

PELICAN FINANCIAL INC
Form 10-K
April 14, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended **December 31, 2005**

OR

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission file number **1-14986**

PELICAN FINANCIAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

3767 Ranchero Drive, Ann Arbor, Michigan
(Address of Principal Executive Offices)

58-2298215
(I.R.S. Employer Identification No.)

48108
(Zip Code)

(800) 242-6698

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(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|--|---|
| Common Stock, par value \$0.01 per share | American Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405 of the chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check on):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing sale price of the registrant's common stock on June 30, 2005 was \$25,842,599 (\$5.75 per share based on shares of common stock outstanding at June 30, 2005).

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding or each of the registrant's classes of common stock, as of the latest practicable date.

As of March 31, 2006, there were issued and outstanding 4,494,365 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K, including some statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business, are forward-looking statements about what may happen in the future. They include statements regarding our current beliefs, goals, and expectations about matters such as our expected financial position and operating results, our business strategy, and our financing plans. These statements can sometimes be identified by our use of forward-looking words such as anticipate, estimate, expect, intend, may, will, and similar expressions. We cannot guarantee that our forward-looking statements will turn out to be correct or that our beliefs and goals will not change. Our actual results could be very different from and worse than our expectations for various reasons. You are urged to carefully consider these factors, as well as other information contained in this Annual Report on Form 10-K and in our other periodic reports and documents filed with the Securities and Exchange Commission (the Commission).

PART I

Item 1. Business

General

Pelican Financial, Inc. (Pelican Financial) was incorporated in Delaware on March 3, 1997 to own and control all of the outstanding capital stock of Pelican National Bank (Pelican National) and Washtenaw Mortgage Company (Washtenaw Mortgage). On August 22, 2003, The Washtenaw Group, Inc. (TWG) was incorporated in Michigan to own and control all of the outstanding capital stock of Washtenaw Mortgage. In an internal reorganization, Pelican Financial transferred all the shares of Washtenaw Mortgage to TWG in exchange for all the outstanding shares of TWG. At the close of business on December 31, 2003, Pelican Financial distributed to each record holder of its common stock, as of December 22, 2003, one share of common stock of TWG.

On December 6, 2005, Pelican Financial entered into an Agreement and Plan of Reorganization (the Merger Agreement) to merge with a newly formed subsidiary of Stark Bank Group, Ltd, of Fort Dodge, Iowa (Stark). According to the terms of the Merger Agreement, shareholders of Pelican Financial will receive \$6.00 for each common share held, subject to reduction for certain costs incurred by Pelican Financial in excess of \$3.0 million, and minus an escrow of \$0.20 per share to cover possible liabilities from the expected sale of certain marine loans. At the option of Pelican Financial, the escrow may be increased to cover certain disputed costs or to cover claims on marine loans that are made prior to closing. The escrow will reduce the immediate cash payment to less than \$6.00 per share. Pelican Financial has 4,494,365 shares of common stock outstanding as of March 31, 2006. The all-cash deal is approved by Pelican Financial shareholders and regulators on March 30, 2006. The merger is expected to be completed in the second quarter of 2006.

The Merger Agreement also requires Stark to purchase \$4 million of a newly created series of convertible redeemable preferred stock of Pelican Financial. On December 15, 2005, Pelican Financial issued and sold to Stark 40,000 shares of Series A Convertible Preferred Stock (the Series A Stock) at a purchase price of \$100 per share for a total purchase price of \$4 million. The Series A Stock is convertible into approximately 761,904 shares of Pelican Financial's common stock, subject to

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adjustment, during certain periods described in the Certificate of Designation of the Powers, Preferences and Rights of Series A Stock pursuant to which the Series A Stock was authorized. PFI will be required to redeem the Series A Stock on the later of six months following the termination of the Merger Agreement or October 1, 2006.

Pelican Financial has no employees other than executive officers who do not receive compensation from Pelican Financial for serving in this capacity. See Management - Director and Executive Officer Compensation. Pelican Financial engages in no other operations other than the management of its investments in Pelican National. Pelican National is engaged primarily in retail banking.

Our internet address is www.PelicanFinancialInc.com. We make available free of charge on www.PelicanFinancialInc.com our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Commission. Our Code of Business Conduct and Ethics and the charters of the Audit Committee and the Nominating and Corporate Governance Committees are also available on our website.

In addition, we will provide, at no cost, paper or electronic copies of our reports and other filings made with the Commission. Requests should be directed to:

Howard Nathan

Pelican Financial Inc.

3767 Ranchero Drive

Ann Arbor, Michigan 48108

The information on the website listed above, is not and should not be considered part of this Annual Report on Form 10-K and is not incorporated by reference in this document. This website is and is only intended to be an inactive textual reference.

Pelican Financial is registered with the Board of Governors of the Federal Reserve System pursuant to the Bank Holding Company Act of 1956. Because Pelican Financial is a bank holding company, its primary federal regulator is the Federal Reserve Board.

Pelican Financial currently operates in retail banking through its wholly owned subsidiary, Pelican National. However, for the year ended December 31, 2003 and prior, Pelican Financial's revenues (net interest income and non-interest income) and earnings before income taxes are attributable to Pelican National and Washtenaw Mortgage, the discontinued operation.

At December 31, 2005, total assets of Pelican Financial were \$180.4 million. For the year ended December 31, 2005, the net loss was \$1.6 million, of which \$1.0 million was a net loss of Pelican National, and \$600,000 was a net loss at Pelican Financial.

Market Area

The following market area discussion relates only to the continuing operations of Pelican Financial through Pelican National.

The retail banking operations of Pelican National are located in Naples, Cape Coral, Bonita Springs and Fort Myers, Florida. Pelican National is a community-oriented banking institution offering a variety of financial products and services to meet the needs of the communities it serves. Pelican National's primary service area for attracting deposits and making loans includes the communities located in western Collier County, Florida and Lee County, Florida. These communities include North Naples, Central Naples, East Naples, South Naples, Golden Gate, Marco Island, and the portion of Bonita Springs, located in Collier County, which make up an area locally known as the greater Naples area. Collier County has, and continues to experience population growth greater than the national and Florida averages. The population of Collier County for 2004 was estimated at 297,000. In addition, the population grows by approximately one-third during the winter season, which traditionally lasts from November through April. The area has an estimated median family income of \$54,800 as compared to an average of \$50,000 for the entire United States. As result of the growing population with high incomes, deposits at banks have grown approximately 70% over the past five years.

As a result of the opening of additional branch offices in Fort Myers and Cape Coral, Pelican National Bank's secondary service area for attracting deposits and making loans includes the communities located in western Lee County, Florida. These communities include North Fort Myers, Central Fort Myers, East Fort Myers, South Fort Myers, Fort Myers Beach, Sanibel Island, San Carlos, Captiva Island, Cape Coral, Lehigh Acres, and Pine Island. Lee County has, and continues to experience population growth greater than the national and Florida averages. The population of Lee County was estimated to be 514,000 in 2004.

Because of the year-round subtropical climate, numerous golf facilities and pristine beaches, Collier and Lee Counties attracts approximately 1.3 million visitors per year. As a result, the service sector is one of the largest employers, particularly hotels such as those operated by Marriott Corporation, Hilton, and Radisson. The next largest sector is retail trade followed by the government and construction. Furthermore, the unemployment rate for both Lee and Collier counties are below the national average.

Competition

The following competition discussion relates only to the continuing operations of Pelican Financial through Pelican National.

Pelican Financial faces significant competition both in generating loans and attracting deposits at Pelican National. Pelican National operates as a full-service community bank, offering a variety of financial services to meet the needs of its market area. Those services include accepting time and demand deposits from the general public and, together with other funds, using the proceeds to originate secured and unsecured commercial and consumer loans, finance commercial transactions, and provide construction and mortgage loans, as well as home equity and personal lines of credit. Other services offered by Pelican National include the sale of money orders, traveler's checks, cashier's checks and savings bonds, wire transfer and direct deposit services, and safe deposit boxes.

Pelican National's primary market area is highly competitive and it faces direct competition for loans and deposits from a significant number of financial institutions, many with a state wide or regional presence and, in some cases, a national presence. Pelican National's most direct competition for deposits has historically come from savings banks and associations, commercial banks and credit unions. In

addition, Pelican National faces increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in instruments such as short-term money market funds, corporate and government securities funds, mutual funds, and annuities. Competition may also increase as a result of the lifting of restrictions on the interstate operations of financial institutions. Pelican National primarily seeks to distinguish itself from the competition based on the level of service offered and its variety of loan products. As a full-service community bank, Pelican National believes that it can better serve individuals and small businesses that have become disenfranchised with the narrow guidelines of large national and regional banks.

Lending Activities

The following lending activity discussion relates only to the continuing operations of Pelican Financial through Pelican National, except where specifically noted otherwise.

General. Pelican National originates or acquires loans through its banking operations. Pelican National has a diversified loan portfolio with no concentration to any one borrower or industry. Loans are held either for investment or held as available for sale in the secondary market. In addition to residential mortgage loan production, Pelican National engages in the origination of commercial, commercial real estate, construction, and consumer loans. Pelican National also purchases loan packages to supplement its loan portfolio. For the years ended December 31, 2005 and 2004, Pelican loan production totaled \$67.8 million and \$57.8 million, respectively. Total loans outstanding at December 31, 2005 and 2004 were \$92.4 million and \$110.8 million, respectively.

Residential mortgage loans are typically underwritten to secondary marketing standards. The types of loans offered include fixed rate, variable rate and balloon products. Construction loans are offered as well; however, the underwriting criteria are more restrictive than a traditional mortgage loan for this type of product. Pelican National may retain a portion of residential mortgage loans depending on its liquidity position and the type of loan.

Commercial loan products include: commercial real estate; non real estate loans for items such as equipment, inventory and working capital lines; construction; and multifamily. Commercial loans are underwritten to ensure adequate cash flow exists to cover the debt service. Pelican National also looks to ensure there is adequate collateral to minimize its risk. Finally, Pelican National may obtain guarantors with a strong personal financial status to further protect its interests.

Various consumer loan products are offered by Pelican National Bank. These include:

Overdraft Protection

The overdraft protection loan product is unsecured and linked to a Pelican National checking account. The overdraft protection line is treated as an open-ended credit transaction. In order to obtain an overdraft protection line the customer must satisfy certain minimum credit score criteria.

Automobile Loans

Automobile loans are offered for the purpose of purchasing new and used vehicles. The collateral values for new vehicles are based on dealer invoices. The collateral value for used vehicles are based on invoice and N.A.D.A. values.

Motorcycle Loans

Retail installment loans are offered for the purchase of new motorcycles only.

Home Equity Lines of Credit

Home equity lines of credit are secured with a first or second lien on residential property. In order to obtain a home equity line of credit, certain maximum loan to value ratios are enforced.

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The following table contains selected data relating to the composition of Pelican Financial's loan portfolio by type of loan at the dates indicated. This table includes mortgage loans available for sale and mortgage loans held for investment. Pelican Financial had no concentrations of loans exceeding 10% of total loans that are not otherwise disclosed below.

| | 2005 | | 2004 | | December 31, 2003 | | 2002 | | 2001 | |
|--|-----------|---------|------------|---------|----------------------|---------|------------|---------|-----------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| (Dollars in thousands) | | | | | | | | | | |
| Real estate loans: | | | | | | | | | | |
| Residential, one to four units | \$ 44,696 | 47.96% | \$ 46,331 | 41.55% | \$ 44,094 | 39.83% | \$ 37,074 | 35.29% | \$ 44,028 | 47.32% |
| Commercial and industrial real estate | 35,889 | 38.51 | 37,457 | 33.59 | 43,151 | 38.98 | 58,014 | 55.22 | 32,954 | 35.43 |
| Construction | 1,351 | 1.45 | 1,381 | 1.24 | 1,327 | 1.19 | 2,905 | 2.77 | 3,673 | 3.95 |
| Total real estate loans | 81,936 | 87.92 | 85,169 | 76.38 | 88,572 | 80.00 | 97,993 | 93.28 | 80,655 | 86.70 |
| Other loans: | | | | | | | | | | |
| Business, commercial | 4,570 | 4.90 | 1,968 | 1.77 | 1,534 | 1.39 | 963 | 0.92 | 703 | 0.76 |
| Automobile | 354 | 0.38 | 348 | 0.31 | 478 | 0.43 | 739 | 0.70 | 1,252 | 1.35 |
| Boat | | | 17,823 | 15.98 | 14,578 | 13.17 | | | | |
| Other consumer | 6,337 | 6.80 | 6,205 | 5.56 | 5,546 | 5.01 | 5,357 | 5.10 | 10,412 | 11.19 |
| Total other loans | 11,261 | 12.08 | 26,344 | 23.62 | 22,136 | 20.00 | 7,059 | 6.72 | 12,367 | 13.30 |
| Total gross loans | 93,197 | 100.00% | 111,513 | 100.00% | 110,708 | 100.00% | 105,052 | 100.00% | 93,022 | 100.00% |
| Unearned fees, premiums and discounts, net | | | | | | | | | | |
| | 175 | | 272 | | 420 | | 92 | | (305) | |
| Allowance for loan losses | | | | | | | | | | |
| | (969) | | (954) | | (1,330) | | (1,062) | | (856) | |
| Total loans receivable, net | | | | | | | | | | |
| | \$ 92,403 | | \$ 110,831 | | \$ 109,798 | | \$ 104,082 | | \$ 91,861 | |

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The following table contains certain information at December 31, 2005 regarding the maturity of Pelican Financial's loan portfolio along with the dollar amounts of loans due after one year that have fixed and variable rates. All loans are shown maturing based upon contractual maturities and include scheduled payments but not potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Loan balances have not been reduced for undisbursed loan proceeds, unearned discounts, and the allowance for loan losses. Scheduled contractual principal repayments are not necessarily predictive of the actual maturities of loans because of prepayments. The average life of mortgage loans, particularly fixed-rate loans, tends to increase when prevailing mortgage loan interest rates are substantially higher than interest rates on existing mortgage loans, and conversely, decrease when interest rates on existing mortgages are substantially higher than prevailing mortgage rates.

| | 1 to 4 Family Real Estate | Commercial & Industrial Real Estate | Construction | Business, Commercial | Consumer | Total |
|-------------------------|---------------------------------|---|-----------------|-------------------------|-----------------|------------------|
| Non-accrual loans | \$ 578 | \$ | \$ | \$ | \$ | \$ 578 |
| Amounts Due: | | | | | | |
| Within 3 months | \$ 4,252 | \$ 13,959 | \$ 1,208 | \$ 4,287 | \$ 5,870 | \$ 9,576 |
| 3 months to 1 year | 3,853 | 4,765 | 143 | 4 | 140 | 8,905 |
| Total due within 1 year | 8,105 | 18,724 | 1,351 | 4,291 | 6,010 | 38,481 |
| After 1 year: | | | | | | |
| 1 to 3 years | 15,147 | 10,999 | | 279 | 124 | 26,549 |
| 3 to 5 years | 6,439 | 210 | | | 265 | 6,914 |
| 5 to 10 years | 1,016 | 4,283 | | | 289 | 5,588 |
| 10 to 15 years | 3,128 | 423 | | | 3 | 3,554 |
| Over 15 years | 10,283 | 1,250 | | | | 11,533 |
| Total due after 1 year | 36,013 | 17,165 | | 279 | 681 | 54,138 |
| Total | \$ 44,696 | \$ 35,889 | \$ 1,351 | \$ 4,570 | \$ 6,691 | \$ 93,197 |
| Fixed rate | \$ 21,670 | \$ 9,305 | | \$ 279 | \$ 681 | \$ 31,935 |
| Variable rate | 14,343 | 7,860 | | | | 22,203 |
| Total due after 1 year | \$ 36,013 | \$ 17,165 | \$ | \$ 1,484 | \$ 405 | \$ 54,138 |

Asset Quality

Pelican Financial is exposed to certain credit risks related to the value of the collateral that secures loans held in its portfolio and the ability of borrowers to repay their loans. Pelican Financial's senior officers closely monitor the loan and real estate owned portfolios for potential problems on a continuing basis and report to the Board of Directors of Pelican National and Pelican Financial at regularly scheduled meetings. These officers regularly review the classification of loans and the allowance for losses. Pelican National also conducts regular, independent loan reviews on a portion of its loan portfolio, the results of which are reported to the Board of Directors.

Nonperforming assets consist of nonperforming loans and real estate owned. Loans are usually placed on nonaccrual status when the loan is past due 90 days or more, or the ability of a borrower to repay principal and interest is in doubt. Real estate or other collateral acquired by Pelican Financial as a result of foreclosure or repossession is classified as other real estate owned or repossessed assets until the time it is sold. Pelican Financial generally tries to sell the property at a price no less than its net book value, but will consider discounts where appropriate to expedite the return of the funds to an earning status. When the property is acquired, it is initially recorded at the lower of cost or fair value, establishing a new cost basis. After foreclosure or repossession, valuations are periodically performed by management and adjusted through a charge to income for changes in the fair value or cost to sell.

Pelican Financial establishes an allowance for loan losses based upon a quarterly or more frequent evaluation by management of various factors including the estimated market value of the underlying collateral, the composition of the loan portfolio, current delinquency trends and prevailing economic conditions, including property values, employment and occupancy rates, interest rates, and other conditions that may affect borrowers' abilities to comply with repayment terms. If actual losses exceed the amount of the allowance for loan losses, earnings could be adversely affected.

The following table summarizes nonperforming loans, other real estate owned, and restructured loans at the periods indicated for the continuing operations of Pelican Financial. During the periods indicated, Pelican Financial had no restructured loans.

| | 2005 | 2004 | December 31, 2003 | 2002 | 2001 |
|--|------------------------|---------|----------------------|----------|----------|
| | (Dollars in thousands) | | | | |
| Nonaccrual loans | \$ 578 | \$ 450 | \$ 455 | \$ 1,558 | \$ 1,894 |
| Loans past due 90 days or more but not on nonaccrual | | 109 | | 97 | |
| Total nonperforming loans | 578 | 559 | 455 | 1,655 | 1,894 |
| Other real estate owned | 44 | | 333 | 76 | 77 |
| Total nonperforming assets | \$ 622 | \$ 559 | \$ 788 | \$ 1,731 | \$ 1,971 |
| Total nonperforming assets to total assets | 0.34% | 0.28% | 0.36% | 0.45% | 0.53% |
| Allowance for loan losses to nonperforming loans | 167.76% | 170.83% | 292.31% | 64.21% | 45.22% |
| Nonperforming loans to total assets | 0.32% | 0.28% | 0.21% | 0.43% | 0.51% |

The allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in its loan portfolio, the general economy as well as the historical performance of the loan portfolio. In addition, management considers various characteristics of each individual loan, or pool of loans, such as credit scores, loan to value ratios, the type of collateral and payment history. Management will also look at the financial strength of personal guarantors when applicable. Typically, management allocates a smaller portion of the allowance for loan losses to those loans or pools of loans with lower historical losses. The allowance for loan losses is maintained at an

amount to cover estimated losses in loans receivable which are deemed probable and estimable based on information currently known to management.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Pelican Financial's allowance for loan losses. These agencies may require Pelican Financial to make additional provisions for estimated loan losses based upon their judgments about information available to them at the time of their examination. Pelican Financial will continue to monitor and modify its allowance for loan losses as conditions dictate. While management believes Pelican Financial's allowance for loan losses is sufficient to cover losses incurred in its loan portfolio at this time, no assurances can be given that Pelican Financial's level of allowance for loan losses will be sufficient to cover loan losses incurred by Pelican Financial or that adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses.

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The following table contains information with respect to Pelican Financial's allowance for loan losses for the periods indicated.

| | At or for the Year Ended December 31, | | | | |
|---|---------------------------------------|------------|------------|------------|-----------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands) | | | | |
| Average loans outstanding, net | \$ 110,111 | \$ 107,872 | \$ 110,875 | \$ 110,355 | \$ 89,743 |
| Total gross loans outstanding at end of period | \$ 93,373 | \$ 111,513 | \$ 110,708 | \$ 105,052 | \$ 93,022 |
| Allowance balance at beginning of period | \$ 954 | \$ 1,330 | \$ 1,062 | \$ 856 | \$ 507 |
| Provision for loan losses | 440 | (225) | 1,058 | 300 | 562 |
| Actual charge-offs: | | | | | |
| 1-4 family residential real estate | 26 | 20 | 671 | 53 | 171 |
| Other | 525 | 283 | 198 | 54 | 44 |
| Total charge-offs | 551 | 303 | 869 | 107 | 215 |
| Recoveries: | | | | | |
| Total recoveries | 126 | 152 | 79 | 13 | 2 |
| Net chargeoffs | 425 | 151 | 790 | 94 | 213 |
| Allowance balance at end of period | \$ 969 | \$ 954 | \$ 1,330 | \$ 1,062 | \$ 856 |
| Net chargeoffs as a percent of average loans | 0.39% | 0.14% | 0.71% | 0.09% | 0.24% |
| Allowance for loan losses to total gross loans at end of period | 1.04% | 0.86% | 1.20% | 1.01% | 0.92% |

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The following table summarizes the allocation of the allowance for loan losses by loan type and the percent of loans in each category compared to total loans at the dates indicated:

| | 2005 | | 2004 | | December 31, 2003 | | 2002 | | 2001 | |
|---------------------------------------|------------------------|--|---------------------|--|----------------------|--|---------------------|--|---------------------|--|
| | Allowance Amount | Percent of Loans in Each Category to Total Loans | Allowance Amount | Percent of Loans in Each Category to Total Loans | Allowance Amount | Percent of Loans in Each Category to Total Loans | Allowance Amount | Percent of Loans in Each Category to Total Loans | Allowance Amount | Percent of Loans in Each Category to Total Loans |
| | (Dollars in thousands) | | | | | | | | | |
| 1-4 family residential real estate | \$ 732 | 48.78% | \$ 713 | 41.55% | \$ 589 | 39.83% | \$ 716 | 35.29% | \$ 499 | 47.32% |
| Commercial and industrial real estate | 158 | 38.02 | 118 | 33.59 | 614 | 38.98 | 153 | 55.22 | 94 | 35.43 |
| Construction | 2 | 1.45 | 1 | 1.24 | 2 | 1.19 | | 2.77 | 14 | 3.95 |
| Business, commercial | | 5.22 | | 1.77 | 6 | 1.39 | 3 | 0.92 | 3 | 0.76 |
| Boat | | | 110 | 15.98 | 100 | 13.17 | | | | |
| Other | 77 | 6.53 | 12 | 5.87 | 19 | 5.44 | 190 | 5.80 | 246 | 12.54 |
| Unallocated | | | | | | | | | | |
| Total | \$ 969 | 100.00% | \$ 954 | 100.00% | \$ 1,330 | 100.00% | \$ 1,062 | 100.00% | \$ 856 | 100.00% |

Investment Activities

Since the start of Pelican Financial's retail banking activities, primarily conducted through Pelican National, deposit in-flows to Pelican National have been adequate to match Pelican National's loan demand. In addition, Pelican National sells a portion of its loans into the secondary market, thus replenishing its liquidity on a regular basis. Pelican National currently invests excess liquidity in a variety of interest-earning assets. The investment policy related to the retail banking operations of Pelican Financial, as approved by the Board of Directors of Pelican National, requires management to maintain adequate liquidity, generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement Pelican Financial's lending activities. Pelican Financial primarily utilizes investments in securities for liquidity management and as a method of deploying excess funding not utilized for investment in loans. Generally, Pelican Financial's investment policy is more restrictive than applicable regulations allow and, accordingly, Pelican Financial has invested primarily in U.S. government and agency securities, federal funds, and U.S. government sponsored agency issued mortgage-backed securities. As required by Statement of Financial Accounting Standards, (SFAS) No. 115, Pelican Financial has established an investment portfolio of securities that are categorized as held-to-maturity, available-for-sale, or held for trading. At December 31, 2005, all of the investment securities held in Pelican Financial's investment portfolio were classified as available for sale.

