FIRST NATIONAL BANK OF STILLWATER

FINANCIAL WISDOM

JANUARY 1998

First National Bank of Stillwater Salutes America's Small Businesses

We recognize that small businesses are a vital force in the economy. Often the source of innovation and progress, small businesses comprise over 95% of all U.S. businesses and produce over 40% of the country's gross domestic product.

The attributes that drive small businesses' success are the same principles that drive our bank:

- Understand the needs and wants of each customer;
- Respond to those needs and wants;
- Respond quickly and honestly;
- Commitment to the success and satisfaction of each customer.

We understand how important your business is to you the owner of that business. It not only is a livelihood, it is a passion. The financial security of the your family is usually dependent on the financial success of the business. We also understand the value of your time. Using all the services of our bank can save time and relieve the frustration of dealing with a bank that doesn't understand.

Full range of products and services for the business

Whether it is a the right type of business checking account, help with selecting the best retirement plan for the business or getting the right type of mortgage for a home, our bank has a complete range of banking and other financial services. What makes us different is our ability to offer those products and services in a way that makes handling your finances and those of the business easier.

The First National Bank of Stillwater wants to earn your business.

The Future of Social Security?

Our Social Security System continues to be a lively topic of discussion. As the baby-boom generation starts to retire, the system's financial stability will be threatened. Today there are 3.3 workers for each retiree. By 2040, there will be less than two.

Changes must be made soon to assure benefits for future retirees. There have been proposals to change the funding mechanism and allow workers to have more say over how "their" funds are invested. Others suggest creating a mandatory saving program to supplement the existing system. President Clinton recently suggested that any budget surplus be dedicated to Social Security. Another solution would be to raise taxes.

Over the next few years, this topic will review considerable attention. Stay tuned.

Inside this issue

This Quarter's Mistake to Avoid

Learning from mistakes can be part of the education process. But, making financial mistakes can be expensive.

Mistake to Avoid.
Not monitoring your financial progress and evaluating your investment results.

Taking control of your financial future is a process. And, as with any process, it is important to monitor your progress and measure your performance to learn what's working and what's not.

A business has a "snapshot view" of the business with its balance sheet and a progress evaluation with its income statement. Owners of businesses should do the same with their personal finances. Preparing personal financial statements should become part of the way you manage your finances. As you prepare a personal balance sheet, break out your investment assets into stock, bond and cash categories. Understanding your personal "asset allocation" can help organize your finances. Also it is a good idea to track these categories along with other assets and liabilities and net worth in a summary fashion to see how they change from year to year.

The other component is measuring the performance of your investments on both an absolute and relative basis. If your stock portfolio went up 15% in a year, that's good if the market was up only 10%, but not so good if the market was up 23%. The type of measure to use is the annual total return. You can compare that measure to the annual returns of different indexes, like the S&P 500, and long-term bond returns.

There are rate of return calculation tools in many computer software programs, such as Quicken. If you use a spreadsheet program, use the internal rate of return function to calculate the total return on your portfolio.

If your results are good, keep doing what you're doing. But, if your results don't measure up to your expectations, take actions to improve them. These actions could include changing your stock selection process, urging your broker to help you make better decisions or even giving the investment decision making responsibility to a mutual fund. Or perhaps, it's a different mutual fund or an index fund that you need.

Watching your progress and grading yourself should be part of your process of learning to make better financial decisions.

	1997	1998	1999	2000
Cash	$_____	$_____	$_____	$_____
Equities	_____	_____	_____	_____
Bonds	_____	_____	_____	_____
Other Assets	_____	_____	_____	_____
Liabilities	_____	_____	_____	_____
Net Worth	$_____	$_____	$_____	$_____

Use your banking relationship to provide your employees a benefit at no cost

Providing an attractive employee benefit package has become part of most successful companies' way of doing business. Often the benefit package is the pivotal factor in employee hiring and retention. Most benefits, like health insurance and retirement plans, cost money. We can help you offer a benefit that your employees will appreciate and it doesn't cost you anything. In fact, it may save you money.

We can offer a special checking account program for employees that have their paychecks deposited directly into an account at our bank. We will waive the monthly service fee and provide the first 200 checks free. We will also provide a safe deposit box free for one year for employees that participate.

Your employees will have the convenience of direct deposit and an inexpensive checking account; your company won't have to process a payroll check and; we have the opportunity to earn a relationship with that employee. This truly is an employee benefit where everyone gets a benefit.

Individual Retirement Account Alternatives

New choices must be considered

IRAs continue to be a powerful retirement planning tool. For almost 20 years IRAs have been available for annual contributions or to receive lump sum distributions from company retirement plans. Recent changes in the tax laws have added new issues for retirement planning.

The Taxpayer Relief Act of 1997 created a new type of IRA called the Roth IRA (named for Senator William V. Roth, Jr.). A Roth IRA provides for the tax-free growth and flexible tax-free distributions. Many individuals that had not qualified for a traditional IRA (due to income levels or participation in a company sponsored retirement plan) can now use Roth IRAs.

