CENTRAL VALLEY COMMUNITY BANCORP
Form 10KSB
March 31, 2003

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-KSB

**(Mark One)**

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2002**

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: 000-31977**

# CENTRAL VALLEY COMMUNITY BANCORP

(Name of small business issuer in its charter)

| **California** | **77-0539125** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **600 Pollasky Avenue, Clovis, California** | **93612** |
| (Address of principal executive offices) | (Zip code) |

Issuer s telephone number **(559) 298-1775**

Securities registered under Section 12(b) of the Exchange Act: **NONE**

Securities registered under Section 12(g) of the Exchange Act: **Common Stock, No Par Value**
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. o

State issuer s revenues for its most recent fiscal year: $ 18,747,213

State the aggregate market value of the voting and non-voting common equity held by nonaffiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of March 10, 2003: $23,401,608.

State the number of shares of Common Stock outstanding as of March 10, 2003: 2,574,242

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement which will be filed within 120 days after December 31, 2002, in connection with the solicitation of proxies for its 2003 Annual Meeting of Shareholders, are incorporated by reference in Items 9, 10, 11 and 12 of part III hereof. The portions of such documents that are not incorporated by reference shall not be deemed to be filed with the Commission as part of this Form 10-KSB.

Transitional Small Business Disclosure Format (Check one): Yes o No ý

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## PART I

## ITEM 1 - DESCRIPTION OF BUSINESS.

**General**

Central Valley Community Bancorp (the Company ) was incorporated on February 7, 2000 as a California corporation, for the purpose of becoming the holding company for Central Valley Community Bank, formerly known as Clovis Community Bank (the Bank ), a California state chartered bank, through a corporate reorganization. In the reorganization, the Bank became the wholly-owned subsidiary of the Company, and the shareholders of the Bank became the shareholders of the Company. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act ), and is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Board of Governors ).

At December 31, 2002, the Company had one banking subsidiary, the Bank. The Company s principal business is to provide, through its banking subsidiary, financial services in its primary market area in California. The Company serves Fresno County, Sacramento County and its surrounding area through the Bank. The Company does not currently conduct any operations other than through the Bank. Unless the context otherwise requires, references to the Company refer to the Company and the Bank on a consolidated basis. At December 31, 2002, the Company had consolidated total assets of approximately $283,006,000 See Items 6 and 7 - Management s Discussion and Analysis or Plan of Operation and - Financial Statements.

In February 2002, the Company approved a stock repurchase plan authorizing the purchase of shares up to a total cost of $500,000, or approximately 3% of its outstanding common stock. The plan expires January 31, 2003. The Company adopted a similar plan in February 2001, which expired on January 31, 2002. As of December 31, 2002, the Company had repurchased 92,612 shares at a total cost of $982,619.

In December 2002, the Company approved a stock repurchase plan authorizing the purchase of shares up to a total cost of $500,000, or approximately 2% of its outstanding common stock. The plan became effective January 1, 2003 and expires December 31, 2003.

As of March 10, 2003, the Company had a total of 126 employees and 103 full time equivalent employees, including the employees of the Bank.

Forward-Looking Statements

**Certain matters discussed in this Annual Report on Form 10-KSB including, but not limited to, those described in Item 6 - Management s Discussion and Analysis or Plan of Operation, are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such risks and uncertainties**

**include, among others, (1) significant increases in competitive pressure in the financial services industry; (2) changes in the interest rate environment resulting in reduced margins; (3) general economic conditions, either nationally or regionally, are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) fluctuations in the real estate market; (6) changes in business conditions and inflation; and (7) changes in securities markets. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.**

**When the Company uses in this Annual Report on Form 10-KSB the words anticipate, estimate, expect, project, intend, commit, and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Annual Report on Form 10-KSB. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company s ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.**

The Bank

The Bank was organized in 1979 and commenced business as a California state chartered bank in 1980. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC ) up to applicable limits. The Bank is not a member of the Federal Reserve System.

The Bank operates seven full-service banking offices in Clovis, Fresno, Kerman, Sacramento, and Prather, California. One of the offices is in a Save Mart Supermarket and offers extended banking hours, including Saturday and Sunday hours, for the convenience of the Bank s customers. The Bank established a Real Estate Division in 1995 in a freestanding facility in downtown Clovis. All real estate related transactions are conducted and processed through the Real Estate Division, including interim construction loans for single family residences and commercial buildings. All types of permanent single family residential loans are also offered. The Bank closed its former Shaver Lake branch in 2001.

During 2002, the Bank relocated its River Park and Fig Garden Village offices in Fresno, California to new expanded sites. Due to the success of the River Park office staff, the office outgrew its initial 2,000 square foot leased facility and relocated to a new 5,000 square foot facility in the same area. Similarly the Fig Garden Village office quickly out-grew its original 350 square feet and was relocated to a new 2,000 square foot site within the same shopping area.

The Bank also opened two new full service offices in step with its strategic plans to expand its market areas to the entire central valley area of California. An office in the Sacramento area was opened in the first half of 2002. The new Sacramento Private Banking facility is intended to serve the Sacramento area needs of the Company s existing commercial customers whose needs fall outside the Fresno area but within the Sacramento area, as well as serving the banking needs of new customers.

In the second half of 2002, the Company opened a new office located in Kerman, California. The recent acquisition of Kerman State Bank, a long established community bank, by Westamerica Bank provided an opportunity to expand into the Kerman area. The Company had been encouraged by contacts from numerous businesses in the Kerman area to open a facility. The Bank was successful in hiring prior Kerman State Bank employees for the office.

The Bank anticipates additional branch openings to meet the growing service needs of its customers. The branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses.

The Bank conducts a commercial banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also issues cashier s checks, sells traveler s checks and provides safe deposit boxes and other customary banking services. The Bank also has offered Internet Banking since 2000. Internet Banking consists of inquiry, account status, bill paying, account transfers, and cash management. The Bank does not offer trust services or international banking services and does not currently plan to do so in the near future.

Since August of 1995 the Bank has been a party to an agreement with Investment Centers of America, pursuant to which Investment Centers of America provides Bank customers with access to investment services. In connection with entering into this agreement, the Bank adopted a

policy intended to comply with FDIC Regulation Section 337.4, which outlines the guidelines under which an insured non-member bank may be affiliated with a company that directly engages in the sale, distribution, or underwriting of stock, bonds, debentures, notes, or other securities.

There have been no other significant changes in the kinds of services rendered, the principal markets for or the methods of distribution of such services during the Bank s past three fiscal years.

The Bank s operating policy since its inception has emphasized serving the banking needs of individuals

and the business and professional communities in the central valley area of California. At December 31, 2002, the Company had total loans of $159,214,000. Total commercial and industrial loans outstanding were $70,408,000; total real estate construction, land development and other land loans outstanding were $21,736,000; total other real estate loans outstanding were $57,498,000, and total consumer installment loans outstanding were $5,581,000. The Company accepts real estate, listed and unlisted securities, savings and time deposits, automobiles, inventory, machinery and equipment as collateral for loans.

No individual or single group of related accounts is considered material in relation to the Bank s assets or deposits, or in relation to the overall business of the Company. However, at December 31, 2002 approximately 49.8% of the Company s loan portfolio held for investment consisted of real estate-related loans, including construction loans, real estate mortgage loans and commercial loans secured by real estate and 44.2% consisted of commercial loans. At December 31, 2002, the Company had approximately 9.85% of its loan portfolio concentrated in the residential construction industry. See Item 6 - Management s Discussion and Analysis or Plan of Operation. The Company believes that these concentrations are mitigated by the diversification of the loan portfolio among commercial, commercial and residential construction, commercial mortgage, home equity and consumer loans. No borrower had aggregate credit commitments exceeding 3.60% of the loan portfolio at December 31, 2002. In addition, the business activities of the Company currently are mainly concentrated in Fresno County, California. Consequently, the results of operations and financial condition of the Company are dependent upon the general trends in this part of the California economy and, in particular, the residential and commercial real estate markets. In addition, the concentration of the Company s operations in this area of California exposes it to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region or as a result of energy shortages in California.

The Company s deposits are attracted from individual and commercial customers. A material portion of the Company s deposits has not been obtained from a single person or a few persons, the loss of any one or more of which would have a material adverse effect on the business of the Company.

In order to attract loan and deposit business from individuals and small businesses, the Company maintains the following lobby hours at its branches:

| **Branch** | **Monday Thursday** | **Friday** | **Saturday** | **Sunday** |
|---|---|---|---|---|
| Clovis Main | 9:00 a.m. to 4:00 p.m. | 9:00 a.m. to 6:00 p.m. | None | None |
| Clovis Main Drive Up | 8:00 a.m. to 5:30 p.m. | 8:00 a.m. to 6:00 p.m. | None | None |
| Foothill | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 1:00 p.m. | None |
| Clovis/Herndon | 10:00 a.m. to 7:00 p.m. | 10:00 a.m. to 7:00 p.m. | 10:00 a.m. to 5:00 p.m. | 10:00 a.m. to 3:00 p.m. |
| Fig Garden Village | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 10:00 a.m. to 2:00 p.m. | None |
| Kerman | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | None | None |
| River Park | 9:00 a.m. to 5:00 p.m. | 9:00 a.m. to 6:00 p.m. | 9:00 a.m. to 2:00 p.m. | None |
| River Park Drive Up | 8:00 a.m. to 5:30 p.m. | 8:00 a.m. to 6:00 p.m. | 9:00 a.m. to 3:00 p.m. | None |
| Sacramento Private Banking | 9:00 a.m. to 4:00 p.m. | 9:00 a.m. to 4:00 p.m. | None | None |

Automated teller machines operate at 6 branch locations and 2 non-branch locations 24 hours per day, seven days per week. No automated teller machines are currently located at the Sacramento office. The Company s

Real Estate and Small Business Administration ( SBA ) Departments maintain business hours of 8:00 A.M. to 5:00 P.M., Monday through Friday, and extended hours are available at customer request.

The Bank relies substantially on local promotional activity, personal contacts by its officers, directors and employees, referrals by its shareholders, extended hours, personalized service and its reputation in the communities it serves to compete effectively.

In Fresno County, in addition to the Company s six branch locations, serving the Bank s primary service areas, as of December 31, 2002 there were 142 operating banking offices in the Company s primary service area, which consists of the cities of Clovis, Fresno, Kerman and Prather, California, of which 91 were offices of regional and major chain banking systems and 9 were offices of other community banks. Prather does not contain any banking offices other than the Company s office. The Company s primary service area contains 12 thrift offices. Business activity in the Company s primary service area is oriented towards light industry, small business and agriculture.

In Sacramento County, in addition to the Company s one branch, as of December 31, 2002 there were 196 operating banking offices in the Company s primary service area of which 105 were offices of regional and major chain banking systems and 23 were offices of other community banks. The Sacramento service area contains 35 thrift offices.

The banking business in California generally, and in the Company s primary service area specifically, is highly competitive with respect to both loans and deposits, and is dominated by a relatively small number of major banks with many offices operating over a wide geographic area. Among the advantages such major banks have over the Company is their ability to finance wide-ranging advertising campaigns and to allocate their investment assets, including loans, to regions of higher yield and demand. Major banks offer certain services such as international banking and trust services which are not offered directly by the Bank but which usually can be offered indirectly through correspondent institutions. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than the Bank. Legal lending limits to an individual customer are limited to a percentage of a bank s total capital accounts. As of December 31, 2002, the Bank s loan limits to individual customers were $3,513,000 for unsecured loans and $5,854,000 for unsecured and secured loans combined. For borrowers desiring loans in excess of the Bank s lending limits, the Bank makes and may, in the future, make such loans on a participation basis with other community banks taking the amount of loans in excess of the Bank s lending limits. In other cases, the Bank may refer such borrowers to larger banks or other lending institutions.

Other entities, both governmental and in private industry, seeking to raise capital through the issuance and sale of debt or equity securities also provide competition for the Bank in the acquisition of deposits. Banks also compete with money market funds and other money market instruments, which are not subject to interest rate ceilings. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Competition for deposit and loan products remains strong, from both banking and non-banking firms, and affects the rates of those products as well as the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches, and in-store branches.

Mergers between financial institutions have placed additional pressure on banks to streamline their operations, reduce expenses, and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. Such laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in the Company s market. The competitive environment also is significantly impacted by federal and state legislation, which may make it easier for non-bank financial institutions to compete with the Company.

Clovest Corporation

The Bank has engaged in real estate investment and development activities since 1987 through a wholly-owned subsidiary, Clovest Corporation ( Clovest ). On July 15, 1998 the Board of Directors approved the discontinuance of Clovest s operations. As of December 31, 2002 and 2001, and for the years then ended, the Company s investment in Clovest and the results of Clovest s operations were not material.

Clovis Securities Corporation

The Bank has another wholly-owned subsidiary, Clovis Securities Corporation, which has been inactive since December 31, 1993.

Central Valley Community Realty, LLC

The Bank formed a real estate investment trust, Central Valley Community Realty, LLC ( CVCR ) in 2002. The trust invests in the Bank s real estate related assets. CVCR, as a real estate investment trust, is afforded certain tax advantages which reduce state income tax expense.

**Statistical Disclosure**

This information should be read in conjunction with the consolidated financial statements and the notes thereto and the Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included in items 6 and 7 of this annual report..

**Distribution Of Average Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential**

Table A sets forth the Company s average consolidated balance sheets for the years ended December 31, 2002, 2001 and 2000 and an analysis of interest rates and the interest rate differential for the years then ended. Table B sets forth the changes in interest income and interest expense in 2002 and 2001 resulting from changes in volume and changes in rates.

**Investment Portfolio**

The book value of investment securities at December 31, 2002, 2001 and 2000 and the book value, maturities and weighted average yield of investment securities at December 31, 2002 are set forth in Table C.

**Loan Portfolio**

The composition of the loan portfolio at December 31, 2002, 2001, 2000, 1999 and 1998 is summarized in Table D.

Maturities and sensitivity to changes in interest rates in the loan portfolio at December 31, 2002 are summarized in Table E.

Table F shows the composition of non-accrual, past due and restructured loans at December 31, 2002, 2001, 2000, 1999 and 1998. Set forth in the text accompanying Table F is a discussion of the Company s policy for placing loans on non-accrual status.

**Summary Of Loan Loss Experience**

Table G sets forth an analysis of loan loss experience as of and for the years ended December 31, 2002, 2001, 2000, 1999, and 1998.