At December 31, 2005, Pelican Financial had invested \$22.0 million, or 12% of total assets, in Fannie Mae, Freddie Mac, and Ginnie Mae mortgage-backed securities. These were primarily composed of adjustable rate mortgages. In addition, at December 31, 2005, \$34.2 million, or 19%, of total assets, were debt obligations issued by federal agencies and sponsored entities, which generally have stated maturities from one year to twenty-five years. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to these instruments thereby changing the net yield on these securities. There is also reinvestment risk associated with the cash flows from these securities or if these securities are redeemed by the issuer. In addition, the market value of these securities may be adversely affected by changes in interest rates.

The following table contains information on the market value of Pelican Financial's investment portfolio at the dates indicated. At December 31, 2005, the market value of Pelican Financial's investment portfolio totaled \$57.5 million. During the periods indicated and except as otherwise noted, Pelican Financial had no securities of a single issuer that exceeded 10% of stockholders' equity.

| | 2005 | At December 31, 2004 (In thousands) | 2003 |
|-------------------------------------|-----------|---|-----------|
| U.S. Government agency | \$ 34,236 | \$ 49,934 | \$ 25,403 |
| Mortgage-backed securities | 21,967 | 19,452 | 24,327 |
| Federal Reserve Bank and FHLB stock | 1,298 | 2,670 | 949 |
| Total investment securities | \$ 57,501 | \$ 72,056 | \$ 50,679 |

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The following table contains certain information regarding the market values, weighted average yields, and contractual maturity distribution, excluding periodic principal payments, of Pelican Financial's investment securities portfolio at December 31, 2005.

| | Within One Year | | After One Year But Within Five Years | | After Five Years But Within Ten Years | | After Ten Years | | Total | |
|----------------------------|------------------------|-------|---|-------|---|-------|-----------------|-------|-----------|-------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | (Dollars in thousands) | | | | | | | | | |
| U.S. Government Agency | \$ 6,896 | 3.00% | \$ 10,724 | 3.37% | \$ 2,004 | 5.03% | \$ 2,343 | 5.34% | \$ 21,967 | 3.62% |
| Mortgage-backed securities | | | | | 7,740 | 4.23 | 26,496 | 4.71 | 34,236 | 4.60 |
| Other | | | | | | | 1,298 | 4.92 | 1,298 | 4.92 |
| Total | \$ 6,896 | 3.00% | \$ 10,724 | 3.37% | \$ 9,744 | 4.39% | \$ 30,137 | 4.22% | \$ 57,501 | 4.23% |

Source of Funds

Pelican National funds its retail banking activities primarily with deposits, loan repayments and prepayments, and cash flows generated from operations. Pelican National offers a variety of deposit accounts with a range of interest rates and terms. Pelican National's deposits consist of checking, money market, savings, NOW, and certificate of deposit accounts. At December 31, 2005, approximately 56% of the funds deposited in Pelican National were in certificate of deposit accounts. At December 31, 2005, core deposits (savings, NOW, and money market) represented 44% of total deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Pelican National's deposits are obtained predominantly from the area around its offices in Naples, Cape Coral, Bonita Springs and Fort Myers, Florida. Pelican National has relied primarily on customer service and competitive rates to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect Pelican National's ability to attract and retain deposits. Pelican National uses traditional means of advertising its deposit products, including print media and generally does not solicit deposits from outside its market area. Pelican National does not actively solicit certificate accounts in excess of \$100,000 to obtain deposits. At December 31, 2005, \$61.1 million, or 73% of Pelican National's certificate of deposit accounts were to mature within one year. Pelican National believes that substantially all of the certificate of deposit accounts that mature within one year will be rolled-over into new certificate of deposit accounts. To the extent that certificate of deposit accounts are not rolled-over, Pelican National believes that it has sufficient resources to fund these withdrawals.

The following table contains information on the amount and maturity of jumbo certificates of deposit (*i.e.*, certificates of deposit of \$100,000 or more) at December 31, 2005.

| Time Remaining Until Maturity | Jumbo Certificates of Deposit (In thousands) | |
|-------------------------------|--|--------|
| Less than 3 Months | \$ | 11,671 |
| 3 Months to 6 Months | | 12,059 |
| 6 Months to 12 Months | | 11,586 |
| Greater than 12 Months | | 13,225 |
| Total | \$ | 48,541 |

Employees

At December 31, 2005, Pelican Financial had no employees other than executive officers. At December 31, 2005, Pelican National had 48 full-time equivalent employees. None of the employees of Pelican Financial or its subsidiary were represented by a collective bargaining agreement. Management of Pelican Financial considers its relationship with its employees to be satisfactory.

Subsidiary Activities

Pelican Financial conducts business through its wholly owned subsidiary, Pelican National. Pelican National is a national banking association organized on March 7, 1997 pursuant to the laws of the United States. Pelican National has no subsidiaries.

REGULATION

Economic Conditions, Government Policies, Legislation, and Regulation

Pelican Financial's profitability, like most financial institutions, is primarily dependent on interest rate differentials. In general, the difference between the interest rates paid by Pelican Financial on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by Pelican Financial on its interest-earning assets, such as loans extended to its clients and securities held in its investment portfolio, comprise the major portion of the Pelican Financial's earnings. Interest rates are highly sensitive to many factors that are beyond the control of Pelican Financial, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on Pelican Financial cannot be predicted.

The business of Pelican Financial is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the FRB). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on Pelican Financial of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation is enacted and regulations are promulgated, which have the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, and other financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures, and before various federal and state regulatory agencies. This legislation may change banking statutes and the operating environment of Pelican Financial and Pelican National in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Pelican Financial cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of Pelican Financial or any of its subsidiaries. See Item 1. Business - Supervision and Regulation.

Supervision and Regulation

General

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Bank holding companies and banks are extensively regulated under both federal and state law. Such extensive regulation is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of stockholders of Pelican Financial. Set forth below is a summary description of the material laws and regulations that relate to the operations of Pelican Financial and Pelican National. The description is qualified in its entirety by reference to the applicable laws and regulations.

Pelican Financial

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Pelican Financial is a registered bank holding company, and subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHCA). Pelican Financial is required to file with the FRB periodic reports and such additional information as the FRB may require pursuant to the BHCA. The FRB may conduct examinations of Pelican Financial and Pelican National.

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The FRB may require that Pelican Financial terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the FRB believes the activity or the control of the subsidiary or affiliate constitutes a serious risk to the financial safety, soundness or stability of any of its banking subsidiaries. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, Pelican Financial must file written notice and obtain approval from the FRB prior to purchasing or redeeming its equity securities.

Further, Pelican Financial is required by the FRB to maintain certain levels of capital. See [Capital Standards](#).

Pelican Financial is required to obtain the prior approval of the FRB for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior approval of the FRB is also required for the merger or consolidation of Pelican Financial and another bank holding company.

Pelican Financial is prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, Pelican Financial, subject to the prior approval of the FRB, may engage in any, or acquire shares of companies engaged in, activities that are deemed by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB's regulations or both.

Pelican Financial's securities are registered with the Commission under the Securities Exchange Act of 1934, as amended (the [Exchange Act](#)). As such, Pelican Financial is subject to the information, proxy solicitation, insider trading, and other requirements and restrictions of the Exchange Act.

As a national banking association, Pelican National is subject to primary supervision, examination, and regulation by the Office of the Comptroller of the Currency (the [OCC](#)). To a lesser extent, Pelican National is also subject to regulations of the Federal Deposit Insurance Corporation (the [FDIC](#)) as administrator of the Bank Insurance Fund (the [BIF](#)) and the FRB. If, as a result of an examination of Pelican National, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of Pelican National's operations are unsatisfactory or that Pelican National or its management is violating or has violated any law or regulation, various remedies are available to the OCC. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of Pelican National, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate Pelican National's deposit insurance in the absence of action by the OCC and upon a finding that Pelican National is in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that its conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

the creation of a five-member oversight board appointed by the Securities & Exchange Commission that will set standards for accountants and have investigative and disciplinary powers;

the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;

increased penalties for financial crimes;

expanded disclosure of corporate operations and internal controls and certification of financial statements;

enhanced controls on and reporting of insider trading; and

statutory separations between investment bankers and analysts.

The new legislation and its implementing regulations has resulted in increased costs of compliance, including certain outside professional costs.

USA Patriot Act of 2001

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The USA Patriot Act of 2001 is intended to strengthen the U.S law enforcement and the intelligence community s ability to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including:

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due diligence requirements for financial institutions that administer, maintain, or manage private banks accounts or correspondent accounts for non-US persons;

standards for verifying customer identification at account opening;

rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering; and

reports by non-financial trades and businesses filed with the U.S. Treasury Department's Financial Crimes Enforcement Network for transactions exceeding \$10,000, and filing of suspicious activities reports securities by brokers and dealers if they believe a customer may be violating U.S. laws and regulations.

The Patriot Act's implementing regulations require financial institutions to, among other things, incorporate into their written money laundering plans a board-approved customer identification program implementing reasonable procedures for:

verifying the identity of any person seeking to open an account, to the extent reasonable and practicable;

maintaining records of the information used to verify the person's identity; and

determining whether the person appears on any list of known or suspected terrorists or terrorist organizations within a reasonable time after the account is opened.

Account is defined as a formal banking or business relationship established to provide ongoing services, dealings, or other financial transactions, and includes a relationship to establish a safety deposit box or other safekeeping services, or cash management, custodian and trust services.

Financial Services Modernization Legislation

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General. The Gramm-Leach-Bliley Act of 1999, also known as the Financial Services Modernization Act (the FSMA), established a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework to permit a holding company system to engage in a full range of financial activities through a new entity known as a Financial Holding Company.

The law also:

Broadened the activities that may be conducted by national banks, banking subsidiaries of bank holding companies, and their financial subsidiaries;

Provided an enhanced framework for protecting the privacy of consumer information;

Adopted a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;

Modified the laws governing the implementation of the Community Reinvestment Act (the CRA); and

Addressed a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

Pelican Financial does not believe that the FSMA will have a material adverse effect on operations in the near-term. However, to the extent that it permits banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. The FSMA is intended to grant to community banks certain powers as a matter of right that larger institutions have accumulated on an ad hoc basis. Nevertheless, this act may have the result of increasing the amount of competition that Pelican Financial faces from larger institutions and other types of companies offering financial products, many of which may have substantially more financial resources than Pelican Financial.

Expanded Bank Activities. The FSMA permits national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a financial holding company. Financial activities include all activities permitted under new sections of the BHCA or permitted by regulation.

A national bank seeking to have a financial subsidiary, and each of its depository institution affiliates, must be well-capitalized, well-managed and in compliance with the CRA. The total assets of all financial subsidiaries may not exceed the lesser of 45% of the parent bank's consolidated total assets, or \$50 billion. For purposes of determining regulatory capital (a) a national bank with a financial subsidiary must exclude from its total assets and equity all equity investments, including retained earnings, in a financial subsidiary, and deduct such investment from its total risk-based capital and (b) the assets of the financial subsidiary may not be consolidated with the bank's assets. The bank must also have policies and procedures to assess financial subsidiary risk and protect the bank from such risks and potential liabilities.

Privacy. Under the FSMA, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules,

effective July 1, 2001, financial institutions must provide:

initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;

annual notices of their privacy policies to current customers; and

a reasonable method for customers to opt out of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. Since the FSMA's enactment, a number of states have implemented their own versions of privacy laws. Pelican Financial has implemented its privacy policies in accordance with the law.

Interagency Guidance on Response Programs to Protect Against Identity Theft

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On August 12, 2003, the Federal bank and thrift regulatory agencies requested public comment on proposed guidance that would require financial institutions to develop programs to respond to incidents of unauthorized access to customer information, including procedures for notifying customers under certain circumstances. The proposed guidance:

interprets previously issued interagency customer information security guidelines that require financial institutions to implement information security programs designed to protect their customers' information; and

describes the components of a response program and sets a standard for providing notice to customers affected by unauthorized access to or use of customer information that could result in substantial harm or inconvenience to those customers, thereby reducing the risk of losses due to fraud or identity theft.

We are not able at this time to determine the impact of any such proposed guidance on our financial condition or results of operation.

Dividends and Other Transfers of Funds

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Dividends from Pelican National constitute the principal source of income to the Pelican Financial. Pelican Financial is a legal entity separate and distinct from Pelican National. Pelican National is subject to various statutory and regulatory restrictions on its ability to pay dividends to Pelican Financial. Under such restrictions, the amount available for payment of dividends to Pelican Financial by Pelican National totaled zero at December 31, 2005. Any dividends paid to Pelican Financial would require special approval by the regulator. In addition, Pelican National's regulators have the authority to prohibit them from paying dividends, depending upon their financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Regulation - Pelican National

General. The OCC is primarily responsible for the supervision, examination, and regulation of Pelican National, because Pelican National is a national banking association. If, as a result of an examination of Pelican National, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of Pelican National's operations are unsatisfactory or that Pelican National or its management is violating or has violated any law or regulation, various remedies are available to the OCC. These remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of Pelican National, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate a bank's deposit insurance, in the absence of action by the OCC and upon a finding that a bank is in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that its conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

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On September 1, 2005, Pelican National, entered into a Formal Agreement with the OCC, under which Pelican National is obligated to take measures necessary to correct unsafe and unsound banking practices and certain violations of law. See Prompt Corrective Action and Other Enforcement Mechanisms.

The deposits of Pelican National will be insured by the FDIC in the manner and to the extent provided by law. For this protection, Pelican National will pay a quarterly statutory assessment. See - Premiums for Deposit Insurance. Various other requirements and restrictions under the laws of the United States affect the operations of Pelican National. Federal statutes and regulations relate to many aspects of Pelican National's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, capital requirements, and disclosure obligations to depositors and borrowers. Further, Pelican National is required to maintain certain levels of capital. See

- Capital Standards.

Restrictions on Transfers of Funds to Pelican Financial by Pelican National. The prior approval of the OCC is required if the total of all dividends declared by Pelican National in any calendar year exceeds Pelican National's net profits (as defined) for that year combined with its retained net profits (as defined) for the preceding two years, less any transfers to surplus.

The OCC also has authority to prohibit Pelican National from engaging in activities that, in the OCC's opinion, constitute unsafe or unsound practices in conducting its business. It is possible, depending upon the financial condition of the financial institution in question and other factors, that the OCC could assert that the payment of dividends or other payments might, in some circumstances, be an unsafe or unsound practice. Further, the OCC and the FRB have established guidelines with respect to the maintenance of appropriate levels of capital by banks or bank holding companies under their jurisdiction. Compliance with the standards in these guidelines and the restrictions that are or may be imposed pursuant to the prompt corrective action provisions of federal law could limit the amount of dividends which Pelican National may pay to Pelican Financial. See - Prompt Corrective Regulatory Action and Other Enforcement Mechanisms and - Capital Standards for a discussion of these additional restrictions on capital distributions.

Transactions with Affiliates

Pelican National is required to comply with certain restrictions imposed by federal law on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, Pelican Financial or other affiliates, the purchase of or investments in stock or other securities thereof, the taking of these securities as collateral for loans and the purchase of assets of Pelican Financial or other affiliates. These restrictions prevent Pelican Financial and other affiliates from borrowing from Pelican National unless the loans are secured by marketable obligations of designated amounts. Further, these secured loans and investments by Pelican National to or in Pelican Financial or to or in any other affiliate is limited to 10% of Pelican National's capital and surplus (as defined by federal regulations) and these secured loans and investments are limited, in the aggregate, to 20% of Pelican National's capital and surplus (as defined by federal regulations). Additional restrictions on transactions with affiliates may be imposed on Pelican National pursuant to the prompt corrective action provisions of federal law. See - Prompt Corrective Action and Other Enforcement Mechanisms.

Loans-to-One Borrower Limitations

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With certain limited exceptions, the maximum amount that a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. At December 31, 2005, Pelican National's loans-to-one-borrower limit was \$2.8 million based upon the 15% of unimpaired capital and surplus measurement. At December 31, 2004, Pelican National's largest single lending relationship had an

outstanding balance of \$2.0 million, and consisted of a loan secured by real estate in Pelican National's lending area, and was performing in accordance with its terms.

Capital Standards

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The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, to 100% for assets with relatively high credit risk.

The guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

The following table presents the amounts of regulatory capital and the capital ratios for Pelican Financial, compared to its minimum regulatory capital requirements of the FRB as of December 31, 2005.

| | Actual | | As of December 31, 2005 Required to be Adequately Capitalized | | Excess over Minimum Required | |
|--|-----------|---------|---|---------|---------------------------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Total Capital (to Risk-Weighted Assets) | \$ 15,971 | 16.70% | \$ 7,650 | 8.00% | \$ 8,321 | 8.70% |
| Tier 1 Capital (to Risk-Weighted Assets) | 15,002 | 15.69 | 3,825 | 4.00 | 11,177 | 11.69 |
| Tier 1 Capital (to Average Assets) | 15,002 | 8.04 | 7,461 | 4.00 | 7,541 | 4.04 |

The following table presents the amounts of regulatory capital and the capital ratios for Pelican National, compared to its minimum regulatory capital requirements to be considered well capitalized as of December 31, 2005.

| | Actual | | As of December 31, 2005 Required to be Well Capitalized | | Excess | |
|-------------------------|-----------|--------|---|--------|-----------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based ratio | \$ 19,668 | 20.66% | \$ 8,966 | 10.00% | \$ 10,672 | 10.66% |
| Tier 1 risk-based ratio | 18,669 | 19.64 | 5,398 | 6.00 | 13,271 | 13.64 |
| Leverage ratio | 18,669 | 10.02 | 9,323 | 5.00 | 9,346 | 5.02 |

In addition, federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it, which has occurred for Pelican National. For example, a financial institution experiencing or anticipating significant growth may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets.

Predatory Lending

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The term predatory lending, much like the terms safety and soundness and unfair and deceptive practices, is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. But typically predatory lending involves at least one, and perhaps all three, of the following elements:

making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation (asset-based lending).

inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (loan flipping).

engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

On October 1, 2002, FRB regulations aimed at curbing such lending became effective. The rule significantly widens the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994 (the HOEPA), a federal law that requires extra disclosures and consumer protections to borrowers. The following triggers coverage under the HOEPA:

interest rates for first lien mortgage loans in excess of 8 percentage points above comparable Treasury securities,

subordinate-lien loans of 10 percentage points above U.S. Treasury securities, and

fees such as optional insurance and similar debt protection costs paid in connection with the credit transaction, when combined with points and fees if deemed excessive.

In addition, the regulation bars loan flipping by the same lender or loan servicer within a year. Lenders also will be presumed to have violated the law which provide that loans should not be made to people unable to repay them unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

Prompt Corrective Action and Other Enforcement Mechanisms

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Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2005, Pelican National exceeded the required ratios for classification as well capitalized and the additional capital requirement under the Formal Agreement.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory

examination score or is considered undercapitalized without the express permission of the institution's primary regulator.

On October 16, 2003, Pelican National entered into an informal, non-binding, memorandum of understanding with the OCC (the "OCC MOU"). The OCC MOU puts in place additional operational and reporting requirements on the Management and Board of Directors of Pelican National Bank. The OCC MOU does not include any financial covenants. In the opinion of Management, the OCC MOU will not have a material adverse effect upon the business operations or future profitability of Pelican National. Furthermore, on September 1, 2005, Pelican National, entered into a Formal Agreement with the OCC, under which Pelican National is obligated to take the following measures to correct unsafe and unsound banking practices and certain violations of law: (a) form a compliance committee comprised of at least three outside directors; (b) adopt and implement a written action plan to improve Pelican National; (c) adopt and implement a written three-year strategic plan; (d) adopt and implement a written profit plan to improve and sustain earnings of Pelican National; (e) increase and thereafter maintain Tier 1 capital at least equal to 13% of risk-weighted assets and Tier 1 capital at least equal to 8% of adjusted total assets; (f) appoint a new Senior Lending Officer; (g) develop and implement a written program to improve Pelican National's portfolio management; (f) develop and implement a written program to reduce the high level of credit risk; (g) take immediate and continuing action to protect its interest in assets criticized in the most recent Report of Examination and (h) take all necessary step to ensure that Pelican National corrects each violation of law, rule or regulation cited in the Report of Examination.

Safety and Soundness Standards

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The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (a) internal controls, information systems and internal audit systems, (b) loan documentation, (c) credit underwriting, (d) asset growth, (e) earnings, and (f) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (a) conduct periodic asset quality reviews to identify problem assets, (b) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (c) compare problem asset totals to capital, (d) take appropriate corrective action to resolve problem assets, (e) consider the size and potential risks of material asset concentrations, and (f) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These new guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Premiums for Deposit Insurance

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Through the BIF, the FDIC insures Pelican National's deposit accounts up to prescribed limits for each depositor. The amount of FDIC assessments paid by each BIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other factors. Specifically, the assessment rate is based on the institution's capitalization risk category and supervisory subgroup category. An institution's capitalization risk category is based on the FDIC's determination of whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. An institution's supervisory subgroup category is based on the FDIC's assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required. As a result of the OCC MOU, the assessment rate increased.

As of September 30, 2005, the BIF reserve ratio (which is the ratio of the net worth of the BIF to the value of the aggregate total domestic deposits held in all BIF members) was 1.25%. If the ratio drops below 1.25%, it is likely the FDIC will be required to assess premiums on all banks for the first time since

1996. Any increase in assessments or the assessment rate could have a material adverse effect on the Pelican Financial's earnings, depending on the amount of the increase.

The FDIC is authorized to terminate a depository institution's deposit insurance upon a finding by the FDIC that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. The termination of deposit insurance for Pelican National could have a material adverse effect on Pelican Financial's earnings.

Interstate Banking and Branching

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The BHCA permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide- and state-imposed concentration limits. Pelican National has the ability, subject to certain restrictions, to acquire by acquisition or merger branches outside its home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Community Reinvestment Act and Fair Lending Developments

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Banks are subject to certain fair lending requirements and reporting obligations involving CRA activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low- and moderate-income neighborhoods. A bank may be subject to substantial penalties and corrective measures for a violation of certain fair lending laws. The federal banking agencies may take compliance with such laws and CRA obligations into account when regulating and supervising other activities. Furthermore, financial institutions are subject to annual reporting and public disclosure requirements for certain written agreements that are entered into between insured depository institutions or their affiliates and nongovernmental entities or persons that are made pursuant to, or in connection with, the fulfillment of the CRA.

