

**MEMBER FEDERAL DEPOSIT
INSURANCE CORPORATION**

EACH DEPOSITOR INSURED TO \$250,000.00



Park State Bank & Trust

2008 ANNUAL REPORT

Dear Shareholder

"May you live in interesting times" is thought to be a Chinese proverb associated with the first of three curses of increasing severity. No matter the origin, we are living in interesting times.

Beginning in the third quarter of 2007, the Board of Directors of Park State Bank & Trust suspended distributions to shareholders, and management worked aggressively to identify and liquidate problem assets. The collapse of the housing bubble in 2008 is well documented and I will not rehash the economic year.

Although Park State Bank & Trust did not participate in the subprime lending market, we are not immune from the consequences. Staying true to our mission, we continued to work assets aggressively in 2008, and we worked diligently with our customers and the community to provide leadership during these difficult times.

As a shareholder, two things will stand out in this report. The bank experienced a loss for the year and the book value went down as a result of reduced capital. Those are undesirable results, despite the efforts of management to minimize the effect of the current economic malaise. However, there are some positive items to note. Our loan loss reserve is funded at historic highs as a percentage of loan assets, and the bank continues to be "well capitalized" as defined by the regulators. We would also like to commend Joe Walnofer and his team for their work in the Investment & Trust Division. Trust assets decreased at a much lower percentage than the overall market during the economic downturn of 2008.

Despite some positive indicators we expect 2009 to be similar to 2008, and management will continue to work problem assets aggressively. We will continue funding the loan loss reserve, and dividends will remain suspended during 2009. We also expect continued pressure by regulators to increase bank capital throughout the industry. We are not immune from this pressure and we will communicate our plan shortly.

We would also like to acknowledge and thank the Board of Directors for their increased efforts and support in helping management navigate the current economic conditions. We want to thank Mrs. Lucile Fehn for her service to the community and the bank over the last thirty years. She will be moving from the area and she and her husband will be sorely missed.

We believe by staying proactive and adaptive to changing conditions, while not losing site of our mission, we will return the bank to profitability as expeditiously as possible.

Please contact me directly with any questions or concerns, and we strongly encourage you to attend our annual shareholders' meeting January 21, 2009 at our Woodland Park location.

Sincerely,

Tony L. Perry
President

NET INCOME

2008 (\$571,460)

2007 \$20,465

CASH DIVIDENDS

2008 \$0

2007 \$435,890

BOOK VALUE

2008 \$297.78

2007 \$311.74

CAPITAL ACCOUNTS

2008 \$7,131,895

2007 \$7,466,223

RECONCILEMENT OF LOAN LOSS RESERVES

	<u>2007</u>	<u>2008</u>
Balance Beginning of Year	\$407,707	\$477,602
Additions -Recoveries Credited to Reserve	\$13,194	\$6,953
-Provisions Charged to Income	\$1,230,803	\$1,099,181
Deductions -Losses Charged to Reserve	(\$1,174,102)	(\$758,437)
Balance at End of Year	\$477,602	\$825,299

RECONCILEMENT OF CAPITAL ACCOUNTS

	<u>2007</u>	<u>2008</u>
Balance Beginning of Year	\$7,749,402	\$7,466,223
Additions - Net Income	\$20,465	(\$571,460)
Deductions - Dividends Declared	(\$435,890)	-
Unrealized Gain/Loss on Securities	\$92,894	\$330,026
Adjust Prior Year Unrealized Gain/Loss	\$39,352	(\$92,894)
Balance at End of Year	\$7,466,223	\$7,131,895

TRUST ASSETS

Securities and other property held by the Investment & Trust Division in a fiduciary or agency capacity are not included in the consolidated financial statements, as such items are not assets of the bank. Values are approximate.	2008	\$66,253,720
	2007	\$74,442,249
	2006	\$69,911,780
Revenues for Investment & Trust Division services are reported on the cash basis in accordance with customary banking practice.	2005	\$49,648,369
	2004	\$43,742,812