Set forth in the text accompanying Table G is a description of the factors which influenced management s judgment in determining the amount of the additions to the allowance charged to operating expense in each fiscal year, a table showing the allocation of the allowance for credit losses to the various types of loans in the portfolio, as well as a discussion of management s policy for establishing and maintaining the allowance for credit losses.

**Deposits**

Table H sets forth the average amount of and the average rate paid on major deposit categories for the years ended December 31, 2002, 2001 and 2000.

Table I sets forth the maturity of time certificates of deposit of $100,000 or more at December 31, 2002.

**Return On Equity And Assets**

Table J sets forth certain financial ratios for the years ended December 31, 2002, 2001 and 2000.

**Table A**

**DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL**

The following table sets forth consolidated average assets, liabilities and shareholders equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years ended December 31, 2002, 2001 and 2000. The average balances reflect daily averages except non-accrual loans, which were computed using quarterly averages.

| | | 2002 | | | 2001 | | | 2000 | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Average Balance | Interest Income/ Expense | Average Rates Earned | Average Balance | Interest Income/ Expense | Average Rates Earned | Average Balance | Interest Income/ Expense | Average Rates Earned |
| **ASSETS:** | | | | | | | | | |
| Interest-earning deposits in other banks | $ 175 | $ 5 | 2.86% | $ 100 | $ 3 | 3.00% | $ 343 | $ 25 | 7.29% |
| Investment securities: | | | | | | | | | |
| Taxable | 50,974 | 2,629 | 5.16% | 55,059 | 3,475 | 6.31% | 54,457 | 3,506 | 6.44% |
| Non-taxable(1) | 10,136 | 512 | 5.05% | 8,665 | 479 | 5.53% | 8,804 | 485 | 5.51% |
| Total investment securities | 61,110 | 3,141 | 5.14% | 63,724 | 3,954 | 6.20% | 63,261 | 3,991 | 6.31% |
| Federal funds sold | 12,826 | 195 | 1.52% | 6,502 | 240 | 3.69% | 9,491 | 602 | 6.34% |
| Loans(2)(3) | 147,956 | 11,195 | 7.57% | 112,092 | 10,380 | 9.26% | 84,149 | 8,942 | 10.63% |
| Total interest-earning assets(1) | 222,067 | $ 14,536 | 6.55% | 182,418 | $ 14,577 | 7.99% | 157,244 | $ 13,560 | 8.62% |
| Less allowance for credit losses | (2,390) | | | (2,241) | | | (2,495) | | |
| Non-accrual loans | 698 | | | 442 | | | 1,819 | | |
| Cash and due from banks | 14,988 | | | 13,932 | | | 11,804 | | |
| Premises and equipment | 2,719 | | | 1,896 | | | 1,656 | | |
| Other assets | 10,866 | | | 10,075 | | | 9,212 | | |
| Total average assets | $ 248,948 | | | $ 206,522 | | | $ 179,240 | | |

| (Dollars in Thousands) | Average Balance | 2002 Interest Income/ Expense | Average Rates Paid | Average Balance | 2001 Interest Income/ Expense | Average Rates Paid | Average Balance | 2000 Interest Income/ Expense | Average Rates Paid |
|---|---|---|---|---|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS EQUITY:** | | | | | | | | | |
| Deposits: | | | | | | | | | |
| Savings and negotiable orders of withdrawal | $ 47,936 | $ 168 | 0.35% | $ 40,126 | $ 263 | 0.66% | $ 70,302 | $ 1,457 | 2.07% |
| Money market accounts | 52,414 | 817 | 1.56% | 45,397 | 1,366 | 3.01% | | | |
| Time certificates of deposit, Under $100,000 | 38,847 | 1,074 | 2.76% | 35,458 | 1,646 | 4.64% | 36,240 | 1,931 | 5.33% |
| Time certificates of deposit, $100,000 and over | 14,251 | 334 | 2.34% | 16,365 | 840 | 5.13% | 13,161 | 732 | 5.56% |
| Other borrowed funds | 11,277 | 335 | 2.97% | 532 | 22 | 4.14% | 2,099 | 126 | 6.00% |
| Federal funds purchased | 18 | 0 | 1.09% | 14 | 1 | 7.14% | 18 | 1 | 5.56% |
| Total interest-bearing Liabilities | 164,743 | $ 2,728 | 1.66% | 137,892 | $ 4,138 | 3.00% | 121,820 | $ 4,247 | 3.49% |
| Non-interest bearing demand | 59,181 | | | 45,843 | | | 39,081 | | |
| Other liabilities | 2,420 | | | 2,606 | | | 1,664 | | |
| Shareholders equity | 22,604 | | | 20,181 | | | 16,675 | | |
| Total liabilities and Shareholders equity | $ 248,948 | | | $ 206,522 | | | $ 179,240 | | |
| Interest income and average rate earned on earning assets(1) | | $ 14,536 | 6.55% | | $ 14,577 | 7.99% | | $ 13,560 | 8.62% |
| Interest expense and average interest cost related to interest-bearing liabilities | | 2,728 | 1.66% | | 4,138 | 3.00% | | 4,247 | 3.49% |
| Net interest income and margin(4) | | $ 11,808 | 5.32% | | $ 10,439 | 5.72% | | $ 9,313 | 5.92% |

(1) Not computed on a tax equivalent basis.

(2) Loan interest income includes loan fees of $755 in 2002; $648 in 2001; and $391 in 2000 (dollars in thousands).

(3) Average loans do not include non-accrual loans.

(4) Net interest margin is computed by dividing net interest income by total average interest-earning assets.

**Table B**

**VOLUME AND RATE ANALYSIS**

The following table sets forth, for the years indicated, a summary of the changes in interest earned and interest paid resulting from changes in asset and liability volumes and changes in rates. The change in interest due to both volume and rate has been allocated to change due to volume and rate in proportion to the relationship of absolute dollar amounts of change in each.

| Year Ended December 31 | |
|---|---|
| 2002 Compared to 2001 | 2001 Compared to 2000 |

| (In Thousands) | Volume | Rate | Net | Volume | Rate | Net |
|---|---|---|---|---|---|---|
| Increase (decrease) due to changes in: | | | | | | |
| Interest income: | | | | | | |
| Interest-earning deposits in other banks | $ 2 | $ (0) | $ 2 | $ (15) | $ (7) | $ (22) |
| Investment securities: | | | | | | |
| Taxable | (244) | (602) | (846) | 160 | (191) | (31 ) |
| Non-taxable(1) | (67) | (34) | (33) | 6 | (12) | (6) |
| Total investment securities | (177) | (636) | (813) | 166 | (203) | (37) |
| Federal funds sold | (114) | 69 | (45) | (195) | (167) | (362) |
| Loans | 1,903 | (1,088) | 815 | 2,525 | (1,087) | 1,438 |
| Total earning assets(1) | 1,614 | (1,655) | (41) | 2,481 | (1,464) | 1,017 |
| Interest expense: | | | | | | |
| Deposits: | | | | | | |
| Savings and negotiable orders of withdrawal | 359 | (1,003) | (644) | 219 | (48) | 171 |
| Certificates of deposit under $100,000 | 177 | (749) | (572) | (75) | 180 | 108 |
| Certificates of deposit $100,000 and over | (97) | (409) | (506) | (72) | (209) | (284) |
| Total deposits | 439 | (2,161) | (1,722) | 72 | (77) | (5) |
| Federal funds purchased | 0 | (1) | (1) | 0 | 0 | 0 |
| Other borrowed funds | 317 | (4) | 313 | 32 | (136) | (104) |
| Total interest bearing liabilities | 756 | (2,166) | (1,410) | 104 | (213) | (109) |
| Net interest income(1) | $ 858 | $ 511 | $ 1,369 | $ 2,377 | $ (1,251) | $ 1,126 |

(1) Not computed on a tax equivalent basis.

**Table C**

**INVESTMENT PORTFOLIO**

The book value of investment securities at December 31, 2002, 2001 and 2000 is set forth in the following table. At December 31, 2002, the Bank held no investment securities from any issuer which totaled over 10% of the Company s shareholders equity.

| **Available for Sale** | **Book Value at December 31** | | |
|---|---|---|---|
| **(in thousands)** | **2002** | **2001** | **2000** |
| U.S. Treasury securities and obligations of other U.S. government agencies and corporations | $ 10,619 | $ 8,477 | $ 15,283 |
| Mortgage-backed securities | 44,421 | 35,675 | 39,941 |
| Obligations of states and political subdivisions | 16,629 | 12,440 | 13,039 |
| Federal Home Loan Mortgage Corporation stock | -0- | 1,019 | 1,022 |
| Corporate bonds | 974 | 967 | 961 |
| Other securities | 2,348 | 265 | 2,761 |
| Total Available-for-Sale Securities | $ 74,991 | $ 58,843 | $ 73,007 |

The book value, maturities and weighted average yield of investment securities at December 31, 2002 are summarized in the following table.

| | | | Maturing | | |
|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **In one year or less** | **After one through five years** | **After five through ten years** | **After ten years** | **Total** |

| **Available for Sale** | **Amount** | **Yield(1)** | **Amount** | **Yield(1)** | **Amount** | **Yield(1)** | **Amount** | **Yield(1)** | **Amount** | **Yield(1)** |
|---|---|---|---|---|---|---|---|---|---|---|
| Obligations of other U.S. Government agencies and corporations | $ 666 | 4.26% | $ 6,019 | 4.81% | $ 2,000 | 5.68% | $ 1,934 | 5.88% | $ 10,619 | 5.13% |
| Mortgage-backed securities | | | 1,537 | 6.97% | 2,448 | 6.51% | 40,436 | 6.96% | 44,421 | 6.93% |
| Obligations of states &political subdivisions | 970 | 6.75% | 1,280 | 5.47% | 5,306 | 5.63% | 9,073 | 4.74% | 16,629 | 5.20% |
| Corporate Bonds | | | 974 | 6.70% | | | | | 974 | 6.70% |
| Other securities | 2,348 | 2.13% | | | | | | | 2,348 | 2.13% |
| Total Available for Sale | $ 3,984 | 3.61% | $ 9,810 | 5.42% | $ 9,754 | 5.86% | $ 51,443 | 6.53% | $ 74,991 | 6.14% |

(1) Not computed on a tax equivalent basis.

**Table D**

**-**

**LOAN PORTFOLIO**

The composition of the loan portfolio at December 31, 2002, 2001, 2000, 1999 and 1998 is summarized in the table below.

| (in thousands) | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Commercial and industrial | $ 66,580 | $ 51,718 | $ 36,614 | $ 38,374 | $ 35,801 |
| Real estate | | | | | |
| Construction, land development & other land loans | 21,736 | 27,462 | 12,829 | 8,253 | 5,712 |
| Other | 57,498 | 41,858 | 33,534 | 25,544 | 25,071 |
| Loans to finance agricultural production or other loans to farmers | 3,978 | 1,159 | 941 | 610 | 1,467 |
| Installment loans to individuals for household, family and otherpersonal expenditures | 5,581 | 5,517 | 7,371 | 5,918 | 6,031 |
| Leases | 3,828 | 5,656 | 4,612 | 2,260 | 194 |
| Other | 13 | 302 | 385 | 545 | 767 |
| Subtotal | 159,214 | 133,672 | 96,286 | 81,504 | 75,043 |
| Unearned income | (488) | (401) | (266) | (251) | (401) |
| Subtotal | 158,726 | 133,271 | 96,020 | 81,253 | 74,642 |
| Allowance for credit losses | (2,433) | (2,474) | (2,047) | (2,236) | (2,949) |
| Total(1) | $ 156,293 | $ 130,797 | $ 93,973 | $ 79,017 | $ 71,693 |

(1) Includes non-accrual loans of:

| 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|
| $ 466 | $ 1,109 | $ 205 | $ 3,617 | $ 4,033 |

**Table E**

**-**

**LOAN MATURITIES AND SENSITIVITY TO CHANGES IN INTEREST RATES**

The following table presents information concerning loan maturities and sensitivity to changes in interest rates of the indicated categories of the Company s loan portfolio, as well as loans in those categories maturing after one year that have fixed or floating interest rates at December 31, 2002.

| **Maturity Distribution of Loans(1): (in thousands)** | **One Year or Less** | **After One Through Five Years** | **After Five Years** | **Total** |
|---|---|---|---|---|
| Real estate construction | $ 17,245 | $ 4,491 | $ 0 | $ 21,736 |
| Other real estate | 33,582 | 14,883 | 9,033 | 57,498 |
| Commercial and industrial | 58,634 | 11,612 | 3,687 | 73,933 |
| Installment | 2,453 | 1,123 | 2,005 | 5,581 |
| | $ 111,913 | $ 32,109 | $ 14,725 | $ 158,748 |
| Sensitivity to Changes in Interest Rates: | | | | |
| Loans with Fixed Interest Rates | | $ 20,505 | $ 13,977 | |
| Loans with Floating Interest Rates | | 11,604 | 748 | |
| Total | | $ 32,109 | $ 14,725 | |

(1) Does not include non-accrual loans of $466

**Table F**

**-**

**COMPOSITION OF NON-ACCRUAL, PAST DUE AND RESTRUCTURED LOANS**

A summary of non-accrual, restructured and past due loans at December 31, 2002, 2001, 2000, 1999 and 1998 is set forth below:

| (In Thousands) | December 31 | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| Non-accrual | $ 466 | $ 1,109 | $ 205 | $ 3,617 | $ 4,033 |
| Accruing loans past due 90 days or more | -0- | -0- | -0- | -0- | -0- |
| Restructured loans | 615 | 627 | -0- | 145 | 242 |
| | $ 1,081 | $ 1,736 | $ 205 | $ 3,762 | $ 4,275 |
| | | | | | |
| Non-accrual loans to total loans | 0.3% | 0.8% | 0.2% | 4.5% | 5.4% |

The Company s consolidated financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on loans. Interest income from non-accrual loans is recorded only if collection of principal in full is not in doubt and when and if received.

Loans are placed on non-accrual status and any accrued but unpaid interest income is reversed and charged against income when the payment of interest or principal is ninety days or more past due. Loans in the non-accrual category are treated as non-accrual loans even though the Company may ultimately recover all or a portion of the interest due. These loans return to accrual status when the loan becomes contractually current and future collectibility of amounts due is reasonably assured. At December 31, 2002, the Company had $466,000 in non-accrual loans. One agricultural relationship represented 72.5% of the total non-accrual loans.