A bank's compliance with its CRA obligations is based a performance-based evaluation system which bases CRA ratings on an institution's lending service and investment performance. When a bank holding company applies for approval to acquire a bank or other bank holding company, the FRB will review the assessment of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

Federal Home Loan Bank System

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Pelican National is a member of the Federal Home Loan Bank of Atlanta (FHLB-Atlanta). Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB.

A new capital plan of the FHLB-Atlanta was approved by the Federal Housing Finance Board on January 23, 2004, and was implemented on December 17, 2004. The new capital plan authorizes FHLB-Atlanta to issue, redeem and repurchase its capital stock at its stated par value of \$100 per share. Each member of FHLB-Atlanta is required to own capital stock in an amount equal to the sum of:

the membership stock requirement, which is the lesser of:

- (i) 0.20% of such member's total assets as of December 31 of the previous calendar year; or
- (ii) a specified dollar cap (initially estimated at \$25 million); *plus*

the activity-based stock requirement, which is the aggregate of:

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- (i) a specified percentage (initially estimated at 4.50%) of the outstanding advances from FHLB-Atlanta to each member;
- (ii) a specified percentage (initially estimated at 2.00%) of the acquired member assets (as defined in FHLB regulations) sold by each member to FHLB-Atlanta; and
- (iii) a specified percentage (initially estimated at 8.00%) of any targeted debt/equity investment (which satisfies the criteria set forth in the FHLB regulations) sold by each member to FHLB-Atlanta.

We do not believe that the initial implementation of the FHLB-Atlanta new capital plan as approved will have a material impact upon our financial condition, cash flows, or results of operations. However, Pelican National could be required to purchase as much as 50% additional capital stock or sell as much as 50% of its proposed capital stock requirement at the discretion of the FHLB-Atlanta.

Federal Reserve System

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The FRB requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2005, Pelican National was in compliance with these requirements.

Item 1. A Risk Factors

Unless the context indicates otherwise, all references to we, us, our in this subsection Risk Factors refer to Pelican Financial and its subsidiary, Pelican National Bank. You should carefully consider the risks described below as well as elsewhere in this Annual Report on Form 10-K. If any of the risks actually occur, our business, financial condition or results of future operations could be materially adversely affected. This Annual Report on Form 10-K contains forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described below and elsewhere in this Annual Report on Form 10-K.

We may be adversely affected by changes in economic and political conditions and by governmental monetary and fiscal policies.

The banking industry is affected, directly and indirectly, by local, domestic, and international economic and political conditions, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors beyond our control may adversely affect our potential profitability. Any future rises in interest rates, while increasing the income yield on our earning assets, may adversely affect loan demand and the cost of funds and, consequently, our profitability. Any future decreases in interest rates may adversely affect our profitability because such decreases may reduce the amounts that we may earn on our assets. Economic downturns could result in the delinquency of outstanding loans. We do not expect any one particular factor to materially affect our results of operations. However, downtrends in several areas, including real estate, construction and consumer spending, could have a material adverse impact on our ability to remain profitable.

Changes in interest rates could adversely affect our financial condition and results of operations.

The operations of financial institutions, such as us, are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Our net interest income is significantly affected by market rates of interest that in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. Like all financial institutions, our

balance sheet is affected by fluctuations in interest rates. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as US Government and corporate securities and other investment vehicles, including mutual funds, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Most of our loans are secured by real estate located in our market area. If there is a downturn in our real estate market, these borrowers may default on their loans and we may not be able to fully recover our loans.

A downturn in the real estate market could hurt our business because most of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature. If real estate prices decline, the value of real estate collateral securing our loans could be reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Any such downturn could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and cash flows could be materially adversely affected

Our operations are located in southwest Florida, which makes our business highly susceptible to local economic conditions, and an economic downturn or recession in that area may adversely affect our ability to operate profitably.

Unlike larger banking organizations that are more geographically diversified, our operations are currently concentrated in southwest Florida. In addition, almost all of our loans have been made to borrowers in the state of Florida. As a result of this geographic concentration, our financial results depend largely upon economic conditions in this market area. A deterioration or recession in economic conditions in this market could result in one or more of the following:

an increase in loan delinquencies;

an increase in problem assets and foreclosures;

a decrease in the demand for our products and services; and

a decrease in the value of collateral for loans, especially real estate, and reduction in the customers borrowing power.

Any of the foregoing factors may adversely affect our ability to operate profitably.

We are subject to federal and state regulation and the monetary policies of the Federal Reserve Board. Such regulation and policies can have a material adverse effect on our earnings and prospects.

Our operations are heavily regulated and will be affected by present and future legislation and by the policies established from time to time by various federal and state regulatory authorities. In particular, the monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banks in the past, and are expected to continue to do so in the future. Among the instruments of monetary policy used by the Federal Reserve Board to implement its objectives are changes in the discount rate charged on bank borrowings and changes in the reserve requirements on bank deposits. It is not possible to predict what changes, if any, will be made to the monetary policies of the Federal Reserve Board or to existing federal and state legislation or the effect that such changes may have on our future business and earnings prospects.

We have established an allowance for loan losses based on our management's estimate. Actual losses could differ significantly from those estimates. If the allowance is not adequate, it could have a material adverse effect on our earnings and the price of our stock.

We have established an allowance for loan losses which management believes to be adequate to offset probable losses on our existing loans. However, there is no precise method of estimating loan losses and our ongoing analysis may cause this estimate to change in the future and actual losses may differ materially from this estimate. In addition, there can be no assurance that any future declines in real estate market conditions, general economic conditions or changes in regulatory policies will not require us to increase our allowance for loan losses. Any increase in the allowance for loan losses will reduce our earnings and may adversely affect the price of our common stock.

Our merger agreement with Stark Bank Group has various conditions to closing which must be satisfied by us or waived by Stark prior to the completion of the merger. If these conditions are not satisfied or waived, Stark may terminate the merger agreement. If the merger agreement is terminated, we will also be required to redeem the Series A Preferred Stock that was sold to Stark in connection with the merger agreement. The termination of the merger agreement could have a material, adverse effect on us.

The merger agreement with Stark Bank Group contains various conditions to closing, including obtaining Pelican Financial stockholder approval, obtaining all governmental and regulatory approval, and compliance with the other terms and conditions of the merger agreement. If these conditions are not satisfied by us or waived by Stark, Stark may terminate the merger agreement and cause us to redeem the Series A Preferred Stock that was issued pursuant to the merger agreement at a cost of \$4.0 million plus accrued dividends. In addition, we have incurred material expenses in connection with the merger agreement, which would be recognized in fiscal 2006 in the event the merger agreement was terminated. As a result of the termination of the merger agreement, our financial condition, results of operations, liquidity and stock price could be materially, adversely affected.

We compete with a number of local, regional and national financial institutions for customers.

We face strong competition from other banks, thrifts, savings institutions and other financial institutions that have branch offices or otherwise operate in our market area, as well as many other companies now offering a range of financial services. Many of these competitors have substantially greater financial resources and larger branch systems than we do. In addition, many of our competitors have higher legal lending limits than we do. Particularly intense competition exists for sources of funds including savings and retail time deposits and for loans, deposits and other services that we offer.

During the past several years, significant legislative attention has been focused on the regulation and deregulation of the financial services industry. Non-bank financial institutions, such as securities brokerage firms, insurance companies and money market funds, have been permitted to engage in activities that compete directly with traditional bank business. Competition with various financial institutions could hinder our ability to maintain profitable operations and grow our business.

Our information systems may experience an interruption or breach in security, which could result in a loss of business.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. We depend on third-party providers for many of our systems and if these providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure you that we would be able to negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

We continually encounter technological change, and, if we are unable to develop and implement efficient and customer friendly technology, we could lose business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We do not pay dividends and there can no assurance that we will pay dividends in the future.

We do not pay a dividend. Future dividends have been suspended as required by the pending Merger Agreement with Stark Bank Group, LTD and as a regulatory restrictions imposed by the FRB [and the OCC under the Formal Agreement] so that future earnings can be invested in the company. The Board of Directors will approve any future dividends, with the approval of Stark Bank Group, LTD and the FRB. Because we do not conduct any operations other than managing our investment in Pelican National we are dependent for income on dividends received from Pelican National. Declaration of dividends by the Board of Directors of Pelican National will depend upon a number of factors, including, investment opportunities available to Pelican National, capital requirements, regulatory limitations, and general economic conditions. Generally, Pelican National may not declare or pay dividends on its capital stock if the payment would cause its regulatory capital to be reduced below the minimum requirements imposed by regulations of the Office of the Comptroller of the Currency.

An investment in our common stock is not insured against loss.

Investments in the shares of our common stock are not deposits insured against loss by the FDIC or any other entity. As a result, you may lose some or all of your investment.

Our success depends on our senior management team and if we are not able to retain them, it could have a materially adverse effect on us.

We are highly dependent upon the continued services and experience of our senior management team, including Charles Huffman, our President and Chief Executive Officer. We depend on the services of Mr. Huffman and the other members of our senior management team to, among other things, continue the development and implementation of our strategies, and maintain and develop our client relationships.

If we fail to maintain an effective system of internal control over financial reporting and disclosure controls and procedures, we may be unable to accurately report our financial results and comply with the reporting requirements under the Securities Exchange Act of 1934. As a result, current and potential shareholders may lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business and we could be subject to regulatory scrutiny.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we will be required to include in our Annual Reports on Form 10-K for 2007, our management's report on internal control over financial reporting and our registered public accounting firm's attestation report on our management's assessment of our internal control over financial reporting. As a result, we cannot guarantee that we will not have any significant deficiencies or material weaknesses reported by our independent registered public accounting firm in the future. Compliance with the requirements of Section 404 is expected to be expensive and time-consuming. If we fail to complete this evaluation in a timely manner, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to establish an effective system of disclosure controls and procedures could cause our current and potential shareholders and customers to lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business.

Terrorist attacks and threats or actual war may impact all aspects of our operations, revenues, costs and stock price in unpredictable ways.

Recent terrorist attacks in the United States and abroad, as well as future events occurring in response to or in connection with them, including, without limitation, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions, may impact our operations. Any of these events could cause consumer confidence and savings to decrease or result in increased volatility in the United States and worldwide financial markets and economy. Any of these occurrences could have an adverse impact on our operating results, revenues and costs and may result in the volatility of the market price for our common stock and on the future price of our common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

(a) Properties.

Pelican Financial utilizes the offices of Washtenaw Mortgage. Pelican Financial pays no rent or other consideration for use of this facility. The retail banking activities of Pelican Financial are primarily conducted from the offices of Pelican National located at:

Full Service Branches:

811 Anchor Rode Drive,
Naples, Florida 34103

12730 New Brittany Boulevard,
Fort Myers, Florida 33907

28000 Spanish Wells Boulevard
Bonita Springs, Florida 34135

804 Cape Coral Parkway
Cape Coral, Florida 33904

17120 San Carlos Boulevard
Fort Myers Beach, Florida 33931

(b) Investment Policies.

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See Item 1. Business above for a general description of Pelican National's investment policies and any regulatory or board of directors' percentage of assets limitations regarding certain investments. All investment policies are reviewed and approved by the board of directors, and these policies, subject to regulatory restrictions (if any), can be changed without a vote of stockholders. Pelican National's investments are primarily acquired to produce income, and to a lesser extent, possible capital gain.

(1) Investments in Real Estate or Interests in Real Estate. See Item 1. Business - Lending Activities, Item 1. Business - Regulation, and Item 2. Property. (a) Properties above.

(2) Investments in Real Estate Mortgages. See Item 1. Business - Lending Activities and Item 1. Business - Regulation.

(3) Investments in Securities of or Interests in Persons Primarily Engaged in Real Estate Activities. See Item 1. Business - Lending Activities and Item 1. Business - Regulation.

(c) Description of Real Estate and Operating Data.

Not Applicable.

Item 3. Legal Proceedings

Pelican Financial and Pelican National are not party to any material pending legal proceedings at December 31, 2005.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to shareholders for a vote during the quarter ended December 31, 2005.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

As of March 10, 2006, there were 4,494,365 shares of common stock of Pelican Financial outstanding held by approximately 81 shareholders of record. The following table sets forth the high and low sales prices of the common stock for the periods indicated. The prices do not include retail markups, markdowns, or commissions. Our common stock has traded on the American Stock Exchange under the symbol PFI since November 10, 1999.

| Year Ended | High | | Low | |
|-------------------|-------------|------|------------|------|
| 2005 | | | | |
| First Quarter | \$ | 7.25 | \$ | 6.35 |
| Second Quarter | \$ | 7.05 | \$ | 5.62 |
| Third Quarter | \$ | 6.75 | \$ | 5.60 |
| Fourth Quarter | \$ | 5.66 | \$ | 5.10 |
| 2004 | | | | |
| First Quarter | \$ | 8.54 | \$ | 5.00 |
| Second Quarter | \$ | 5.95 | \$ | 4.77 |
| Third Quarter | \$ | 5.30 | \$ | 4.80 |
| Fourth Quarter | \$ | 7.20 | \$ | 4.75 |

Pelican Financial paid \$0.40 in cash dividends during 2003. Thereafter, Pelican Financial suspended the payment of dividends so that future earnings could be invested in the company and as a result of regulatory restrictions imposed by the FRB. Furthermore, the Merger Agreement prohibits Pelican Financial from paying dividends to its shareholders (except for dividends payable on the Series A Stock), unless it obtains the consent of Stark and the FRB. Because we do not conduct any operations other than managing our investment in Pelican National we are dependent for income on dividends received from Pelican National. Declaration of dividends by the Board of Directors of Pelican National will depend upon a number of factors, including, investment opportunities available to Pelican National, capital requirements, regulatory limitations, and general economic conditions. Generally, Pelican National may not declare or pay dividends on its capital stock if the payment would cause its regulatory capital to be reduced below the minimum requirements imposed by regulations of the OCC.

See Item 12 and Note 18 to the Consolidated Financial Statements for an equity compensation plan table relating to the Stock Option and Incentive Plan of Pelican Financial.

Item 6. Selected Financial Data

We are providing the following information to aid you in your analysis of Pelican Financial. The information is only a summary and you should read it in conjunction with our historical financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 below.

Summary Financial and Other Data

| | At December 31, | | | | |
|--|--|------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands, except per share information) | | | | |
| Balance Sheet Data: | | | | | |
| Total assets | \$ 180,440 | \$ 198,816 | \$ 221,515 | \$ 386,251 | \$ 374,554 |
| Cash and cash equivalents | 23,385 | 10,491 | 55,420 | 57,362 | 16,885 |
| Total loans, net | 92,403 | 110,831 | 109,939 | 104,082 | 91,861 |
| Mortgage-backed securities and securities available for sale | 56,203 | 69,386 | 49,730 | 2,560 | 5,085 |
| Assets of discontinued operations | | | | 198,657 | 240,897 |
| Nonperforming loans | 578 | 559 | 455 | 1,655 | 1,894 |
| Real estate acquired through foreclosure | 44 | | 333 | 76 | 77 |
| Total nonperforming assets | 622 | 559 | 788 | 1,731 | 1,971 |
| Deposits | 149,669 | 140,709 | 191,913 | 153,834 | 103,572 |
| Note payable | | | 292 | 792 | 1,295 |
| Federal Home Loan Bank borrowings | 12,000 | 41,500 | 12,000 | 18,000 | 16,000 |
| Liabilities of discontinued operations | | | | 180,947 | 224,483 |
| Total liabilities | 162,365 | 182,528 | 204,625 | 354,420 | 346,370 |
| Series A convertible redeemable preferred stock | 4,000 | | | | |
| Stockholders' equity | 14,075 | 16,288 | 16,890 | 31,831 | 28,184 |
| Shares outstanding | 4,494,365 | 4,494,365 | 4,488,351 | 4,440,241 | 4,393,194 |
| Book value per share | \$ 3.13 | \$ 3.62 | \$ 3.76 | \$ 7.17 | \$ 6.42 |
| Other Data: | | | | | |
| Number of: | | | | | |
| Full-service retail banking facilities | 5 | 6 | 4 | 3 | 2 |
| Full-time equivalent employees (continuing operations) | 48 | 69 | 62 | 39 | 35 |

Summary of Operations

| | For the Year Ended December 31, | | | | |
|--|---------------------------------------|-----------|-----------|-----------|-----------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (In thousands, except per share data) | | | | |
| Operations Data: | | | | | |
| Interest and dividend income | \$ 10,280 | \$ 10,538 | \$ 10,142 | \$ 10,825 | \$ 9,989 |
| Interest expense | 5,154 | 4,388 | 3,473 | 4,305 | 4,909 |
| Net interest income | 5,126 | 6,150 | 6,669 | 6,520 | 5,080 |
| Provision for loan losses | 440 | (225) | 1,058 | 300 | 562 |
| Net interest income after provision for loan losses | 4,686 | 6,375 | 5,611 | 6,220 | 4,518 |
| Noninterest income | 425 | 731 | 232 | 772 | 318 |
| Noninterest expense | 7,471 | 7,484 | 7,234 | 4,683 | 4,232 |
| Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle | (2,360) | (378) | (1,391) | 2,309 | 604 |
| Income tax expense (benefit) | (809) | (127) | (473) | 787 | 208 |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | (1,551) | (251) | (918) | 1,522 | 396 |
| Income from operations of discontinued mortgage subsidiary | | | 14,279 | 2,763 | 10,673 |
| Income tax (benefit) | | | 4,841 | 956 | 3,646 |
| Income (loss) on discontinued operations | | | 9,438 | 1,807 | 7,027 |
| Income (loss) before cumulative effect of change in accounting principle | (1,551) | (251) | 8,520 | 3,329 | 7,423 |
| Cumulative effect of change in accounting principle | | | | 413 | (420) |
| Net income (loss) | \$ (1,551) | \$ (251) | \$ 8,520 | \$ 3,742 | \$ 7,003 |
| Per Share Data: | | | | | |
| Basic earnings per share from continuing operations before cumulative effect of change in accounting principle | \$ (0.35) | \$ (0.06) | \$ (0.21) | \$ 0.35 | \$ 0.09 |
| Diluted earnings per share from continuing operations before cumulative effect of change in accounting principle | \$ (0.35) | \$ (0.06) | \$ (0.21) | \$ 0.34 | \$ 0.09 |
| Per share effect of discontinued operations | \$ | \$ | \$ 2.12 | \$ 0.41 | \$ 1.60 |
| Per share cumulative effect of change in accounting principle | \$ | \$ | \$ | \$ 0.09 | \$ (0.10) |
| Basic earnings per share | \$ (0.35) | \$ (0.06) | \$ 1.91 | \$ 0.85 | \$ 1.59 |
| Diluted earnings per share | \$ (0.35) | \$ (0.06) | \$ 1.91 | \$ 0.84 | \$ 1.59 |
| Weighted Average number of shares outstanding | 4,494,365 | 4,489,438 | 4,455,281 | 4,420,938 | 4,392,570 |

Key Operating Ratios

| | For the Year Ended December 31, | | | | |
|---|---------------------------------|---------|---------|-------|-------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (Dollars in thousands) | | | | |
| Performance Ratios (1): | | | | | |
| Return on average assets | (0.78)% | (0.11)% | (0.48)% | 0.96% | 0.34% |
| Return on average common equity | (10.26) | (1.54) | (6.15) | 11.32 | 4.73 |
| Interest rate spread | 2.29 | 1.92 | 2.09 | 2.58 | 2.94 |
| Net interest margin | 2.71 | 2.73 | 3.67 | 4.31 | 4.52 |
| Noninterest expense to average assets | 3.77 | 3.14 | 3.74 | 2.96 | 3.63 |
| Efficiency ratio | 134.59 | 108.76 | 104.82 | 64.22 | 78.40 |
| Cash dividend payout ratio | | | 20.94 | 7.14 | 3.14 |
| Asset Quality Ratios: | | | | | |
| Nonperforming assets to total assets at end of period | 0.34 | 0.28 | 0.36 | 0.45 | 0.53 |
| Nonperforming loans to total gross loans at end of period | 0.62 | 0.50 | 0.41 | 1.57 | 2.04 |
| Allowance for loan losses to total gross loans at end of period | 1.04 | 0.86 | 1.20 | 1.01 | 0.92 |
| Allowance for loan losses to nonperforming loans at end of period | 167.76 | 170.83 | 292.31 | 64.21 | 45.22 |

(1) Ratios calculated using continuing operations only, except dividend payout ratio.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation**OVERVIEW**

Pelican Financial currently serves as the holding company of Pelican National and until the distribution on December 31, 2003, Washtenaw Mortgage. Pelican Financial's operations involved both mortgage banking and retail banking, but will focus on retail banking in the future. The mortgage banking segment involved the origination and purchase of single-family residential mortgage loans in approximately 40 states, the sale of these loans, usually on a pooled and securitized basis, in the secondary market, and the servicing of mortgage loans for investors. The retail banking segment involves attracting deposits from the general public and using these funds to originate consumer, commercial, commercial real estate, residential construction, and single-family residential mortgage loans, from its five offices in Naples, Fort Myers, Bonita Springs and Cape Coral, Florida.

Pelican Financial's earnings are primarily dependent upon three sources: net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities; fee income from customers; and gains realized on sales of loans. These revenues are in turn significantly affected by factors such as changes in prevailing interest rates and in the yield curve (that is, the difference between prevailing short-term and long-term interest rates).

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The earnings performance of the continuing operations of Pelican Financial is a concern to management. Management is attempting to improve this by a variety of factors including liquidity management, cross selling of products and managing operating expenses. The overall loss was impacted by the sale of the marine loan portfolio and subsequent exit of the line of business. Earnings performance was negatively impacted further by the focus and costs associated with the sale of the company.

FORMAL AGREEMENT

On September 1, 2005, Pelican National entered into a Formal Agreement with the OCC. The Formal Agreement requires Pelican National to implement the following: (a) form a compliance committee comprised of at least three outside directors; (b) adopt and implement a written action plan to improve Pelican National; (c) adopt and implement a written three-year strategic plan; (d) adopt and implement a written profit plan to improve and sustain earnings of Pelican National; (e) increase and thereafter maintain Tier 1 capital at least equal to 13% of risk-weighted assets and Tier 1 capital at least equal to 8% of adjusted total assets; (f) appoint a new Senior Lending Officer; (g) develop and implement a written program to improve Pelican National's portfolio management; (h) develop and implement a written program to reduce the high level of credit risk; (i) take immediate and continuing action to protect its interest in assets criticized in the most recent Report of Examination and (j) take all necessary steps to ensure that Pelican National corrects each violation of law, rule or regulation cited in the Report of Examination. Pelican National is required to implement such measures within thirty to ninety days as specified in the Formal Agreement. Due to the pending merger, not all requirements of the Formal Agreement have been met. The Formal Agreement replaced the OCC MOU.

MERGER AGREEMENT

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On December 6, 2005, Pelican Financial entered into the Merger Agreement to merge with a newly formed subsidiary of Stark. According to the terms of the Merger Agreement, shareholders of Pelican Financial will receive \$6.00 for each common share held, subject to reduction for certain costs incurred by Pelican Financial in excess of \$3.0 million, and minus an escrow of \$0.20 per share to cover possible liabilities from the expected sale of certain marine loans. At the option of Pelican Financial, the escrow may be increased to cover certain disputed costs or to cover claims on marine loans that are made prior to closing. The escrow will reduce the immediate cash payment to less than \$6.00 per share. Pelican Financial has 4,494,365 shares of common stock outstanding as of March 31, 2006. The all-cash deal was approved by Pelican Financial shareholders and regulators on March 30, 2006. The merger is expected to be completed in the second quarter of 2006.

