock splits through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Adoption of New Accounting Standards:

Statement No. 157, *Fair Value Measurements* (“FAS 157”), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for the Company beginning on January 1, 2008. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to January 1, 2009. The impact of adoption was not material. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active*. This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption was not material.

(Continued)

FIRST EVANSTON BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Table dollars in thousands, except per share data)

NOTE 2 - SECURITIES AVAILABLE FOR SALE

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive loss were as follows:

	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
<u>2008</u>			
U.S. Treasury	\$ 1,280	\$ 26	\$ -
U.S. government-sponsored entities	38,764	951	-
States and political subdivisions	<u>18,335</u>	<u>314</u>	<u>(41)</u>
	<u>\$ 58,379</u>	<u>\$ 1,291</u>	<u>\$ (41)</u>
<u>2007</u>			
U.S. Treasury	\$ 1,264	\$ 20	\$ -
U.S. government-sponsored entities	40,021	449	-
States and political subdivisions	<u>10,752</u>	<u>135</u>	<u>(5)</u>
	<u>\$ 52,037</u>	<u>\$ 604</u>	<u>\$ (5)</u>

The fair value of debt securities and carrying amount, if different, at year-end 2008 by contractual maturity were as follows:

	<u>Fair Value</u>
Due in one year or less	\$ 9,971
Due from one to five years	47,691
Due from five years through ten years	95
Due after ten years	<u>622</u>
	<u>\$ 58,379</u>

Securities with a carrying value of \$38,759,000 and \$36,841,000 at year-end 2008 and 2007 were pledged to secure public deposits and for other purposes.

(Continued)

FIRST EVANSTON BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007
(Table dollars in thousands, except per share data)

NOTE 2 - SECURITIES AVAILABLE FOR SALE (Continued)

Securities with unrealized losses at year-end 2008 and 2007 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2008</u>						
U.S. Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government-sponsored entities	-	-	-	-	-	-
State and political subdivisions	<u>561</u>	<u>(21)</u>	<u>95</u>	<u>(20)</u>	<u>656</u>	<u>(41)</u>
Total temporarily impaired	<u>\$ 561</u>	<u>\$ (21)</u>	<u>\$ 95</u>	<u>\$ (20)</u>	<u>\$ 656</u>	<u>\$ (41)</u>
<u>2007</u>						
U.S. Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government-sponsored entities	-	-	-	-	-	-
State and political subdivisions	<u>-</u>	<u>-</u>	<u>1,424</u>	<u>(5)</u>	<u>1,424</u>	<u>(5)</u>
Total temporarily impaired	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,424</u>	<u>\$ (5)</u>	<u>\$ 1,424</u>	<u>\$ (5)</u>

The unrealized losses at year-end 2008 and 2007 have not been recognized into income because the issuers' bonds are of high credit quality (rated AA or higher), management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the bonds approach their maturity date and/or market rates decline.

(Continued)

FIRST EVANSTON BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Table dollars in thousands, except per share data)

NOTE 3 - LOANS

Year-end loans were as follows:

	<u>2008</u>	<u>2007</u>
Commercial	\$ 115,644	\$ 110,410
Real estate	128,036	109,547
Home equity	76,521	59,670
Installment and other	<u>70,755</u>	<u>82,005</u>
Total gross loans	390,956	361,632
Deferred loan fees	(140)	(112)
Allowance for loan losses	<u>(4,727)</u>	<u>(4,875)</u>
	<u>\$ 386,089</u>	<u>\$ 356,645</u>

Activity in the allowance for loan losses was as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 4,875	\$ 5,092
Charge-offs	(899)	(617)
Recoveries	251	100
Provision for loan losses	<u>500</u>	<u>300</u>
Balance at end of year	<u>\$ 4,727</u>	<u>\$ 4,875</u>

There were no impaired loans in 2007. Individually impaired loans for 2008 were as follows:

	<u>2008</u>
Year-end loans with no allocated allowance	\$ 131
Year-end loans with allocated allowance	<u>4,066</u>
Total	<u>\$ 4,197</u>
Amount of the allowance for loan losses allocated	\$ 497
	<u>2008</u>
Average of individually impaired loans during year	\$ 3,899

There was no interest income recognized during impairment or interest income recognized on a cash basis in 2007 and 2008.