Interest income on non-accrual loans that would have been recognized in the year ended December 31, 2002 if the loans had been current in accordance with their original terms totaled $62,000. No income was recognized on these loans for the year ended December 31, 2002.

In 2002, 2001, 1999 and 1998 the Company had one (1) restructured loan in the principal amount of $615,000, $627,000, $145,000 and $242,000, respectively. At December 31, 2000 the Company had no restructured loans. There was one loan, which was current at December 31, 2002, where serious doubt existed as to the ability of the borrower to comply with the loan repayment terms. The loan is considered to be impaired and interest is not accruing. See Note 3 of the Notes to Consolidated Financial Statements of the Company included under Item 7 - Financial Statements for information concerning the Company s recorded investment in loans for which an impairment has been recognized. Impaired loans are identified from internal credit review reports, past due reports, overdraft listings, and regulatory reports of examination. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow or business interruptions which jeopardize collection of the loan are also reviewed for possible impairment classification.

When a loan is classified as impaired, the net fair value (i.e., the measure of the impaired loan) is computed based on the present value of expected future cash flows discounted at the loan s effective interest rate. Alternatively, if the loan is collateral dependent, impairment is measured based on the fair value or market price of the collateral. If the net fair value of the impaired loan is less than the recorded investment in the loan, then the resulting impairment amount is recognized through the use of a valuation allowance with a corresponding charge to the provision for credit losses. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement.

**Table G**

**SUMMARY OF LOAN LOSS EXPERIENCE**

The following table summarizes loan loss experience as of and for the years ended December 31, 2002, 2001, 2000, 1999 and 1998.

| (Dollars in Thousands) | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| Loans outstanding at December 31, | $ 159,214 | $ 133,672 | $ 96,286 | $ 81,504 | $ 75,043 |
| Average loans outstanding during period | $ 148,654 | $ 112,534 | $ 85,968 | $ 77,234 | $ 83,483 |
| Allowance for credit losses: | | | | | |
| Balance at beginning of year | $ 2,474 | $ 2,047 | $ 2,236 | $ 2,949 | $ 2,600 |
| Deduct loans charged-off: | | | | | |
| Commercial and industrial | (289) | (342) | (146) | (1,561) | (1,217) |
| Real estate construction | -0- | -0- | -0- | -0- | -0- |
| Real estate other | -0- | -0- | (868) | -0- | (152) |
| Loans to finance agricultural and other loans to farmers | -0- | -0- | -0- | (845) | -0- |
| Loans to individuals for household, family and other personal expenditures | (63) | (49) | (128) | (103) | (254) |
| Other | -0- | -0- | -0- | (24) | -0- |
| | | | | | |
| Total loans charged-off | (352) | (391) | (1,142) | (2,533) | (1,623) |
| Add recoveries of loans charged off: | | | | | |
| Commercial and industrial | 275 | 122 | 271 | 426 | 85 |
| Real estate construction | -0- | -0- | -0- | -0- | -0- |
| Real estate other | -0- | 37 | -0- | 53 | 106 |
| Loans to finance agricultural and other loans to farmers | -0- | 9 | 591 | 21 | -0- |
| Loans to individuals for household, family and other personal expenditures | 36 | 28 | 41 | 50 | 59 |
| Total recoveries | 311 | 196 | 903 | 550 | 250 |
| Net charge-offs | (41) | (195) | (239) | (1,983) | (1,373) |
| | | | | | |
| Add provision charged to operating expense | -0- | 622 | 50 | 1,270 | 1,722 |
| Balance at end of year | $ 2,433 | $ 2,474 | $ 2,047 | $ 2,236 | $ 2,949 |
| Allowance for credit losses as a percentage of outstanding loan balance | 1.53% | 1.85% | 2.13% | 2.74% | 3.93% |
| Net charge-offs to average loans outstanding | 0.03% | 0.17% | 0.28% | 2.57% | 1.64% |

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate Company losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

The allowance for credit losses is reviewed at least quarterly by the Directors Audit Committee and by the Board of Directors. Reserves are allocated to loan portfolio segments using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. The Company has adopted the specific reserve approach to allocate reserves to each adversely graded asset, as well as to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or the Company s own internal review process. Additions are also required when, in management s judgment, the reserve does not properly reflect the potential loss exposure.

The Company made no additions to the allowance for credit losses in 2002 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged-off loans.

The provision for credit losses was $622,000 in 2001. The 2001 provision primarily related to the Company s increase in non-accrual loans, which totaled $1,109,000 at December 31, 2001 compared to $205,000 at December 31, 2000, as well as a 30.9% increase in loan volume during 2001. The 2000 provision for credit losses of $50,000 reflected management s evaluation of deterioration primarily in one commercial borrowing relationship. In 1999, the provision for credit losses of $1,270,000 reflected the deterioration of four borrowing relationships. The $1,722,000 provision in 1998 was partially the result of adverse economic conditions within the Bank s market area, particularly related to real estate and agriculture, as well as a $113,000 specific allowance for potential Year 2000 related credit problems.

Using the criteria on the previous page, the allocation of the allowance for credit losses is set forth below:

| | 2002 | | 2001 | | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans | Amount | Percent of Loans in Each Category to Total Loans |
| Commercial and industrial | $ 985 | 40.7% | $ 1,345 | 54.4% | $ 877 | 42.8% | $ 1,060 | 47.1% | $ 1,187 | 42.1% |
| Real estate construction | 85 | 3.5% | 141 | 5.7% | 272 | 13.3% | 75 | 10.1% | 51 | 6.3% |
| Real estate other | 1,039 | 42.5% | 370 | 15.0% | 712 | 34.8% | 845 | 31.3% | 507 | 37.1% |
| Loans to finance agricultural and other loans to farmers | 159 | 6.5% | 380 | 15.3% | 20 | 1.0% | 5 | .8% | 630 | 3.7% |
| Loans to individuals for household, family and other personal expenditures and other loans | 58 | 2.4% | 62 | 2.5% | 158 | 7.7% | 146 | 7.3% | 198 | 10.2% |
| Lease contracts | | | | | | | 23 | 2.8% | 3 | 0.6% |
| Year 2000 for all loan types | | | | | | | 81 | N/A | 113 | N/A |
| Other | 40 | 1.6% | | | 8 | 0.4% | 1 | .6% | | N/A |
| Non-specific reserve | 67 | 2.8% | 176 | 7.1% | | | | N/A | 260 | N/A |
| | $ 2,433 | | $ 2,474 | | $ 2,047 | | $ 2,236 | | $ 2,949 | |

Loans are charged to the allowance for credit losses when the loans are deemed uncollectible. It is the policy of management to make additions to the allowance so that it remains adequate to cover all potential loan charge-offs that exist in the portfolio at that time.

**Table H**

**DEPOSITS**

The Company has no known foreign deposits. The following table sets forth the average amount of and the average rate paid on certain deposit categories which were in excess of 10% of average total deposits for the years ended December 31, 2002, 2001 and 2000.

| | (dollars in thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2001 | | 2000 | |
| | Balance | Rate | Balance | Rate | Balance | Rate |
| Savings and negotiable orders of withdrawal | $ 100,350 | .98% | $ 85,523 | 1.90% | $ 70,302 | 2.07% |
| Time certificates of deposit, under $100,000 | $ 38,847 | 2.76% | $ 35,458 | 4.64% | $ 36,240 | 5.33% |
| Non-interest bearing demand | $ 59,181 | N/A | $ 45,843 | N/A | $ 39,081 | N/A |
| Total deposits | $ 212,629 | | $ 183,189 | | $ 158,784 | |

**Table I**

**TIME DEPOSITS**

The following table sets forth the maturity of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2002.

| (In Thousands) | |
|---|---|
| Three months or less | $ 8,909 |
| Over 3 months through 6 months | 2,256 |
| Over 6 through 12 months | 4,014 |
| Over 12 months | 6,445 |
| | $ 21,624 |

**Table J**

**FINANCIAL RATIOS**

The following table sets forth certain financial ratios for the years ended December 31, 2002, 2001 and 2000.

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net Income: | | | |
| To average assets | 1.12% | 1.15% | 0.98% |
| To average shareholders equity | 12.32% | 11.78% | 10.48% |
| Dividends declared per share to net income per share | 4.90% | N/A | 7.46% |
| Average shareholders equity toaverage assets | 9.08% | 9.77% | 9.30% |

SUPERVISION AND REGULATION

GENERAL

The banking and financial services businesses in which the Company engages are highly regulated. Such regulation is intended, among other things, to protect depositors whose deposits are insured by the FDIC and the banking system as a whole. The monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors, also influence the commercial banking business. The Board of Governors implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Board of Governors in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly such actions may also affect the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The laws, regulations, and policies affecting financial services businesses are continuously under review by Congress and state legislatures, and federal and state regulatory agencies. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. Changes in the laws, regulations or policies that affect the Company cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Company.

BANK HOLDING COMPANY REGULATION

The Company, as a bank holding company, is subject to regulation under the BHC Act, and is subject to the supervision and examination of the Board of Governors. Pursuant to the BHC Act, the Company is required to obtain the prior approval of the Board of Governors before it may acquire all or substantially all of the assets of any bank, or ownership or control of voting shares of any bank if, after giving effect to such acquisition, the Company would own or control, directly or indirectly, more than 5 percent of such bank.

Under the BHC Act, the Company may not engage in any business other than managing or controlling banks or furnishing services to its subsidiaries that the Board of Governors deems to be so closely related to banking as to be a proper incident to banking. The Company is also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any company unless the company is engaged in banking activities or the Board of Governors determines that the activity is so closely related to banking to be a proper incident to banking. The Board of Governors approval must be obtained before the shares of any such company can be acquired and, in certain cases, before any approved company can open new offices.

The BHC Act and regulations of the Board of Governors also impose certain constraints on the redemption or purchase by a bank holding company of its own shares of stock.

The Company s earnings and activities are affected by legislation, by actions of its regulators, and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which the Company and the Bank conduct business. For example, these include limitations on the ability of the Bank to pay dividends to the Company and the ability of the Company to pay dividends to its shareholders. It is the policy of the Board of Governors that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend

would constitute an unsafe or unsound banking practice.

In addition, banking subsidiaries of bank holding companies are subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain exceptions set forth in the Federal Reserve Act and the recently enacted Regulation W, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral security for a loan or extension of credit to any person or company, issue a guarantee, or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary s capital stock and surplus on a per affiliate basis or 20 percent of such subsidiary s capital stock and surplus on an aggregate affiliate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices. A bank and its subsidiaries generally may not purchase a low-quality asset, as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also generally prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral.

A holding company and its banking subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or provision of services. For example, with certain exceptions a bank may not condition an extension of credit on a customer obtaining other services provided by it, a holding company or any of its other bank affiliates, or on a promise by the customer not to obtain other services from a competitor.

The Board of Governors has cease and desist powers over parent bank holding companies and non-banking subsidiaries where actions of a parent bank holding company or its non-financial institution subsidiaries represent an unsafe or unsound practice or violation of law. The Board of Governors has the authority to regulate debt obligations (other than commercial paper) issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by the Department of Financial Institutions ("DFI").

Further, the Company is required by the Board of Governors to maintain certain capital levels. See Capital Standards.

REGULATION OF THE BANK

Banks are extensively regulated under both federal and state law. The Bank, as a California state-chartered bank, is subject to primary supervision, regulation and periodic examination by the DFI and the FDIC. The Bank is not a member of the Federal Reserve System, but is nevertheless subject to certain regulations of the Board of Governors.

If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the bank s operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. 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 the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate the bank s deposit insurance, which for a California chartered bank would result in a revocation of the bank s charter. The DFI has many of the same remedial powers.

The Bank is a member of the FDIC, which currently insures customer deposits in each member bank to a maximum of $100,000 per depositor. For this protection, the Bank is subject to the rules and regulations of the FDIC, and, as is the case with all insured banks, may be required to pay a semi-annual statutory assessment.

Various requirements and restrictions under the laws of the State of California and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank s operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements,

Community Reinvestment Act activities, and loans to affiliates.

PAYMENT OF DIVIDENDS

THE COMPANY

The shareholders of the Company are entitled to receive dividends when and as declared by its Board of Directors, out of funds legally available, subject to the dividends preference, if any, on preferred shares that may be outstanding, and also subject to the restrictions of the California Corporations Code. At December 31, 2002, the Company had no outstanding shares of preferred stock.

The principal source of cash revenue to the Company is dividends received from the Bank. The Bank s ability to make dividend payments to the Company is subject to state and federal regulatory restrictions.

THE BANK

Dividends payable by the Bank to the Company are restricted under California law to the lesser of the Bank s retained earnings, or the Bank s net income for the latest three fiscal years, less dividends paid during that period, or, with the approval of the DFI, to the greater of the retained earnings of the Bank, the net income of the Bank for its last fiscal year or the net income of the Bank for its current fiscal year.

In addition to the regulations concerning minimum uniform capital adequacy requirements described below, the FDIC has established guidelines regarding the maintenance of an adequate allowance for credit losses. Therefore, the future payment of cash dividends by the Bank will generally depend, in addition to regulatory constraints, upon the Bank s earnings during any fiscal period, the assessment of the Board of Directors of the capital requirements of the Bank and other factors, including the maintenance of an adequate allowance for credit losses.

CAPITAL STANDARDS

The Board of Governors, the FDIC and other federal banking agencies have issued risk-based capital adequacy guidelines intended to provide a measure of capital adequacy 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, such as letters of credit and recourse arrangements, which are reported 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, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as business loans.