COMPARATIVE BALANCE SHEET

ASSETS:	<u>December 31, 2007</u>	<u>December 31, 2008</u>
Cash and Due from Banks	\$5,976,346	\$2,757,128
U.S. Treasury Securities	\$0	\$0
U.S. Government Agencies and Corporations	\$9,884,299	\$12,213,398
Obligations of State and Political Subdivisions	\$3,985,603	\$5,899,876
Other Securities	\$1,083,219	\$1,293,027
Federal Funds Sold	\$3,100,000	\$0
Loans	\$66,821,076	\$67,075,485
Bank Equipment	\$546,785	\$422,458
Bank Premises	\$4,833,383	\$4,179,177
Other Assets	\$3,041,585	\$2,885,237
TOTAL ASSETS	\$99,272,294	\$97,265,786
LIABILITIES:		
Demand Deposits	\$11,647,322	\$8,669,491
Interest Bearing Deposits	\$31,177,324	\$31,161,794
Time Deposits	\$48,431,877	\$49,290,371
TOTAL DEPOSITS	\$91,256,524	\$89,121,656
Federal Funds Purchased	\$0	\$750,000
Mortgage Indebtedness	\$0	\$0
Other Liabilities	\$549,548	\$262,236
TOTAL LIABILITIES	\$91,806,072	\$90,133,891
Capital Stock	\$1,197,500	\$1,197,500
Surplus	\$2,356,775	\$2,356,775
Undivided Profits	\$3,819,053	\$3,247,594
Unrealized Gain/Loss on Securities	\$92,894	\$330,026
TOTAL CAPITAL ACCOUNTS	\$7,466,222	\$7,131,895
TOTAL LIABILITIES, RESERVE AND CAPITAL ACCOUNTS	\$99,272,294	\$97,265,786

UNAUDITED STATEMENT

COMPARATIVE EARNINGS STATEMENT

OPERATING INCOME:	<u>December 31, 2007</u>	<u>December 31, 2008</u>
Interest and Fees on Loans	\$6,050,189	\$5,368,765
Income on Federal Funds Sold	\$39,770	\$133,131
Interest on U.S. Government Securities	\$0	\$0
Interest on Securities of U.S. Gov. Agencies & Corp.	\$634,585	\$581,717
Interest on Obligations of State & Political Subdivisions	\$170,834	\$218,398
Interest on Other Securities	\$49,812	\$90,389
Service Charges on Deposit Accounts	\$451,599	\$379,087
Other Service Charges, Collection Fees,		
Commissions & Trust Income	\$826,402	\$830,683
TOTAL	\$8,223,191	\$7,602,170
OPERATING EXPENSES:		
Salaries and Wages	\$1,579,325	\$1,748,726
Employee Benefits	\$512,568	\$518,118
Interest on Deposits	\$2,461,622	\$2,057,460
Occupancy Expense	\$376,766	\$379,011
Furniture & Equipment/Depreciation/Rental/Servicing	\$311,200	\$317,631
Provision for Loan Losses	\$1,230,804	\$1,109,181
Other Operating Expenses	\$1,731,054	\$2,046,001
TOTAL	\$8,203,339	\$8,176,128
OTHER EXPENSES:		
Income Before Income Taxes & Securities Losses	\$19,852	(\$573,958)
Provisions for Income Taxes	\$0	\$4,627
Deferred Tax Expense	\$13,363	\$0
TOTAL	\$33,215	(\$578,585)
EXTRAORDINARY ITEMS:		
Fixed Assets Losses or Gains	\$0	\$0
Securities Losses or Gains	\$12,750	(\$7,125)
NET INCOME	\$20,465	(\$571,460)

