PELICAN FINANCIAL INC
Form 10-K
March 26, 2004

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, 2003**
	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)	**58-2298215** (I.R.S. Employer Identification No.)
3767 Ranchero Drive, Ann Arbor, Michigan (Address of Principal Executive Offices)	**48108** (Zip Code)

(800) 242-6698
(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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No ý

The issuer s voting stock trades on the American Stock Exchange under the symbol PFI. 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, 2003, was $17,764,884 ($4.00 per share based on 4,441,221 shares of common stock outstanding).

As of March 15, 2004, there were issued and outstanding 4,488,351 shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Definitive Proxy Statement in connection with the Annual Meeting of Stockholders for the Fiscal Year Ended December 31, 2003 (Part II).

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report and 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 tur 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, including those discussed in Business Factors that May Affect Future Results. You are urged to carefully consider these factors, as well as other information contained in this Annual Report and Form 10-K and in our other periodic reports and documents filed with the Securities and Exchange Commission.

PART I

Item 1. Business

General

Pelican Financial, Inc. was incorporated in Delaware on March 3, 1997 to own and control all of the outstanding capital stock of Pelican National Bank and Washtenaw Mortgage Company. On August 22, 2003, The Washtenaw Group, Inc. was incorporated in Michigan to own and control all of the outstanding capital stock of Washtenaw Mortgage Company. In an internal reorganization, Pelican Financial transferred all the shares of Washtenaw Mortgage Company to The Washtenaw Group in exchange for all the outstanding shares of The Washtenaw Group. 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 The Washtenaw Group.

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 report 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 SEC. Our recently adopted Code of Business Conduct and Ethics is 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 SEC. 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. However, for the year ended December 31, 2003, 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, 2003, total assets of Pelican Financial (subsequent to the spin-off of Washtenaw Mortgage) were $221.5 million. For the year ended December 31, 2003, net income was $8.5 million, of which $9.4 million was attributable to the discontinued operations of Washtenaw, $180,000 was a net loss of Pelican National, and $738,000 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, San Carlos, 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, which is 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 2003 is estimated at 265,000.

As a result of the opening of our branch office in San Carlos, Florida and the operation of our Fort Myers branch, 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 455,000 in 2003.

Because of the year-round subtropical climate, numerous golf facilities and pristine beaches, Collier and Lee Counties attracts approximately 2.7 million and 3.5 million visitors per year, respectively. 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 Pelican National 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 retail banking operations. Loans are either held for investment or held 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 year ended December 31, 2003, Pelican Financial s combined wholesale and correspondent loan production (including Washtenaw Mortgage) totaled $3.6 billion and its retail loan production totaled $165.0 million. Pelican National was responsible for $51.3 million in new loan production.

Residential mortgage loans are typically underwritten to secondary marketing standards. The type of loan offered include fixed rate, variable rate and balloon products. Construction loans will be offered as well, however the underwriting criteria will be more restrictive than a traditional mortgage loan. Pelican National will retain a portion of residential mortgage loans depending on its liquidity position and the type of loan. Pelican National will be more likely to retain variable rate loans to minimize the interest rate risk.

Commercial loans are a loan product provided by the Pelican National as well. The commercial loan products include; commercial real estate; non real estate loans for items such as equipment, inventory and working capital lines; construction and multifamily. The 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 minimize its risk. Finally, Pelican National may obtain guarantors with a strong personal financial status to protect their interest.

The following are a various consumer loan products that Pelican National Bank currently offers its customers:

Overdraft Protection	The overdraft protection loan product is unsecured and linked to a Pelican National checking account. The overdraft protection line is treated as open-ended credit transactions. In order to obtain an overdraft protection line the customer must meet certain minimum credit score criteria.
Automobile Loans	Automobile loans are made for the purpose of purchasing new and used vehicles. The collateral value for new cars are based on dealer invoices. The collateral value for used vehicles will be based on invoice and N.A.D.A. values.
Boat and Recreational Vehicle Loans	The dealer s invoice is used to value new vehicle. Used vehicle values are determined by N.A.D.A. values.
Motorcycle Loans	Retail installment loans for the purchase of motorcycles are made 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.

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. The table excludes the discontinued operations of Washtenaw Mortgage.