(Continued)

FIRST EVANSTON BANCORP, INC.
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(Table dollars in thousands, except per share data)

NOTE 3 - LOANS (Continued)

Non-accrual loans and loans past due 90 days still on accrual were as follows:

	<u>2008</u>		<u>2007</u>
Loans past due over 90 days still on accrual	\$ 79	\$	92
Non-accrual loans	4,743		945

Loans to related parties were \$11,767,000 and \$9,346,000 at year-end 2008 and 2007.

NOTE 4 - FAIR VALUES

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

(Continued)

FIRST EVANSTON BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 - FAIR VALUES (Continued)

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities	\$ -	\$ 58,379	\$ -

Assets and Liabilities Measured on a Non-Recurring Basis: Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$ -	\$ -	\$ 3,569

The following represent impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$4,066, with a valuation allowance of \$497, resulting in an additional provision-for loan losses of \$326 for the period.

(Continued)

FIRST EVANSTON BANCORP, INC.
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(Table dollars in thousands, except per share data)

NOTE 4 - FAIR VALUES (Continued)

Fair Value of Financial Instruments: At year-end 2008 and 2007, the carrying amount and estimated fair value of the financial instruments described below are as follows:

	2008		2007	
	Carrying <u>Amount</u>	Estimated Fair <u>Value</u>	Carrying <u>Amount</u>	Estimated Fair <u>Value</u>
Financial assets				
Cash and due from banks	\$ 10,719	\$ 10,719	\$ 12,368	\$ 12,368
Federal funds sold	-	-	10,000	10,000
Securities available for sale	58,379	58,379	52,037	52,037
Other securities	2,452	N/A	1,704	N/A
Loans, net	386,089	386,272	356,645	357,970
Accrued interest receivable	1,900	1,900	2,249	2,249
Financial liabilities				
Deposits	\$ (411,556)	\$ (412,133)	\$ (390,201)	\$ (390,707)
Subordinated debentures	(10,000)	(10,226)	(10,000)	(9,875)
Accrued interest payable	(249)	(249)	(378)	(378)

The following assumptions were used. The estimated fair values for cash and cash equivalents; accrued interest receivable; demand, NOW, money market, and savings deposits; variable rate loans; and accrued interest payable are considered to approximate their carrying values. The estimated fair values for securities available for sale are based on information documented on page 13. The estimated fair value for loans is based on estimates of the rate the Company would charge for similar loans applied for the time period until estimated payment. The estimated fair value of certificates of deposit is based on estimates of the rate the Company pays on such deposits, applied for the time period until maturity. Fair value of other borrowings and subordinated debentures is based on current rates for similar financing arrangements. It was not practicable to determine the fair value of FHLB or FRB stock due to restrictions placed on its transferability. Loan commitments are not included in the table above as their estimated fair value is immaterial.

Other assets and liabilities of the Company that are not defined as financial instruments, such as property and equipment, are not included in the above disclosures.

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 3,180	\$ 3,133
Building	1,845	1,845
Building improvements	684	582
Leasehold improvements	3,723	3,633
Furniture and equipment	<u>2,985</u>	<u>2,675</u>
Total cost	12,417	11,868
Accumulated depreciation	<u>(4,993)</u>	<u>(4,380)</u>
	<u>\$ 7,424</u>	<u>\$ 7,488</u>

The Bank's operating leases include a branch facility under a noncancelable ten-year lease with three 5-year renewal options, a drive-up facility under a noncancelable 10-year lease with two 5-year renewal options, and a branch facility under a noncancelable 5-year lease with four 5-year renewal options and a purchase option after the first 5-year period expires. A lease agreement was entered into during 2007 for a future branch site under construction. Lease payments were expected to commence in 2009, although the construction has been delayed. In 2007, the Company also entered into a short-term lease for a temporary facility while the branch site was under construction. The short-term lease expires in July 2009. Total rent expense for facilities and equipment was \$402,000 and \$370,000 in 2008 and 2007.