A banking organization s risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance-sheet items. The regulators measure risk-adjusted assets and off-balance-sheet items against both total qualifying capital (the sum of Tier 1 capital and limited amounts of Tier 2 capital) and Tier 1 capital. Tier 1 capital consists of common stock, retained earnings, noncumulative perpetual preferred stock and minority interests in certain subsidiaries, less most other intangible assets. Tier 2 capital may consist of a limited amount of the allowance for possible loan and lease losses and certain other instruments with some characteristics of equity. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies. Since December 31, 1992, the federal banking agencies have required a minimum ratio of qualifying total capital to risk-adjusted assets and off-balance-sheet items of 8%, and a minimum ratio of Tier 1 capital to risk-adjusted assets and off-balance-sheet items 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 average 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 is 3%. It is improbable, however, that an institution with a 3% leverage ratio would receive the highest rating by the regulators since a strong capital position is a significant part of the regulators rating. For all banking organizations not rated in the highest category, the minimum leverage ratio is at least 100 to 200 basis points above the 3% minimum. Thus, the effective minimum leverage ratio, for all practical purposes, is at least 4% or 5%. 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.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, the Company and the Bank are required to maintain certain levels of capital. The regulatory capital guidelines as well as the actual capitalization for the Bank and the Company on a consolidated basis as of December 31, 2002 follow:

| | REQUIREMENT | | ACTUAL | |
|---|---|---|---|---|
| | ADEQUATELY CAPITALIZED | WELL CAPITALIZED | BANK | COMPANY |
| **Total risk-based capital ratio** | 8.0% | 10.0% | 12.6% | 13.2% |
| **Tier 1 risk-based capital ratio** | 4.0% | 6.0% | 11.3% | 12.0% |
| **Tier 1 leverage capital ratio** | 4.0% | 5.0% | 7.6% | 8.0% |

RECENT LEGISLATION

SARBANES-OXLEY ACT

On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002 implementing legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board which will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, the bill restricts provision of both auditing and consulting services by accounting firms. To ensure auditor independence, any non-audit services being provided to an audit client will require pre-approval by the company s audit committee members. In addition, the audit partners must be rotated. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission ("SEC"), subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, legal counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Longer prison terms and increased penalties will also be applied to corporate executives who violate federal securities laws, the period during which certain types of suits can be brought against a company or its officers has been extended, and bonuses issued to top executives prior to restatement of a company s financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan blackout periods, and loans to company executives are restricted. The Act accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in their company s securities within two business days of the change.

The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company s financial statements for the purpose of rendering the financial statements materially misleading. The Act also requires the SEC to prescribe rules requiring inclusion of an internal control report and assessment by management in the annual report to stockholders. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) accounting principles generally accepted in the United States of America and filed with the SEC reflect all material correcting adjustments that are identified by a registered public accounting firm in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the SEC.

Effective August 29, 2002, as directed by Section 302(a) of Sarbanes-Oxley, the Company s chief executive officer and chief financial officer are each required to certify that the Company s Quarterly and Annual Reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company s internal controls; they have made certain disclosures to the Company s auditors and the audit committee of the

Board of Directors about the Company s internal controls; and they have included information in the Company s Quarterly and Annual Reports about their evaluation and whether there have been significant changes in the Company s internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

USA PATRIOT ACT

In the wake of the tragic events of September 11th, on October 26, 2001, the President signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and know your customer standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;

To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;

To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and

To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions were given 180 days from enactment to establish anti-money laundering programs. The USA PATRIOT Act sets forth minimum standards for these programs, including:

The development of internal policies, procedures, and controls;

The designation of a compliance officer;

An ongoing employee training program; and

An independent audit function to test the programs.

Bank management believes that the Bank is currently in compliance with the Act.

FINANCIAL SERVICES MODERNIZATION LEGISLATION

On November 12, 1999, President Clinton signed into law the Gramm-Leach-Bliley Act. This legislation eliminated many of the barriers that have separated the insurance, securities and banking industries since the Great Depression. The federal banking agencies (the Board of Governors, FDIC and the Office of the Comptroller of the Currency) among others, continue to draft regulations to implement the Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act is the result of a decade of debate in the Congress regarding a fundamental reformation of the nation s financial system. The law is subdivided into seven titles, by functional area.

The major provisions of the Gramm-Leach-Bliley Act are:

FINANCIAL HOLDING COMPANIES AND FINANCIAL ACTIVITIES. Title I establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company system to engage in a full range of financial activities through qualification as a new entity known as a financial holding company.

Final regulations adopted by the FDIC in January 2001, in the form of amendments to Part 362 of the FDIC rules and regulations, provide the framework for subsidiaries of state nonmember banks to engage in financial activities that the Gramm-Leach-Bliley Act permits national banks to conduct through a financial subsidiary.

Activities permissible for financial subsidiaries of national banks, and, pursuant to Section 362 of the FDIC

rules and regulations, also permissible for financial subsidiaries of state nonmember banks, include, but are not limited to, the following: (a) Lending, exchanging, transferring, investing for others, or safeguarding money or securities; (b) Insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker for purposes of the foregoing, in any State; (c) Providing financial, investment, or economic advisory services, including advising an investment company; (d) Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and (e) Underwriting, dealing in, or making a market in securities.

SECURITIES ACTIVITIES. Title II narrows the exemptions from the securities laws previously enjoyed by banks and creates a new voluntary investment bank holding company. The Board of Governors and the SEC continue to work together to draft rules governing certain securities activities of banks.

INSURANCE ACTIVITIES. Title III restates the proposition that the states are the functional regulators for all insurance activities, including the insurance activities of federally-chartered banks, and bars the states from prohibiting insurance activities by depository institutions.

PRIVACY. Under Title V, federal banking regulators were required to adopt rules that have limited the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Federal banking regulators issued final rules on May 10, 2000 to implement the privacy provisions of Title V. Under the rules, 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.

Compliance with these rules was mandatory after July 1, 2001. The Company and the Bank were in full compliance with the rules as of or prior to their respective effective dates.

SAFEGUARDING CONFIDENTIAL CUSTOMER INFORMATION. Under Title V, federal banking regulators are required to adopt rules requiring financial institutions to implement a program to protect confidential customer information. In January 2000, the federal banking agencies adopted guidelines requiring financial institutions to establish an information security program.

The Bank implemented a security program appropriate to its size and complexity and the nature and scope of its operations prior to the July 1, 2001 effective date of the regulatory guidelines, and since initial implementation has, as necessary, updated and improved that program.

COMMUNITY REINVESTMENT ACT SUNSHINE REQUIREMENTS. The federal banking agencies have adopted final regulations implementing Section 711 of Title VII, the CRA Sunshine Requirements. The regulations require nongovernmental entities or persons and insured depository institutions and affiliates that are parties to written agreements made in connection with the fulfillment of the institution s CRA obligations to make available to the public and the federal banking agencies a copy of each agreement. Neither the Company nor the Bank is a party to any agreement that would be the subject of reporting pursuant to the CRA Sunshine Requirements.

The Company continues to evaluate the strategic opportunities presented by the broad powers granted to bank holding companies that elect to be treated as financial holding companies. In the event that the Company determines that access to the broader powers of a financial holding company is in the best interests of the Company, its shareholders and the Bank, the Company will file the appropriate election with the Board of Governors.

The Company and the Bank intend to comply with all provisions of the Gramm-Leach-Bliley Act and all implementing regulations as they become effective.

CONSUMER PROTECTION LAWS AND REGULATIONS

The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act ( CRA ) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance. The Bank was last examined for CRA compliance by its then-primary regulator, the FDIC, as of March 2001.

The Equal Credit Opportunity Act ( ECOA ) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act ( TILA ) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act ( FH Act ) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act ( HMDA ) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Finally, the Real Estate Settlement Procedures Act ( RESPA ) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties.

Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

PENDING LEGISLATION

FAIR CREDIT REPORTING ACT

In 1970, the federal Fair Credit Reporting Act (the FCRA ) was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. Under the framework of the FCRA, the United States has developed a highly advanced and efficient credit reporting system. The information contained in that broad system is used by financial institutions, retailers and other creditors of every size in making a wide variety of decisions regarding financial transactions. Employers, and law enforcement agencies have also made wide use of the information collected and maintained in databases made possible by the FCRA. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common

ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others. By its terms, the preemption provision of the FCRA will terminate as of December 31, 2003. Termination of the preemption provisions could significantly impact the ability of the existing credit bureau system to continue operating.

The Bank may incur additional costs, and be required to implement additional costly procedures and systems in the event that the preemption provisions of the FCRA terminate at the end of 2003, and California, or other states, adopts legislation that would have the effect of prohibiting the continued sharing of information such as that currently collected by credit bureaus throughout the United States. The likelihood of the FCRA preemption provisions terminating by their terms, and of the adoption of such restrictive provisions by state legislatures, cannot be estimated at this time.

DEPOSIT INSURANCE REFORM

Both houses of the 108th Congress have among the bills each is to consider during the current session a measure designed to make the administration of the deposit insurance system more efficient by merging the Bank Insurance Fund and the Savings Association Insurance Fund, and increasing the flexibility of the FDI Act with regard to the appropriate level of the resulting Deposit Insurance Fund, as established by the FDIC Board of Directors.

On February 4, 2003, Representative Spencer Bachus of Alabama introduced bill H.R. 522, entitled the Federal Deposit Insurance Reform Act of 2003 . H.R. 522 incorporates a number of provisions requiring a merger of the Bank Insurance Fund and the Savings Association Insurance Fund to form the Deposit Insurance Fund, increasing the coverage amount for deposit insurance, amending the procedure and considerations utilized by the Board of Directors of the FDIC in setting insurance assessment rates, replacing the fixed target for the size of the Bank Insurance Fund of 1.25 percent of estimated insured deposits to a range of not less than 1.15 and not more than 1.4 percent of estimate deposits, making technical changes to the manner in which the FDIC gathers information to assess the risk of future bank failures for use in analyzing the adequacy of the Bank Insurance Fund and other technical amendments regarding refunds, dividends and credits from the Deposit Insurance Fund. Finally, H.R. 522 directs the Comptroller General, the Board of Directors of the FDIC and the National Credit Union Administration Board variously to conduct a number of studies on issues including the utility of the prompt corrective provisions of the FDI Act as implemented by the federal banking agencies, the appropriateness of the organizational structure of the FDIC, and the feasibility of creating a system of private deposit insurance for amounts over the maximum public deposit insurance provided and the feasibility of converting to a voluntary or private deposit insurance system.

On January 29, 2003, Senator Tim Johnson of South Dakota introduced S. 229, entitled A bill for the merger of the bank and savings association deposit insurance funds, to modernize and improve the safety and fairness of the Federal deposit insurance system, and for other purposes. S. 229 also seeks to merge the Bank Insurance Fund with the Savings Association Insurance Fund to form the Deposit Insurance Fund, to increase the level of federal deposit insurance coverage generally to $130,000 per account, replacing the fixed target for the size of the Bank Insurance Fund of 1.25 percent of estimated insured deposits to a range of not less than 1.10 and not more than 1.5 percent of estimate deposits, inserting a requirement that the FDIC refund any overpaid assessment, and require studies, first by the Board of Directors of the FDIC and the National Credit Union Administration Board on the feasibility of increasing deposit insurance coverage for municipalities and other units of local government, the feasibility of creating a system of private deposit insurance for amounts over the maximum public deposit insurance provided, and of the feasibility of using actual deposits rather than estimated deposits in the calculation of the reserve ratio of the Deposit Insurance Fund.

No assurance can be given as to the passage, or failure, of the House or Senate bills. The Bank may incur additional costs, in the form of deposit insurance premiums, in the event that either bill becomes law.

PRIVACY

California Senate Bill 1, introduced on December 2, 2002, would enact the California Financial Information Privacy Act , which would require a financial institution to provide specific information to a consumer related to the sharing of that consumer s nonpublic personal information. The bill would allow a consumer to direct

the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and would require that permission from each such consumer be acquired by a financial institution prior to sharing such information. These provisions are more restrictive than the privacy provisions of the GLB Act, and would require the Bank to adopt new policies, procedures and disclosure documentation if enacted. The cost of complying with this bill if enacted as law in California is not predictable at this time.

**Recent Accounting Pronouncements**

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reporting containing financial statements for interim periods beginning after December 15, 2002. Because the Company accounts for the compensation cost associated with its stock option plans under the intrinsic value method, the alternative methods of transition will not apply to the Company. The additional disclosure requirements of the statement are included in these financial statements. In management s opinion, the adoption of this Statement did not have a material impact on the Company s consolidated financial position or results of operations.

**Other**

Other legislation which has been or may be proposed to the United States Congress and the California Legislature and regulations which may be proposed by the Board of Governors, FDIC and the DFI may affect the business of the Company and the Bank. It cannot be predicted whether any pending or proposed legislation or regulations will be adopted or the effect such legislation or regulations may have upon the business of the Company and the Bank.

**Other Information Concerning the Company**

The Company holds no material patents, trademarks, licenses, franchises or concessions.

No expenditures were made by the Company during its last two fiscal years on material research activities relating to the development of services or the improvement of existing services.

Based upon present business activities, compliance with Federal, State and local provisions regulating discharge of materials into the environment will have no material effects upon the capital expenditures, earnings and competitive position of the Company.

The business of the Company is not seasonal. The Company intends to continue with the same basic commercial banking activities that have characterized the Bank s operations since its inception.

**Available Information**

The Company is subject to certain of the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Therefore the Company files reports and other information with the Securities and Exchange Commission (the Commission ). These reports and other information may be inspected and copied at the public reference facilities of the Commission located at 450 Fifth Street, N. W., Washington, D. C. 20549. Information regarding the Commission can be obtained by calling 1-800-SEC-0330. Such reports and other information may also be accessed electronically at the Commission s home page on the Internet at http://www.sec.gov.

**ITEM 2 - DESCRIPTION OF PROPERTY.**

**(a) Properties**

| | OWNED | LEASED | TOTAL |
|---|---|---|---|
| FULL SERVICE BRANCHES | | | |
| Headquarters and Main Deposit Branch 600 Pollasky Avenue, Clovis, CA | 1 | | 1 |
| Foothill Branch, Prather, CA | 1 | | 1 |
| Kerman Branch, Kerman, CA | | 1 | 1 |
| River Park Branch, Northeast Fresno, CA | | 1 | 1 |
| Fig Garden Branch, Northwest Fresno, CA | | 1 | 1 |
| Supermarket Branch, Clovis, CA | | 1 | 1 |
| Sacramento Private Banking, Gold River, CA | | 1 | 1 |
| | | | |
| **OTHER FACILITIES:** | | | |
| Cashier, Human Resources, Information Services Department 536 Woodworth, Clovis, CA | 1 | | 1 |
| Credit Administration, Real Estate Department 795 Pollasky Avenue, Clovis, CA | | 1 | 1 |
| Training Facility 630 Pollasky Avenue, Clovis, CA | | 1 | 1 |
| SBA Department 624 Pollasky Avenue, Clovis CA | | 1 | 1 |
| Total | 3 | 8 | 11 |

Title to the properties described as owned in the above table is held by the Bank with no liens or encumbrances. All of the property described as leased is leased directly from independent parties. Management considers the terms and conditions of each of the existing leases to be in the aggregate favorable to the Company.