The Merger Agreement also requires Stark to purchase \$4 million of a newly created series of convertible redeemable preferred stock of Pelican Financial. On December 15, 2005, Pelican Financial issued and sold to Stark 40,000 shares of Series A Stock at a purchase price of \$100 per share for a total purchase price of \$4 million. The Series A Stock is convertible into approximately 761,904 shares of Pelican Financial's common stock, subject to adjustment, during certain periods described in the Certificate of Designation of the Powers, Preferences and Rights of Series A Stock pursuant to which the Series A Stock was authorized. Pelican Financial will be required to redeem the Series A Stock on the later of six months following the termination of the Merger Agreement or October 1, 2006.

SPIN-OFF

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On December 31, 2003, Pelican Financial distributed all of the outstanding shares of TWG to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the distribution on December 31, 2003, TWG was no longer a subsidiary of Pelican Financial. Following the distribution certain individuals served as officers of both TWG and Pelican Financial. TWG paid their salaries and all other compensation. Pelican Financial reimbursed Washtenaw, as part of a Transitional Services Agreement (the "TSA"), for time spent on Pelican Financial matters. Prior to the distribution, Pelican did not reimburse Washtenaw for these services. Since the distribution, officers and other employees providing services to both companies have been required to maintain records of their time spent on the affairs of each company as a basis for determining the reimbursements.

RELATED PARTY TRANSACTIONS

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During the periods covered, Pelican National entered into various transactions with Washtenaw. These transactions were primarily the sale and servicing of loans. Intercompany transactions are eliminated in consolidation, with the effect of the eliminations included in discontinued operations.

During the years ended December 31, 2005 and 2004, Pelican Financial paid Washtenaw \$63,331 and \$151,717 as part of the transitional service agreement. Prior to the distribution, Pelican did not reimburse Washtenaw for these services.

During the years ended December 31, 2005, 2004 and 2003, Washtenaw sold loans to Pelican National totaling \$718,273, \$356,550 and \$15,730,311. The sales were executed at current market prices, and resulted in a gain of \$9,729, \$7,259 and \$170,829 to Washtenaw, respectively.

During the years ended December 31, 2005, 2004 and 2003, Pelican National paid servicing and loan underwriting fees to Washtenaw of \$16,722, \$38,371 and \$104,761.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its estimates and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policy that has the greatest impact on the Pelican Financial's financial condition and results of operations and that require the most judgment relates to its accounting for the allowance for loan losses.

Allowance for Loan Losses

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The allowance for loan losses represents management's estimate of credit losses incurred in Pelican Financial's loan portfolio as of the balance sheet date. Determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Pelican Financial's control.

Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for identified problem loans, general allocations for graded loans, and general allocations based on historical trends for pools of similar un-graded loans.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. The specific allowance is determined by methods prescribed by SFAS No. 114, Accounting by Creditors for Impairment of a Loan .

A general allocation on commercial and commercial real estate loans not considered impaired is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. Loans are assigned a loss allocation factor for each loan classification category. The lower the grading assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of both performing and nonperforming loans affect the amount of the allocation. Loss factors are based on our loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the analysis date.

Groups of homogeneous loans, such as residential real estate and consumer loans, receive an allowance allocation based on loss trends. We use historical loss trends based on our experience in determining an adequate allowance for these pools of loans. General economic and business conditions, credit quality trends, seasoning of the portfolios and recent loss experience are conditions considered in connection with allocation factors for these similar pools of loans.

FINANCIAL CONDITION

General. At December 31, 2005, total assets were \$180.4 million compared to \$198.8 million at December 31, 2004. Management is committed to growing the balance sheet with quality assets that provide the appropriate yields. The following is a discussion of the significant fluctuations between the December 31, 2005 and 2004 balance sheets.

Assets

Cash and Cash Equivalents. Cash and cash equivalents were \$23.4 million at December 31, 2005 compared to \$10.5 million at December 31, 2004. The increase of \$12.9 million or 123% was primarily the result of the sale of \$20.0 million in marine loans at Pelican National. The sale occurred in December and a portion of the proceeds were used to reduce FHLB borrowings with the remainder to be used for growing the loan portfolio.

Securities Available for Sale Securities available for sale were \$56.2 million at December 31, 2005 compared to \$69.4 million at December 31, 2004. The decrease of \$13.2 million or 19% was primarily the result of Pelican National's decision to use the proceeds from securities as they matured to reduce FHLB borrowings. This was due to the higher capital requirements Pelican National was required to maintain due to the Formal Agreement with the OCC.

Loans Receivable. Total portfolio loans were \$92.4 million at December 31, 2005, a decrease of \$18.4 million from \$110.8 at December 31, 2004. The decrease in the portfolio resulted primarily from the sale of the marine loan portfolio in December 2005.

Other Real Estate Owned. Other real estate owned increased to \$44,000 at December 31, 2005. The increase was due to a foreclosure that was completed where the property had not been liquidated.

Premises and Equipment. Premises and equipment decreased to \$3.3 million at December 31, 2005 from \$3.7 million at December 31, 2004. The \$400,000 decrease was the result of normal depreciation.

Liabilities

Deposits. Total deposits were \$149.7 million at December 31, 2005 compared to \$140.7 million at December 31, 2004, representing an increase of \$9.0 million or 6%. The increase was the result of the opening of two additional branches during 2004 and a focus on developing new deposit relationships with customers. In addition, the newest branches opened in 2004 had collected approximately \$22.6 million in deposits as of December 31, 2005 compared to \$11.6 million as of December 31, 2004.

Pelican National continues to reduce its reliance on certificates of deposits obtained from brokers and the Internet. Pelican National is allowing all certificates of deposits obtained in this manner to mature without replacing the funds. At December 31, 2005 and 2004, there were \$3.4 and \$6.5 million in deposits obtained from brokers and the Internet.

Federal Home Loan Bank Borrowings. During the year, Federal Home Loan Bank borrowings decreased from \$41.5 million to \$12.0 million at December 31, 2005. The decrease of \$29.5 million was due to Pelican National paying off the short debt with the proceeds of the marine loan sale and maturity of various securities.

Comparison of Results of Operations for the Years Ended December 31, 2005 and 2004

General. Pelican Financial's net loss from continuing operations for the year ended December 31, 2005 and 2004 was \$1.6 million and \$251,000. The increased loss of approximately \$1.3 million for the year ended December 31, 2005 was primarily the result of the decrease in net interest income and the increase in provision for loan losses.

Net Interest Income. Net interest income (interest earned net of interest charges) totaled \$5.1 million for the year ended December 31, 2005, as compared to \$6.1 million for the year ended December 31, 2004, representing a decrease of \$1.0 million, or approximately 16%. The decrease is primarily due to the increase in interest expense. This is primarily due to the change in the overall composition of the deposits. The average balance of other borrowings and time deposits increased during 2005 which replaced interest free deposits maintained at Pelican National during most of 2004 by Washtenaw Mortgage and lower cost money market accounts. In addition, the average balance of interest-earning assets decreased while the average balance of the interest bearing liabilities increased due to the transfer of the Washtenaw Mortgage deposits.

Average Balance Sheet. The following table contains for the periods indicated information regarding the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, and the net yield on interest-earning assets. The table does not include any information related to the discontinued operations for any period presented.

| | Years Ended December 31, | | | | | | | | |
|---|--------------------------|----------|------------|-------------------|----------|------------|-------------------|----------|------------|
| | 2005 | | | 2004 | | | 2003 | | |
| | Average Volume | Interest | Yield/Cost | Average Volume | Interest | Yield/Cost | Average Volume | Interest | Yield/Cost |
| (Dollars in thousands) | | | | | | | | | |
| ASSETS | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Federal funds sold | \$ 11,114 | \$ 377 | 3.39% | \$ 29,376 | \$ 377 | 1.28% | \$ 51,126 | \$ 563 | 1.10% |
| Securities | 67,655 | 2,447 | 3.62 | 88,061 | 2,635 | 2.99 | 9,253 | 430 | 4.65 |
| Loans receivable, net | 110,111 | 7,457 | 6.77 | 107,967 | 7,526 | 6.97 | 121,182 | 9,149 | 7.55 |
| Total interest-earning assets | 188,880 | 10,281 | 5.44 | 225,404 | 10,538 | 4.68 | 181,561 | 10,142 | 5.59 |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 4,008 | | | 7,134 | | | 8,286 | | |
| Allowance for loan losses | (971) | | | (1,243) | | | (1,149) | | |
| Other assets | 5,880 | | | 7,031 | | | 4,492 | | |
| Total assets | \$ 197,797 | | | \$ 238,326 | | | \$ 193,190 | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| NOW accounts | \$ 2,653 | 21 | 0.79% | \$ 772 | 14 | 1.81% | \$ 827 | 6 | 0.73% |
| Money market accounts | 48,026 | 1,028 | 2.14 | 97,053 | 1,933 | 1.99 | 25,011 | 479 | 1.92 |
| Savings deposits | 11,895 | 192 | 1.61 | 9,741 | 134 | 1.38 | 12,191 | 183 | 1.50 |
| Time deposits | 68,074 | 2,572 | 3.78 | 36,788 | 1,591 | 4.32 | 44,230 | 1,806 | 4.08 |
| Other borrowings | 32,832 | 1,342 | 4.09 | 14,505 | 716 | 4.94 | 16,932 | 998 | 5.89 |
| Total interest-bearing liabilities | 163,480 | 5,155 | 3.15 | 158,859 | 4,388 | 2.76 | 99,191 | 3,472 | 3.50 |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 19,730 | | | 62,906 | | | 78,724 | | |
| Other liabilities | (274) | | | 224 | | | 347 | | |
| Shareholders' equity | 14,861 | | | 16,337 | | | 14,928 | | |
| Total liabilities and stockholders' equity | \$ 197,797 | | | \$ 238,326 | | | \$ 193,190 | | |
| Interest rate spread | | | 2.29% | | | 1.92% | | | 2.09% |
| Net interest income and net interest margin | | \$ 5,126 | 2.71% | | \$ 6,150 | 2.73% | | \$ 6,670 | 3.67% |

Rate/Volume Analysis. Changes in net interest income are attributable to three factors:

1. a change in the volume of an interest-earning asset or interest-bearing liability,
2. a change in interest rates, or
3. a change attributable to a combination of changes in volume and rate.

The following table contains certain information regarding changes in interest income and interest expense of Pelican Financial (excluding discontinued operations) for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to:

- A. changes in volume (changes in volume multiplied by the old interest rate); and
- B. changes in rates (changes in interest rates multiplied by the old average volume).

| | Year Ended December 31, 2005 vs. Year Ended December 31, 2004 | | | Year Ended December 31, 2004 vs. Year Ended December 31, 2003 | | |
|--------------------------------------|---|----------------|-----------|---|----------------|-----------|
| | Total Change | Changes Due to | | Total Change | Changes Due to | |
| | | Volume (1) | Rates (1) | | Volume (1) | Rates (1) |
| (Dollars in thousands) | | | | | | |
| INTEREST-EARNING ASSETS: | | | | | | |
| Federal funds sold | \$ | \$ (619) | \$ 619 | \$ (186) | \$ (304) | \$ 118 |
| Securities | (188) | (738) | 550 | 2,205 | 2,301 | (96) |
| Loans receivable, net | (69) | 145 | (214) | (1,623) | (953) | (670) |
| Total interest income | 257 | (1,212) | 955 | 396 | 1,044 | (648) |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| NOW accounts | 7 | 21 | (14) | 8 | | 8 |
| Money market accounts | (905) | 1,028 | (1,933) | 1,454 | 1,434 | 20 |
| Savings deposits | 58 | 192 | (134) | (49) | (35) | (14) |
| Time deposits | 981 | 2,572 | (1,591) | (215) | (332) | 117 |
| Short term borrowings | 626 | 1,342 | (716) | (282) | (132) | (150) |
| Total interest expense | 767 | 5,155 | (4,388) | 916 | 935 | (19) |
| Net change in interest income | \$ (1,024) | \$ (6,367) | \$ 5,343 | \$ (520) | \$ 109 | \$ (629) |

(1) Changes in interest income/expense not arising from volume or rate variances are allocated proportionately to rate and volume.

Provision for Loan Losses. The provision for loan losses is charged to earnings to bring the allowance for loan losses to a level deemed appropriate by management. During the year ended December 31, 2005, management recorded a provision for loan loss of \$440,000 compared to a credit of \$225,000 for the year ended December 31, 2004. The allowance for loan losses as of December 31, 2005 was \$969,000, or 1.04% of total portfolio loans, compared to \$954,000, or 0.86% of total loans at December 31, 2005.

Our allowance for loan losses is maintained at a level based upon our regular, quarterly assessments of the probable estimated losses incurred in the loan portfolio. Our methodology for measuring the appropriate level of allowance relies on several key elements, which include specific allowances for identified problem loans, general allocations for graded loans, and general allocations based on historical trends for pools of similar un-graded loans.

Specific allowances are established in cases where senior credit management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. The specific allowance is determined by methods prescribed by SFAS No. 114, Accounting by Creditors for Impairment of a Loan .

A general allocation on commercial and commercial real estate loans not considered impaired is calculated by applying loss factors to outstanding loans based on the internal risk grade of such loans. Loans are assigned a loss allocation factor for each loan classification category. The lower the grading assigned to a loan category, the greater the allocation percentage that is applied. Changes in risk grade of both performing and nonperforming loans affect the amount of the allocation. Loss factors are based on our loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the analysis date.

Groups of homogeneous loans, such as residential real estate and consumer loans, receive an allowance allocation based on loss trends. We use historical loss trends based on our experience in determining an adequate allowance for these pools of loans. General economic and business conditions, credit quality trends, seasoning of the portfolios and recent loss experience are conditions considered in connection with allocation factors for these similar pools of loans.

During the year ended December 31, 2005 the allowance for loan losses increased by \$15,000. The reclassification of marine loans to held for sale, and subsequent sale of the loans resulted in a charge-off of \$440,000 to adjust the loans to the lower of cost or market value. Because this charge-off resulted from a change in collection strategy, the allowance had not previously provided for this loss; therefore, the allowance was replenished for this charge-off by a provision of \$440,000. While the allowance as a percent of loans increased from .86% at December 31, 2004 to 1.04% at December 31, 2005, management believes this is appropriate due to an increase in allocations on impaired loans and other watch list loans, as well as uncertainty regarding the impact of the recent hurricane. Management is concerned this may impact the collateral value of specific loans and the general economic market in the effected areas.

Criticized assets decreased from \$4.5 million at December 31, 2004 to \$1.9 million at December 31, 2005. These loans represent loans with one or more underwriting deficiencies as identified by bank management or the bank's regulatory agency. Management is in the process of corrective actions on the criticized loans in an effort to improve the rating on the criticized assets. Criticized assets may or may not be delinquent.

Noninterest Income. Noninterest income totaled \$425,000 for the year ended December 31, 2005 compared to \$731,000 for the year ended December 31, 2004. The decrease is due to the decrease in gain on sale of securities and net gain on foreclosed assets and other income. This was offset by a increase in the gain on sale of loans and service charges on deposit accounts. The decrease in gain on sale of securities was due to reduced selling activity and general market conditions. The increase in service charges on deposit accounts was due to the increase in deposit relationships during 2005 from to 4,452 to 5,379.

Compensation and Employee Benefits Expense. Compensation and benefits totaled \$3.5 million for the year ended December 31, 2005 compared to \$3.9 million for the year ended December 31, 2004, representing a decrease of approximately \$400,000, or 11%. These costs decreased due to a reduction in employee headcount. This reduction has occurred as employees have departed Pelican National due to uncertainty related to the sale of Pelican Financial.

Occupancy and Equipment Expense. Occupancy and equipment expense totaled \$1.5 million for the year ended December 31, 2005 compared to \$1.3 million for the year ended December 31, 2004. The increase was due to Pelican National opening two bank branches during 2004 and that were open for all of 2005.

Legal. Legal expenses increased to \$354,000 compared to \$237,000 for the years ended December 31, 2005 and 2004. The increase is primarily due to the expenses related to various legal requirements and issues involved in the sale of Pelican Financial.

Accounting and Auditing. Accounting and auditing expenses were \$227,000 compared to \$168,000 for the years ended December 31, 2005 and 2004, respectively. The increase is primarily due to the expenses related to various special audits performed at Pelican National in relation to comments made as part of the Formal Agreement.

Data Processing. Data Processing expense increased to \$278,000 compared to \$239,000 for the years ended December 31, 2005 and 2004. The increase is due to the increased costs on the core systems contract due to the additional depositor relationships established during 2005.

Marketing and advertising. Marketing and advertising expenses increased to \$153,000 compared to \$105,000 for the years ended December 31, 2005 and 2004. The increase in expenditures was due to increased advertising.

Loan and other real estate owned. Loan and other real estate owned expenses decreased to \$254,000 compared to \$315,000 for the years ended December 31, 2005 and 2004. This is due to reduced costs associated with foreclosures and repossessions in 2005.

Other Noninterest Expense. Other noninterest remained consistent for the years ended December 31, 2005 and 2004. This is due to managements focus on cost containment despite the additional branches being open for the entire year.

Provision for Income Taxes. For the years ended December 31, 2005 and 2004, the provision for income taxes was a benefit of \$809,000 compared to \$127,000, a difference of \$682,000 between the comparable periods. The increase was due to the increased pre-tax loss in 2005. The effective tax rate for both periods was constant at approximately 34%.

Comparison of Results of Operations for the Years Ended December 31, 2004 and 2003

General. Pelican Financial's net loss from continuing operations before cumulative effect of change in accounting principle for the year ended December 31, 2004 and 2003 was \$251,000 and \$918,000. The decreased loss of approximately \$667,000 for the year ended December 31, 2004 was primarily the result of the decrease in provision for loan losses offset by an increase in noninterest expense and a decrease in net interest income. Pelican Financial's net loss for the year ended December 31, 2004 was \$251,000 compared to earnings of \$8.5 million for the year ended December 31, 2003. The decrease is the result of \$9.4 million in net income for the year ended December 31, 2003 contributed from discontinued operations.

Net Interest Income. Net interest income (interest earned net of interest charges) totaled \$6.1 million for the year ended December 31, 2004, as compared to \$6.7 million for the year ended December 31, 2003, representing a decrease of \$600,000, or approximately 10%. The decrease is due to the reduction in net interest margin. The reduction in net interest margin is due to higher yielding loans paying in full and being replaced by lower yielding loans and investment securities. Also, the average balance in noninterest-bearing demand deposits decreased which attributed to a higher cost of funds, despite the decrease in cost of funds on interest bearing liabilities.

Provision for Loan Losses. The provision for loan losses is charged to earnings to bring the allowance for loan losses to a level deemed appropriate by management. During the year ended December 31, 2004, management reversed the provision for loan losses by \$225,000 compared to a provision of \$1,058,000 for the year ended December 31, 2003. The allowance for loan losses as of December 31, 2004 was \$954,000, or 0.86% of total portfolio loans, compared to \$1.3 million, or 1.20% of total loans at December 31, 2003.

During the year ended December 31, 2004 the allowance for loan losses decreased by \$376,000. The decrease was largely due to a reduction in the specific allowance on impaired loans reviewed by the bank. Criticized assets decreased from \$10.7 million at December 31, 2003 to \$4.5 million at December 31, 2004. These loans represent loans with one or more underwriting deficiencies as identified by bank management or the bank's regulatory agency. Management is in the process of corrective actions on the criticized loans in an effort to improve the rating on the criticized assets. Criticized assets may or may not be delinquent.

Noninterest Income. Noninterest income totaled \$731,000 for the year ended December 31, 2004 compared to \$231,000 for the year ended December 31, 2003. The increase is due to the increase in gain on sale of securities to \$319,000 from a \$29,000 loss and the increase net gain on foreclosed assets and other income to \$214,000 from a \$13,000 loss. This was offset by a decrease in the gain on sale of loans from \$94,000 to \$28,000. The increase in the gain on sale of securities resulted from the favorable market conditions at the time the securities were sold for liquidity purposes. The decrease in gain on sale loans resulted from the reduction in the sales of marine loans during 2004.

Compensation and Employee Benefits Expense. Compensation and benefits totaled \$3.9 million for the year ended December 31, 2004 compared to \$3.6 million for the year ended December 31, 2003, representing an increase of approximately \$200,000, or 6%. The expense in 2003 was partially the result of a one time, \$300,000 severance payment to the previous President of Pelican National. As a result, the increase in continuing operational costs was approximately \$500,000. These costs increased primarily from the opening of two additional branches during the first six months of 2004.

Occupancy and Equipment Expense. Occupancy and equipment expense totaled \$1.3 million for the year ended December 31, 2004 compared to \$1.0 million for the year ended December 31, 2003. The increase was due to Pelican National opening two bank branches during 2004 and the full year of expenses incurred related to the branches opened in 2003.

Legal. Legal expenses decreased to \$237,000 compared to \$408,000 for the years ended December 31, 2004 and 2003. The decrease is primarily due to the expenses related to various legal requirements and issues involved in the spin-off of Washtenaw Mortgage during 2003.

Accounting and Auditing. Accounting and auditing expenses were \$168,000 compared to \$200,000 for the years ended December 31, 2004 and 2003, respectively. The decrease is primarily due to the expenses related to various audit work involved in the spin-off of Washtenaw Mortgage during 2003 offset by small increases in the annual internal and external audit fees.

Data Processing. Data Processing expense increased to \$239,000 compared to \$137,000 for the years ended December 31, 2004 and 2003. The increase is due to the increased costs on the core systems contract due to the additional depositor relationships established during 2004.

Marketing and advertising. Marketing and advertising expenses decreased to \$105,000 compared to \$180,000 for the years ended December 31, 2004 and 2003. The reduction in expenditures was due to reduced advertising and the use of lower cost alternatives.

Loan and other real estate owned. Loan and other real estate owned expenses decreased to \$315,000 compared to \$443,000 for the years ended December 31, 2004 and 2003. This is due to reduced costs associated with foreclosures and repossessions in 2004.

Debt Extinguishments. Debt extinguishments expenses decreased from \$310,000 to zero for the years ended December 31, 2004 and 2003. The decrease represents pre-payment penalties for the pay-off prior to maturity of \$6.0 million in Federal Home Loan Bank borrowings in 2003. This was done to

reduce Pelican National's excess liquidity and to eliminate debt with rates above current market rates. The weighted average interest rate on the two paid-off notes was 6.58%.

Other Noninterest Expense. Other noninterest expenses increased to \$1.3 million compared to \$929,000 for the years ended December 31, 2004 and 2003. The increase is due to the additional branches and employees added during 2004.

Provision for Income Taxes. For the years ended December 31, 2004 and 2003, the provision for income taxes was a benefit of \$127,000 compared to \$473,000, a difference of \$346,000 between the comparable periods. The decrease was due to the reduced pre-tax loss in 2004. The effective tax rate for both periods was constant at approximately 34%.

Contractual Obligations

The following table provides information about Pelican Financial's contractual obligations as of December 31, 2005.