The contractual future payments related to the site under construction has not been included in the following schedule. Minimum rental commitments under these leases, excluding remaining renewal periods, are as follows:

2009	\$ 231
2010	218
2011	194
2012	134
2013	<u>60</u>
	<u>\$ 837</u>

(Continued)

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NOTE 5 - PREMISES AND EQUIPMENT (Continued)

At year-end 2008, the Company, as a lessor, had noncancelable operating leases outstanding for portions of the main building. One lease will expire in 2009, two leases will expire in 2010, and one lease expires in 2024. Total rental income for leases outstanding was \$192,000 and \$185,000 in 2008 and 2007. Future minimum rental receipts from these leases are as follows:

2009	\$ 213
2010	208
2011	164
2012	170
2013	177
Thereafter	<u>2,277</u>
	<u>\$ 3,209</u>

NOTE 6 - DEPOSITS

Time deposit accounts individually equal to or exceeding \$100,000 totaled \$106,688,000 and \$86,199,000 at year-end 2008 and 2007.

At year-end 2008, stated maturities of time deposits were as follows:

2009	\$ 139,180
2010	19,906
2011	233
2012	908
2013	<u>57</u>
	<u>\$ 160,284</u>

Deposits held by the Bank from related parties were \$11,715,000 and \$21,290,000 at year-end 2008 and 2007.

NOTE 7 - BORROWINGS

The Company has a \$10,000,000 line of credit available with another institution that matures on April 1, 2009. The line of credit has a variable interest rate and is secured by the Bank's stock. There was no balance outstanding as of year-end 2008 or 2007.

(Continued)

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NOTE 8 - SUBORDINATED DEBENTURES

In 2004, the Company formed First Evanston Bancorp Trust I (“the Trust”). The Trust is a statutory business trust formed under the laws of the state of Delaware and is wholly owned by the Company. In 2004, the Trust issued floating rate capital trust preferred securities with an aggregate liquidation amount of \$10,000,000 (\$1,000 per capital security) to a third-party investor. The Company then issued fixed-rate junior subordinated debentures aggregating \$10,000,000 to the Trust. The junior subordinated debentures are the sole assets of the Trust. The junior subordinated debentures and the preferred securities pay interest and dividends, respectively, on a quarterly basis. The rate is 5.85% fixed for five years then becomes variable at three month LIBOR plus 1.78%. The subordinated debentures will mature in 2035, at which time the preferred securities must be redeemed. The subordinated debentures and preferred securities can be redeemed at par contemporaneously, in whole or in part, beginning December 2009. In accordance with FASB Interpretation No. 46, the Company’s consolidated financial statements do not reflect the accounts of the Trust.

NOTE 9 - 401(k) PLAN

A 401(k) salary reduction plan allows participants to make tax-deferred contributions to the plan within specific ranges, which are matched at two-thirds of the first 6% of an employee’s contribution. The Company made contributions of \$135,000 and \$129,000 during 2008 and 2007.

NOTE 10 - INCOME TAXES

The provision for income taxes consists of:

	<u>2008</u>	<u>2007</u>
Current	\$ 1,364	\$ 2,023
Deferred	(127)	86
Tax benefit on stock options and restricted performance shares	<u>638</u>	<u>195</u>
	<u>\$ 1,875</u>	<u>\$ 2,304</u>

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 10 - INCOME TAXES (Continued)

Net deferred tax assets consist primarily of the tax effect of the allowance for loan losses, stock dividends, depreciation, and unrealized gains and losses on securities. Year-end net deferred taxes include the following amounts of deferred tax assets and liabilities:

	<u>2008</u>	<u>2007</u>
Deferred tax assets	\$ 2,275	\$ 2,225
Deferred tax liabilities	<u>(699)</u>	<u>(524)</u>
	<u>\$ 1,576</u>	<u>\$ 1,701</u>

The table below reconciles the total federal income tax provision with the amounts computed at the current statutory federal income tax rate of 34%:

	<u>2008</u>	<u>2007</u>
Tax provision at federal statutory rate	\$ 1,849	\$ 2,113
Increase from:		
State income tax expense	156	238
Other, net	<u>(130)</u>	<u>(47)</u>
	<u>\$ 1,875</u>	<u>\$ 2,304</u>

NOTE 11 - STOCK-BASED COMPENSATION

The Company has a stock incentive plan ("the Plan") that permits the issuance of stock options and restricted performance shares in order to attract and retain talented executives to manage the Company and the Bank. The Plan also provides for option grants to members of the Board of Directors of the Company and the Bank. At year-end 2008, 740,000 shares of common stock have been authorized for issuance, of which 118,718 shares remain available for future grant as either stock options or restricted performance shares.

Stock Options: Options may be granted in the form of incentive stock options, non-qualified stock options, or a combination of both. The exercise price equals the fair market value of a share of common stock as determined by the Compensation Committee on the grant date. Option exercise is subject to certain conditions, and options expire no later than ten years after the grant date. The option's vesting period is determined by the Compensation Committee with each grant and has generally been from six months to five years.

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 11 - STOCK-BASED COMPENSATION (Continued)

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	<u>2008</u>	<u>2007</u>
Risk-free interest rate	2.21%	3.59%
Expected term	7.9 years	7.5 years
Expected stock price volatility	10.57%	8.99%
Dividend yield	0%	0%

A summary of the activity in the stock option plan for 2008 follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, beginning of year	260,140	\$ 29.64		
Granted	23,900	50.00		
Exercised	(53,460)	20.25		
Forfeited	<u>(800)</u>	<u>20.00</u>		
Outstanding, end of year	<u>229,780</u>	<u>\$ 33.97</u>	<u>4.87</u>	<u>\$ 3,683</u>
Vested or expected to vest	229,780	\$ 33.97	4.87	\$ 3,683
Exercisable at end of year	<u>173,810</u>	<u>\$ 29.59</u>	<u>3.60</u>	<u>\$ 3,547</u>

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 11 - STOCK-BASED COMPENSATION (Continued)

Information related to the stock option plan follows:

	<u>2008</u>	<u>2007</u>
Intrinsic value of options exercised	\$ 1,590	\$ 492
Cash received from options exercised	1,083	700
Tax benefit realized from options exercised	617	174
Weighted average fair value of options granted	10.33	12.48

Total compensation cost from stock options that has been charged against income was \$121,000 for 2008 and \$69,000 for 2007. The total income tax benefit was \$47,000 and \$27,000 for 2008 and 2007.

As of year-end 2008, there was \$603,000 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.5 years.

Restricted Performance Shares: Restricted performance shares carry voting and dividend rights; however, sale of the shares is restricted prior to vesting, which is five years and subject to continued employment. Compensation expense is recognized over the vesting period of the shares based on the market value of the shares at issue date. Compensation expense related to the vesting of restricted performance shares totaled \$313,000 and \$227,000 for 2008 and 2007.

A summary of changes in the Company's nonvested restricted performance shares for 2008 follows:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at beginning of year	23,496	\$ 44.41
Granted	12,400	50.00
Vested	(7,110)	42.52
Forfeited	<u>-</u>	<u>-</u>
Nonvested at end of year	<u>28,786</u>	<u>\$ 47.28</u>

As of year-end 2008, there was \$1,352,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.46 years. The total fair value of shares vested during 2008 and 2007 was \$356,000 and \$281,000.

(Continued)

FIRST EVANSTON BANCORP, INC.
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December 31, 2008 and 2007
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**NOTE 12 - COMMITMENTS, CONTINGENT LIABILITIES, AND CONCENTRATIONS
OF CREDIT RISK**

At year-end 2008 and 2007, reserves of \$3,067,000 and \$2,763,000 were required as cash on hand or on deposit with the Federal Reserve Bank.

