

MAY 20, 2002

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

KERMIT K. HOUSER
MARSHALL J. ALEXANDER
Klamath First Bancorp, Inc.

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963
Published by Wall Street Transcript Corporation
67 Wall Street, New York, NY 10005
Copyright 2001 Wall Street Transcript Corporation
All Rights Reserved

Klamath First Bancorp, Inc. (KFBI)



KERMIT K. HOUSER has served as President, Chief Executive Officer and Director of Klamath First Bancorp since November, 2000. Before accepting his current position, Mr. Houser was Senior Vice President and Regional Manager of Bank of America's South Valley Region, headquartered in Fresno, California. His 18 years with Bank of America included positions of Chief Credit Officer - Bank of America Oregon; Group Manager of Oregon's

Commercial Banking and Vice President, Team Leader in Seattle First National Bank's Special Assets Department. Before joining Bank of America in 1983, Mr. Houser held positions at Oregon Bank for six years as Vice President and Manager, and six years at Wells Fargo Bank. He graduated from the California State College system in 1971 after service in the U.S. Army.



MARSHALL J. ALEXANDER is EVP & Chief Financial Officer of Klamath First Bancorp, Inc. Mr. Alexander has spent the last 25 years in banking, starting with Old National Bank of Washington in the management trainee program. He has worked with several community and regional commercial banks and thrifts in the West in various capacities, including consumer and commercial lending officer, operations and data processing positions, as well as finance and accounting. He graduated from the University of

California at Berkeley with a degree in Economics and Finance after a short tour of duty in the U.S. Navy at the end of the Vietnam War era.

SECTOR – BANKING

(PAP623) TWST: Could you give us a short introduction to Klamath?

Mr. Alexander: Basically, we are a thrift, but we're a thrift in transition. We were founded in 1934 as a traditional thrift to provide housing needs to the local community of Klamath Falls, Oregon. We've grown since then. When I joined the company in 1986, we had three branches in Klamath Falls and one in Ashland, Oregon, all totalling \$240 million in assets.

Since that time, we grew with additional de novo branches to seven branches and remained a traditional thrift, actually a traditional mutual thrift. In 1995, the Board and management made a decision to go public with a public offering and raised \$165 million in additional capital, issuing 12.2 million shares. From that point we were on the path of a publicly traded company, which has created a lot of issues that a mutual thrift didn't have to deal with — including these types of interviews.

Corporate Profile



Ticker (exchange)

KFBI (NASDAQ)

Price close 5/30/02

16.18

12 Months Price Range

11.91 - 16.75

Corporate Headquarters

540 Main Street
Klamath Falls, OH 97601

Phone: (541) 882-3444

Fax: (541) 885-2838

Web: klamathfirst.com

Investor Relations Contact

Marshall J. Alexander

Corporate Officers

Kermit K. Houser
President & CEO

Marshall J. Alexander
EVP & CFO

Ben A. Gay
EVP & Chief Credit Officer

Frank X. Hernandez
SVP & COO

FISCAL 2002 SECOND QUARTER HIGHLIGHTS

- **Net interest income/margin.** Net interest income before the provision for loan losses grew 65% to \$12.0 million. The net interest margin expanded to 3.55%, a 29 basis point improvement from the previous quarter, and 51 basis point improvement from a year ago.

- **Net income.** Second fiscal quarter net income was \$1.7 million, or \$.26 per share, more than double first quarter's net income of \$821,000 or \$.13 per share. Net income for the first six months of fiscal 2002 was \$2.5 million, or \$.39 per share, compared to \$3.0 million, or \$.46 per share, excluding the \$1.6 million after-tax gain on the sale of securities in the like period last fiscal year.

- **Investing in infrastructure.** Klamath has been executing a strategic plan that called for improvements to backroom functions, signage, computer security, sales culture, training and marketing materials. Most of these expenditures have been made, and increased efficiencies are expected in fiscal 2002.

- **Acquired and de novo branches.** The franchise has grown significantly over the past 18 months from 35 branches to 55 at quarter end. The expansion is contributing to core growth. With greater income generation, increased efficiencies and cost savings Klamath should improve the bottom line through fiscal 2002.

- **High quality loan portfolio.** Non-performing assets were 0.04% of total assets at 3/31/02. The allowance for loan losses increased to \$8.0 million, or 1.21% of total loans outstanding and 1334% of non-performing loans.

- **Stock buyback.** Klamath has repurchased 262,000 shares of the authorized 5%, or approximately 341,000, of the shares outstanding.

- **Market leadership.** Klamath leads its primary market, Klamath County, in deposit dollars with over 43% market share.

- **Dividend payments.** Current quarterly dividend payment of \$.13 per share generates an annual yield of 3.3% on the recent share price.