## (b) Investment Policies

For a description of the Company s policies (all of which may be changed without a vote of the Company s security holders) and the limitations on the percentage of assets which may be invested in any one investment, or type of investment with respect to: (1) investments in real estate or interests in real estate; (2) investments in real estate mortgages; and (3) securities of or interests in persons primarily engaged in real estate activities, reference is made hereunder to the information presented above under Item 1. Description of Business .

## (c) Description of Real Estate and Operating Data

Inapplicable. None of the net book values of the properties listed above represent more than 10% of total assets of the Company.

**ITEM 3 - LEGAL PROCEEDINGS.**

Neither the Company nor the Bank is a party to, nor are any of their properties the subject of, any material pending legal proceedings other than ordinary, routine litigation incidental to the Company s and the Bank s businesses, nor are any of such proceedings known to be contemplated by government authority.

No director, officer, affiliate, more than 5% shareholder of the Company or the Bank or any associate of these persons is a party adverse to the Company or the Bank or has a material interest adverse to the Company or the Bank in any material legal proceeding.

**ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

## PART II

**ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The Company s common stock is not listed on any exchange nor is it listed with NASDAQ. Trading of the Company s common stock has been limited in volume with transactions coordinated between buyer and seller utilizing brokers to accommodate activity. Bid and ask prices for the Company s common stock are quoted weekly in the Fresno Bee and the pink sheet (National Daily Quotation Service). They can also be found on the Internet under the symbol CVCY.OB. As of February 28, 2003 the Company had 390 shareholders of record. The following table summarizes bid quotations for the Company s common stock. The prices indicated may not necessarily represent actual transactions. Bid information has been obtained from The Seidler Companies, which makes a market in the Company s common stock.

| | Bid Quotations of the Company s Common Stock | |
|---|---|---|
| **Quarter Ended** | **Low Bid** | **High Bid** |
| March 31, 2001 | $ 8.25 | $ 8.75 |
| June 30, 2001 | $ 9.05 | $ 10.00 |
| September 30, 2001 | $ 10.63 | $ 11.25 |
| December 31, 2001 | $ 9.88 | $ 10.38 |
| March 31, 2002 | $ 10.25 | $ 11.50 |
| June 30, 2002 | $ 11.40 | $ 11.75 |
| September 30, 2002 | $ 11.43 | $ 11.88 |
| December 31, 2002 | $ 14.75 | $ 14.95 |

The Company paid a $0.05 per share cash dividend in 2002. No dividends were paid in 2001. On January 6, 2003, the Company effected a two-for-one stock split. Certificates for the new shares were issued on January 20, 2003.

Inquiries on Central Valley Community Bancorp stock can be made by calling Troy Norlander with The Seidler Companies at (800) 288-2811, Jeffrey Mayer with The Seidler Companies at (559) 449-2777, Joey Warmenhoven with Wedbush Morgan Securities at (800) 234-0480, or Dave Bonaccorso at Hoefer & Arnett at

(800) 346-5544 ext. 223.

Inquiries regarding Central Valley Community Bancorp s accounting, internal accounting controls or auditing concerns should be directed to Steven D. McDonald, chairman of the Board of Directors Audit Committee, at steve.mcdonald@cvcb.com.

**ITEM 6 - MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

**Management s discussion and analysis should be read in conjunction with the Company s audited Consolidated Financial Statements, including the Notes thereto, at pages 39 through 75 herein.**

**Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not historical facts, such as statements regarding the Company s current business strategy and the Company s plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to (1) significant increases in competitive pressure in the banking industry; (2) the impact of changes in interest rates, a decline in economic conditions at the international, national or local level on the Company s results of operations, the Company s ability to continue its internal growth at historical rates, the Company s ability to maintain its net interest margin, and the quality of the Company s earning assets; (3) changes in the regulatory environment; (4) fluctuations in the real estate market; (5) changes in business conditions and inflation; (6) changes in securities markets. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.**

**Overview:**

Central Valley Community Bancorp (OTC:CVCY) (the Company ) was incorporated on February 7, 2000. The formation of the holding company offered the Company more flexibility in meeting the long-term needs of customers, shareholders, and the communities it serves. The Company currently has one bank subsidiary. The Company s market area includes the entire central valley area from Sacramento, California to Bakersfield, California. To garner public acceptance beyond the Clovis-Fresno area, the Company made a decision in the first half of 2002, to change the name of its one subsidiary, Clovis Community Bank, to Central Valley Community Bank (the Bank ). This change was completed in the second quarter of 2002 and has been well received.

During 2002, the Bank relocated its River Park and Fig Garden Offices in Fresno, California to new expanded sites. Due to the success of the River Park Office staff, the office outgrew its initial 2,000 square foot leased facility and relocated to a new 5,000 square foot facility in the same area. Similarly the Fig Garden Office quickly outgrew its original 350 square feet and was relocated to a new 2,000 square foot site within the same shopping area.

The Bank also opened two new full service offices in step with its strategic plans to expand its market areas to the entire central valley. An office in the Sacramento area was opened in the first half of 2002. The new Sacramento Private Banking facility is intended to serve the Sacramento area needs of the Company s existing commercial customers whose needs fall outside the Fresno area but within the Sacramento area, as well as serving the banking needs of new customers.

In the second half of 2002, the Company opened a new office located in Kerman, California. The recent acquisition of Kerman State Bank, a long established community bank, by Westamerica Bank provided an opportunity to expand into the Kerman area. The Company had been encouraged by contacts from numerous businesses in the Kerman area to open a facility. The Bank was successful in hiring prior Kerman State Bank employees.

The Bank anticipates additional branch openings to meet the growing service needs of its customers. The branch expansions provide the Company with opportunities to expand its loan and deposit base; however, based on past experience, management expects these new offices will initially have a negative impact on earnings until the volume of business grows to cover fixed overhead expenses.

Leasehold improvements associated with these new and relocated facilities are reflected in net premises and equipment, which increased $1,272,000 in 2002 compared to 2001. Approximately $935,000 of the increase is

related to the leasehold improvements for the River Park Office which will be amortized over the 10 year term of the lease.

In 2002, the Bank formed a real estate investment trust, Central Valley Community Realty, LLC (CVCR). The trust invests in the Bank s real estate related assets and provides an alternative means to potentially generate additional capital. Additionally, CVCR, as a real estate investment trust, is afforded certain tax advantages which reduce state income tax expense. However, no assurance can be given that the Company will be successful in accomplishing these objectives. State income taxes decreased $64,000 in the period under review partly due to the trust.

In 2002, the Company reported its highest earnings since 1994. The Company had net income of $2,784,000 in 2002 compared to $2,378,000 in 2001. The primary contributors to the increase in net income during 2002 were a $1,369,000 increase in net interest income, and a $623,000 decrease in provision for credit losses, which were partially offset by a $480,000 decrease in non-interest income and a $1,132,000 increase in non-interest expenses.

Average earning assets for 2002 were $222,067,000 compared to $182,418,000 for 2001. The major contributor to the increase in average earning assets was the $29,440,000 increase in average deposits which provided liquidity for the $36,120,000 increase in average loans. Loan and deposit growth are discussed in more detail below.

Accrued interest and other assets increased $2,153,000 in the periods under review mainly due to an increase in the cash surrender value of bank owned life insurance and an increase in Federal Home Loan Bank stock holdings. For additional information, please see Note 7 of the Notes to Consolidated Financial Statements on page 58.

Similar to most of the banking industry, the Company s net interest margin continues to be challenged by the impact of twelve decreases in the Federal funds interest rate by the Federal Open Market Committee (FOMC) in 2002 and 2001. Managing the decrease in loan yields and the effective rates paid on deposits has become increasingly difficult as deposit rates may be near the bottom of consumer tolerance. For additional information, please see Market Risk for further discussion of the Bank s interest rate position.

The following table sets forth average assets, liabilities, and shareholders equity; interest income earned and interest expense paid; and the average yields earned or rates paid thereon for the years 2002 and 2001. The average balances reflect daily averages except non-accrual loans that were computed using month-end averages. Net interest margin is calculated by dividing net interest income by average interest earning assets.

CENTRAL VALLEY COMMUNITY BANCORP

SCHEDULE OF AVERAGE BALANCES AND AVERAGE YIELDS AND RATES

(dollars in thousands)

| | FOR THE TWELVE MONTHS ENDED December 31, 2002 | | | FOR THE TWELVE MONTHS ENDED December 31, 2001 | | |
|---|---|---|---|---|---|---|
| | AVERAGE BALANCE | INTEREST | AVERAGE INTEREST RATE | AVERAGE BALANCE | INTEREST | AVERAGE INTEREST RATE |
| **ASSETS** | | | | | | |
| Interest-earning deposits in other banks | $ 175 | $ 5 | 2.86% | $ 100 | $ 3 | 3.00% |
| Investment securities: | | | | | | |
| Taxable securities | 50,974 | 2,629 | 5.16% | 55,059 | 3,475 | 6.31% |
| Non-taxable securities | 10,136 | 512 | 5.05% | 8,665 | 479 | 5.53% |
| Total investment securities | 61,110 | 3,141 | 5.14% | 63,724 | 3,954 | 6.20% |
| Federal funds sold | 12,826 | 195 | 1.52% | 6,502 | 240 | 3.69% |
| Loans | 147,956 | 11,195 | 7.57% | 112,092 | 10,380 | 9.26% |
| Total interest-earning assets | 222,067 | 14,536 | 6.55% | 182,418 | 14,577 | 7.99% |
| Allowance for credit losses | (2,390) | | | (2,241) | | |
| Non-accrual loans | 698 | | | 442 | | |
| Cash and due from banks | 14,988 | | | 13,932 | | |
| Premises | 2,719 | | | 1,896 | | |
| Other non-earning assets | 10,866 | | | 10,075 | | |
| Total average assets | $ 248,948 | $ 14,536 | | $ 206,522 | $ 14,577 | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Savings and negotiable orders of withdrawal | $ 47,936 | $ 168 | 0.35% | $ 40,126 | $ 263 | 0.66% |
| Money market accounts | 52,414 | 817 | 1.56% | 45,397 | 1,366 | 3.01% |
| Time certificates of deposit, under $100,000 | 38,847 | 1,074 | 2.76% | 35,458 | 1,646 | 4.64% |
| Time certificates of deposit, $100,000 and over | 14,251 | 334 | 2.34% | 16,365 | 840 | 5.13% |
| Other borrowed funds | 11,277 | 335 | 2.97% | 532 | 22 | 4.14% |
| Federal funds purchased | 18 | 0 | 1.09% | 14 | 1 | 7.14% |
| Total interest-bearing liabilities | 164,743 | 2,728 | 1.66% | 137,892 | 4,138 | 3.00% |
| Non-interest bearing demand deposits | 59,181 | | | 45,843 | | |
| Other liabilities | 2,420 | | | 2,606 | | |
| Shareholders equity | 22,604 | | | 20,181 | | |
| Total average liabilities and shareholders equity | $ 248,948 | $ 2,728 | | $ 206,522 | $ 4,138 | |
| | | | | | | |
| Interest income and rate earned on average earning assets | | $ 14,536 | 6.55% | | $ 14,577 | 7.99% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest expense and interest cost related to average interest-bearing liabilities | | 2,728 | 1.66% | | 4,138 | 3.00% |
| Net interest income and net interest margin | $ | 11,808 | 5.32% | $ | 10,439 | 5.72% |

The Company s net interest margin decreased 40 basis points in the periods under review. The net interest margin in 2002 was 5.32% compared to 5.72% in 2001. The decrease can be partially attributed to the declining interest rate environment and the fact that assets generally reprice more quickly than liabilities. West Coast prime rate declined 50 basis points in 2002, from 4.75% at December 31, 2001 to 4.25% at December 31, 2002. West Coast prime rate decreased 475 basis points in 2001 from 9.5% at December 31, 2000 to 4.75% at December 31, 2001. The effective yield on loans for those same periods was 7.57% for 2002 and 9.26% for 2001. As the Bank s reference rate, which is generally tied to the West Coast prime rate, decreased 50 basis points in 2002, the effective rate paid on deposits and other borrowings decreased 134 basis points. Interest rates on deposits typically lag behind immediate changes in Federal funds rates and then generally reflect only a percentage of the rate changes on deposit accounts. The effective rate on interest bearing liabilities in 2002 was 1.66% compared to 3.00% in 2001. Refer to Schedule of Average Balances and Average Yields and Rates . However, as stated above, the Bank may not be able to reduce the rates paid on deposits further. Customers may seek alternative avenues to increase yields on their investments and accept higher risks than those associated with traditional products offered by financial

institutions.

The Company s market focus for loans continues to concentrate on small to medium commercial businesses. These loans offer diversification as to industries and types of business, thus limiting material exposure in any one industry concentration. The Company offers both fixed and floating interest rate loans and typically obtains collateral in the form of real estate, business equipment, deposit accounts, and accounts receivable, but looks to business cash flow as its primary source of repayment. No one borrower had aggregate credit commitments exceeding 4.0% of the loan portfolio at December 31, 2002.

As of December 31, 2002, in management s judgment, a concentration of loans existed in commercial loans and real estate-related loans. At that date, commercial and real estate-related loans represented 44.2% and 49.8% of total loans, respectively. Similar concentrations existed as of December 31, 2001 with commercial and real estate-related loans representing 42.9% and 51.9% of total loans, respectively.

Although management believes the loans within these concentrations have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Company s primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate-related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Company.

Average assets during 2002 were $248,948,000 compared to $206,522,000 for 2001, an increase of $42,426,000, or 20.5%. Return on average assets (ROA) and return on average equity (ROE) for the past two years are reflected in the following table.

| | **For the Year Ended December 31, 2002** | **For the Year Ended December 31, 2001** |
|---|---|---|
| ROA | 1.12% | 1.15% |
| ROE | 12.32% | 11.78% |

**<u>Results of Operations</u>**

Net income for 2002 was $2,784,000 compared to $2,378,000 in 2001, a $406,000 increase. The increase in net income in 2002 resulted from increases in net interest income after provision for credit losses, which was partially offset by decreases in non-interest income and increases in non-interest expenses.

Net interest income is the Company s primary source of revenue. Net interest income is the difference between the interest income received on interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is primarily affected by two factors, the volume and mix of interest-earning assets and interest-bearing liabilities and the interest rates earned on those assets and paid on the liabilities.