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| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---------------------------|---------------|------------------|---------------|---------------|-------------------|
| Short-term Borrowings | \$ | \$ | \$ | \$ | \$ |
| Long-Term Debt | 12,000,000 | | | 9,000,000 | 3,000,000 |
| Capital Lease Obligations | | | | | |
| Operating Leases | 1,924,698 | 611,944 | 686,840 | 325,914 | |
| Certificates of Deposit | 83,665,744 | 61,089,804 | 20,926,496 | 2,636,284 | |
| Total | \$ 97,590,442 | \$ 61,701,748 | \$ 20,875,505 | \$ 11,926,198 | \$ 3,000,000 |

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations on a timely and cost-effective basis. Pelican Financial's primary source of funds is dividends paid by Pelican National. Pelican Financial will require approval from the FRB to fund any growth by through the use of debt. Subject to specific approval from the FRB, Pelican Financial can borrow up to \$3.0 million. At this time, management is not actively attempting to achieve any additional financing.

Pelican National has established various borrowing sources to meet its liquidity need. These sources are both secured and unsecured borrowings and can be for various durations. In addition, Pelican National has the ability to raise deposits in its market place through five full service branches.

At December 31, 2005, Pelican National exceeded all applicable regulatory minimum capital requirements as well as the requirement to be considered well capitalized for regulatory purposes. Pelican Financial also exceeded its regulatory minimum capital requirements at December 31, 2005. For a detailed discussion of the regulatory capital requirements to which Pelican Financial and Pelican National are subject, and for a tabular presentation of compliance with these requirements, see

Regulation - Pelican Financial, Regulation - Pelican National - Capital Requirements, and Note 13 of Notes to Consolidated Financial Statements.

IMPACT OF NEW ACCOUNTING STANDARDS

FAS 123, Revised, requires all companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after January 1, 2006. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately \$26,904 in 2006, \$15,282 in 2007, \$8,992 in 2008 and \$4,718 in 2009.

Statement of Position 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made. Pelican Financial does not expect this statement to have a significant effect on the financial statements, but the effect will depend on the nature of future loan purchases.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and Notes thereto presented in this Annual Report on Form 10-K have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of Pelican Financial's operations. Unlike most industrial companies, nearly all the assets and liabilities of Pelican Financial are monetary in nature. As a result, interest rates have a greater impact on Pelican Financial's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The principal objective of Pelican Financial's interest rate risk management is to evaluate the interest rate risk included in balance sheet accounts, determine the level of risk appropriate given Pelican Financial's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with Pelican Financial's Interest Rate Risk Management Policy. Through this management, Pelican Financial seeks to reduce the vulnerability of its operations to changes in interest rates. The Board of Directors of Pelican Financial is responsible for reviewing asset/liability policies and interest rate risk position. The Board of Directors reviews the interest rate risk position on a quarterly basis. In connection with this review, the Board of Directors evaluates Pelican Financial's business activities and strategies, the effect of those strategies on Pelican Financial's net interest margin, the market value of the loan, servicing, and securities portfolios, and the effect the changes in interest rates will have on Pelican Financial's loan, servicing, and securities portfolios and exposure limits.

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The continuous movement of interest rates is certain, however, the extent and timing of these movements is not always predictable. Any movements in interest rates has an effect on Pelican Financial's profitability. The value of loans, which Pelican Financial has either originated or purchased or committed to originate or purchase, decreases as interest rates rise and conversely, the value increases as

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interest rates fall. Pelican Financial also faces the risk that rising interest rates could cause the cost of interest-bearing liabilities, such as loans and borrowings, to rise faster than the yield on interest-earning assets, such as loans and investments. Pelican Financial's interest rate spread and interest margin may be negatively impacted in a declining interest rate environment. This is because loans and other interest-earning assets may be prepaid and replaced with lower yielding assets before the supporting interest-bearing liabilities reprice downward. Pelican Financial's interest margin may also be negatively impacted in a flat- or inverse-yield curve environment.

The overall objective of Pelican Financial's interest rate risk management policies is to offset changes in the values of these items resulting from changes in interest rates. Pelican Financial does not speculate on the direction of interest rates in its management of interest rate risk.

The following table provides information about Pelican Financial's financial instruments that are sensitive to changes in interest rates as of December 31, 2005. The securities available for sale were based upon maturity unless callable by the issuer. The expected maturity date values for loans receivable were calculated without adjusting the contractual maturity dates for prepayments. Loans receivable are shown excluding the allowance for loan losses. Loans held for sale are shown in the period in which they are expected to be sold. Maturity dates for interest bearing core deposits were not based on estimates of the period over which the deposits would be outstanding, but rather the opportunity for repricing.

(Dollars in thousands)

| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | Total | Fair Value 12/31/2005 |
|---|-----------|-----------|----------|----------|----------|------------|-----------|--------------------------|
| Rate sensitive assets: | | | | | | | | |
| Federal funds sold | \$ 19,437 | | | | | | \$ 19,437 | \$ 19,437 |
| Average interest rate | 4.00% | | | | | | | |
| Interest bearing deposits with banks | | | | | | | | |
| | \$ 3,051 | | | | | | \$ 3,051 | \$ 3,051 |
| Average interest rate | 4.09% | | | | | | | |
| Securities available for sale | \$ 6,896 | \$ 7,822 | \$ 2,902 | | | \$ 38,583 | \$ 56,203 | \$ 56,203 |
| Average interest rate | 3.00% | 3.42% | 3.21% | | | 4.67% | | |
| Fixed interest rate loans receivable | | | | | | | | |
| | \$ 2,137 | \$ 883 | \$ 1,011 | \$ 330 | \$ 457 | \$ 17,943 | \$ 22,761 | \$ 22,521 |
| Average interest rate | 6.90% | 7.12% | 7.45% | 7.69% | 7.58% | 6.75% | | |
| Variable interest rate loans receivable | | | | | | | | |
| | \$ 37,537 | \$ 6,201 | \$ 8,237 | \$ 6,735 | \$ 9,126 | \$ 2,599 | \$ 70,435 | \$ 69,694 |
| Average interest rate | 7.51% | 5.59% | 6.14% | 5.56% | 6.23% | 7.66% | | |
| Rate sensitive liabilities: | | | | | | | | |
| Savings and interest bearing demand deposits | | | | | | | | |
| | \$ 44,981 | | | | | | \$ 44,981 | \$ 44,981 |
| Average interest rate | 2.76% | | | | | | | |
| Certificates of deposits | | | | | | | | |
| | \$ 61,090 | \$ 17,206 | \$ 2,734 | \$ 462 | \$ 2,174 | | \$ 83,666 | \$ 83,812 |
| Average interest rate | 3.86% | 4.72% | 3.95% | 4.01% | 4.84% | | | |
| Federal Home Loan Bank borrowings | | | | | | | | |
| | | | | | 9,000 | \$ 3,000 | \$ 12,000 | \$ 12,658 |
| Average interest rate | | | | | 5.88% | 3.82% | | |

Item 8. Financial Statements

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Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2005 and 2004

Consolidated Statements of Operations for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

Pelican Financial, Inc.

Ann Arbor, Michigan

We have audited the accompanying consolidated balance sheets of Pelican Financial, Inc. (the Company), as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLC

Grand Rapids, Michigan
April 12, 2006

PELICAN FINANCIAL, INC.

Consolidated Balance Sheets

December 31, 2005 and 2004

| | 2005 | 2004 |
|---|----------------|----------------|
| ASSETS | | |
| Cash and cash equivalents | | |
| Cash and due from banks | \$ 896,468 | \$ 2,831,621 |
| Interest-bearing deposits | 3,051,131 | 275,800 |
| Federal funds sold | 19,437,401 | 7,384,068 |
| Total cash and cash equivalents | 23,385,000 | 10,491,489 |
| Securities available for sale | 56,203,261 | 69,385,545 |
| Federal Reserve & Federal Home Loan Bank Stock | 1,297,400 | 2,669,700 |
| Loans held for sale | 40,970 | |
| Loans receivable, net of allowance of \$969,426 and \$953,954 | 92,403,368 | 110,830,985 |
| Other real estate owned | 44,078 | |
| Premises and equipment, net | 3,307,672 | 3,713,200 |
| Accounts receivable and other assets | 3,758,354 | 1,724,659 |
| | \$ 180,440,103 | \$ 198,815,578 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 21,022,225 | \$ 15,200,340 |
| Interest-bearing | 128,646,300 | 125,508,431 |
| Total deposits | 149,668,525 | 140,708,771 |
| Federal Home Loan Bank borrowings | 12,000,000 | 41,500,000 |
| Other liabilities | 696,772 | 319,057 |
| Total liabilities | 162,365,297 | 182,527,828 |
| Series A convertible redeemable preferred stock \$.10 par value 200,000 shares authorized; 40,000 and zero outstanding at December 31, 2005 and 2004 | 4,000,000 | |
| Shareholders' equity | | |
| Common stock, \$.01 par value 10,000,000 shares authorized; 4,494,365 outstanding at December 31, 2005 and 2004 | 44,943 | 44,943 |
| Additional paid in capital | 15,574,767 | 15,574,767 |
| Retained (deficit) earnings | (618,623) | 932,726 |
| Accumulated other comprehensive income (loss), net of tax | (926,281) | (264,686) |
| Total shareholders' equity | 14,074,806 | 16,287,750 |
| | \$ 180,440,103 | \$ 198,815,578 |

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Operations

Years ended December 31, 2005, 2004 and 2003

| | 2005 | 2004 | 2003 |
|---|----------------|--------------|--------------|
| Interest income | | | |
| Loans, including fees | \$ 7,457,195 | \$ 7,525,937 | \$ 9,148,444 |
| Investment securities, taxable | 2,446,310 | 2,635,218 | 430,257 |
| Federal funds sold and overnight accounts | 377,173 | 376,677 | 563,084 |
| Total interest income | 10,280,678 | 10,537,832 | 10,141,785 |
| Interest expense | | | |
| Deposits | 3,812,734 | 3,671,517 | 2,474,514 |
| Other borrowings | 1,341,592 | 716,433 | 997,915 |
| Total interest expense | 5,154,326 | 4,387,950 | 3,472,429 |
| Net interest income | 5,126,352 | 6,149,882 | 6,669,356 |
| Provision for loan losses | 440,000 | (225,000) | 1,058,000 |
| Net interest income after provision for loan losses | 4,686,352 | 6,374,882 | 5,611,356 |
| Noninterest income | | | |
| Gain (loss) on sale of securities, net | 5,625 | 318,940 | (29,015) |
| Service charges on deposit accounts | 234,251 | 169,870 | 179,146 |
| Gain on sales of loans, net | 67,390 | 28,371 | 94,054 |
| Net gain (loss) on foreclosed assets and other income | 117,410 | 214,048 | (12,735) |
| Total noninterest income | 424,676 | 731,229 | 231,450 |
| Noninterest expense | | | |
| Compensation and employee benefits | 3,494,864 | 3,857,215 | 3,617,106 |
| Occupancy and equipment | 1,500,012 | 1,303,789 | 1,008,652 |
| Legal | 354,173 | 237,195 | 408,339 |
| Accounting and auditing | 227,943 | 168,089 | 199,578 |
| Data processing | 277,642 | 238,965 | 136,804 |
| Marketing and advertising | 153,991 | 104,687 | 180,901 |
| Loan and other real estate owned | 253,777 | 315,194 | 443,231 |
| Debt extinguishments | | | 309,673 |
| Other noninterest expense | 1,208,781 | 1,258,586 | 929,383 |
| Total noninterest expense | 7,471,183 | 7,483,720 | 7,233,667 |
| Income (loss) from continuing operations before income taxes | (2,360,155) | (377,609) | (1,390,861) |
| Income tax expense (benefit) | (808,806) | (126,789) | (472,696) |
| Income (loss) from continuing operations | (1,551,349) | (250,820) | (918,165) |
| Discontinued operations: | | | |
| Income from operations of discontinued mortgage subsidiary | | | 14,278,682 |
| Income tax | | | 4,840,446 |
| Income from discontinued operations | | | 9,438,236 |
| Net income (loss) | \$ (1,551,349) | \$ (250,820) | \$ 8,520,071 |
| Basic earnings (loss) per share from continuing operations | \$ (0.35) | \$ (0.06) | \$ (0.21) |
| Diluted earnings (loss) per share from continuing operations | (0.35) | (0.06) | (0.21) |
| Per share effect of discontinued operations | | | 2.12 |
| Basic earnings (loss) per share | \$ (0.35) | \$ (0.06) | \$ 1.91 |

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| | | | | | | |
|-----------------------------------|----|--------|----|--------|----|------|
| Diluted earnings (loss) per share | \$ | (0.35) | \$ | (0.06) | \$ | 1.91 |
|-----------------------------------|----|--------|----|--------|----|------|

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Shareholders Equity

Years ended December 31, 2005, 2004 and 2003

| | Common Stock | Additional Paid-In Capital | Retained Earnings (deficit) | Accumulated Other Comprehensive Income (loss) | Total Shareholders Equity |
|--|-----------------|----------------------------------|-----------------------------------|--|---------------------------------|
| Balance at January 1, 2003 | \$ 44,402 | \$ 15,345,573 | \$ 16,426,842 | \$ 13,841 | \$ 31,830,658 |
| Net income | | | 8,520,071 | | 8,520,071 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on securities available for sale, net | | | | 79,424 | 79,424 |
| Comprehensive income | | | | | 8,599,495 |
| Exercise of stock options and warrants | 482 | 223,020 | | | 223,502 |
| Cash dividend of \$0.40 per share | | | (1,781,929) | | (1,781,929) |
| Distribution of The Washtenaw Group, Inc. | | | (21,981,438) | | (21,981,438) |
| Balance at December 31, 2003 | 44,884 | 15,568,593 | 1,183,546 | 93,265 | 16,890,288 |
| Net (loss) | | | (250,820) | | (250,820) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Unrealized (loss) on securities available for sale, net | | | | (357,951) | (357,951) |
| Comprehensive (loss) | | | | | (608,771) |
| Exercise of stock options and warrants | 59 | 6,174 | | | 6,233 |
| Balance at December 31, 2004 | 44,943 | 15,574,767 | 932,726 | (264,686) | 16,287,750 |
| Net (loss) | | | (1,551,349) | | (1,551,349) |
| Other comprehensive income (loss), net of tax: | | | | | |
| Unrealized (loss) on securities available for sale, net | | | | (661,595) | (661,595) |
| Comprehensive (loss) | | | | | (2,212,944) |
| Balance at December 31, 2005 | \$ 44,943 | \$ 15,574,767 | \$ (618,623) | \$ (926,281) | \$ 14,074,806 |

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2005, 2004 and 2003

| | 2005 | 2004 | 2003 |
|--|----------------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Net income (loss) | \$ (1,551,349) | \$ (250,820) | \$ 8,520,071 |
| Adjustments to reconcile net income to net cash from operating activities | | | |
| Net income of discontinued operations | | | (9,438,236) |
| Amortization (accretion) of securities, net | 193,326 | 282,510 | (30,114) |
| Amortization of mortgage servicing rights | 9,044 | 17,314 | 40,521 |
| Gain on sales of mortgage servicing rights and loans, net | (17,728) | (28,371) | (94,054) |
| Provision for loan losses | 440,000 | (225,000) | 1,058,000 |
| (Gain) loss on sale of securities | (5,625) | (318,940) | 29,015 |
| Depreciation | 455,929 | 175,940 | 230,044 |
| Purchases and origination of loans held for sale | (40,970) | (1,522,400) | (4,722,800) |
| Proceeds from sale of loans held for sale | 20,573,359 | 1,691,972 | 9,850,271 |
| Changes in assets and liabilities that (used) provided cash | | | |
| Accounts receivable and other assets | (2,042,739) | 894,012 | (269,598) |
| Other liabilities | 718,535 | (102,031) | (426,523) |
| Operating activities of discontinued operations | | | 57,080,631 |
| Net cash provided by operating activities | 18,731,782 | 614,186 | 61,827,228 |
| Cash flows from investing activities | | | |
| Loan originations, net | (2,612,092) | (807,728) | 6,741,219 |
| Other real estate owned, net | | 367,863 | (257,075) |
| Property and equipment expenditures, net | (50,401) | (1,231,122) | (1,692,923) |
| Proceeds from sales of securities available for sale | 2,185,425 | 83,073,000 | 44,799,214 |
| Purchase of securities available for sale | (31,778,326) | (111,757,206) | (91,865,987) |
| Proceeds from maturities and principal repayments of securities available for sale | 41,585,069 | 8,522,734 | 18,523 |
| Sale (Purchase) of Federal Home Loan Bank Stock and Federal Reserve Stock | 1,372,300 | (1,720,700) | 381,000 |
| Investing activities of discontinued operations | | | 25,959,604 |
| Net cash provided (used) by investing activities | 10,701,975 | (23,553,159) | (15,916,425) |
| Cash flows from financing activities | | | |
| Increase (decrease) in deposits | 8,959,754 | (51,203,823) | 38,078,815 |
| Cash dividends | | | (1,781,929) |
| Decrease in notes payable due on demand | | (291,665) | (500,002) |
| Advances on Federal Home Loan Bank borrowings | | 32,000,000 | |
| Repayments on Federal Home Loan Bank borrowings | (29,500,000) | (2,500,000) | (6,000,000) |
| Proceeds from exercise of stock options | | 6,233 | 223,502 |
| Proceeds from issuance of preferred stock | 4,000,000 | | |
| Financing activities of discontinued operations | | | (77,873,407) |
| Net cash provided (used) by financing activities | (16,540,246) | (21,989,255) | (47,853,021) |
| Net change in cash and cash equivalents | 12,893,511 | (44,928,228) | (1,942,218) |
| Cash and cash equivalents at beginning of year | 10,491,489 | 55,419,717 | 57,361,935 |
| Cash and cash equivalents at end of year | \$ 23,385,000 | \$ 10,491,489 | \$ 55,419,717 |

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| Supplemental cash disclosures | | | | | | |
|--|----|------------|----|-----------|----|--------------|
| Interest paid, continuing operations | \$ | 5,154,542 | \$ | 4,337,356 | \$ | 3,464,170 |
| Income taxes paid, continuing operations | | | | | | 529,190 |
| Non-cash investing activity | | | | | | |
| Loans transferred to (from) held for sale | | 20,555,631 | | | | (13,515,301) |
| Loans transferred to other real estate owned | | 44,078 | | | | |
| Non-cash financing activity | | | | | | |
| Distribution of discontinued mortgage operations | | | | | | 21,981,438 |

See accompanying notes to consolidated financial statements

PELICAN FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005, 2004 and 2003

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Continuing Operations:

The following nature of business and significant accounting policies apply to the continuing operations of Pelican Financial. Prior to the spin-off, these were also applied to the discontinued operations of Washtenaw.

Nature of Operations:

Pelican Financial, Inc. (Pelican Financial) is a registered bank holding company. As described in Note 3, on December 31, 2003, Pelican Financial distributed all of the outstanding shares of The Washtenaw Group, Inc. (Washtenaw), to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the distribution on December 31, 2003, Washtenaw is no longer a subsidiary of Pelican Financial. Pelican Financial continues to own Pelican National Bank (Pelican National).

Washtenaw is a Michigan corporation which engaged in mortgage banking activities and, as such, acquired, sold and serviced one-to-four unit residential mortgage loans. Washtenaw acquired and serviced residential mortgage loans in 40 states.

Pelican National commenced operations as a national bank in Naples, Florida on August 25, 1997. The Bank presently operates six full-service banking facilities and engages primarily in the business of attracting deposits from the general public. The Bank uses such deposits, together with other funds, to originate and purchase commercial, real estate, marine and consumer loans for sale in the secondary market and for holding in its own portfolio.

Principles of Consolidation:

The consolidated financial statements include the accounts of Pelican Financial and Pelican National for all periods. All references herein to Pelican Financial include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Assets held in an agency or fiduciary capacity are not assets of Pelican Financial and, accordingly, are not included in the accompanying consolidated financial statements. Washtenaw is included in the financial statements as a discontinued operation.

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures and actual results could differ from those estimates. The fair value of financial instruments, the valuation of mortgage servicing rights, the valuation of loans held for sale, the allowance for loan losses and the status of contingencies are particularly subject to change.

Series A Convertible Redeemable Preferred stock:

The Series A non-voting preferred stock provides for 8% cumulative cash dividends on the \$100 per share issuance price with the dividend rate increasing up to a maximum 18% upon the occurrence of certain defined events. The preferred stock was issued December 15, 2005 and there are no material amounts of accumulated unpaid dividends at December 31, 2005. The preferred stock is convertible into 761,904 shares of common stock (\$5.25 per share) during certain defined periods, including termination of the Merger Agreement described in Note 2, in the event Pelican Financial receives another acquisition proposal, or on or after October 1, 2006. The stock is redeemable at the option of Pelican Financial on or after April 1, 2006, and it is required to be redeemed on October 1, 2006 if it has not been converted. The redemption price is the \$100 per share issuance price plus unpaid dividends. Since the preferred stock is conditionally redeemable, it is excluded from shareholders equity.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand, federal funds sold, short-term interest-bearing deposits in banks, and funds due from banks. Pelican Financial considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Securities:

Debt securities are classified as available for sale. Securities classified as available for sale are reported at their fair value and the related unrealized holding gain or loss is reported, net of related income tax effects, as other comprehensive income until realized.

Realized gains or losses on the sales of securities available for sale are based on the specific identification method. Premiums and discounts on all securities are amortized to expense and accreted to income over the life of the securities using the interest method, without anticipating pre-payments.

Federal Reserve and Federal Home Loan Bank (FHLB) stock is restricted stock, carried at cost that is required by the Federal Reserve and the FHLB to be maintained by Pelican National.

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: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale:

Balances include deferred origination fees and costs and are stated at the lower of cost or market value in aggregate. The market value of mortgage loans held for sale is based on market prices and yields at year-end in normal market outlets used by Pelican Financial.

Loans Receivable and Allowance for Loan Losses:

Loans receivable, for which management has the ability and intent to hold for the foreseeable future or until maturity or payoff, are reported at the principal balance outstanding, net of deferred fees and costs and an 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 confirms the loan balance is not collectable. 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. In addition, management considers various characteristics of each individual loan, or pool of loans, such as credit scores, loan to value ratios, the type of collateral and payment history. Management will also look at the financial strength of personal guarantors when applicable. 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.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature, and on an individual loan basis for other loans. 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 loans existing rate or at the fair value of collateral if repayment is expected

solely from the collateral.

Nonaccrual loans are loans on which the accrual of interest has been discontinued because a reasonable doubt exists as to the full collection of recorded principal and interest. When a loan is placed on nonaccrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Interest income on nonaccrual loans and impaired loans is recognized only to the extent cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in managements judgment, the loans are estimated to be fully collectible as to both principal and interest.

Loan Servicing Rights, Net:

Pelican Financial and Washtenaw purchase and originate loans for sale to the secondary market, and sell the loans on either a servicing retained or servicing released basis. Servicing rights are recognized as assets for purchased rights and for the allocated value of retained servicing rights on loans sold. The capitalized cost of loan servicing

rights is amortized in proportion to, and over the period of, estimated net future servicing revenue. The expected period of the estimated net servicing income is based, in part, on the expected prepayment of the underlying loans. Loan servicing rights are periodically evaluated for impairment. For purposes of measuring impairment, servicing rights are stratified based on predominant risk characteristics of the underlying serviced loans. These risk characteristics include loan type (fixed or adjustable rate), term (15 year, 20 year, 30 year or balloon), interest rate and date of loan acquisition. Impairment represents the excess of amortized cost of an individual stratum over its estimated fair value, and is recognized through a valuation allowance.