	December 31,									
	2003		2002		2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
Residential, one to four units	$ 44,094	39.83%	$ 37,074	35.29%	$ 44,028	47.32%	$ 41,780	47.12%	$ 47,938	68.06%
Commercial and industrial real estate	43,151	38.98	58,014	55.22	32,954	35.43	28,662	32.32	16,987	24.12
Construction	1,327	1.19	2,905	2.77	3,673	3.95	6,339	7.15	1,706	2.42
Total real estate loans	88,572	80.00	97,993	93.28	80,655	86.70	76,781	86.59	66,631	94.60
Other loans:										
Business, commercial	1,534	1.39	963	0.92	703	0.76	1,116	1.26	679	0.96
Automobile	478	0.43	739	0.70	1,252	1.35	268	0.30	106	0.15
Boat	14,578	13.17					2,731	3.08		
Other consumer	5,546	5.01	5,357	5.10	10,412	11.19	7,779	8.77	3,024	4.29
Total other loans	22,136	20.00	7,059	6.72	12,367	13.30	11,894	13.41	3,809	5.40
Total gross loans	110,708	100.00%	105,052	100.00%	93,022	100.00%	88,675	100.00%	70,440	100.00%
Unearned fees, premiums and discounts, net	420		92		(305)		(775)		(2,647)	
Allowance for loan losses	(1,330)		(1,062)		(856)		(507)		(374)	
Total Loans, net	$ 109,798		$ 104,082		$ 91,861		$ 87,393		$ 67,419	

The following table contains certain information at December 31, 2003 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. The table excludes the discontinued operations of Washtenaw Mortgage.

	1 to 4 Family Real Estate	Commercial & Industrial Real Estate	Construction	Business, Commercial	Consumer	Total
Non-accrual loans	$ 283	$ 172	$	$	$	$ 455
Amounts Due:						
Within 3 months	$ 1,002	$ 5,980	$ 762	$ 359	$ 5,171	$ 13,274
3 months to 1 year	6,948	8,218	565	20	398	16,149
Total due within 1 year	7,950	14,198	1,327	379	5,569	29,423
After 1 year:						
1 to 3 years	4,898	13,781		1,140	1,277	21,096
3 to 5 years	5,199	8,593		15	1,643	15,450
5 to 10 years	4,570	837			4,030	9,437
10 to 15 years	2,089	3,098			8,083	13,270
Over 15 years	19,388	2,644				22,173
Total due after 1 year	36,144	28,953		1,155	15,033	81,426
Total	$ 44,094	$ 43,151	$ 1,327	$ 1,534	$ 20,602	$ 110,708
Fixed rate	$ 27,168	$ 14,901		$ 1,155	$ 15,019	$ 58,243
Variable rate	9,117	14,052			14	23,183
Total due after 1 year	$ 36,285	$ 28,953	$	$ 1,155	$ 15,033	$ 81,426

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 has regular, independent loan reviews of a portion of the loan portfolio, the results are then reported to Board of Directors.

Nonperforming assets consist of nonaccrual 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 growth and 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.

	December 31,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Nonaccrual loans	$ 455	$ 1,558	$ 1,894	$ 975	$ 0
Loans past due 90 days or more but not on nonaccrual		97		209	1,084
Total nonperforming loans	455	1,655	1,894	1,184	1,084
Other real estate owned	333	76	77	33	246
Total nonperforming assets	$ 788	$ 1,731	$ 1,971	$ 1,217	$ 1,330
Total nonperforming assets to total assets	0.36%	0.45%	0.53%	0.60%	0.85%
Allowance for loan losses to nonperforming loans	292.31%	64.21%	45.22%	42.82%	34.50%
Nonperforming loans to total assets	0.21%	0.43%	0.51%	0.58%	0.70%

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 management considers adequate 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 inherent 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.

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,				
	2003	2002	2001	2000	1999
	(Dollars in thousands)				
Average loans outstanding, net	$ 110,875	$ 110,355	$ 89,743	$ 76,890	$ 68,136
Total gross loans outstanding at end of period	$ 110,708	$ 105,052	$ 93,022	$ 88,675	$ 70,440
Allowance balance at beginning of period	$ 1,062	$ 856	$ 507	$ 374	$ 127
Provision for loan losses	1,058	300	562	257	255
Actual charge-offs:					
1-4 family residential real estate	671	53	171	118	0
Other	198	54	44	8	8
Total charge-offs	869	107	215	126	8
Recoveries:					
Total recoveries	79	13	2	2	0
Net chargeoffs	790	94	213	124	8
Allowance balance at end of period	$ 1,330	$ 1,062	$ 856	$ 507	$ 374
Net chargeoffs as a percent of average loans	0.71%	0.09%	0.24%	0.16%	0.01%
Allowance for loan losses to total gross loans at end of period	1.20%	1.01%	0.92%	0.29%	0.29%

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:

	December 31,									
	2003		2002		2001		2000		1999	
	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	$ 589	39.83%	$ 716	35.29%	$ 499	47.32%	$ 300	47.12%	$ 138	68.06%
Commercial and industrial real estate	614	38.98	153	55.22	94	35.43	162	32.32	85	24.12
Construction	2	1.19		2.77	14	3.95	2	7.15	11	2.42
Business, commercial	6	1.39	3	0.92	3	0.76	3	1.26	132	0.96
Boat	100	13.17					27	3.08		
Other	19	5.44	190	5.80	246	12.54	13	9.07	8	4.44
Unallocated										
Total	$ 1,330	100.00%	$ 1,062	100.00%	$ 856	100.00%	$ 507	100.00%	$ 374	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, 2003, all of the investment securities held in Pelican Financial s investment portfolio were classified as available for sale.

At December 31, 2003, Pelican Financial had invested $24.3, or 11% 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, 2003, $25.4 million, or 11%, 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, 2003, the market value of Pelican Financial s investment portfolio totaled $50.7 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.

	At December 31, 2003	2002	2001
	(In thousands)		
U.S. Government agency	$ 25,403	$ 2,517	$ 3,570
Mortgage-backed securities	24,327	43	1,515
Federal Reserve Bank and FHLB stock	949	1,330	1,070
Total investment securities	$ 50,679	$ 3,890	$ 6,155

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, 2003.

	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	$ 4,970	1.18%	$ 18,114	3.22%	$	%	$ 2,319	5.34%	$ 25,403	3.03%
Mortgage-backed securities							24,327	4.02	24,327	4.02
Other							949	6.49	949	6.49
Total	$ 4,970	1.18%	$ 18,114	3.22%	$	%	$ 27,595	4.22%	$ 50,679	3.57

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, 2003, approximately 21% of the funds deposited in Pelican National were in certificate of deposit accounts. At December 31, 2003, core deposits (savings, NOW, and money market) represented 41% 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, San Carlos, Bonita Springs and Fort Myers, Florida. In addition, Washtenaw has placed all or their investor accounts for principal, interest, taxes and insurance at Pelican National. 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, 2003, $15.7 million, or 40% 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, 2003.

Time Remaining Until Maturity		**Jumbo Certificates of Deposit (In thousands)**
Less than 3 Months	$	2,683
3 Months to 6 Months		1,393
6 Months to 12 Months		4,618
Greater than 12 Months		12,018
Total	$	20,712

Employees

At December 31, 2003, Pelican Financial had no employees other than executive officers. At December 31, 2003, Pelican National had 62 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 will conduct 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, as well as regulations, are enacted 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 regulatory agencies. This legislation may change banking statutes and the operating environment of Pelican Financial and its subsidiaries 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

Bank holding companies and banks are extensively regulated under both federal and state law. This 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.

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Pelican Financial

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 its subsidiaries.

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 significant 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 Securities and Exchange 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 Financial is subject to primary supervision, examination, and regulation by the Office of the Comptroller of the Currency (the OCC). To a lesser extent, Pelican Financial is also subject to regulations of the Federal Deposit Insurance Corporation (FDIC) as administrator of the Bank Insurance Fund (BIF) and the FRB. If, as a result of an examination of Pelican Financial, the

OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of Pelican Financial s operations are unsatisfactory or that Pelican Financial 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 Financial, 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 Financial s deposit insurance in the absence of action by the OCC and upon a finding that Pelican Financial 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

On July 30, 2002, President Bush signed into law The Sarbanes-Oxley Act of 2002. This new legislation 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 will result in increased costs of compliance, including certain outside professional costs.

USA Patriot Act of 2001

On October 26, 2001, President Bush signed the USA Patriot Act of 2001. The Patriot Act is intended is to strengthen the U.S law enforcement and the intelligence communities abilities 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:

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 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.

Financial Services Modernization Legislation

General. On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act of 1999, also known as the Financial Services Modernization Act (the FSMA). The general effect of the law is to establish 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; 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 Community Reinvestment Act. The total assets of all financial subsidiaries may not exceed the lesser of 45% of a bank s total assets, or $50 billion. A national bank must exclude from its assets and equity all equity investments, including retained earnings, in a financial subsidiary. The assets of the 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

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

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 $2.5 million at December 31, 2003. This is the maximum allowable under any existing agreements, however it is unlikely management would make the decision to dividend the entire amount to Pelican Financial. In addition, Pelican National s regulators have the authority to prohibit them from paying dividends, depending upon their financial conditions, if such payment is deemed to constitute an unsafe or unsound practice.

Regulation - Pelican National

General. The Office of the Comptroller of the Currency 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.