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are those used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year end:

	<u>2008</u>	<u>2007</u>
Unused lines of credit	\$ 168,714	\$ 158,645
Standby letters of credit	10,066	10,501

Financial instruments that potentially subject the Company to concentrations of credit risk include non-interest-bearing deposits in and federal funds sold to other financial institutions. At year end, the Company had funds on deposit of \$7,033,000 at Bank of America.

(Continued)

FIRST EVANSTON BANCORP, INC.
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NOTE 13 - REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by the federal banking agencies. Since the Company is a one-bank holding company and has consolidated assets of less than \$500 million, regulatory minimum capital assets are applied primarily to the Bank. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. The minimum requirements are:

	<u>Capital to Risk- Weighted Assets</u>		<u>Tier 1 Capital to Average Assets</u>
	<u>Total</u>	<u>Tier 1</u>	
Well capitalized	10%	6%	5%
Adequately capitalized	8	4	4
Undercapitalized	6	3	3

At year end, the actual capital levels and minimum required levels were:

	<u>Actual</u>		<u>Minimum Required for Capital Adequacy Purposes</u>		<u>Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2008</u>						
Total capital (to risk-weighted assets)	\$ 55,252	12.33%	\$ 35,843	8.00%	\$ 44,804	10.00%
Tier 1 capital (to risk-weighted assets)	50,525	11.28	17,921	4.00	26,882	6.00
Tier 1 capital (to average assets)	50,525	10.93	18,493	4.00	23,116	5.00
<u>2007</u>						
Total capital (to risk-weighted assets)	\$ 51,232	12.00%	\$ 34,158	8.00%	\$ 42,698	10.00%
Tier 1 capital (to risk-weighted assets)	46,357	10.86	17,079	4.00	25,619	6.00
Tier 1 capital (to average assets)	46,357	10.49	17,677	4.00	22,097	5.00

(Continued)

FIRST EVANSTON BANCORP, INC.
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December 31, 2008 and 2007
(Table dollars in thousands, except per share data)

NOTE 13 - REGULATORY MATTERS (Continued)

The Bank was categorized as well capitalized at year-end 2008 and 2007. There are no conditions or events since notification that management believes have changed the Bank's category.

The primary source of funds to allow the Company to pay dividends to its stockholders is from dividends received from its bank subsidiary. Under provisions of the Illinois Banking Act, dividends may not be declared by a bank except out of retained net profits. In addition, all dividends paid by the Bank are restricted by the capital adequacy guidelines of the FDIC. The Bank's retained earnings available for dividends approximated \$10,000,000 at year-end 2008.

NOTE 14 - EARNINGS PER SHARE AND CAPITAL MATTERS

The following table presents a reconciliation of the components used to compute basic and diluted income per share for the years ended:

	<u>2008</u>	<u>2007</u>
Basic income per share		
Basic weighted average common shares outstanding	<u>1,360,124</u>	<u>1,360,431</u>
Net income	\$ 3,155	\$ 3,910
Basic income per share	2.32	2.87
Diluted income per share		
Basic weighted average common shares outstanding	1,360,124	1,360,431
Dilutive effect of restricted performance shares	28,786	23,496
Dilutive effect of stock options	<u>60,666</u>	<u>72,039</u>
Diluted weighted average common shares outstanding	<u>1,449,576</u>	<u>1,455,966</u>
Net income	\$ 3,155	\$ 3,910
Diluted income per share	2.18	2.69

There were no potential common shares that were antidilutive for year ended 2008 and 2007.

The Company periodically approves the repurchase of shares as they come available. Most recently, in 2006, the Company approved the repurchase of up to 100,000 shares of its stock. The Company repurchased 52,130 shares in 2008 and 14,537 shares in 2007 under these repurchase authorizations.