Fair values for individual stratum are based on the present value of estimated future cash flows using a discount rate commensurate with the risks involved. Estimates of fair value include assumptions about prepayment, default and interest rates, and other factors, which are subject to change over time. Changes in these underlying assumptions could cause the fair value of mortgage servicing rights, and the related valuation allowance, to change significantly in the future.

Other Real Estate:

Other real estate is recorded at the lower of cost or fair value, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs relating to the development and improvement of real estate are capitalized, whereas those costs relating to holding the real estate are charged to expense.

Premises and Equipment:

Premises and equipment are stated at cost, net of accumulated depreciation. Leasehold improvements are depreciated (or amortized) over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed using either an accelerated or straight-line method over the estimated useful lives of the related assets. Estimated lives range from 3 to 5 years with the exception of buildings which can range to 39 years.

Long Term Assets:

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

Loss Contingencies:

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Revenue Recognition:

Mortgage loans held for sale are generally delivered to secondary market investors under firm sales commitments entered into at or prior to the closing date of the individual loan. Loan sales and the related gains or losses are recorded at the settlement date, with a liability recorded for the estimated fair value of repurchase obligations, based on repurchase experience.

Loan origination fees and costs are deferred as a component of the balance of loans held for sale. Since mortgage loans originated or acquired for sale are generally sold within 60 days, any related fees and costs are not amortized during that period, but are recognized when the loan is sold. Loan origination fees and costs on loans receivable (not held for sale) are deferred and recognized in interest income using the level yield method without anticipating prepayment.

Servicing fees earned for servicing loans for investors are generally calculated based on the outstanding principal balances of the loans serviced and are recorded as revenue when received. Interest income on loans receivable is reported on the interest method. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Interest continues to accrue on loans over 90 days past due if they are well secured and in the process of collection.

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 recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using enacted tax rates. To the extent current available evidence raises doubt about the future realization of a deferred tax asset, a valuation allowance is established.

Operating Segments:

Pelican Financial's continuing operations include one primary segment, retail banking. The retail banking segment involves the origination of commercial, residential and consumer loans as well as the collections of deposits in six bank branches.

Comprehensive Income (Loss):

Comprehensive income (loss) includes both net income and other comprehensive income (loss). Other comprehensive (loss) income includes the change in unrealized gains and losses on securities available for sale, which is also reported as a separate component of shareholder's equity.

Stock Dividends and Splits:

Common stock amounts, market values and per share disclosures related to stock-based compensation plans and earnings and dividends per share disclosures have been retroactively restated for stock dividends and splits. Stock dividends are transferred at the fair value of shares issued.

Earnings Per Share:

Basic earnings per share are computed based on the weighted-average number of common shares outstanding during the year. Diluted earnings per share are computed based on the weighted-average number of common shares and common share equivalents during the year. Weighted average shares are restated for all stock splits and dividends through the date of issue of the financial statements.

Stock Compensation:

Compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

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The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

| | 2005 | 2004 | 2003 |
|--|----------------|--------------|--------------|
| Net income (loss) as reported | \$ (1,551,349) | \$ (250,820) | \$ 8,520,071 |
| Deduct: Stock-based compensation expense determined under fair value based method | 18,187 | 21,741 | 17,384 |
| Pro forma net income | \$ (1,569,536) | \$ (272,561) | \$ 8,502,687 |
| Basic earnings per share as reported | \$ (0.35) | \$ (0.06) | \$ 1.91 |
| Pro forma basic earnings per share | (0.35) | (0.06) | 1.91 |
| Diluted earnings per share | \$ (0.35) | \$ (0.06) | \$ 1.91 |
| Pro forma diluted earnings per share | (0.35) | (0.06) | 1.91 |

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of the grant date. The weighted average fair value of the options granted for the year ended December 31, 2004 are \$3.48. No options were granted during 2005 and 2003.

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| | 2005 | 2004 | 2004 |
|---------------------------------|------|---------|------|
| Risk-free interest rate | | 3.98% | |
| Expected option life | | 5 years | |
| Expected stock price volatility | | 0.15 | |
| Dividend yield | | | |

Concentration of Credit Risk:

Pelican National grants commercial, residential, marine and consumer loans primarily to customers in Collier and Lee Counties in Florida. Although Pelican National has a diversified loan portfolio, substantial portions of its debtors are dependent upon the real estate economic sector.

Fair Values of Financial Instruments:

Disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value is presented in a separate note. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. All nonfinancial instruments are excluded. Accordingly, the aggregate fair value amounts presented do not represent the value of Pelican Financial.

New Accounting Pronouncements:

FAS 123, Revised, requires all companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified after January 1, 2006. Compensation cost will also be recorded for prior option grants that vest after the date of adoption. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted. Existing options that will vest after adoption date are expected to result in additional compensation expense of approximately, \$26,904 in 2006, \$15,282 in 2007, \$8,992 in 2008 and \$4,718 in 2009.

Reclassification:

Certain prior year amounts have been reclassified to conform to the 2005 presentation.

Discontinued Operations of Washtenaw

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The following significant accounting policies applied only to Washtenaw, the discontinued operation of Pelican Financial.

Operating Segment:

Washtenaws operations include one primary segment: mortgage banking. The mortgage banking segment involved the origination and purchase of single-family residential mortgage loans in approximately 40 states; the sale of such loans in the secondary market, generally on a pooled and securitized basis; and the servicing of mortgage loans for investors. The assets and operations of the mortgage banking segment are now reflected in discontinued operations.

NOTE 2 - MERGER AGREEMENT

On December 6, 2005, Pelican Financial entered into a definitive agreement to merge with a newly formed subsidiary of Stark Bank Group, Ltd, of Fort Dodge, Iowa. According to the terms of the definitive agreement, shareholders of Pelican Financial will receive \$6.00 for each common share held, subject to reduction for certain costs incurred by Pelican Financial in excess of \$3.0 million, and minus an escrow of \$0.20 per share to cover possible liabilities from the sale of certain marine loans. At the option of Pelican Financial, the escrow may be increased to cover certain disputed costs or to cover claims on marine loans that are made prior to closing. The escrow will reduce the immediate cash payment to less than \$6.00 per share. The all-cash deal is subject to the satisfactory completion by Stark Bank Group of its due diligence and other customary closing conditions. On March 30, 2006, the merger was approved by Pelican Financial shareholders and bank regulators. The merger is expected to be completed in the second quarter of 2006.

The agreement also required Stark Bank Group to purchase \$4 million of a newly created series of convertible redeemable preferred stock of PFI (See Note 1).

NOTE 3 - SPIN-OFF

On December 31, 2003, Pelican Financial, the former parent company of Washtenaw, distributed all of the outstanding shares of Washtenaw to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the distribution on December 31, 2003, Washtenaw is no longer a subsidiary of Pelican Financial. The income statement and cash flow statement for 2003 include the activity of Washtenaw as a discontinued operation. During the periods presented in the financial statements, Pelican Financial did not incur any expenses on behalf of Washtenaw and no allocation of parent company expenses has been reflected in discontinued operations.

Following the distribution certain individuals continue to serve as officers of both Washtenaw and Pelican Financial. Washtenaw will pay their salaries and all other compensation. Pelican Financial will reimburse Washtenaw, as part of the transitional services agreement, for time spent on Pelican Financial matters. Prior to the distribution, Pelican did not reimburse Washtenaw for these services. After the distribution, officers and other employees providing services to both companies will be required to maintain records of their time spent on the affairs of each company as a basis for determining the reimbursements.

The following table provides unaudited proforma information for Pelican Financial continuing operations assuming the transitional services agreement was in effect for all periods presented. The amounts included represent management's estimate of the amount of reimbursement from Pelican Financial to Washtenaw that would have been paid during these periods had the transitional services agreement existed. In 2005 and

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2004, the actual transitional services reimbursements are included in the loss from continuing operations.

These amounts are based on past experience of time spent on Pelican Financial matters, and are primarily for accounting, human resources and senior management services. A tax rate of 34% was assumed for all periods.

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| | 2005 | 2004 | 2003 |
|--|----------------|--------------|----------------|
| Income (loss) from continuing operations before tax, as reported | \$ (2,360,155) | \$ (377,609) | \$ (1,390,861) |
| Transitional services reimbursement adjustment (unaudited) | | | (232,875) |
| Adjusted income (loss) from continuing operations before tax (unaudited) | (2,360,155) | (377,609) | (1,623,736) |
| Adjusted income taxes (unaudited) | (808,806) | (126,789) | (551,874) |
| Adjusted income (loss) from continuing operations (unaudited) | \$ (1,551,349) | \$ (250,820) | \$ (1,071,862) |
| Income (loss) from continuing operations as reported | \$ (1,551,349) | \$ (250,820) | \$ (918,165) |

NOTE 4 - INTERCOMPANY TRANSACTIONS

During the periods covered, Pelican National entered into various transactions with Washtenaw. These transactions were primarily the sale and servicing of loans. Intercompany transactions are eliminated in consolidation, with the effect of the eliminations included in discontinued operations.

During the years ended December 31, 2005 and 2004, Pelican Financial paid Washtenaw \$63,331 and \$151,717 as part of the transitional service agreement. Prior to the distribution, Pelican did not reimburse Washtenaw for these services.

During the years ended December 31, 2005, 2004 and 2003, Washtenaw sold loans to Pelican National totaling \$718,273, \$356,550 and \$15,730,311. The sales were executed at current market prices, and resulted in a gain of \$9,729, \$7,259 and \$170,829 to Washtenaw, respectively.

During the years ended December 31, 2005, 2004 and 2003, Pelican National paid servicing and loan underwriting fees to Washtenaw of \$16,722, \$38,371 and \$104,761.

NOTE 5 - SECURITIES AVAILABLE FOR SALE

The fair value and related unrealized gains and losses on securities available for sale recognized in accumulated other comprehensive income (loss) were as follows:

| | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|--|---------------|------------------------------|-------------------------------|
| 2005 | | | |
| U.S. Government Agencies and Sponsored Entities | \$ 21,966,807 | \$ | \$ (538,053) |
| Mortgage Backed Securities | 34,236,454 | | (865,402) |
| | \$ 56,203,261 | \$ | \$ (1,403,455) |
| 2004 | | | |
| U.S. Government Agencies and Sponsored Entities | \$ 49,933,692 | \$ | \$ (220,371) |
| Mortgage Backed Securities | 19,451,853 | 8,120 | (188,789) |
| | \$ 69,385,545 | \$ 8,120 | \$ (409,160) |

The fair value of securities available for sale at December 31, 2005, by contractual maturity, are shown below. Mortgage-backed securities are not due at a single maturity date and are shown separately.

| | Fair Value |
|---------------------------------------|---------------|
| Due in one year or less | \$ 6,896,026 |
| Due after one year through five years | 10,723,439 |
| Due after five years | 4,347,342 |
| Mortgage-Backed Securities | 34,236,454 |
| | \$ 56,203,261 |

At December 31, 2005 and 2004, zero and \$13,942,600 of securities were pledged as collateral.

For the years ended December 31, 2005, 2004 and 2003, proceeds from the sales of securities totaled \$2,185,425, \$83,073,000, and \$44,799,214. Gross gains from the sales of securities totaled \$5,625, \$318,940 and \$129,360 for the same periods. Gross losses from the sale of securities totaled zero, zero and \$158,375. The tax effect of gains and (losses) from the sales of securities totaled \$1,913, \$108,440 and (\$9,865).

Securities with unrealized losses at year end 2005 and 2004 not recognized in income are as follows, reported by length of time in an unrealized loss position:

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| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|-----------------|-------------------|-----------------|---------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| 2005 | | | | | | |
| U.S. Government Agencies and Sponsored Entities | \$ 2,004,375 | \$ (26,748) | \$ 19,962,432 | \$ (511,305) | \$ 21,966,807 | \$ (538,053) |
| Mortgage Backed Securities | 26,435,026 | (653,840) | 7,801,428 | (211,562) | 34,236,454 | (865,402) |
| | \$ 28,439,401 | \$ (680,588) | \$ 27,763,860 | \$ (722,867) | \$ 56,203,261 | \$ (1,403,455) |
| 2004 | | | | | | |
| U.S. Government Agencies and Sponsored Entities | \$ 46,530,567 | \$ (149,681) | \$ 2,403,125 | \$ (70,690) | \$ 48,933,692 | \$ (220,371) |
| Mortgage Backed Securities | 10,286,318 | (188,789) | | | 10,286,318 | (188,789) |
| | \$ 56,816,885 | \$ (338,470) | \$ 2,403,125 | \$ (70,690) | \$ 59,220,010 | \$ (409,160) |

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality (government agencies and sponsored entities), 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 securities approach their maturity date or market interest rates change.

NOTE 6 - LOANS RECEIVABLE

Loans receivable consist of the following:

| | 2005 | 2004 |
|--|---------------|----------------|
| Commercial, financial and agricultural | \$ 4,627,067 | \$ 1,967,687 |
| Commercial real estate | 35,888,747 | 38,751,936 |
| Residential real estate | 46,165,040 | 46,689,250 |
| Marine | | 17,823,612 |
| Consumer | 6,691,940 | 6,552,454 |
| | 93,372,794 | 111,784,939 |
| Deduct allowance for loan losses | (969,426) | (953,954) |
| Loans receivable, net | \$ 92,403,368 | \$ 110,830,985 |

Activity in the allowance for loan losses for the years are as follows:

| | 2005 | 2004 | 2003 |
|--------------------------------|-------------|--------------|--------------|
| Balance at beginning of period | \$ 953,954 | \$ 1,330,112 | \$ 1,062,109 |
| Provision for loan losses | 440,000 | (225,000) | 1,058,000 |
| Loans charged-off | (551,393) | (303,550) | (868,858) |
| Recoveries | 126,865 | 152,392 | 78,861 |
| Balance at end of period | \$ 969,426 | \$ 953,954 | \$ 1,330,112 |

Impaired loans are as follows:

| | 2005 | 2004 |
|--|--------------|--------------|
| Year-end loans with no allocated allowance for loan losses | \$ 1,515,030 | \$ 2,327,151 |
| Year-end loans with allocated allowance for loan losses | 413,278 | |
| | \$ 1,928,308 | \$ 2,327,151 |
| Amount of the allowance for loan losses allocated | \$ 61,500 | |

| | 2005 | 2004 |
|--|--------------|--------------|
| Average of impaired loans during the year | \$ 3,602,021 | \$ 4,603,239 |
| Interest income recognized during impairment | 453,022 | 553,231 |
| Cash-basis interest income recognized | \$ 453,022 | \$ 553,231 |

Non performing loans from continuing operations were as follows:

| | 2005 | 2004 |
|--|------------|------------|
| Loans past due over 90 days still on accrual | \$ 577,876 | \$ 108,590 |
| Non-accrual loans | 449,846 | 449,846 |

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

There were no loans to related parties for any periods presented.

NOTE 7 - MORTGAGE LOANS SERVICED

Mortgage and Other Servicing Rights:

Activity related to mortgage and other servicing rights is summarized below and includes the activity of the discontinued operation during the 2003:

| | 2005 | 2004 | 2003 |
|--|-----------|-----------|--------------|
| Balance at beginning of period | \$ 12,054 | \$ 29,368 | \$ 69,888 |
| Additions | | | 39,470,149 |
| Sales | | | (20,531,792) |
| Amortization | (9,044) | (17,314) | (6,359,601) |
| Reclassified to discontinued operation | | | (12,619,276) |
| Balance at end of period | 3,010 | 12,054 | 29,368 |
| Valuation allowance at beginning of period | | | |
| Adjustment for impairment | | | (1,734,698) |
| Adjustment for sale of servicing rights | | | |
| Reclassified to discontinued operation | | | 1,734,698 |
| Valuation allowance at end of period | | | |
| Net | \$ 3,010 | \$ 12,054 | \$ 29,368 |

The estimated fair value of servicing rights approximated carrying value for all periods.

NOTE 8 - PREMISES AND EQUIPMENT

Premises and equipment includes the following at year end:

| | 2005 | 2004 |
|---|--------------|--------------|
| Land | \$ 1,087,000 | \$ 1,087,000 |
| Buildings | 1,398,046 | 1,394,712 |
| Computer equipment and software | 611,720 | 723,048 |
| Furniture and fixtures | 1,169,051 | 1,160,996 |
| Leasehold improvements | 294,723 | 293,232 |
| | 4,560,540 | 4,658,988 |
| Accumulated depreciation and amortization | (1,252,868) | (945,788) |
| | \$ 3,307,672 | \$ 3,713,200 |

NOTE 9 -DEPOSITS

Deposits are comprised of the following at year end:

| | 2005 | 2004 |
|--------------------------|----------------|----------------|
| Noninterest-bearing | \$ 21,022,225 | \$ 15,200,340 |
| Interest -bearing demand | 34,465,887 | 70,591,765 |
| Savings | 10,514,639 | 10,413,465 |
| | 66,002,751 | 96,205,570 |
| Certificates of deposit: | | |
| Under \$100,000 | 36,481,871 | 18,348,700 |
| Over \$100,000 | 44,185,350 | 23,634,539 |
| IRAs | 2,998,523 | 2,519,962 |
| Total certificates | 83,665,744 | 44,503,201 |
| | \$ 149,668,525 | \$ 140,708,771 |

At December 31, 2005, the scheduled maturities of certificates of deposit are as follows:

| | |
|------|---------------|
| 2006 | \$ 61,089,804 |
| 2007 | 17,206,149 |
| 2008 | 2,733,507 |
| 2009 | 462,571 |
| 2010 | 2,173,713 |
| | \$ 83,665,744 |

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At December 31, 2005 and 2004, certificates of deposit obtained from brokers are \$3,375,000 and \$5,045,000.

NOTE 10 - BORROWINGS

Year-end advances from the Federal Home Loan Bank are as follows:

| | 2005 | 2004 |
|---|---------------|---------------|
| variable rate short term advance 2.44% at December 31, 2004 | \$ | \$ 29,500,000 |
| 5.79% advance, due February 2010 | 3,000,000 | 3,000,000 |
| 5.97% advance, due March 2010 | 3,000,000 | 3,000,000 |
| 5.89% advance, due September 2010 | 3,000,000 | 3,000,000 |
| 3.82% advance, due September 2012 | 3,000,000 | 3,000,000 |
| | \$ 12,000,000 | \$ 41,500,000 |

The above advances unless otherwise noted are at a fixed interest rate. Mortgage loans totaling \$34,259,654 at December 31, 2005 and Federal Home Loan Bank securities totaling \$30,232,681 at December 31, 2004, were eligible as collateral for these advances under a blanket collateral agreement with the FHLB.

NOTE 11 - FEDERAL INCOME TAXES

Income tax expense (benefit) is comprised of the following components:

| | 2005 | 2004 | 2003 |
|----------------------------------|--------------|--------------|--------------|
| Continuing operations | | | |
| Current provision (benefit) | \$ (799,876) | \$ (493,882) | \$ (266,308) |
| Deferred provision (benefit) | (8,930) | 367,093 | (206,388) |
| Total from continuing operations | (808,806) | (126,789) | (472,696) |
| Discontinued operations | | | 4,840,446 |
| | \$ (808,806) | \$ (126,789) | \$ 4,367,750 |

The net deferred tax asset is comprised of the following at year end:

| | 2005 | 2004 |
|-------------------------------|-----------|-----------|
| Deferred tax assets | | |
| Loan mark to market | \$ 49,125 | \$ 98,252 |
| Loan loss reserve | 214,851 | 232,357 |
| Other | 4,154 | |
| Unrealized loss on securities | 477,175 | 136,354 |
| | 745,035 | 466,963 |
| Deferred tax liabilities | | |
| Mortgage servicing rights | (1,023) | (4,098) |
| Depreciation | (166,105) | (206,034) |
| Prepaid expenses | (62,397) | (38,333) |
| Loan fees and costs | (19,038) | (71,777) |

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| | | | | |
|------------------------|----|-----------|----|-----------|
| Valuation allowance | | (248,563) | | (320,242) |
| Net deferred tax asset | \$ | 496,472 | \$ | 146,721 |

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The difference between the financial statement tax expense (benefit) and amounts computed by applying the statutory federal rate of 34% to pretax income from continuing operations is reconciled as follows:

| | 2005 | 2004 | 2003 |
|---|--------------|--------------|--------------|
| Statutory rate applied to income before taxes | \$ (802,453) | \$ (128,387) | \$ (472,893) |
| Add (Deduct) | | | |
| Effect of nondeductible expenses | 1,189 | 1,747 | 42,987 |
| Effect of nondeductible merger costs | 20,140 | | |
| Other | (27,682) | (149) | (42,790) |
| Income tax expense from continuing operations | \$ (808,806) | \$ (126,789) | \$ (472,696) |

NOTE 12 - LEASES

Pelican Financial leases office facilities under noncancelable operating leases.

Future minimum lease payments at December 31, 2005 under noncancelable leases are as follows:

| | |
|------|--------------|
| 2006 | \$ 611,944 |
| 2007 | 617,105 |
| 2008 | 369,735 |
| 2009 | 215,124 |
| 2010 | 110,790 |
| | \$ 1,924,698 |

For periods ended December 31, 2005, 2004 and 2003, rental expense under operating leases for continuing operations was approximately \$593,000, \$566,000 and \$509,000.

NOTE 13 - REGULATORY CAPITAL REQUIREMENTS

Pelican Financial and Pelican National are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Pelican Financials consolidated financial statements. Under capital adequacy guidelines, Pelican Financial and Pelican National must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and prompt corrective action classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as

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defined). Management believes, as of December 31, 2005 and 2004, that Pelican Financial and Pelican National meet all capital adequacy requirements to which they are subject and Pelican National is categorized as well capitalized under the regulatory framework for prompt corrective action applicable to banks. To be categorized as well capitalized, Pelican National must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed Pelican National's categories.

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Actual consolidated and Pelican National capital amounts (in thousands) and ratios are as follows:

| | Actual | | Minimum Required For Capital Adequacy Purposes | | Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations | |
|--|-----------|--------|--|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| 2005 | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Pelican Financial | \$ 15,971 | 16.70% | \$ 7,650 | 8.00% | N/A | N/A |
| Pelican National | 19,668 | 20.66 | 7,197 | 8.00 | \$ 8,996 | 10.00% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Pelican Financial | 15,002 | 15.69 | 3,825 | 4.00 | N/A | N/A |
| Pelican National | 18,669 | 19.64 | 3,598 | 4.00 | 5,398 | 6.00 |
| Tier 1 capital (to average assets) | | | | | | |
| Pelican Financial | 15,002 | 8.04 | 7,461 | 4.00 | N/A | N/A |
| Pelican National | 18,669 | 10.02 | 7,458 | 4.00 | 9,323 | 5.00 |
| 2004 | | | | | | |
| Total capital (to risk weighted assets) | | | | | | |
| Pelican Financial | \$ 17,505 | 16.31% | \$ 8,588 | 8.00% | N/A | N/A |
| Pelican National | 16,655 | 15.53 | 8,578 | 8.00 | \$ 10,722 | 10.00% |
| Tier 1 capital (to risk weighted assets) | | | | | | |
| Pelican Financial | 16,551 | 15.42 | 4,294 | 4.00 | N/A | N/A |
| Pelican National | 15,702 | 14.64 | 4,289 | 4.00 | 6,433 | 6.00 |
| Tier 1 capital (to average assets) | | | | | | |
| Pelican Financial | 16,551 | 7.57 | 8,749 | 4.00 | N/A | N/A |
| Pelican National | 15,702 | 7.18 | 8,746 | 4.00 | 10,932 | 5.00 |

The declaration of dividends by Pelican National is limited to Pelican National's retained net profit for the current and prior two years. As of December 31, 2005 dividends payable to Pelican Financial are not allowable.