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. Pelican Financial is a legal entity separate and distinct from 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 Federal Reserve Board 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

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, 2003, Pelican National s loans-to-one-borrower limit was $2.4 million based upon the 15% of unimpaired capital and surplus measurement. At December 31, 2003, Pelican National s largest single lending relationship had an outstanding balance of $2.1 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

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 federal banking agencies, 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 Federal Reserve Board as of December 31, 2003.

	December 31, 2003					
	Actual		Required to be Adequately Capitalized		Excess over Minimum Required	
	Amount	Percent	Amount	Percent	Amount	Percent
Total Capital (to Risk-Weighted Assets)	$ 18,124	15.50%	$ 9,356	8.00%	$ 8,678	7.50%
Tier 1 Capital (to Risk-Weighted Assets)	16,794	14.36	4,678	4.00	12,116	10.36
Tier 1 Capital (to Average Assets)	16,794	7.96	8,436	4.00	8,358	3.96

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, 2003.

	As of December 31, 2003					
	Actual		Required to be Well Capitalized		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
Total risk-based ratio	$ 15,912	13.66%	$ 11,652	10.00%	$ 4,260	3.66%
Tier 1 risk-based ratio	14,582	12.51	6,991	6.00	7,591	6.51
Leverage ratio	14,582	7.20	10,125	5.00	4,457	2.20

In addition, federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it. 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

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, a federal law that requires extra disclosures and consumer protections to borrowers. The following triggers coverage under the act:

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 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 says 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

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, 2003, Pelican National exceeded the required ratios for classification as well/adequately capitalized.

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 Office of the Comptroller of Currency. The memorandum of understanding puts in place additional operational and reporting requirements on the Management and Board of Directors of Pelican National Bank. The memorandum of understanding does not include any financial covenants. In the opinion of Management, the memorandum of understanding will not have a material adverse effect upon the business operations or future profitability of Pelican National.

Safety and Soundness Standards

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: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) 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: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) 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

Through the Bank Insurance Fund (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 Memorandum of Understanding with the Office of the Comptroller of Currency issued to Pelican National, the assessment rate increased.

Due to continued growth in deposits and some recent bank failures, the BIF is nearing its minimum ratio of 1.25% of insured deposits as mandated by law. 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

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

Banks are subject to certain fair lending requirements and reporting obligations involving Community Reinvestment Act 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

Pelican National is a member of the Federal Home Loan Bank of 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. As an FHLB member, we would be required to own capital stock in an FHLB in an amount equal to the greater of:

1% of its aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year; or

5% of its FHLB advances or borrowings.

A new capital plan of the FHLB-SF was approved by the Federal Housing Finance Board and will be implemented on April 1, 2004. The new capital plan incorporates a single class of stock with a par value of $100 per share, and may be issued, exchanged, redeemed, and repurchased only at par value. Each member to own stock in amount equal to the greater of:

a membership stock requirement with an initial cap of $25 million (100% of membership asset value as defined), or

an activity based stock requirement (based on percentage of outstanding advances).

The new capital stock is redeemable on five years written notice, subject to certain conditions.

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

The Federal Reserve Board 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, 2003, Pelican National was in compliance with these requirements.

Item 2. Properties

(a) Properties.

Pelican Financial utilizes the offices of Washtenaw Mortgage Company. 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

811 Anchor Rode Drive,
Naples, Florida 34103

12730 New Brittany Boulevard,
Fort Myers, Florida 33907

19059 South Tamiami Trail,
Fort Myers, Florida 33907

28000 Spanish Wells Boulevard
Bonita Springs, Florida 34135
804 Cape Coral Parkway
Cape Coral, Florida 33904
(Branch scheduled to open May 15, 2004)

17120 San Carlos Boulevard
Fort Myers Beach, Florida 33931
(Branch scheduled to open March 15, 2004)

(b) Investment Policies.

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. 2003.

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, 2003.

PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

As of March 9, 2004, there were 4,488,351 shares of common stock of Pelican Financial outstanding held by approximately 100 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. The following share prices were adjusted for the spin-off of The Washtenaw Group on December 31, 2003. The prices reflect approximately 44% of the high and low sales price. This is the approximate value of Pelican Financial on December 31, 2003, based on the aggregate closing price of The Washtenaw Group and Pelican Financial.

Year Ended	**High**	**Low**
2003		
First Quarter	$ 2.65	$ 1.96
Second Quarter	$ 4.20	$ 2.59
Third Quarter	$ 5.20	$ 3.87
Fourth Quarter	$ 5.94	$ 4.73
2002		
First Quarter	$ 2.63	$ 1.71
Second Quarter	$ 6.26	$ 2.54