Corporate Business Description

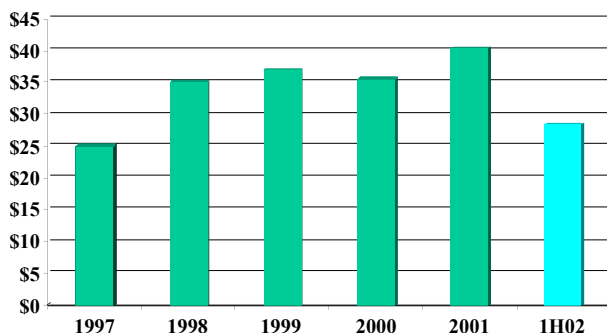
Klamath First Bancorp, Inc. is the holding company for Klamath First, which operates 55 offices, 53 in 26 counties throughout Oregon and two in-store branches in South Central Washington. Klamath First serves its customers through these offices by offering a full range of products and services for both the consumer and business customer, including commercial, consumer and real estate loans, a variety of checking and savings products, 24 hour telephone banking, and online banking with bill pay through its web site: www.KlamathFirst.com. Additionally, customers may visit new in-store branches seven days a week with extended banking hours.

Mission Statement

The mission of Klamath First is to be the preferred provider of financial products and services. This will be accomplished within an atmosphere of commitment to our employees, customers and the communities we serve.

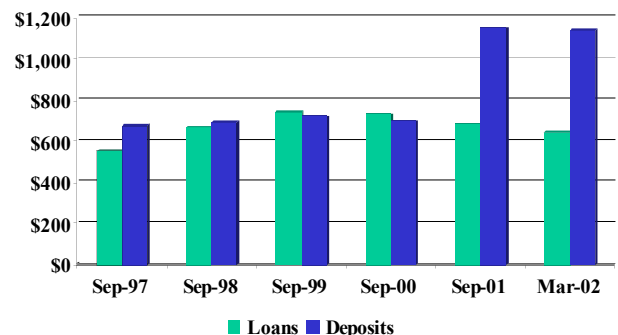
Revenues

(net interest + non-interest income)
(in millions)



Loan and Deposit Growth

(in millions)



Obviously, we had to figure out how we were going to deploy the new capital that we had just acquired. We did some stock buybacks during the first several years, including a 20% Dutch auction. In 1997, an opportunity arose as a result of the Wells Fargo acquisition of First Interstate Bank, and their decision to divest of 25 of the Oregon branches they had purchased. Klamath First bid on those branches and was fortunate enough to win the bid. It included 25 branches in primarily rural parts of Oregon, with \$241 million in assets, primarily deposits. Also during that time, we continued de novo branching.

In 2001, we had a management change. I believe the company stalled out a little bit versus where the Board wanted to take the company. They determined they needed a management change and that's when Mr. Houser came on board. He can tell you about his background. Primarily the Board wanted to grow and to be more commercial bank-like and move away from the traditional thrift background, with the objective of improving profitability.

About the same time that we made the CEO-President change and brought on some other key employees to help make that transition, an opportunity arose with Wal-Mart. Wal-Mart was looking for a financial institution to associate with for in-store branches in some of their Oregon Supercenters being developed. They contacted us and we accepted the opportunity. Since then, we have set up seven branches in the Wal-Mart stores.

Simultaneously with the in-stores, Washington Mutual was making changes within their own company. They had a commercial banking franchise that had been purchased in 1995, called Western Bank. This was prior to Washington Mutual's rapid expansion with Great Western and H.F. Ahmanson and now Dime. They also were pretty much a regional thrift, diversifying and get-

ting into other types of lending when they bought Western Bank. That was their first try at commercial banking. They pretty much left that franchise intact and called it Western Bank, an affiliate of Washington Mutual, allowing it to operate independently as a commercial bank.

With all of Washington Mutual's recent changes, they appeared to refocus their efforts and in doing so decided to, in a sense, roll Western Bank into what is now Washington Mutual and divest of some of the branches. We were fortunate enough to bid on the branches that were for sale, and were awarded the bid, consisting of 13 branches. Twelve were Western Bank branches and one was a WaMu Financial Center. It included about \$420 million in deposits, and \$200 million in loans. We ended up with a lot of cash to deploy which was both good and bad.

We started this process last February, over a year ago. By the time it closed, it was Monday, September 10, and we all know what happened on September 11. We ended up with a lot of money at one of the lowest interest rate cycles we've seen in a couple of decades. That's been an issue in our earnings, trying to deploy that excess cash of about \$400 million in higher yielding assets. But there really aren't many out there with reasonable risk tolerances, which has had some affect on our earnings recently.