On October 16, 2003, Pelican National entered into a memorandum of understanding (MOU) with the Office of the Comptroller of the Currency (OCC), which puts in place additional operational and reporting requirements on the Management and Board of Directors of Pelican National Bank but does not impose any financial covenants. While the MOU is not a legally binding document, non-compliance with MOU could cause the OCC to impose further requirements or restrictions on the Bank.

On September 1, 2005, Pelican National entered into a Formal Agreement with the Comptroller of the Currency. The Formal Agreement requires Pelican National to implement the following: (a) form a compliance committee comprised of at least three outside directors; (b) adopt and implement a written action plan to improve Pelican National; (c) adopt and implement a written three-year strategic plan; (d) adopt and implement a written profit plan to improve and sustain earnings of Pelican National; (e) increase and thereafter maintain Tier 1 capital at least equal to 13% of risk-weighted assets and Tier 1 capital at least equal to 8% of adjusted total assets; (f) appoint a new Senior Lending Officer; (g) develop and implement a written program to improve Pelican National's portfolio management; (f) develop and implement a written program to reduce the high level of credit risk; (g) take immediate and continuing action to protect its interest in assets criticized in the most recent Report of Examination and (h) take all necessary step to ensure that Pelican National corrects each violation of law, rule or regulation cited in

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the Report of Examination The requirements must be implemented within thirty to ninety days as specified in the Formal Agreement. Due to the pending merger, not all of the requirements have been met. The Formal Agreement replaced the MOU.

NOTE 14 - RETIREMENT PLAN

Pelican Financial has a profit sharing plan established under Section 401(k) of the Internal Revenue Code. Employees may contribute up to 100% of their compensation, subject to legal limitations. Pelican Financial contributes one-half of the participant's contribution up to 3% of the participant's compensation. Pelican Financial incurred expenses from continuing operations of \$20,658, \$20,781 and \$14,261 relating to the plan during the periods ended December 31, 2005, 2004 and 2003, respectively.

NOTE 15 - OTHER COMPREHENSIVE INCOME

Other comprehensive income (loss) components and related taxes are as follows:

| | 2005 | 2004 | 2003 |
|--|--------------|--------------|-----------|
| Unrealized holding gains and losses on securities available for sale | \$ (996,790) | \$ (223,411) | \$ 91,324 |
| Less: Reclassification adjustments for gains (losses) later recognized in income | 5,625 | 318,940 | (29,015) |
| Net unrealized gains and losses on securities available for sale | (1,002,415) | (542,351) | 120,339 |
| Tax effect | 340,820 | 184,400 | (40,915) |
| Other comprehensive income (loss) | \$ (661,595) | \$ (357,951) | \$ 79,424 |

NOTE 16 - DERIVATIVES (applicable to discontinued operations)

In the normal course of business, Washtenaw enters into commitments to purchase or originate residential mortgage loans. The commitments are short term in nature and, if drawn on by the counterparty, result in a fixed or variable rate loan collateralized by residential real estate. Commitments to make loans are generally made for periods of 90 days or less and may expire without being used. The majority of loans acquired through commitments will be held for sale. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although no material losses are anticipated. Washtenaw commits to lend at a stipulated interest rate and assumes the risk of a subsequent rise in rates prior to the loan funding.

Commitments to make residential mortgage loans at specified interest rates (rate lock commitments) are recorded in the financial statements at fair value.

Derivatives such as U.S. Treasury options and forward contracts are used by Washtenaw to manage interest rate risk on rate lock commitments and loans held for sale. Forward contracts represent future commitments to deliver securities and whole loans at a specified price and date. The derivatives involve underlying items, such as interest rates, and were designed to transfer risk. Substantially all of these instruments expire within 90 days. Notional amounts are amounts on which calculations and payments are based, but which do not represent credit exposure, as credit exposure is limited to the amounts required to be received or paid. These derivatives were recorded in the financial statements at fair value.

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Forward contracts also contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. In the event the parties to all delivery commitments were unable to fulfill their obligations, Washtenaw would not incur any significant additional cost by replacing the positions at current market rates. Washtenaw minimizes its risk of exposure by limiting the counterparties to those major banks and financial institutions that meet established credit and capital guidelines. Management does not expect any counterparty to default on their obligations and therefore, does not expect to incur any cost due to counterparty default.

Washtenaw is exposed to interest rate risk on loans held for sale and rate lock commitments. As market interest rates increase or decrease, the fair value of loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, Washtenaw enters into derivatives, including U.S. Treasury Options and forward contracts to sell loans and mortgage backed securities. The fair value of these options and forward contracts will change as market interest rates change, and the change in the value of these instruments was expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. Management

used risk management software to assist in determining the amount and type of options and forward contracts to enter into based on the volume and characteristics of existing rate lock commitments and loans held for sale. The objective of this activity is to minimize the exposure to losses on rate lock commitments and loans held for sale due to market interest rate fluctuations. The net effect of derivatives on earnings will depend on the effectiveness of hedging and risk management activities and a variety of other factors, including market interest rate volatility, the amount of rate lock commitments that close, the ability to fill the forward contracts before expiration, and the time period required to close and sell loans.

Certain forward contracts are designated as fair value hedges of loans held for sale. Accordingly, these forward contracts and the hedged loans held for sale are carried at fair value in offsetting amounts. The remaining forward contracts, as well as treasury options and rate lock commitments, are not designated as hedges and are carried at fair value. The net gain or loss on all derivative activity is included as a component of income from operations of discontinued mortgage subsidiary.

The following table reflects the net gain or loss recorded on all derivative activity, the portion of this net gain or loss attributable to the ineffective portion of fair value hedges, and the portion of gain or loss attributable to derivatives that are not included in fair value hedges in the income from discontinued operations.

| | December 31, | |
|---|---------------------|----------|
| | 2003 | |
| Net gain/(loss) recognized in earnings | \$ | 353,397 |
| Ineffective portion of hedge | | (12,110) |
| Gain/(loss) from derivatives excluded from hedges | | 365,507 |

NOTE 17 - LOAN COMMITMENTS

Some financial instruments, such as loan commitments, and lines of credit, 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 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.

| | 2005 | 2004 |
|---------------------------|--------------|--------------|
| Commitments to make loans | \$ 6,832,166 | \$ 2,138,028 |
| Unused lines of credit | 3,305,139 | 2,649,952 |

Commitments to make loans are generally made for periods of 60 days or less. Loan commitments have interest rates ranging from 6.75% to 8.75% and maturities ranging from 3 years to 30 years.

NOTE 18 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of Pelican Financials financial instruments, excluding discontinued operations, were as follows:

| | December 31, 2005 | | December 31, 2004 | |
|--------------------------------|----------------------|---------------|----------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 23,385,000 | \$ 23,385,000 | \$ 10,491,489 | \$ 10,491,489 |
| Securities available for sale | 56,203,261 | 56,203,261 | 69,385,545 | 69,385,545 |
| Federal Reserve and FHLB stock | 1,297,400 | 1,297,400 | 2,669,700 | 2,669,700 |
| Loans held for sale | 40,970 | 40,970 | | |
| Loans receivable, net | 92,403,368 | 91,422,242 | 110,830,985 | 112,165,000 |
| Accrued interest receivable | 761,742 | 761,742 | 688,055 | 688,055 |
| LIABILITIES | | | | |
| Deposits | (149,668,525) | (149,814,328) | (140,708,771) | (141,692,519) |
| FHLB Advances | (12,000,000) | (12,658,460) | (41,500,000) | (42,033,933) |
| Accrued interest payable | (230,899) | (230,899) | (231,115) | (231,115) |

The methods and assumptions used to estimate the fair value are described as follows.

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Carrying amount is the estimated fair value for cash and cash equivalents, Federal Reserve and FHLB stock, short-term borrowings, accrued interest and demand deposits. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of loans held for sale is based on sales commitments or secondary market quotes for the related loans or similar loans. Fair value of FHLB Advances is based on the current rates for similar financing. The fair value of off-balance-sheet items is not significant.

NOTE 19 - STOCK OPTIONS, STOCK APPRECIATION RIGHTS AND WARRANTS

Pelican Financial maintains a Stock Option and Incentive Plan (the Plan). Pursuant to the Plan, 440,000 shares (adjusted for stock dividends and splits) of Pelican Financial's common stock were made available for grant through stock options to key employees and non-employee directors of Pelican Financial, Washtenaw and Pelican National. Each option granted under the Plan vests as specified by the Stock Option Committee and has a term of not more than ten years. The exercise price of options granted is at least equal to market value at the date of grant, and, therefore, no compensation expense has been recorded for options granted.

The Plan also provides for granting of stock appreciation rights (SARS). SARS may be granted in connection with any or all of the stock options that may be granted subject to certain conditions and limitations imposed by the Stock Option Committee. The exercise of a SAR will entitle the holder to payment from Pelican Financial of an amount equal to the difference between the fair value of such shares on the date the SAR was originally granted and the fair value of such shares at the exercise date of the SAR. This payment may be made in cash, in shares or partly in each. To date, no SARs have been granted.

All outstanding awards shall become immediately exercisable in the event of a change in control of Pelican Financial.

The following is a summary of stock option activity for the years ended December 31 (adjusted for stock dividends and splits):

| | 2005 | | 2004 | | 2003 | |
|-------------------------------|---------|---------------------------------|-----------|---------------------------------|----------|---------------------------------|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding beginning of year | 330,305 | \$ 3.79 | 130,410 | \$ 6.01 | 206,775 | \$ 5.28 |
| Granted | | | 346,385 | 3.79 | | |
| Exercised | | | (1,807) | 3.45 | (48,110) | 4.64 |
| Forfeited or cancelled | | | (144,683) | 5.77 | (28,255) | 4.51 |
| Outstanding end of year | 330,305 | \$ 3.79 | 330,305 | \$ 3.79 | 130,410 | \$ 6.01 |
| Exercisable at end of year | 278,107 | \$ 3.53 | 262,137 | \$ 3.46 | 97,840 | \$ 5.94 |

Options outstanding at December 31, 2004 have a weighted average life of 6.62 years, with exercise prices ranging from \$3.45 to \$8.10. The Company has 21,223 options available for grant.

The Company issued stock warrants in connection with its initial public offering in 1999, and the warrants became exercisable one year after the offering. During 2001 there were 52,800 warrants outstanding at an exercise price of \$7.64 (as adjusted for stock dividends and splits). During 2005, 2004 and 2003, zero, 12,320 and zero warrants were exercised. The remaining warrants have expired. The warrants were anti-dilutive for all periods presented.

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Due to the spin-off (see Note 3), options outstanding at December 31, 2003 include 10,735 options that are held by employees of Washtenaw. These options were cancelled during the first quarter of 2004 and replaced with options on stock of The Washtenaw Group. While employees and directors of Pelican Financial and Pelican National held the remaining options, the intrinsic value (market value per share, less option exercise price) of these options was significantly reduced by the effect of the spin-off. As a result of the spin-off, the number and exercise price of these options was modified in January 2004 to restore the options to substantially the same intrinsic value as existed at the date of the spin-off. Accordingly, the options outstanding at December 31, 2003 have subsequently been replaced with 288,385 options at an exercise price of \$3.45.

NOTE 20 - EARNINGS PER SHARE

The following summarizes the computation of basic and diluted earnings per share. Weighted average shares have been restated for all stock splits.

| | 2005 | 2004 | 2003 |
|--|----------------|--------------|--------------|
| Basic: | | | |
| Income (loss) from continuing operations | \$ (1,551,349) | \$ (250,820) | \$ (918,165) |
| Income from discontinued operations | | | 9,438,236 |
| Net income (loss) applicable to common stock | (1,551,349) | (250,820) | 8,520,071 |
| Weighted average shares outstanding | 4,494,365 | 4,489,438 | 4,455,281 |
| Income (loss) from continuing operations per share | (0.35) | (0.06) | (0.21) |
| Income from discontinued operations per share | | | 2.12 |
| Basic earnings (loss) per share | \$ (0.35) | \$ (0.06) | \$ 1.91 |
| Diluted: | | | |
| Income (loss) from continuing operations | \$ (1,551,349) | \$ (250,820) | \$ (918,165) |
| Income from discontinued operations | | | 9,438,236 |
| Net income (loss) applicable to common stock | \$ (1,551,349) | \$ (250,820) | 8,520,071 |
| Weighted average shares outstanding | 4,494,365 | 4,489,438 | 4,455,281 |
| Dilutive effect of preferred stock | | | |
| Dilutive effect of stock options and warrants | | | |
| Diluted average shares outstanding | 4,494,365 | 4,489,438 | 4,455,281 |
| Income (loss) from continuing operations per share | (0.35) | (0.06) | (0.21) |
| Income from discontinued operations per share | | | 2.12 |
| Diluted earnings (loss) per share | \$ (0.35) | \$ (0.06) | \$ 1.91 |

For the year ended December 31, 2005, the convertible preferred stock issued and outstanding was not dilutive due to the net loss. There were no convertible preferred shares issued and outstanding at December 31, 2004 and 2003. All stock options and warrants outstanding were anti-dilutive for all periods presented.

NOTE 21 - PELICAN FINANCIAL, INC. (PARENT COMPANY ONLY) CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

| | 2005 | 2004 |
|---|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 90,322 | \$ 777,885 |
| Investment in Pelican National | 17,773,200 | 15,438,202 |
| Other assets | 399,205 | 134,204 |
| Total assets | \$ 18,262,727 | \$ 16,350,291 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Accrued expenses and other liabilities | \$ 187,921 | \$ 62,541 |
| Series A convertible redeemable preferred stock | 4,000,000 | |
| Shareholders equity | 14,074,806 | 16,287,750 |
| Total liabilities and shareholders equity | \$ 18,262,727 | \$ 16,350,291 |

CONDENSED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

| | 2005 | 2004 | 2003 |
|---|----------------|--------------|--------------|
| Dividends from Washtenaw | \$ | \$ | \$ 5,166,827 |
| Non interest expense | 830,215 | 558,077 | 1,117,448 |
| Income (loss) before income tax and undistributed subsidiary income | (830,215) | (558,077) | 4,049,379 |
| Income tax benefit | 282,273 | 189,368 | 379,795 |
| Equity in undistributed subsidiary income (loss) | (1,003,407) | 117,889 | (180,512) |
| Equity in discontinued operations | | | 4,271,409 |
| Net income (loss) | (1,551,349) | (250,820) | 8,520,071 |
| Unrealized gain (loss) on securities, net of tax and reclassification effects | (661,595) | (357,951) | 79,424 |
| Comprehensive income (loss) | \$ (2,212,944) | \$ (608,771) | \$ 8,599,495 |

CONDENSED STATEMENTS OF CASH FLOWS

| | 2005 | 2004 | 2003 |
|--|------------------|-------------------|---------------------|
| Cash flows from operating activities | | | |
| Net income (loss) | \$ (1,551,349) | \$ (250,820) | \$ 8,520,071 |
| Adjustments | | | |
| Equity in undistributed subsidiary (income) loss | 1,003,407 | (117,889) | 180,512 |
| Equity in discontinued operation | | | (4,271,409) |
| Change in other assets | (265,001) | 301,024 | (82,309) |
| Change in other liabilities | 125,380 | (54,214) | (121,155) |
| Net cash provided (used) by operating activities | (687,563) | (121,899) | 4,225,710 |
| Cash flows from financing activities | | | |
| Cash dividends | | | (1,781,929) |
| Proceeds from issuance of preferred stock | 4,000,000 | | |
| Proceeds from exercise of stock options | | 6,233 | 223,502 |
| Decrease in note payable due on demand | | (291,665) | (500,002) |
| Net cash provided (used) by financing activities | 4,000,000 | (285,432) | (2,058,429) |
| Cash flows from investing activities | | | |
| Contribution of capital to subsidiary | (4,000,000) | (1,000,000) | |
| Net cash (used) by investing activities | (4,000,000) | (1,000,000) | |
| Net change in cash and cash equivalents | (687,563) | (1,407,331) | 2,167,281 |
| Cash and cash equivalents at beginning of year | 777,885 | 2,185,216 | 17,935 |
| Cash and cash equivalents at end of year | \$ 90,322 | \$ 777,885 | \$ 2,185,216 |

NOTE 22 QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Interest Income | Net Interest Income | Net Income/(Loss) | Earnings/(Loss) Per Share | |
|----------------|--------------------|---------------------------|----------------------|------------------------------|-----------|
| | | | | Basic | Diluted |
| <u>2005</u> | | | | | |
| First Quarter | \$ 2,555,913 | \$ 1,392,005 | \$ (326,420) | \$ (0.07) | \$ (0.07) |
| Second Quarter | 2,633,900 | 1,380,342 | (217,619) | (0.05) | (0.05) |
| Third Quarter | 2,676,334 | 1,291,658 | (562,073) | (0.13) | (0.13) |
| Fourth Quarter | 2,414,531 | 1,062,347 | (445,237) | (0.10) | (0.10) |
| <u>2004</u> | | | | | |
| First Quarter | \$ 2,588,477 | \$ 1,548,976 | \$ (160,424) | \$ (0.04) | \$ (0.04) |
| Second Quarter | 2,756,359 | 1,602,774 | (71,217) | (0.02) | (0.02) |
| Third Quarter | 2,745,978 | 1,564,791 | 155,814 | 0.03 | 0.03 |
| Fourth Quarter | 2,447,018 | 1,433,341 | (174,993) | (0.03) | (0.03) |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Pelican Financial, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that Pelican Financial's disclosure controls and procedures are effective in reaching a reasonable level of assurance that information required to be disclosed by Pelican Financial in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms.

The principal executive officer and principal financial officer also conducted an evaluation of internal control over financial reporting (Internal Control) to determine whether any changes in Internal Control occurred during the fourth fiscal quarter that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter covered by this report.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Pelican Financial have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Pelican Financial conducts periodic evaluations to enhance, where necessary its procedures and controls.

Item 9B. Other Information

None.

PART III**Item 10. Directors and Executive Officers of the Registrant**

The following information concerning Pelican Financial's directors and executive officers is based, in part, upon information provided by such persons:

| Name | Age | Position |
|------------------------|------------|--|
| Charles C. Huffman | 61 | Chairman, President and Chief Executive Officer |
| Raleigh E. Allen, Jr. | 63 | Director |
| Robert Charles Huffman | 35 | Director |
| Scott Miller | 35 | Director |
| Howard M. Nathan | 36 | Director and Chief Financial Officer |
| Timothy J. Ryan | 55 | Director |
| S. Lynn Stokes | 59 | Director |
| Kenneth Aschom | 51 | Chief Executive Officer of Pelican National Bank |

Charles C. Huffman has been President and Chief Executive Officer and Chairman of the Board of Pelican Financial and Chief Executive Officer and Chairman of the Board of Pelican National Bank since March 1997, and Chairman of the Board of Washtenaw Mortgage Company since its founding in 1981. Mr. Huffman resigned as Chief Executive Officer of Pelican National Bank in December 2005. He has also served as Chief Executive Officer and Chairman of the Board of The Washtenaw Group, Inc., a company related by common ownership, which is the parent company of Washtenaw Mortgage.

Raleigh E. Allen, Jr. has been a Director of Pelican Financial since March 1999, and a director of The Washtenaw Group, Inc. since August 2003. Mr. Allen has been employed by Ross Mortgage Corporation as a Vice President since April 1999. Mr. Allen was employed by the Mortgage Guaranty Insurance Corporation from 1973 until December 1998, most recently serving as an Account Manager for Eastern Michigan.

Robert Charles Huffman has been a Director of Pelican Financial and President of Washtenaw Mortgage Company since January 2001, and a Director of The Washtenaw Group, Inc. since August 2003. Mr. Huffman has held various management-level positions with Washtenaw Mortgage since 1993, including Vice President of Secondary Marketing since 1999 and Vice President of Servicing, Information Technology and Retail Lending since 1999. Mr. Huffman served on the Fannie Mae's Secondary Marketing Advisory Council from 1996 to 1998. Robert C. Huffman is the son of Charles C. Huffman.

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Scott Miller has been a Director of Pelican Financial since April 2003, and has served as a Director of The Washtenaw Group, Inc. since August 2003. Mr. Miller was previously employed as a senior equity analyst at United Capital Management in Denver, Colorado beginning in June 1999. Mr. Miller is a member of the Denver Society of Securities Analysts.

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Howard M. Nathan has been a Director of Pelican Financial and Vice President and Chief Financial Officer of Pelican Financial and Washtenaw Mortgage since April 2000, and has served as a Director and Chief Financial Officer of The Washtenaw Group, Inc. since August 2003. Previously, Mr. Nathan served as Controller of Washtenaw Mortgage from December 1999 to March 2000. Prior to joining Washtenaw Mortgage, he served as Controller of Adval Communications from April 1999 to November 1999. Adval Communications was in the broadcast messaging industry. Mr. Nathan also worked as Senior Auditor at Arthur Andersen from December 1998 to March 1999.

Timothy J. Ryan has been a director of Pelican Financial since October 2000, and a Director of The Washtenaw Group, Inc. since August 2003. Mr. Ryan has been a consultant to the mortgage industry since July 2000. From January 1983 to June 2000 Mr. Ryan was employed by Fannie Mae, most recently as Vice President Technology Marketing.

S. Lynn Stokes has been a Director of Pelican Financial since July 1999, and a Director of The Washtenaw Group, Inc. since August 2003. Mr. Stokes has been a consultant to the financial institution industry since 1986 from his office in Sun Center City, Florida.

Kenneth Aschom was appointed as chief executive officer of Pelican National Bank in December 2005. Previously, Mr. Aschom was President of the Loan Production Office of First American Bank, Naples, Florida, a wholly-owned subsidiary of Stark Bank Group, since December 2004. From January 2004 to December 2004, Mr. Aschom was Senior Vice President and Senior Private Banker of US Trust Company. From November 2001 to June 2004, Mr. Aschom was President of AmSouth Bank, Naples Florida. From April 1999 to October 2001, Mr. Aschom was Senior Vice President and Senior Wealth Management Executive, AmSouth Bank, for the West Coast of Florida.

The Washtenaw Group

In December 2005, The Washtenaw Group announced that it had determined to discontinue mortgage loan production operations and that it would begin laying off all employees involved in the origination of new loan production. The Washtenaw Group is in the process of shutting down its remaining operations and liquidating its assets.

Audit Committee

The Board of Directors of Pelican Financial has appointed an Audit Committee consisting of directors S. Lynn Stokes, Raleigh E. Allen, Jr., Timothy J. Ryan and Scott D. Miller. Mr. Stokes is the Chairman of the Committee. As of the date of Annual Report, each of the Committee members is an independent director, as defined in the American Stock Exchange listing requirements and applicable rules of the SEC. The Board of Directors has determined that Mr. Stokes is the audit committee financial expert, as such term is defined by applicable federal securities laws.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who own more than ten percent of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the American

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Stock Exchange. The Securities and Exchange Commission requires executive officers, directors and greater than ten percent shareholders to furnish to Pelican Financial copies of all forms they file pursuant to this requirement.