Interest income from loans increased 7.8%, or $815,000, in the periods under review as average total loan volumes increased 32.1% to $148,654,000 for 2002 compared to $112,534,000 for 2001. The $36,120,000 increase in the average loan volume can be attributed to the continued success of the Company s strategic plan to build its core business with the introduction of new products, seasoned commercial bankers, and strong emphasis on business development and customer retention activities. Additionally, the successes of the River Park Office and the expansion into the Sacramento market, mentioned above, have also contributed to the increase in volume. The Company purchased loans from other financial institutions and brokers during 2002 which also contributed to the 2002 volumes. No assurance can be given that this level of loan growth will continue.

The Company s loan to deposit ratio at December 31, 2002 was 64.4% compared to 69.4% at December 31, 2001. This decrease can be mainly attributed to the 28.2% increase in deposits compared to the 19.1% increase in loans in 2002.

The Company concentrates its lending activities mainly in small to medium business related lending, both commercial and real estate, but offers consumer, Small Business Administration (SBA) loans, and agricultural lending as well. For the third year, Central Valley Community Bank has been honored as the number one SBA 504 lender in Fresno, Kings and Madera counties. At December 31, 2002 and 2001, SBA loans were $16,697,000 and

$12,195,000, respectively. Agricultural and agricultural related loans increased $2,819,000 in the periods under review.

Average non-accrual loans for 2002 were $698,000 compared to $442,000 for 2001. At December 31, 2002, the Company had $466,000 in non-accrual loans compared to $1,109,000 at December 31, 2001. One agricultural relationship represented 72.5% of the total non-accrual loans at December 31, 2002. The ratio of non-accrual loans to total loans decreased to 0.3% at December 31, 2002 compared to 0.8% at December 31, 2001.

The designation of a loan as non-accrual for financial reporting purposes does not relieve the borrower of its obligation to pay interest. Accordingly, the Company may ultimately recover all or a portion of the interest due on these non-accrual loans. A non-accrual loan returns to accrual status when the loan becomes contractually current and future collectibility of amounts due is reasonably assured.

The investment policy of the Company is established by the Board of Directors and implemented by the Company s Investment/Asset Liability Committee. It is designed primarily to provide and maintain liquidity, to enable the Company to meet its pledging requirements for public money and borrowing arrangements, to generate a favorable return on investments without incurring undue interest rate and credit risk, and to complement the Company s lending activities.

Investments typically have yields lower than loans. Interest income from investment securities, Federal funds sold, and interest-bearing deposits in other banks decreased 20.4% in the periods under review. The decrease in these categories of income can be attributed to lower Federal funds rates and lower yields on new investment purchases. Average investment securities and interest-bearing deposits in other banks decreased 4.0% or $2,539,000 to $61,285,000 for 2002 compared to $63,824,000 for 2001. Average Federal funds sold increased $6,324,000 in the periods under review. The effective yield for investment securities not including Federal funds sold was 5.14% in 2002 compared to 6.20% in 2001. The effective yield for Federal funds sold was 1.52% in 2002 compared to 3.69% in 2001. As previously stated, FOMC lowered the Federal funds rate a total of 525 basis points in 2002 and 2001 which created, by the nature of collateralized mortgage obligations (CMOs) and mortgage backed securities (MBS), increased levels of principal prepayments in the periods under review. While a portion of the paydowns provided funding for loans, excess funds were generally reinvested at lower yields than those generated by the original investment.

Management s review of all investments before purchase includes an analysis of how the security will perform under several interest rate scenarios to monitor whether investments are consistent with the Bank s investment policy. The policy addresses issues of average life, duration, concentration guidelines, prohibited investments, and prohibited practices.

In an effort to increase yields without accepting unreasonable risk, a significant portion of the new investment purchases has been in high quality mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs). These securities typically provide a higher yield than U.S. Treasuries, government agencies, and municipal investment securities. The Company held $44,420,000, or 59.6% of the total investment portfolio, in MBS and CMOs with an average weighted yield of 6.93% at December 31, 2002 compared to $35,675,000, or 60.6% of the total investment portfolio, with an average weighted yield of 6.51% at December 31, 2001. In comparison to the yield on MBS and CMOs, the Company held $10,619,000 in agency securities with an average weighted yield of 5.13% at December 31, 2002 compared to $8,477,000 in agency securities with an average weighted yield of 5.49% at December 31, 2001.

The Company recognizes the interest rate risks and prepayment risks associated with MBS and CMOs. In a declining rate environment, prepayments from MBS and CMOs would be expected to increase and the expected life of the investment would be expected to shorten.

Conversely, if interest rates increase, prepayments would be expected to decline and the average life of the MBS and CMOs would be expected to extend. The Company has purchased certain of these investments which are meant to perform well in an increasing rate environment and others that are meant to perform well in a declining rate environment, with the ultimate goal of a balanced portfolio. At December 31, 2002, the Company s market risk was higher in an increasing rate environment versus a declining rate environment. At December 31, 2002 an immediate rate increase of 200 basis points would result in an estimated decrease in the market value of the Company s investment portfolio by approximately $4,968,000 compared to the same scenario at December 31, 2001 which would result in an approximately $4,888,000 decrease. Conversely, with an immediate rate decrease of 200 basis points, the estimated increase in the market value of the Company s

investment portfolio would be approximately $4,187,000 at December 31, 2002 compared to $3,450,000 at December 31, 2001. While an *immediate* shock of 200 basis points is highly unlikely, as evidenced by the changes in interest rates in 2002 and 2001 which were in 25 basis point and 50 basis point increments, the Company uses those increments to measure its interest rate risk in accordance with regulatory requirements.

The Company offers a variety of deposit accounts having a range of interest rates and terms. The Company s deposits consist of savings, demand deposits, and certificate of deposit accounts. The flow of deposits is influenced significantly by general economic conditions, changes in the money market and prevailing interest rates and competition. The Company s deposits are obtained primarily from the geographic area in which its offices are located. The Company relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. The Company does not have any brokered deposits, and based on historical experience, management believes it will continue to retain a large portion of its time deposit accounts at maturity.

Interest expense in 2002 was $2,728,000 compared to $4,138,000 in 2001. This $1,410,000, or 34.1%, decrease in interest expense can be partially attributed to the decrease in Federal funds interest rates in 2001. As discussed above, interest rates on deposits typically lag behind immediate changes in Federal funds rates and then generally reflect only a percentage of the rate changes on deposit accounts. Average interest-bearing liabilities for 2002 were $164,743,000 compared to $137,892,000 for 2001, a 19.5%, or a $26,851,000 increase. Effective rates for interest bearing liabilities were 1.66% in 2002 compared to 3.00% in 2001, a 134 basis point decrease. If interest rates were to decline or continue to remain unchanged in 2003, the Company could experience restraints on further decreases in the rates paid on deposit products. Additionally, interest rate risk could increase as depositors are reluctant to accept continued low deposit rates and search for higher yields in investment products other than those offered by the Company. Conversely, if interest rates were to increase, the Company could benefit from the immediate increase in loan rates without comparable immediate increases in deposit rates.

Non-interest bearing deposits provide fairly inexpensive funding for loans and offer the opportunity for the Company to enhance and strengthen its net interest margin. Average non-interest bearing deposits increased 29.1% to $59,181,000 for 2002 compared to $45,843,000 for 2001. New business relationships were the major contributor to this increase.

Other interest expense increased in the periods under review as the Company utilized its Federal Home Loan Bank (FHLB) credit line in 2002 in anticipation of short-term liquidity needs as well as to take advantage of opportunities to lock in low funding rates for increased loan growth. Borrowings from the FHLB were $9,000,000 at December 31, 2002 and $3,000,000 at December 31, 2001. The average maturies and weighted average rate of the borrowings at December 31, 2002 was 1.12 years and 3.35%, respectively. The Company will continue to analyze the advantages and disadvantages of borrowing funds versus selling investment securities as part of its ongoing funding analysis.

Net interest income before provision for credit losses in 2002 was $11,808,000 compared to $10,439,000 in 2001, an increase of $1,369,000, or 13.1%.

***PROVISION FOR CREDIT LOSSES***

The Company provides for possible credit losses by a charge to operating income based upon the composition of the loan portfolio, past delinquency levels, losses and non-performing assets, economic and environmental conditions and other factors which, in management s judgment, deserve recognition in estimating credit losses. Loans are charged off when they are considered uncollectible or of such little value

that continuance as an active earning bank asset is not warranted.

The establishment of an adequate credit allowance is based on both an accurate risk rating system and loan portfolio management tools. The Board has established initial responsibility for the accuracy of credit risk grades with the individual credit officer. The grading is then submitted to the Chief Credit Officer (CCO), who reviews the grades for accuracy. The risk grading and reserve allocation is analyzed annually by a third party credit reviewer and by various regulatory agencies.

The CCO sets the specific reserve for all adversely risk-graded credits quarterly. This process includes the utilization of loan delinquency reports, classified asset reports, and portfolio concentration reports to assist in accurately assessing credit risk and establishing appropriate reserves. Reserves are also allocated to credits that are

not adversely graded. Use of historical loss experience within the portfolio along with peer bank loss experience determines the level of reserves held.

The allowance for credit losses is reviewed at least quarterly by the Board s Audit Committee and by the Board of Directors. Reserves are allocated to loan portfolio categories using percentages which are based on both historical risk elements such as delinquencies and losses and predictive risk elements such as economic, competitive and environmental factors. The Company has adopted the specific reserve approach to allocate reserves to each adversely graded asset, as well as to each impaired asset for the purpose of estimating potential loss exposure. Although the allowance for credit losses is allocated to various portfolio categories, it is general in nature and available for the loan portfolio in its entirety. Additions may be required based on the results of independent loan portfolio examinations, regulatory agency examinations, or the Company s own internal review process. Additions are also required when, in management s judgment, the allowance does not properly reflect the portfolio s potential loss exposure.

Managing credits identified through the risk evaluation methodology includes developing a business strategy with the customer to mitigate the Company s potential losses. Management continues to monitor these credits with a view to identifying as early as possible when, and to what extent, additional provisions may be necessary.

The Company made no additions to the allowance for credit losses in 2002 due mainly to decreased levels of risk-rated loans and increased recoveries on previously charged off loans. In 2001, $623,000 was added to the allowance for credit losses. Additionally, the Company s historical net charge-off ratio, which reflects net charge-offs to beginning loan balances for the past three (3) years, declined to 0.031% for 2002 compared to 0.209% for 2001 and 0.295% for 2000.

At December 31, 2002 and December 31, 2001, the Company s recorded investment in loans that were considered to be impaired totaled $952,000,and $1,108,000, respectively. The related allowance for credit losses on these impaired loans was $194,000 and $198,000, respectively. The Company had one restructured loan and no accruing loans past due 90 days or more at December 31, 2002. For information regarding impaired loans, refer to Notes 1 and 3, in the Notes to Consolidated Financial Statements at pages 47 and 54.

The ratio of net credit losses to total average loans outstanding was 0.03% in 2002 compared to 0.17% in 2001. Net charge-offs were $41,000 in 2002 and $195,000 in 2001. Non-performing loans at December 31, 2002 and 2001 were $1,081,000,000 and $2,363,000, respectively. The ratio of non-performing loans to the allowance for credit losses at December 31, 2002 was 44.4% compared to 95.5% at December 31, 2001. The allowance for credit losses was $2,433,000, or 1.53% of total loans at December 31, 2002 compared to $2,474,000, or 1.85% of total loans at December 31, 2001. Based on information currently available, management believes that the allowance for credit losses will be adequate to absorb potential risks in the portfolio. However, no assurance can be given that the Company may not sustain charge-offs which are in excess of the allowance in any given period.

Net interest income after the provision for credit losses increased $1,992,000, or 20.3%, in 2002 to $11,808,000 from $9,816,000 in 2001.

**NON-INTEREST INCOME**

Non-interest income includes service charges, rental income from equipment leased to others, loan placement fees and other income as well as gains on sales of assets and gains on securities transactions.

Non-interest income decreased $480,000, or 10.2%, to $4,212,000 in 2002 from $4,692,000 in 2001. The major contributors were decreases in net realized gains on sales of investment securities, rentals from equipment leased to others, and other income which was partially offset by an increase in service charge income.

Service charge income increased $725,000, or 60.6% in the periods under review. The Bank introduced a successful new deposit product, Overdraft Privilege Account, in 2002 which was the main contributor to the increase. Increased deposit accounts and lower earnings credit rates for commercial deposit accounts were also contributors to the increase. Business related deposit accounts may earn credit for average deposit holdings which may be used to offset service expenses. When the earnings credit is lower, the business will be required to increase deposit holdings or pay additional service charges.

The Company earns loan placement fees from the brokerage of single-family residential mortgage loans. Loan placement fees increased $163,000, or 81.1%, in the periods under review. The 50 basis point reduction in late 2002 and the 475 basis point reductions in the Federal funds rate by the FOMC in 2001 provided consumers with numerous opportunities for refinancing of single-family homes. As interest rates remain unchanged or begin to increase, the opportunities for continued growth in this area may decline.

Rental from equipment leased to others decreased $347,000 or 24.1% in the periods under review. The decrease is mainly the result of the Company s decision not to actively pursue new operating lease arrangements. Equipment leased to others was $240,000 at December 31, 2002 compared to $1,217,000 at December 31, 2001.

Net realized gain on sales of investment securities decreased $442,000 to $26,000 in 2002 compared to $468,000 for the same period in 2001. Liquidity needs in 2002 were met by borrowing from the FHLB. The liquidity needs in 2001 provided an opportunity for the Company to sell securities at a gain and invest funds in higher yielding loans at a time when the loan demand increased and deposit volumes did not keep pace. As stated previously, in the routine analysis of liquidity needs, the Company compares the advantages of borrowing funds or selling securities to meet liquidity needs.

Other non-interest income decreased $655,000, or 55.2%, to $531,000 in 2002 compared to $1,186,000 in 2001. The primary contributors to the decrease were related to events in 2001 involving an insurance settlement and a recovery on a previously charged off other real estate owned property.

**NON-INTEREST EXPENSES**

Total non-interest expenses for 2002 increased by $1,132,000, or 10.4% compared to 2001. Non-interest expenses include salaries and employee benefits, occupancy and equipment expenses, depreciation and provision for losses on equipment leased to others and other expenses. The major components of the increase were salaries, occupancy expenses, and operating losses, partially offset by a decrease in depreciation on equipment leased to others.

Salaries and employee benefits increased $867,000, or 16.2%, in 2002 compared to 2001. The increase can be mainly attributed to general salary and benefits increases that enable the Company to manage recent and projected growth and retain qualified personnel. Additional personnel for the new Sacramento and Kerman Offices were also partially responsible for the increase. These increases correspond to the Company s overall strategic plan and design.