So today, after starting out in 1934 as a traditional thrift, we now have 56 offices throughout the state of Oregon, including two of the 56 in Wal-Mart branches in the fast growing Tri-Cities part of southeastern Washington state. We're transitioning to be more commercial bank-like. We're now selling all of our one-to-four family loans. We've hired some key individuals that Mr. Houser will also review. They are some of the folks he had worked with in the past and brought on board to help tran-

sition Klamath First to a commercial bank type portfolio. That's where we are today, and our strategy going forward is to continue with that focus.

It's not that one-to-four family lending isn't a profitable business. I think it can be, but in this rate environment it's difficult to concentrate on one-to-four family loans and make money at it. To service our customers throughout Oregon and to rise to the next level of competition in the financial sector, the Board and the management decided that we needed to make this transition. We are still chartered as a thrift with the OTS; however, we're moving more and more toward a commercial bank-like mix of assets and liabilities.

TWST: Could you give us some insight into the management team and the strengths and skill sets that you have there and any changes or modifications that you might be undergoing?

Mr. Houser (President & CEO): We reviewed the management strengths and weaknesses when I first arrived in November 2000. It became clear to me there were a couple of things that needed close attention. Number one, if we were going to be more commercial bank-like, we needed to improve our structure, the way that we managed our loan portfolio, and bring in management strength that would give us the confidence that we were managing properly. In doing that, we had a Chief Credit Officer who was ready to retire. He took the retirement opportunity and was replaced by a very experienced loan and credit administrator out of the Bank of America system by the name of Ben Gay. He was a Senior Vice President within their asset-based lending group that handled five Western states for Bank of America. Ben joined Klamath First about nine months ago, and has been a very good fit. He has significantly im-

proved our loan asset administration, along with all of the policies and procedures necessary to allow us to look at credit offerings that we would never have considered in the past.

The other area needing dramatic improvement was our retail franchise, especially in our sales per FTE. This was approached by bringing another person in from Bank of America, Isabel Castellanos, who had 20 years' experience in the retail sales environment in California. She now runs our retail branch group. Isabel implemented a defined and focused sales culture that has improved our sales per FTE dramatically over the last nine months. Those have been the two main areas on which we have focused. We've also looked at the marketing area and brought in a very strong marketing person from German American bank who has been able to focus on our new offerings, getting those out to the public in a professional manner.

Marshall Alexander, with whom you have already spoken, has a commercial banking background working for a number of years with Old National Bank in the state of Washington, then with an independent bank in northeast Oregon, and a regional bank in Wyoming before joining Klamath First in the mid-1980s. He has worked in a number of different capacities at Klamath First, but now, as the Chief Financial Officer, has brought a lot of strength looking at things from a commercial banking viewpoint.

I have 30 years in commercial banking, starting with Wells Fargo Bank and going with an independent bank in the State of Oregon before joining Bank of America in Seattle in 1983. I recently retired from Bank of America to assume the position here. Most of that time was in commercial lending, the first 12 years in the retail-banking atmosphere and as a branch manager. My experi-

ence had been as Chief Credit Officer of Bank of America Oregon, and then Regional Manager for Bank of America in California, the last four years managing their South Valley Region, which incorporated Fresno to the Mexican border, primarily in agribusiness lending.

We're clearly focusing on other areas we feel need improvement. One is our geographical coverage. We were clearly focused in southern Oregon, where we began in 1934. That had spread, as Marshall explained to you, into Eastern Oregon. But most of the area that Klamath First represented, except for the Deschutes County area in Central Oregon and the southern Oregon area, was primarily rural and had been, I believe, negatively impacted over the years with the loss of the natural resource based type products, lumber, logging and farming, and on the coast, the same business mixture plus fishing.

We felt Klamath First needed to expand into more heavily populated areas, which has been our focus. The last two expansions Marshall talked about with Wal-Mart were to fill in areas in which we had a very thin presence, mainly on the Interstate Highway corridors. Then, with the Western Bank acquisition, two things occurred. It filled in some gaps that we had along the Oregon Coast and some large concentrations of deposits and loan assets, plus it provided a core group of commercial loan officers that brought significant experience to us, which we are capitalizing on.

Going forward, we are going to be concentrating on the Interstate 5 corridor. We've opened three branches on it recently, two in Wal-Mart Supercenters, one de novo full service branch, which provides a foothold and retail presence, and we are going to be focusing on how we can expand with Wal-Mart toward the

Portland metropolitan area. We also want to complement this expansion with commercial lending opportunities, especially if we can find some decently priced acquisitions within the next year or year and a half.

TWST: What's the overall economic outlook where you are and where you might wish to expand?