SUPPLEMENTARY INFORMATION

FIRST EVANSTON BANCORP, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2008
(Dollars in thousands)

	First Evanston Bancorp, Inc.	First Bank & Trust	Eliminations	Total
ASSETS				
Cash and due from banks	\$ 2,677	\$ 10,719	\$ (2,677)	\$ 10,719
Federal funds sold	-	-	-	-
Cash and cash equivalents	2,677	10,719	(2,677)	10,719
Securities available for sale	-	58,379	-	58,379
Other securities	-	2,452	-	2,452
Investment in subsidiary	51,290	-	(51,290)	-
Loans, net	-	386,089	-	386,089
Premises and equipment, net	4,829	2,595	-	7,424
Accrued interest and other assets	229	5,448	-	5,677
	<u>\$ 59,025</u>	<u>\$ 465,682</u>	<u>\$ (53,967)</u>	<u>\$ 470,740</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Deposits				
Demand and non-interest bearing	\$ -	\$ 79,524	\$ (160)	\$ 79,364
NOW and money market accounts	-	157,084	(2,500)	154,584
Savings	-	17,341	(17)	17,324
Time deposits	-	160,284	-	160,284
	-	414,233	(2,677)	411,556
Subordinated debentures	10,000	-	-	10,000
Accrued interest and other liabilities	452	159	-	611
	10,452	414,392	(2,677)	422,167
Stockholders' equity				
Common stock	350	1,520	(1,520)	350
Paid-in surplus	27,456	20,917	(20,917)	27,456
Retained earnings	25,425	28,087	(28,087)	25,425
Treasury stock at cost	(5,424)	-	-	(5,424)
Accumulated other comprehensive income	766	766	(766)	766
	<u>48,573</u>	<u>51,290</u>	<u>(51,290)</u>	<u>48,573</u>
	<u>\$ 59,025</u>	<u>\$ 465,682</u>	<u>\$ (53,967)</u>	<u>\$ 470,740</u>

FIRST EVANSTON BANCORP, INC.
CONSOLIDATING STATEMENT OF INCOME
Year ended December 31, 2008
(Dollars in thousands)

	First Evanston Bancorp, <u>Inc.</u>	First Bank & Trust <u>Trust</u>	<u>Eliminations</u>	<u>Total</u>
Interest income				
Loans, including fees	\$ -	\$ 20,049	\$ -	\$ 20,049
Securities	-	2,421	-	2,421
Federal funds sold	-	<u>352</u>	-	<u>352</u>
	-	22,822	-	22,822
Interest expense				
Deposits	-	7,498	-	7,498
Advances and subordinated debentures	585	-	-	585
Federal funds purchased	-	<u>85</u>	-	<u>85</u>
	585	7,583	-	8,168
Net interest income (loss)	(585)	15,239	-	14,654
Provision for loan losses	-	<u>500</u>	-	<u>500</u>
Net interest income (loss) after provision for loan losses	(585)	14,739	-	14,154
Other income				
Deposit service charges and fees	-	1,052	-	1,052
Loan brokerage and other fees	-	280	-	280
Trust Department income	-	1,047	-	1,047
Rental income	676	-	(484)	192
Other income	-	423	-	423
Equity in earnings of subsidiary	<u>3,408</u>	<u>-</u>	<u>(3,408)</u>	<u>-</u>
	4,084	2,802	(3,892)	2,994
Other expense				
Salaries and benefits	-	7,085	-	7,085
Occupancy expense	484	1,389	(484)	1,389
Furniture and equipment expense	-	463	-	463
Marketing expense	-	474	-	474
Data processing	-	913	-	913
Other expenses	<u>15</u>	<u>1,779</u>	-	<u>1,794</u>
	499	12,103	(484)	12,118
Income before income taxes	3,000	5,438	(3,408)	5,030
Provision (benefit) for income taxes	<u>(155)</u>	<u>2,030</u>	-	<u>1,875</u>
Net income	<u>\$ 3,155</u>	<u>\$ 3,408</u>	<u>\$ (3,408)</u>	<u>\$ 3,155</u>