Based solely on our review of these reports and of certifications furnished to Pelican Financial, Pelican Financial believes that during the fiscal year ended December 31, 2005 all executive officers,

directors and greater than ten-percent beneficial owners complied with all applicable Section 16(a) filing requirements

Code of Business Conduct and Ethics

Pelican Financial has adopted a written Code of Business Conduct and Ethics that applies to the company's principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Pelican Financial's Code of Business Conduct and Ethics is available on the company's Internet Website at www.pelicanfinancialinc.com.

Item 11. Executive Compensation

Director Compensation

Non-employee directors of Pelican Financial receive \$600 per meeting of the Board of Directors attended. Each member of the Board of Directors of Pelican National Bank receives a fee of \$400 per month. Additionally, each non-employee member of a committee of the Board of Directors of Pelican Financial receives a fee of \$100 per committee meeting. Non-employee directors also receive a \$2,000 annual retainer fee and the Chairman of the Audit Committee receives a \$60,000 retainer fee. Pelican Financial paid a total of \$118,400 in the year ended December 31, 2005 as directors' fees. Directors are also eligible to receive stock options and stock appreciation rights pursuant to Pelican Financial's stock option and incentive plan. See - Stock Option and Incentive Plan. No options were granted to directors during the year ended December 31, 2005.

Executive Officer Compensation

Pelican Financial's executive officers receive no direct compensation from Pelican Financial. All compensation paid to the executive officers was paid by The Washtenaw Group, Inc. and reimbursed by Pelican Financial pursuant to a Transitional Services Agreement (the "TSA") entered into at the time of the spin-off of The Washtenaw Group, Inc. (and its wholly owned subsidiary, Washtenaw Mortgage) from Pelican Financial. During 2005, the total reimbursement paid to The Washtenaw Group, Inc. under the terms of this agreement was \$42,153. This included \$19,153 and \$24,300 for the services of Charles Huffman and Howard Nathan, respectively.

The following table contains information on the cash and non-cash compensation awarded to or earned during the last three fiscal years by the Chief Executive Officer and each executive officer of Pelican Financial that earned a salary and bonus in excess of \$100,000 during the fiscal year ended December 31, 2005.

SUMMARY COMPENSATION TABLE

| Name and principal position | Period Ended | Annual Compensation | | | Long Term Compensation Securities Underlying Options (#) | All other Compensation |
|--|----------------------------------|---------------------|---------------------|------------------------------|--|------------------------|
| | | Salary | Bonus | Other Annual Compensation(1) | | |
| Charles C. Huffman Chief Executive Officer and Chairman of the Board of Pelican Financial; Chairman of the Board of Pelican National and Washtenaw Mortgage | 12/31/05 12/31/04 12/31/03 | \$ \$ 260,000 | \$ \$ 991,871 | \$ \$ \$ | | \$ \$ 3,075(2) |
| Howard M. Nathan Chief Financial Officer of Pelican Financial and Washtenaw Mortgage | 12/31/05 12/31/04 12/31/03 | \$ \$ 148,500 | \$ \$ 396,748 | \$ \$ \$ | | \$ \$ 3,275(3) |
| Howard B Montgomery, Jr. Director and President of Pelican National Bank | 12/31/05 12/31/04 12/31/03 | \$ \$ 63,462 | | | 50,000 | 8,380(4) 2,625(5) |

(1) The Chief Executive Officer and Chief Financial Officer did not receive any direct compensation from Pelican Financial during the year ended December 31, 2005 and 2004. However, as part of a Transitional Services Agreement between Pelican Financial, Inc. and The Washtenaw Group, Inc., Pelican Financial reimbursed The Washtenaw Group, Inc. \$19,153 and \$34,363 for the services of Mr. Huffman as President and Chief Executive Officer and \$24,300 and \$44,180 for the services of Mr. Nathan as Chief Financial Officer for 2005 and 2004, respectively.

For the years December 31, 2005, 2004 and 2003, there were no:

- a. perquisites over the lesser of \$50,000 or 10% of any of the above named executive officers' total salary and bonus;
- b. payments of above-market preferential earnings on deferred compensation;
- c. tax payment reimbursements; or
- d. preferential discounts on stock.

(2) Represents amounts contributed to Pelican Financial's 401(k) plan for the account of Mr. Huffman.

(3) Represents \$3,075 contributed to Pelican Financial's 401(k) plan for the account of Mr. Nathan and a \$200 payment of a wellness allowance.

(4) Represents \$1,880 contributed to Pelican Financial's 401(k) plan for the account of Mr. Montgomery and a \$6,500 payment of an auto allowance.

(5) Represents \$6,500 payment to Mr. Montgomery for an auto allowance.

401(k) Savings Plan.

Pelican Financial sponsors a tax-qualified defined contribution savings plan (commonly known as a 401(k) Plan) for the benefit of its employees and the employees of Pelican National Bank. Employees become eligible to participate in the 401(k) Plan after reaching age 21 and completing ninety days of full time employment. Pursuant to the 401(k) Plan, employees may voluntarily elect to defer compensation, not to exceed applicable limits under the Code (*i.e.*, \$14,000 in calendar year 2005). Pelican Financial matches 50% of the employee contributions up to the first 3.0% of the participant's contribution. Matching contributions vest over a six-year period beginning after the second year at a rate of 20% per year, or become 100% vested upon termination of employment due to death, disability, or retirement.

Pelican Financial may make additional contributions but is not obligated to do so. Employee contributions are immediately vested. The amount contributed by Pelican Financial to each of the employees named in the Summary Compensation Table is shown in the All Other Compensation column of such table.

Benefits are payable upon termination of employment, retirement, death, disability, or plan termination. Normal retirement age pursuant to the 401(k) Plan is age 65. Additionally, funds in the 401(k) Plan may be distributed upon application to the plan administrator upon severe financial hardship in accordance with uniform guidelines, which comply with those specified by the Internal Revenue Code. It is intended that the 401(k) Plan operate in compliance with the provisions of the Employee Retirement Income Security Act of 1974 (otherwise known as ERISA), and the requirements of Section 401(a) of the Internal Revenue Code. For the years ended December 31, 2005, 2004 and 2003, Pelican Financial incurred expenses of approximately \$21,000, \$21,000 and \$14,000, respectively relating to the 401(k) Plan.

Stock Option and Incentive Plan.

The Board of Directors adopted the 1997 Stock Option and Incentive Plan upon completion of the organization of Pelican National. 440,000 shares of common stock Pelican were reserved for issuance by us to be issued upon the exercise of stock options to be granted to officers, directors, and employees of Pelican Financial and Pelican National Bank from time to time pursuant to the option plan. The purpose of the option plan is to provide additional performance and retention incentives to officers, directors, and employees by facilitating their purchase of a stock interest in Pelican Financial. The option plan provides for a term of 10 years, after which no awards could be made, unless earlier terminated by the Board of Directors of Pelican Financial pursuant to the option plan. Directors and executive officers of Pelican Financial and Pelican National Bank received an initial grant of options upon the consummation of the organization of Pelican National Bank. The options vest over a period determined by the Compensation Committee. Options are granted based upon several factors, including seniority, job duties and responsibilities, job performance, and our overall performance. As a result of the spin-off of The Washtenaw Group (and its wholly owned subsidiary, Washtenaw Mortgage), all the previously issued stock options were forfeited and replaced with new options at new strike prices on January 22, 2004.

At December 31, 2005, there were options covering 330,305 shares of common stock outstanding pursuant to the option plan and 88,472 options granted pursuant to the option plan have been exercised.

Under the merger agreement with Stark Bank Group, each option to purchase Pelican Financial common stock outstanding as of the effective time of the merger will cease to exist. Any options having an exercise price less than the per share merger consideration payable in the merger will be converted into the right to receive an amount equal to the difference between the per share merger consideration and the per share option exercise price, minus an escrow of \$0.20 per share to cover possible liabilities from the sale of certain marine loans and any additional amounts escrowed pursuant to the merger agreement with respect to disputed costs.

The following table contains information on (a) the number of shares acquired by any of the named persons upon exercise of stock options during the year ended December 31, 2005, (b) the value realized through the exercise of any options, and (c) the number of unexercised options held by the person, including both those which are presently exercisable and those which are not presently exercisable as of December 31, 2005.

Aggregated Option Exercises in Last Fiscal Year**And FY-End Option Values**

| Name | Shares acquired on exercise | Value realized | Number of unexercised options exercisable/unexercisable | | Value of unexercised in-the-money options(1) exercisable/unexercisable | |
|---------------------------|-----------------------------------|-------------------|---|--------|--|-----------------|
| Charles C. Huffman | | | 131,500 | | \$ | 276,150 |
| Howard M. Nathan | | | | | | |
| Howard B. Montgomery, Jr. | | | 10,000 | 40,000 | \$ | 4,800 \$ 19,200 |

(1) Represents the difference between \$5.55, the last sale price of the Common Stock on December 30, 2005, as reported on the American Stock Exchange, and the exercise price of in-the-money options, multiplied by the number of exercisable or unexercisable options held, as applicable.

Employment Agreements and Executive Change in Control Agreements.

Pelican Financial does not have a written employment agreement with any of its current executive officers.

Each of Messrs. Huffman and Nathan is an at-will employee of Pelican Financial and receives no annual salary, from Pelican Financial, but is eligible for benefits generally available to other employees.

Pelican Financial has also entered into an Executive Change in Control Agreement with Mr. Howard Nathan. The agreement provides for a \$150,000 bonus payment upon the sale of Pelican Financial and/or Pelican National.

In December 2005, Pelican National Bank hired Kenneth Aschom as chief executive officer. Mr. Aschom is an employee-at-will of Pelican National Bank and receives an annual salary of \$152,000 in addition to benefits generally available to other employees.

Pelican National Bank was party to an employment agreement, dated August 1, 2004, with Mr. Howard B. Montgomery, as president of Pelican National Bank, that provided, among other things for a bonus of \$400,000 if Pelican National Bank was sold for a multiple greater than 1.75 times its book value. On February 10, 2006, Pelican Financial entered into a severance agreement with Mr. Montgomery, who resigned as president of Pelican National Bank effective as of the close of business on February 10, 2006. Under the severance agreement, Pelican National Bank paid Mr. Montgomery a severance of \$482,500 in satisfaction of amounts due or to become due to him under his employment agreement, including the bonus of \$400,000 payable as a result of the merger. In addition, all of the 50,000 options to purchase Pelican Financial's stock previously awarded to Mr. Montgomery became immediately exercisable and will not expire prior to the close of business on August 2, 2015, the original expiration date of the options. The severance agreement also contains a mutual release of claims.

Compensation Committee Interlocks and Insider Participation

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All compensation paid to Pelican Financial's executive officers is paid by Washtenaw Mortgage Company (a company related by common ownership) or Pelican National Bank pursuant to a Transitional Services Agreement entered into in connection with the spin-off of The Washtenaw Group, Inc. (and its subsidiary, Washtenaw Mortgage). The Board of Directors of Pelican Financial and The Washtenaw Group, Inc. consist of the same members. In addition, Mt. Huffman serves as the President and Chief Executive Officer of both of Pelican Financial and The Washtenaw Group, Inc. and Mr. Nathan serves as the Chief Financial Officer of both companies. All independent members of the Pelican Financial Board of Directors act as the Compensation Committee to determine the compensation packages for employee

members of the Board of Directors. The independent directors that comprised Pelican Financial's Board of Directors during 2005 were: S. Lynn Stokes, Raleigh E. Allen, Jr., Timothy J. Ryan and Scott D. Miller. None of the members of the Compensation Committee during 2005 were an officer or employee of Pelican Financial or Pelican National.

Pelican National Bank's full Board of Directors acts as the compensation committee for Pelican National Bank. Executive officers that also sit on the Board of Directors with responsibility for determining salaries do not participate in deliberations with regard to their own compensation.

The information set forth in Item 13. Certain Relationships and Related Party Transactions is incorporated herein by reference.

Item 12. Securities Ownership of Certain Beneficial Owners and Management

Equity Compensation Plan Information

The following table details information regarding our existing equity compensation plans as of December 31, 2005:

| Plan Category | (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b) Weighted-average exercise price of outstanding options, warrants and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|--|
| Equity compensation plans approved by security holders | N/A | N/A | N/A |
| Equity compensation plans not approved by security holders(1) | 330,305 \$ | 3.79 | 21,223 |
| Total | 330,305 \$ | 3.79 | 21,223 |

(1) The Company maintains a Stock Option and Incentive Plan. For more information on the Stock Option and Incentive Plan, please see Note 18 to our consolidated financial statements.

Security Ownership of Certain Beneficial Owners

The following table sets forth, as of March 1, 2006, the amount and percentage of the common stock beneficially owned by: (a) each person who owns of record or who is known by the Board of Directors to be the beneficial owner of more than 5% of Pelican Financial's outstanding common stock, (b) each director, (c) each executive officer named in the Summary Compensation table set forth in Item 11 above and (d) all directors and executive officers as a group. All shares are held individually unless otherwise indicated.

| Name of Individual | Direct Ownership of Pelican Financial (1) | Stock Options | Total Beneficial Ownership | Percent of Total (2) |
|--|---|---------------|----------------------------------|-------------------------|
| Charles C. Huffman (3) | 1,826,650 | 131,500 | 1,958,150 | 42.3% |
| Robert C. Huffman (4) | 198,992 | 77,390 | 276,382 | 6.0% |
| Raleigh E. Allen, Jr. | 687 | 10,035 | 10,722 | * |
| Timothy J. Ryan | 1,000 | 3,785 | 4,785 | * |
| S. Lynn Stokes | 185 | 12,070 | 12,255 | * |
| Howard M. Nathan | 385 | | 385 | * |
| Scott D. Miller | | 1,000 | 1,000 | * |
| Kenneth Aschom | 0 | 0 | 0 | |
| Howard B. Montgomery, Jr. | 210 | 50,000 | 50,210 | 1.1% |
| All directors and executive officers As a group (9 persons) (5) | 2,028,109 | 285,780 | 2,313,889 | 48.4% |

(1) Unless otherwise indicated, includes all shares held directly by the named individuals as well as by spouses, minor children in trust, and other forms of indirect ownership, over which shares the named individual effectively exercises sole voting and investment power with respect to the indicated shares.

(2) Based on number of shares outstanding on March 1, 2006 and the number of shares issuable upon exercise of stock options held by such person(s).

(3) Includes 9,900 shares of common stock owned by the spouse of Mr. Huffman for which Mr. Huffman disclaims beneficial ownership. Excludes 398,384 shares of common stock that are held in a trust for the benefit of his two adult children for which Mr. Huffman disclaims beneficial ownership. 183,592 shares of common stock held in these trusts are included in Robert C. Huffman's total and 214,792 for the benefit of his daughter, Jennifer Goldstein, are not included in the table above.

(4) Includes 183,592 shares of common stock held in a trust for his benefit.

(5) Excludes 214,792 shares of common stock that are held in a trust for the benefit of Mr. Charles C. Huffman's adult daughter, Jennifer Goldstein, not employed by the Company for which Mr. Huffman disclaims beneficial ownership.

Change in Control.

The consummation of the merger agreement with Stark Bank Group will result in a change of control of Pelican Financial. See Item 1. Business.

Item 13. Certain Relationships and Related Transactions

On December 31, 2003, Pelican Financial distributed all of the outstanding shares of The Washtenaw Group, Inc. to the holders of Pelican Financial common stock on a share for share basis (based on Pelican Financial shareholders of record on December 22, 2003). Upon completion of the

distribution on December 31, 2003, Washtenaw was no longer a subsidiary of Pelican Financial. Following the distribution certain individuals served as officers of both Washtenaw and Pelican Financial. Washtenaw pays their salaries and all other compensation. Pelican Financial reimburses Washtenaw, as part of a Transitional Services Agreement (the "TSA"), for time spent on Pelican Financial matters. Prior to the distribution, Pelican did not reimburse Washtenaw for these services. After the distribution, officers and other employees providing services to both companies are required to maintain records of their time spent on the affairs of each company as a basis for determining the reimbursements. During 2005, the total reimbursement paid to The Washtenaw Group, Inc. under the terms of this agreement was \$43,453. This included \$19,153 and \$24,300 for the services of Charles Huffman, and Howard Nathan, respectively.

During the year ended December 31, 2005, Pelican National Bank entered into various transactions with The Washtenaw Group and its subsidiary, Washtenaw Mortgage Company. These transactions were primarily the sale of loans, the servicing of loans, the establishment of custodial accounts on deposit and borrowings.

During the year ended December 31, 2005, Washtenaw sold loans to Pelican National Bank totaling \$718,273. The sales were executed at current market prices.

Pelican Financial has adopted a policy that all transactions between Pelican Financial and its officers, directors, and shareholders owning 5% or more of the common stock will be made on terms no less favorable than could be obtained from third parties.

Pelican National Bank, like many financial institutions, has adopted a policy regarding the making of loans to officers and directors. The policy provides that these loans:

Will be made in the ordinary course of business,

Will be made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with Pelican National Bank's other customers, and

Will not involve more than the normal risk of collectibility or present other unfavorable features.

All loans by Pelican National Bank to its directors and executive officers are required to comply with regulations restricting loans and other transactions with affiliated persons of Pelican National Bank. There was no indebtedness of executive officers, directors, and members of the immediate family of an executive officer or director of Pelican Financial to Pelican National at any time since January 1, 2005 in an amount in excess of \$60,000.

Item 14. Principal Accountant Fees and Services

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Crowe Chizek, who performed audit services for Pelican Financial in 2005, including an examination of the consolidated financial statements and services related to filings with the Securities and Exchange Commission, has served as our independent registered public accounting firm since 1998. Crowe Chizek performed all of its services in 2005 at customary rates and terms.

Audit Fees. The aggregate fees billed by Crowe Chizek for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2005 and December 31, 2004 and the review of the financial statements included in the Company's Forms 10-Q for

fiscal years 2005 and 2004 totaled \$74,250 and \$64,000, respectively.

Audit-Related Fees. The aggregate fees billed by Crowe Chizek for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements for the fiscal years ended December 31, 2005 and December 31, 2004 and that are not disclosed in the paragraph captioned "Audit Fees" above totaled \$1,715 and \$4,150, respectively. "Audit Related Fees" includes (i) Federal Home Loan Bank collateral verification procedures and (ii) various accounting and reporting issues.

Tax Fees. The aggregate fees billed by Crowe Chizek for professional services rendered for tax compliance, tax advice and tax planning for the fiscal years ended December 31, 2005 and December 31, 2004 were \$8,800 and \$8,400, respectively. Tax fees include preparation of federal and state tax returns and assistance with various tax compliance matters.

All Other Fees. There were no fees billed by Crowe Chizek for products and services, other than the services described in the paragraphs "Audit Fees," "Audit-Related Fees," and "Tax Fees" above for the fiscal years ended December 31, 2005 and December 31, 2004.

The Audit Committee has established its pre-approval policies and procedures, pursuant to which the Audit Committee approved the foregoing audit and permissible non-audit services provided by Crowe Chizek in fiscal year 2005.

The Audit Committee reviews summaries of the services provided by Crowe Chizek and the related fees and has considered whether the provision of non-audit services is compatible with maintaining the independence of Crowe Chizek.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Annual Report on Form 10-K:

1. Financial Statements.

See Part II, Item 8 for financial statements.

2. Financial Statement Schedules.

All financial statement schedules have been omitted, as required information is either inapplicable or included in the consolidated financial statements or related notes.

3. Exhibits.

Exhibits are either attached as part of this Annual Report on Form 10-K or incorporated by reference herein.

| Exhibit Number | Description |
|-----------------------|---|
| 2.1 | Agreement and Plan of Reorganization Among Pelican Financial, Inc., Stark Bank Group, Ltd. and SBG II, Ltd. (1) |
| 2.2 | Amendment to Agreement and Plan of Reorganization Between Pelican Financial, Inc., Stark Bank Group, Ltd. and SBG II, Ltd. (2) |
| 3.1 | Certificate of Incorporation of Pelican Financial, Inc. (3) |
| 3.2 | Bylaws of Pelican Financial, Inc. (3) |
| 4.1 | Form of Common Stock Certificate of Pelican Financial, Inc. (3) |
| 4.2 | Certificate of Designation of the Powers, Preferences and Rights of Series A Convertible Preferred Stock of Pelican Financial, Inc. (4) |
| 10.1 | Severance Agreement and Mutual General Release of Claims among Pelican Financial, Inc., Pelican National Bank and Howard B. Montgomery, Jr. (5) |
| 10.2 | Registration Rights Agreement (6) |
| 10.3 | Pelican Financial, Inc. Stock Option and Incentive Plan and Forms of Agreements (3) |
| 10.4 | Agreement by and Between Pelican National Bank and The Comptroller of the Currency (7) |
| 10.5 | Consulting Agreement Between Kenneth Aschom and Stark Bank Group, Ltd. (2) |

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| Exhibit Number | Description |
|-----------------------|---|
| 21 | Subsidiaries of the Registrant (3) |
| 23 | Consent of Crowe Chizek and Company LLC |
| 31.1 | Certification of Principal Executive Officer |
| 31.2 | Certification of Principal Financial Officer |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

-
- (1) Incorporated by reference to Exhibit bearing the same number on Form 8-K, filed on December 8, 2005.
 - (2) Incorporated by reference to Exhibit 2.1 on Form 8-K, filed on February 2, 2006.
 - (3) Incorporated by reference to Exhibit bearing the same number in Pelican Financial's Registration Statement on Form S-1, filed on April 22, 1999, as amended (Reg. No. 333-76841).
 - (4) Incorporated by reference to Exhibit 4.1 on Form 8-K, filed on December 15, 2005.
 - (5) Incorporated by reference to Exhibit bearing the same number on Form 8-K, filed on February 16, 2006.
 - (6) Incorporated by reference to Exhibit bearing the same number on Form 8-K, filed on December 15, 2005.
 - (7) Incorporated by reference to Exhibit 99 on Form 8-K, filed on September 6, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PELICAN FINANCIAL, INC.

April 14, 2006

By:

/s/ Charles C. Huffman
 Charles C. Huffman
 President, Chief Executive Officer and
 Director
 (Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signatures | Title | Date |
|---|--|----------------|
| /s/ Charles C. Huffman Charles C. Huffman (Principal Executive Officer) | President, Chief Executive Officer, and Chairman of the Board | April 14, 2006 |
| /s/ Howard M. Nathan Howard M. Nathan (Principal Financial and Accounting Officer) | Chief Financial Officer | April 14, 2006 |
| /s/ Robert C. Huffman Robert C. Huffman | Director | April 14, 2006 |
| /s/ Raleigh E. Allen, Jr. Raleigh E. Allen, Jr. | Director | April 14, 2006 |
| /s/ Timothy J. Ryan Timothy J. Ryan | Director | April 14, 2006 |
| /s/ S. Lynn Stokes S. Lynn Stokes | Director | April 14, 2006 |
| /s/ Scott D. Miller Scott D. Miller | Director | April 14, 2006 |