Mr. Houser: As I indicated to you, the two high-growth areas where Klamath First is represented are Deschutes County, in central Oregon, and the Medford/Ashland area in southern Oregon. We would like to expand our presence going north toward Portland, Oregon, in the Willamette Valley, the population concentration in the State of Oregon. This area is primarily focused on services and manufacturing much like you would find in any large metropolitan area and port city.

We believe with that population concentration, it will provide Klamath First an opportunity to not only spread our asset base, but to generate many new customers. We're going in first with the Wal-Mart expansion with a retail presence. Then, if that does what we think it will do, we would like to expand with some commercial banking acquisitions that we hope will be available.

TWST: As you look at your own capital resources and at your balance sheet, do you have the strength to take on all these opportunities?

Mr. Alexander: Not necessarily. It depends on size obviously. We just did a new trust preferred issue that closed on April 10 providing \$13 million more in tangible equity. That is helping to improve that ratio. We are still pretty leveraged. But if we're talking about a \$100 million, \$200 million acquisition, I think we can, dependent on proper pricing. If we're talking about a \$500 million to \$1 billion company, then we would have to consider alternative ways to struc-

ture the deal, which would probably include raising more capital as part of the transaction. Those things are just on our wish list now. As there are no real opportunities in the wind that we're aware of, we will continue to keep our eyes open, and as our capital builds through improved earnings, we'll be continually better positioned to address some of those issues.

Mr. Houser: I believe what Marshall talked about is a key. One of the issues that I think our investors and analysts have been looking at over the past several years is our performance, and I believe there has been a general level of disappointment. That is one of the reasons the Board of Directors wanted a change in direction and focus, and that's where we have been going. This last year, the previous 12 months, has seen Klamath First in transition, which we have been reporting with the indication that we believe this fiscal year ending September 30, 2002, will be a modest year as far as profitability. With the benefits of all of our restructuring, training, new product offerings and delivery process, the benefits will show up in 2003. It appears, by where we are and what we have done, that we are very much on track.

TWST: What have been the challenges in dealing with the investment community?

Mr. Alexander: Part of it was when we first went public. I think many in the investment community assumed, and maybe rightly so, that most thrifts going public would be purchased within a few years, so their stock value went up and the investors made some money, not necessarily on flipping their stock, but holding it short term, looking for the right time to sell and then moving onto the next company. We diverted from that trend as the Board, when going public, never had the intention of selling the company,

although at different times those rumors went around, which I believe initially drove up our stock price. But again, that was never the intent of the Board.

The intent was to grow the company, not necessarily by converting to be more commercial bank like which was five years ago when mortgage lending didn't have the competition that it has today. The lending atmosphere has changed a lot in the past five or six years. We went along for two or three of those years improving earnings and doing a good job, primarily through our efficiency in the back room. We weren't investing in our internal structure. We kept a lot of the same facilities and didn't put a lot of investment into improving them and some of our core facilities became dated. The same with technology, software and computer upgrades. We were making a profit, but it was at the expense, in my mind, of the future.

Finally, we got to the point we couldn't improve profits through efficiency any longer and had to do it through expanding our asset base or in our core earnings. That's where we kind of stalled out. For a couple of years our balance sheet didn't look that glamorous. That's when the Board made a decision to bring Mr. Houser on board to see if we could regenerate the company. There has been a lot of changes, mainly going back and doing many of the things that we should have been doing over the past two or three years.

We basically updated a lot of our core operating systems to rely more on technology. We put in our Internet site. We now have online banking. ATMs have been placed in all of our branches to provide that level of service our customers expected. We now have ATMs that take deposits, which was unusual for our company. So we've made a lot of core changes that adversely affected

profitability the last 18 months. We're pretty much right on the cusp now of turning the company around, as can be seen by this last quarter's earnings, double the previous quarter's earnings, and is reflecting the positive trend we anticipate going forward.

TWST: Could you distill all this into the two or three summary points that today would compel an investor to buy in?

Mr. Houser: I believe this bank has been selling under book for a number of years, basically because it didn't have the performance people were looking for, nor did it have that ability considering the geographic areas we had historically represented. We have tried to change that, to focus on areas that make money, to make changes in the way Klamath First does business and to focus on products we believe will be attractive to our current and prospective customer base. That's where we're going. We've set tight time frames to do that, and

our Board and I expect the results to show within a very short period of time.

TWST: Thank you. (DWA)

KERMIT K. HOUSER

President and CEO

MARSHALL J. ALEXANDER

Executive VP, CFO

Klamath First Bancorp, Inc.

540 Main Street

Klamath, OR 97601

(541) 882-3444

(800) 285-0116 - TOLL FREE

www.klamathfirst.com

e-mail: info@klamathfirst.com

Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include a Corporate Profile or other highlight material to be provided and sponsored by and for the company.