UNAUDITED STATEMENT

DIRECTORS

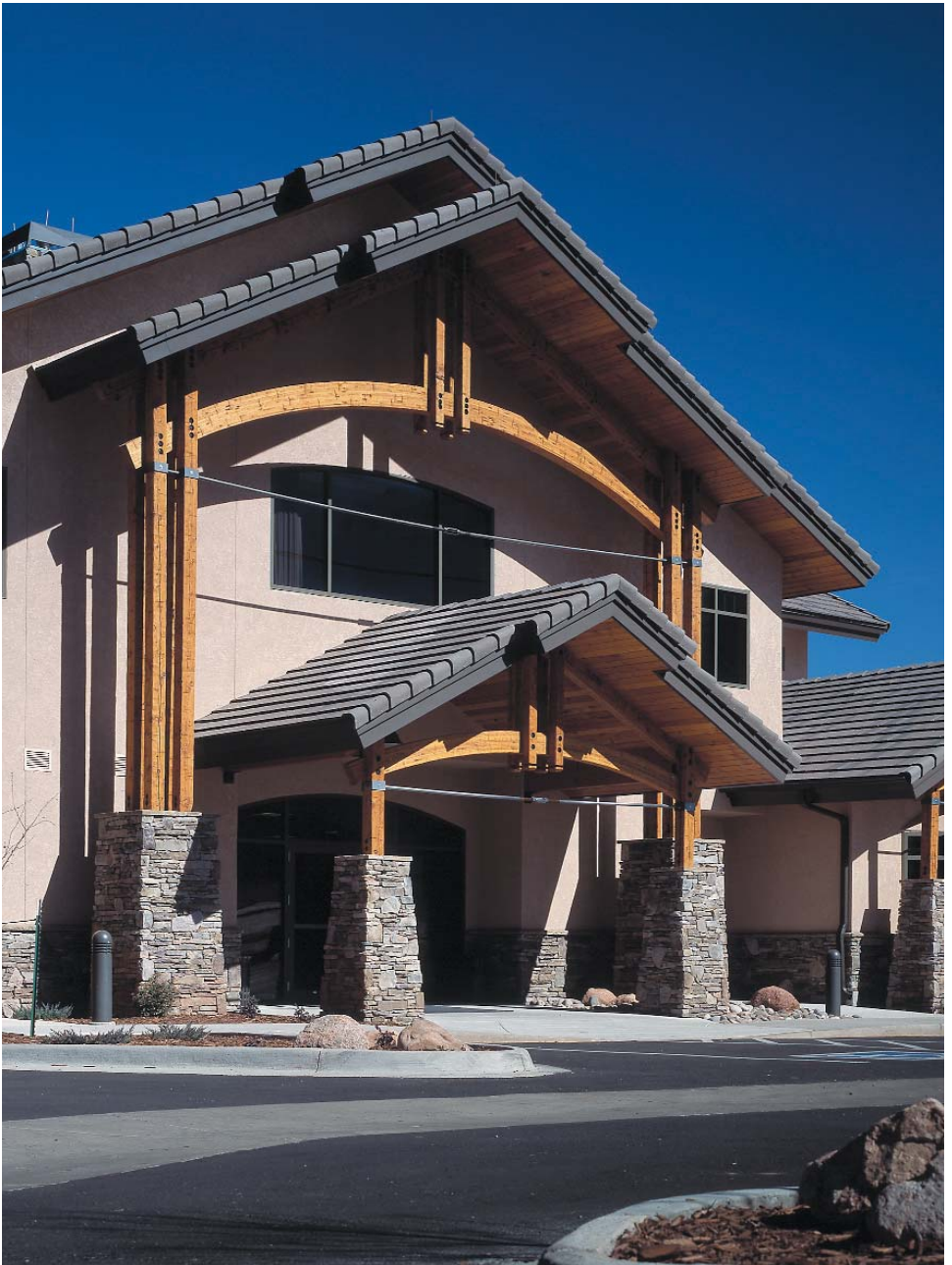
M. Louise Bauer	Investments, Woodland Park, CO
A.E. Born	Business Owner, Woodland Park, CO
Derrick L. Carpenter	Business Owner, Woodland Park, CO
Lucile Fehn	Retired Public Official, Woodland Park, CO
Martin H. Lays	Business Chief Financial Officer, Manitou Springs, CO
M.E. MacDougall	Attorney, Colorado Springs, CO
Tony L. Perry	President of Park State Bank & Trust, Woodland Park, CO
Peter R. Spahn	Investments, Colorado Springs, CO
Joseph E. Walnofer	VP Investments & Trust, Woodland Park, CO
Sam Gould (Advisory)	Professor (retired) Dean Emeritus, School of Business Administration, University of Dayton, Divide, CO

OFFICERS

Tony L Perry	President
Joseph E Walnofer	VP Investments & Trust
Marcie Zurek	VP Cashier
Crystal Blunt	VP Loans
Doug Gross	VP Loans
Tony Jones	Compliance Officer
Brad Spivey	VP Loans / Chief Investment Officer
Doug Truitt	VP Loans
Gil Winter	Information Technology Officer

EMPLOYEES

Brenda Alvarez	Receptionist / Switchboard	Liz Kusterle	Support Services Manager
Kelly Andrews	Teller	Gary Lays	Credit Analysis II
Marilyn Barkley	Support Specialist	Jamie Lindholm	Support Specialist
Tony Carnelli	Facilities Manager	Susan Plotner	Loan Administrator
Lisa Carpentier	Personal Banker	Diane Ripley	Teller
Frances Chandler	Teller	Jan Selby	Support Specialist
Andra Cummins	Teller	Leah Steiner	Teller Manager
Chris Davis	Personal Banker	Jim Stofa	Operations - Trust Dept.
Cynthia Eden	Teller	Lorene Wetzel	Operations Specialist Trust Dept
Pamella Franklin	Teller		
Terry Freeman	Loan Administrator	FLORISSANT BRANCH	
Barbara Fritz	Customer Service Manager	Reshel Cole	Personal Banker
Giselle Goossen	Personal Banker	Janine Hendricks	Teller
Gayle Gross	Relationship Development Professional	Ann McCann	Personal Banker
Christy Gwaltney	Loan Administrator	Penny Wallin	Personal Banker
Kathy Hansen	Teller		
Shannon Harrison	Personal Banking Manager		
Debbie Johnson	Support Specialist		
Terri Kay	Loan Administrator		



Mission Statement

As an independent, locally-owned and professionally managed financial institution, Park State Bank & Trust shall continue to provide personal, dependable, and innovative financial services to our community. Our goal is to remain safe, secure and profitable for our customers, employees and shareholders.