Occupancy and equipment expense increased $304,000 or 32.7%, in the periods under review. As stated above, new branches, remodeling costs, and the Bank s name change were contributors to the increase.

Depreciation expense and the provision for losses on equipment leased to others decreased $331,000, or 25.3%, in 2002, which was partially offset by the decrease in rental income from equipment leased to others included in non-interest income as discussed above.

Other expenses increased $293,000 to $3,545,000 in 2002 from $3,252,000 in 2001. The 9.0% increase is mainly attributable to increases in advertising expenses which include costs related to the Bank s name change, and an increase in accounting and legal expenses related to the formation of CVCR.

The Bank s efficiency ratio is calculated by dividing non-interest expense by the sum of net interest income and non-interest income. Excluding the non-recurring income and expenses in 2001 mentioned above, the ratio at December 31, 2002 was 73.0% compared to 75.7% at December 31, 2001. This means that for every dollar of income generated, the cost of that income was 73 cents in 2002 and 75 cents in 2001. The lower the ratio the more efficient the Company s operations. While reducing operating expenses can lower the ratio, the Company s low loan to deposit ratio, which reduces net interest income, also significantly affects this ratio. The Company s loan to deposit ratio of 64.4% at December 31, 2002 remains lower than the Company s peers.

Income tax expense was $1,247,000 for 2002 compared to $1,275,000 for 2001. The Company s effective tax rate decreased to 30.9% in 2002 from 34.9% in 2001. The change is primarily attributable to changes in the mix of taxable and non-taxable interest income in the years under review, and the Bank s real estate investment trust, CVCR.

**MARKET RISK**

Market risk is the risk of loss from adverse changes in market prices and rates. The Company s market risk arises primarily from interest rate risk inherent in its loan and deposit functions. Management actively monitors and manages this interest rate risk exposure.

Fluctuations in market interest rates expose the Company to potential gains and losses. The primary objective of asset/liability management is to manage the balance between rate sensitive assets and rate sensitive liabilities being repriced in any given period in order to maximize net interest income during periods of fluctuating interest rates.

Rate sensitive assets are those which contain a provision to adjust the interest rate periodically (for example, a loan in which prime rate determines the basis of the rate charged on outstanding balances). Those assets include certain commercial, real estate mortgage and construction loans and certain investment securities, Federal funds sold and time deposits in other financial institutions. Rate sensitive liabilities are those which provide for periodic changes in interest rate and include interest-bearing transaction accounts, money market accounts and time certificates of deposit. Analysis has shown that because of time and volume influences, the repricing of assets and liabilities is not tied directly to the timing of changes in market interest rates. If repricing assets exceed repricing liabilities in a time period, the Company would be considered asset sensitive and have a positive gap . Conversely, if repricing liabilities exceed repricing assets in a time period, the Company would be considered liability sensitive and have a negative gap.

Managing interest rate risk is important to the Company as its net interest margin can be affected by the repricing of assets and liabilities. Management uses several different tools to monitor its interest rate risk, including gap analysis. Additionally, the Company utilizes an asset/liability computer model which provides a detailed quarterly analysis of the Company s financial reports, to include a ratio analysis of liquidity, equity, strategic free capital, volatile liability coverage, and maturity of the investment portfolio. In addition, a trend analysis is generated which provides a projection of the Company s asset and liability sensitivity position over a one-year period. Exposure to interest rate changes is calculated within the program to ascertain interest rate risk in actual dollar exposure resulting from incremental changes in market interest rates. The incremental changes are generally referred to as shocks . These shocks measure the effect of sudden and significant rate changes on the Company s net interest income. Assets may not reprice in the same way as liabilities and adjustments are made to the model to reflect these differences. For example, the time between when the Company changes its rate on deposits may lag behind the time the Company changes the rate it charges on loans. Additionally, the interest rate change may not be in the same proportion for assets and liabilities. Interest rates on deposits may not decrease in the same proportion as a decrease in interest rates charged on loans. Conversely, interest rates on deposits may not be increased in the same proportion as rates charged on loans.

**CAPITAL RESOURCES**

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. The primary source of capital for the Company has been internally generated capital through retained earnings.

The Company has historically maintained substantial levels of capital. The assessment of capital adequacy is dependent on several factors including asset quality, earnings trends, liquidity and economic conditions. Maintenance of adequate capital levels is integral to providing stability to the Company. The Company needs to maintain substantial levels of regulatory capital to give it maximum flexibility in the changing regulatory environment and to respond to changes in the market and economic conditions.

On December 18, 2002, the Company announced a 2 for 1 stock split for shareholders of record at January 6, 2003, and a stock repurchase program effective January 1, 2003 and ending December 31, 2003 with the intent to purchase up to $500,000 or approximately 2% of its common stock.The Company has had two prior stock repurchase programs for the repurchase of up to $500,000 or 3% of its common stock under each plan.  The combined results of the programs were that 92,612 shares had been repurchased at a cost of $982,619 as of December 31, 2002.

At the current time, there are no commitments that would engender the use of material amounts of the Company s capital. For further discussion of capital levels, refer to Note 12 of Notes to Consolidated Financial Statements , Shareholders Equity on page 62.

**LIQUIDITY MANAGEMENT**

The object of liquidity management is to maintain cash flow adequate to fund the Company s operations and to meet obligations and other commitments on a timely and cost effective basis. In assessing liquidity, historical information such as seasonal demand, local economic cycles and the economy in general are considered, along with current ratios, management goals, and unique characteristics of the Company. Management accomplishes this objective through the selection of asset and liability maturity mixes that it believes will meet the Company s needs.

Liquidity is provided by the Company s core deposit base, shareholders equity, and reductions in assets which can be immediately converted to cash at minimal cost. Liquid assets, which consist of cash, deposits in other financial institutions, Federal funds sold and available for sale investment securities (excluding pledged investments), averaged $65,419,000 for 2002, or 26.3% of average assets compared to $70,133,000 for 2001, or 34.0% of average assets. The ratio of average liquid assets to average demand deposits was 110.5% for 2002 compared to 153.0% for 2001. The decreases in liquidity ratios can be attributed to the increase in securities pledged for borrowings and public deposits. The Company s loan to deposit ratio at December 31, 2002 was 64.4% compared to 69.8% at December 31, 2001.

Unpledged investment securities may also provide liquidity. At December 31, 2002, $51,310,000 in unpledged securities was available as collateral for borrowing. Additionally, maturing loans provide liquidity. At December 31, 2002, approximately $22,748,000 in loans was scheduled to mature within the first quarter.

The Bank had unsecured lines of credit with its correspondent banks which, in the aggregate, amounted to $8,000,000 and $6,000,000 at December 31, 2002 and 2001, respectively, at interest rates which vary with market conditions. The Bank also had a line of credit with the Federal Reserve Bank of San Francisco at December 31, 2002 and 2001 which bears interest at the prevailing discount rate collateralized by investment securities with amortized costs totaling $3,833,000 and $5,402,000 and market values totaling $3,946,000 and $5,703,000, respectively. In addition, the Bank had a credit line with the Federal Home Loan Bank at December 31, 2002 and 2001 which bears interest at the prevailing interest rate collateralized by investment securities with amortized costs totaling $13,809,000 and $5,045,000 and market values totaling $14,823,000 and $5,067,000, respectively. The amount of the credit line varies according to the Bank s investment and loan portfolio make-up. At December 31, 2002 and 2001, the Bank had $9,000,000 and $3,000,000 outstanding on these credit lines, respectively.

As discussed previously, the Bank borrowed funds from the FHLB during 2002 to meet anticipated liquidity needs and in 2001, the Bank sold approximately $11,602,000 in investment securities due to short-term liquidity needs in 2001. The Company analyzes the advantages and disadvantages of borrowing funds versus selling existing investment securities and their respective rates and yields. As indicated above, a combination of both provided the needed liquidity in 2002 and in 2001.

Management believes that the Company maintains adequate amounts of liquid assets to meet its liquidity needs. The Company s liquidity might be insufficient if deposits or withdrawals were to exceed anticipated levels. Deposit withdrawals can increase if a company experiences financial difficulties or receives adverse publicity for other reasons, or if its pricing of products or services are not competitive with those offered by other financial institutions.

Management believes that the Company s current mix of assets and liabilities provide a reasonable level of risk related to significant fluctuations in net interest income or the result of volatility of the Company s earning base.

**ITEM 7 - FINANCIAL STATEMENTS.**

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Consolidated Balance Sheet
Consolidated Statement of Operations
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Consolidated Statement of Cash Flows
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INDEPENDENT AUDITOR S REPORT

The Shareholders

and Board of Directors

Central Valley Community Bancorp

and Subsidiary

We have audited the accompanying consolidated balance sheet of Central Valley Community Bancorp and subsidiary as of December 31, 2002 and 2001 and the related consolidated statements of income, changes in shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Valley Community Bancorp and subsidiary as of December 31, 2002 and 2001 and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/Perry-Smith LLP

Sacramento, California
January 15, 2003

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEET**

**December 31, 2002 and 2001**

| | | 2002 | | 2001 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and due from banks | $ | 18,803,705 | $ | 13,963,456 |
| Federal funds sold | | 17,678,000 | | 4,160,000 |
| Interest bearing deposits in other banks | | 500,000 | | |
| Available-for-sale investment securities (Notes 2 and 9) | | 77,723,547 | | 60,586,194 |
| Loans, less allowance for credit losses of $2,432,936 in 2002 and $2,474,159 in 2001 (Notes 3, 11 and 15) | | 156,293,157 | | 130,797,253 |
| Equipment leased to others, net (Note 4) | | 239,873 | | 1,216,635 |
| Bank premises and equipment, net (Notes 5 and 11) | | 3,135,757 | | 1,864,239 |
| Accrued interest receivable and other assets (Notes 7, 10 and 14) | | 8,632,128 | | 6,478,576 |
| Total assets | $ | 283,006,167 | $ | 219,066,353 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | |
| Deposits: | | | | |
| Non-interest bearing | $ | 73,822,469 | $ | 49,015,731 |
| Interest bearing (Note 8) | | 172,515,271 | | 143,116,535 |
| Total deposits | | 246,337,740 | | 192,132,266 |
| Short-term borrowings (Note 9) | | 2,000,000 | | 1,000,000 |
| Long-term debt (Note 9) | | 7,000,000 | | 2,000,000 |
| Accrued interest payable and other liabilities (Note 14) | | 3,569,389 | | 3,106,339 |
| Total liabilities | | 258,907,129 | | 198,238,605 |
| Commitments and contingencies (Note 11) | | | | |
| Shareholders equity (Note 12): | | | | |
| Preferred stock, no par value; 10,000,000 shares authorized, no shares issued or outstanding | | | | |
| Common stock, no par value; 40,000,000 shares authorized, 2,573,242 and 2,570,714 shares issued and outstanding in 2002 and 2001, respectively | | 5,854,311 | | 6,049,217 |

| | | | | |
|---|---|---|---|---|
| Retained earnings | | 16,386,727 | | 13,732,531 |
| Accumulated other comprehensive income (Notes 2 and 16) | | 1,858,000 | | 1,046,000 |
| Total shareholders equity | | 24,099,038 | | 20,827,748 |
| Total liabilities and shareholders equity | $ | 283,006,167 | $ | 219,066,353 |

The accompanying notes are an integral
part of these financial statements.

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF INCOME**

**For the Years Ended December 31, 2002, 2001 and 2000**

| | **2002** | **2001** | **2000** |
|---|---|---|---|
| Interest income: | | | |
| Interest and fees on loans | $ 11,194,309 | $ 10,379,527 | $ 8,942,082 |
| Interest on Federal funds sold | 195,313 | 240,371 | 601,695 |
| Interest and dividends on investment securities: | | | |
| Taxable | 2,634,097 | 3,477,787 | 3,530,964 |
| Exempt from Federal income taxes | 511,859 | 478,859 | 485,161 |
| Total interest income | 14,535,578 | 14,576,544 | 13,559,902 |
| Interest expense: | | | |
| Interest on deposits (Note 8) | 2,392,994 | 4,115,136 | 4,119,858 |
| Other (Note 9) | 334,814 | 22,906 | 127,218 |
| Total interest expense | 2,727,808 | 4,138,042 | 4,247,076 |
| Net interest income before provision for credit losses | 11,807,770 | 10,438,502 | 9,312,826 |
| Provision for credit losses (Note 3) | | 622,500 | 50,000 |
| Net interest income after provision for credit losses | 11,807,770 | 9,816,002 | 9,262,826 |
| Non-interest income: | | | |
| Service charges | 1,921,816 | 1,197,176 | 1,097,419 |
| Rentals from equipment leased to others (Note 4) | 1,094,368 | 1,441,096 | 1,544,488 |
| Loan placement fees | 364,138 | 201,018 | 149,600 |
| Net realized gains on sales and calls of investment securities (Note 2) | 26,559 | 468,150 | |
| Appreciation in cash surrender value of insurance contracts (Note 14) | 274,162 | 198,627 | 128,154 |
| Other income | 530,592 | 1,186,080 | 608,614 |
| Total non-interest income | 4,211,635 | 4,692,147 | 3,528,275 |
| Non-interest expenses: | | | |
| Salaries and employee benefits (Notes 3 and 14) | $ 6,232,024 | $ 5,365,426 | $ 4,699,781 |
| Occupancy and equipment (Notes 5 and 11) | 1,234,002 | 929,608 | 841,140 |
| Depreciation and provision for losses on equipment leased to others (Note 4) | 976,761 | 1,307,957 | 1,443,797 |
| Other expenses (Notes 11 and 13) | 3,545,074 | 3,252,468 | 3,129,541 |
| Total non-interest expenses | 11,987,861 | 10,855,459 | 10,114,259 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income from continuing operations before income taxes | | 4,031,544 | | 3,652,690 | | 2,676,842 |
| Income tax expense (Note 10) | | 1,247,600 | | 1,274,600 | | 904,100 |
| Net income from continuing operations | | 2,783,944 | | 2,378,090 | | 1,772,742 |
| Discontinued operations (Note 6): | | | | | | |
| Loss from operations of Clovest less applicable income tax benefit of $(16,800) | | | | | | (25,231) |
| Net income | $ | 2,783,944 | $ | 2,378,090 | $ | 1,747,511 |
| Basic earnings per share from continuing operations (Note 12) | $ | 1.08 | $ | .92 | $ | .68 |
| Diluted earnings per share from continuing operations (Note 12) | $ | 1.02 | $ | .89 | $ | .68 |
| Basic earnings per share (Note 12) | $ | 1.08 | $ | .92 | $ | .67 |
| Diluted earnings per share (Note 12) | $ | 1.02 | $ | .89 | $ | .67 |

The accompanying notes are an integral
part of these financial statements.