While the rules for IRAs can be confusing, the potential tax benefits can be significant. Individuals owe it to themselves and their families to review the potential benefits of IRAs. The proper actions taken now can help achieve a financially secure retirement. Here are some general guidelines to consider when evaluating your IRA alternatives for the 1998 tax year contributions:

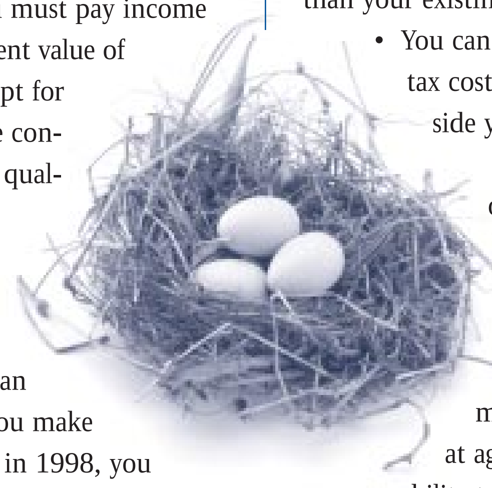
- If you are not eligible for a traditional IRA due to income or retirement plan participation and are eligible for a Roth IRA, use the Roth IRA.
- If you qualify for either type, weigh the current deduction for a traditional IRA contribution versus the future benefit of tax-free distributions from a Roth IRA. The longer the money can be left in the IRA, the more likely a Roth IRA will serve you best.

Comparisons of IRAs

FEATURES	TRADITIONAL IRA	ROTH IRA
Eligibility	Must have earned income and not participate in a company plan	Adjusted gross income must be less that $150,000 for couples
Contribution Limits	$2000	$2000, $4000 for couples
Initial Deductibility	Full deduction for couples with adjusted gross income less than $50,000	None
Tax Deferral on Growth	Full	Full
Timing of Distributions	Must begin by age 70-1/2	Not required
Tax on Distributions	Taxable to extent of deductible contributions and all earnings	None

Converting your traditional IRA to a Roth IRA

To get the tax-free distributions of a Roth IRA on your existing IRA monies, you may be eligible to convert your existing IRA into a Roth IRA. However, there are special rules covering this conversion. On conversion you must pay income tax on the current value of your IRA (except for non-deductible contributions). To qualify for this conversion, your adjusted gross income must be less than $100,000. If you make the conversion in 1998, you can spread the tax over four years.



Considering this type of conversion can be one of the most important financial decisions you will ever make. The future benefits of tax-free growth and tax-free distributions must be carefully weighed against the current tax cost. It deserves very serious consideration.

Here are a couple general guidelines. Conversion will usually be beneficial if:

- You expect to leave the funds in the Roth IRA for at least 5 to 10 years,
- You expect your future income tax rates to be similar to or higher than your existing rates, and
- You can pay the current tax cost from assets outside your IRA.

The attraction of a tax free growth, tax free distributions, no required minimum distributions at age 70-1/2 and the ability to pass the “tax free” nature of the funds on to your heirs can make conversion very attractive. But you must make the decision very carefully. Consult your tax or financial advisor to make sure your IRA is right for you.

Selecting the right retirement plan for your business

Qualified retirement plans have become an important part of all businesses. As other sources of retirement income become less dependable, a company retirement plan offers employees and owners the opportunity to build a retirement nest egg for a financially secure retirement.

The right type of plan can be a powerful management tool for a business. It can be a way to attract, retain and motivate your employees. For the business owner, the right type of plan can be an attractive way to build wealth.

When considering a retirement plan evaluate the following:

- Desires of the owner
- Costs of the plan — contribution levels and administrative
- Investment options
- Ease of administration
- Will the employees understand and appreciate the plan

Choosing the type of plan that meets your criteria doesn't have to be complicated. Our professionals have the expertise to help. Whether it is a simple plan that offers employees the opportunity to save for their retirement or a more complex plan that can provide additional benefits to certain employees, we have the expertise and investment options to make the process easier.

Bank Locations

123 Grant St., Stillwater

456 2nd St., Dennison

987 Front St., Dover

678 Main St., Ghattenhutten

5678 W. Rte 800, Goshen

The First National Bank of Stillwater offers retirement plan options

We recognize the need for different types of plans to meet the needs of different businesses.

- SEP plans offer the simplest version of flexible, discretionary contributions for employers.
- Defined benefit plans provide maximum contributions for older employees. But,they require annual contributions, actuarial certification and possibly federal agency insurance coverage.
- 401(k) plans enable employees to contribute, provide for investment flexibility and flexibility for company contributions. They also may require special IRS testing.
- SIMPLE plans allow employees to contribute and require certain company contributions.

Quote to live by

The highest use of capital is not to make money, but to make money do more for the betterment of life.

— Henry Ford

State of the Markets

	12/31/97	9/30/97	6/30/97	3/31/97
Dow Jones Industrial Average	7908	7945	7673	6583
Interest Rate on 30 Year U. S. Bond	5.95%	6.40%	6.78%	7.10%
Interest Rate on 10 Year U. S. Bond	5.75%	6.40%	6.48%	6.90%
Prime Interest Rate	8.50%	8.50%	8.50%	8.50%
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Interest Rate on Interest Checking	1.70%	1.75%	1.80%	1.82%
Interest Rate on 12 month C.D.	5.25%	5.30%	5.45%	5.75%
Interest Rate on jumbo 12 month C.D.	5.45%	5.50%	5.60%	6.06%
Mortgage Rate on 30 Year Fixed – $100,000	7.00%	7.15%	7.75%	8.50%
Mortgage Rate on 15 Year Fixed – $100,000	6.85%	7.10%	7.40%	8.10%
Mortgage Rate on 3 Year ARM – $100,000	6.60%	7.00%	7.95%	8.50%