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**

**For the Years Ended December 31, 2002, 2001 and 2000**

| | Common Stock | | | Accumulated Other Comprehensive (Loss) Income | Shareholders Equity | Comprehensive Income |
|---|---|---|---|---|---|---|
| | Shares | Amount | Retained Earnings | | | |
| Balance, January 1, 2000 | 2,606,918 | $ 6,465,236 | $ 9,737,276 | $ (387,000) | $ 15,815,512 | |
| Comprehensive income (Note 16): | | | | | | |
| Net income | | | 1,747,511 | | 1,747,511 | $ 1,747,511 |
| Other comprehensive income, net of tax: | | | | | | |
| Unrealized gains on available-for-sale investment securities | | | | 1,238,000 | 1,238,000 | 1,238,000 |
| Total comprehensive income | | | | | | $ 2,985,511 |
| Cash dividend - $.05 per share | | | (130,346) | | (130,346) | |
| Balance, December 31, 2000 | 2,606,918 | 6,465,236 | 11,354,441 | 851,000 | 18,670,677 | |
| Comprehensive income (Note 16): | | | | | | |
| Net income | | | 2,378,090 | | 2,378,090 | $ 2,378,090 |
| Other comprehensive income, net of tax: | | | | | | |
| Unrealized gains on available-for-sale investment securities | | | | 195,000 | 195,000 | 195,000 |
| Total comprehensive income | | | | | | $ 2,573,090 |
| Stock options exercised and related tax benefit (Note 12) | 15,596 | 83,244 | | | 83,244 | |
| Repurchase and retirement of common stock (Note 12) | (51,800) | (499,263) | | | (499,263) | |
| Balance, December 31, 2001 | 2,570,714 | 6,049,217 | 13,732,531 | 1,046,000 | 20,827,748 | |
| Comprehensive income (Note 16): | | | | | | |
| Net income | | | 2,783,944 | | 2,783,944 | $ 2,783,944 |
| Other comprehensive income, net of tax: | | | | | | |
| | | | | 812,000 | 812,000 | 812,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Unrealized gains on available-for-sale investment securities (Note 2) | | | | | | |
| Total comprehensive income | | | | | | $ 3,595,944 |
| Cash dividend - $.05 per share | | | (129,748) | | (129,748) | |
| Stock options exercised and related tax benefit (Note 12) | 43,340 | 288,450 | | | 288,450 | |
| Stock repurchased (Note 12) | (40,812) | (483,356) | | | (483,356) | |
| Balance, December 31, 2002 | 2,573,242 | $ 5,854,311 | $ 16,386,727 | $ 1,858,000 | $ 24,099,038 | |

| | **2002** | **2001** |
|---|---|---|
| Disclosure of reclassification amount, net of taxes (Note 16): | | |
| Unrealized holding gains arising during the year | $ 830,060 | $ 475,890 |
| Less reclassification adjustment for net gains included in net income | 18,060 | 280,890 |
| Net unrealized gains on available-for-sale investment securities | $ 812,000 | $ 195,000 |

The accompanying notes are an integral part of these financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the Years Ended December 31, 2002, 2001 and 2000**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 2,783,944 | $ 2,378,090 | $ 1,747,511 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | | |
| Net loss from discontinued operations | | | 25,231 |
| Provision for credit losses | | 622,500 | 50,000 |
| Allowance for residual losses on equipment leased to others | | 100,000 | 64,800 |
| Gain on sale of equipment leased to others | (20,938) | (13,599) | |
| Net increase in deferred loan fees | 86,740 | 135,174 | 15,017 |
| Depreciation, accretion and amortization, net | 2,193,378 | 1,949,710 | 1,972,105 |
| Net realized gains on sales and calls of available-for-sale investment securities | (26,559) | (468,150) | |
| Gain on sale of equipment | (6,360) | | (60,458) |
| Gain on sale of other real estate | | | (36,197) |
| Increase in cash surrender value of life insurance | (257,088) | (182,630) | (113,567) |
| Reduction in carrying value of bank premises and equipment | | | 67,111 |
| Net (increase) decrease in accrued interest receivable and other assets | (706,797) | 264,154 | 61,292 |
| Net increase in accrued interest payable and other liabilities | 549,550 | 598,261 | 718,384 |
| Deferred income tax expense | 97,000 | 65,000 | 876,000 |
| Net cash provided by operating activities of continuing operations | 4,692,870 | 5,448,510 | 5,387,229 |
| Cash flows from investing activities: | | | |
| Purchases of available-for-sale investment securities | (35,558,701) | (24,454,432) | (28,131,754) |
| Proceeds from sales, calls or maturity of available-for- sale investment securities | 2,120,000 | 21,262,139 | 3,225,690 |
| Proceeds from principal repayments of available-for- sale investment securities | 16,686,152 | 17,508,609 | 6,447,423 |
| Net increase in interest bearing deposits in other banks | (500,000) | | |
| Net increase in loans | (25,582,644) | (37,582,235) | (15,001,104) |
| Purchases of premises and equipment | (1,858,686) | (398,668) | (789,575) |
| Proceeds from sale of equipment | 19,000 | | 61,385 |
| Proceeds from sale of other real estate | | | 65,145 |
| Purchase of equipment leased to others | | (181,392) | (1,632,673) |
| Proceeds from sale of equipment leased to others | 20,938 | 163,307 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Deposits on single premium cash surrender value life insurance policies | | (1,475,000) | | (447,000) | | (1,523,500) |
| | | | | | | |
| Net cash used in investing activities of continuing operations | | (46,128,941) | | (24,129,672) | | (37,278,963) |
| | | | | | | |
| Cash flows from financing activities: | | | | | | |
| Net increase in demand, interest-bearing and savings deposits | $ | 46,895,882 | $ | 15,158,142 | $ | 22,848,882 |
| Net increase (decrease) in time deposits | | 7,309,592 | | (3,978,139) | | 8,955,998 |
| Payments on notes payable for equipment leased to others | | | | (35,913) | | (214,453) |
| Proceeds from borrowings from Federal Home Loan Bank | | 14,000,000 | | 5,000,000 | | |
| Repayments to Federal Home Loan Bank | | (8,000,000) | | (2,000,000) | | |
| Cash paid for dividends | | (129,748) | | | | (130,346) |
| Share repurchase and retirement | | (483,356) | | (499,263) | | |
| Proceeds from exercise of stock options | | 201,950 | | 83,244 | | |
| | | | | | | |
| Net cash provided by financing activities of continuing operations | | 59,794,320 | | 13,728,071 | | 31,460,081 |
| | | | | | | |
| Cash provided by discontinued operations | | | | | | 499,404 |
| | | | | | | |
| Increase (decrease) in cash and cash equivalents | | 18,358,249 | | (4,953,091) | | 67,751 |
| | | | | | | |
| Cash and cash equivalents at beginning of year | | 18,123,456 | | 23,076,547 | | 23,008,796 |
| | | | | | | |
| Cash and cash equivalents at end of year | $ | 36,481,705 | $ | 18,123,456 | $ | 23,076,547 |
| | | | | | | |
| Supplemental disclosure of cash flow information: | | | | | | |
| | | | | | | |
| Cash paid (refunded) during the year for: | | | | | | |
| Interest expense | $ | 2,724,354 | $ | 4,258,314 | $ | 4,135,971 |
| Income taxes | $ | 1,398,431 | $ | 530,000 | $ | (308,706) |
| | | | | | | |
| Non-cash investing activities: | | | | | | |
| | | | | | | |
| Net change in unrealized gain on available-for- sale investment securities | $ | 989,000 | $ | 324,000 | $ | 2,059,000 |
| | | | | | | |
| Transfer of equipment leased to others to assets held for sale | | | $ | 115,672 | | |

The accompanying notes are an integral part of these financial statements.

**CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Central Valley Community Bancorp (the Company ) was incorporated on February 7, 2000 and subsequently obtained approval from the Board of Governors of the Federal Reserve System to be a bank holding company in connection with its acquisition of Central Valley Community Bank (the Bank ). The Company became the sole shareholder of the Bank on November 15, 2000 in a statutory merger, pursuant to which each outstanding share of the Bank s common stock was exchanged for one share of common stock of the Company.

The Bank operates seven branches in Clovis, north Fresno, west and northeast Fresno County, and Sacramento, California. The Bank s primary source of revenue is providing loans to customers who are predominately small and middle-market businesses and individuals. The Bank s subsidiaries have nominal activity with the exception of Central Valley Community Realty, LLC ( CVCR ). The Bank formed CVCR in June 2002 to invest in certain of the Bank s real estate related assets. CVCR can be used as a means of generating capital and affords the Company certain favorable income tax treatments.

The accounting and reporting policies of Central Valley Community Bancorp and subsidiary conform with generally accepted accounting principles and prevailing practices within the banking industry.

Certain reclassifications have been made to prior years balances to conform to classifications used in 2002.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the consolidated accounts of its wholly-owned subsidiary, the Bank. In addition, the accounts of the Bank s wholly owned subsidiaries, CVCR, Clovest Corporation ( Clovest ) and Clovis Securities Corporation (an inactive company), are included in the consolidated financial statements. The operating results of Clovest were not material in 2002 and 2001 and were reflected as discontinued operations in 2000. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

For the purpose of the statement of cash flows, cash and due from banks and Federal funds sold are considered to be cash equivalents. Generally, Federal funds are sold for one-day periods.

Investment Securities

Investments are classified into the following categories:

Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders equity.

Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. In addition, unrealized losses that are other than temporary are recognized in earnings for all investments.

**Loans**

Loans are stated at principal balances outstanding. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered impaired and the future collectibility of interest and principal is in serious doubt, a loan is placed on nonaccrual status and the accrual of interest income is suspended. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

An impaired loan is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical matter, at the loan s observable market price or the fair value of collateral if the loan is collateral dependent. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Allowance for Credit Losses

The allowance for credit losses is maintained to provide for losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank s service area.

Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss. In addition, a reserve factor is assigned to currently performing loans based on the Bank s historical experience. Management also computes specific and expected loss reserves for loan commitments. These estimates are susceptible to changes in the economic environment and market conditions.

The Bank s Audit Committee reviews the adequacy of the allowance for credit losses quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in the judgment of the Audit Committee and management, changes are warranted.

This allowance is established through a provision for credit losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. The allowance for credit losses at December 31, 2002 and 2001, respectively, reflects management s estimate of potential losses in the portfolio.

Equipment Leased to Others

The Bank enters into leasing arrangements through certain leasing brokers to lease computer equipment to various entities. Computer equipment leased to others under operating leases is depreciated on a straight-line basis over the lease term to an estimated residual value. Related rental income is recorded when earned.

The Bank maintains an allowance for residual losses based upon management s assessment of various factors affecting residual values. Management considers the allowance for residual losses adequate to cover any potential losses in the lease portfolio.

**Other Real Estate**

Other real estate represents real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank s recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property is charged against the allowance for credit losses. A valuation allowance for losses on other real estate is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate and is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred. At December 31, 2002 and 2001, no other real estate was held.

**Bank Premises and Equipment**

Bank premises and equipment are carried at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of Bank premises are estimated to be between twenty and forty years. The useful lives of improvements to Bank premises, furniture, fixtures and equipment are estimated to be three to ten years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

**Income Taxes**

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity s proportionate share of the consolidated provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

**Stock-Based Compensation**

At December 31, 2002, the Company has two stock-based employee compensation plans, the Central Valley Community Bancorp 2000 and 1992 Stock Option Plans, which are described more fully in Note 12. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

Pro forma adjustments to the Company s consolidated net earnings and earnings per share are disclosed during the years in which the options become vested. In addition, the cancellation of options in 2000, which were expected to vest in 1999 and 1998, resulted in an adjustment to the 2000 pro forma income for the pro forma compensation expense previously recognized.

| | | 2002 | | 2001 | | 2000 |
|---|---|---|---|---|---|---|
| Net earnings from continuing operations, as reported | $ | 2,783,944 | $ | 2,378,090 | $ | 1,772,742 |
| Deduct (add): Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | | 198,000 | | 268,000 | | (74,000) |
| Pro forma net earnings from continuing operations | $ | 2,585,944 | $ | 2,110,090 | $ | 1,846,742 |
| Basic earnings per share from continuing operations - as reported | $ | 1.08 | $ | .92 | $ | .68 |
| Basic earnings per share from continuing operations - pro forma | $ | 1.00 | $ | .81 | $ | .71 |
| Diluted earnings per share from continuing operations - as reported | $ | 1.02 | $ | .89 | $ | .68 |
| Diluted earnings per share from continuing operations - pro forma | $ | .96 | $ | .79 | $ | .70 |
| Net income, as reported | $ | 2,783,944 | $ | 2,378,090 | $ | 1,747,511 |
| Deduct (add): Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | | 198,000 | | 268,000 | | (74,000) |
| Pro forma net income | $ | 2,585,944 | $ | 2,110,090 | $ | 1,821,511 |
| Basic earnings per share - as reported | $ | 1.08 | $ | .92 | $ | .67 |
| Basic earnings per share - pro forma | $ | 1.00 | $ | .81 | $ | .70 |
| Diluted earnings per share - as reported | $ | 1.02 | $ | .89 | $ | .67 |
| Diluted earnings per share - pro forma | $ | .96 | $ | .79 | $ | .70 |
| Weighted average fair value of options granted during the year | $ | 4.86 | $ | 3.96 | $ | 3.47 |

The fair value of each option is estimated on the date of grant using an option-pricing model with the following assumptions:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Dividend yield | .5% | N/A | .7% |
| Expected volatility | 65.88 to 75.21% | 48.36 to 82.38% | 54.51 to 72.28% |
| Risk-free interest rate | 3.66 to 5.39% | 4.88 to 5.39% | 5.85 to 6.75% |
| Expected option life | 10 years | 10 years | 10 years |

**Earnings Per Share**

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. All data with respect to computing earnings per share is retroactively adjusted to reflect stock dividends and splits and the treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Impact of New Financial Accounting Standards

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reporting containing financial statements for interim periods beginning after December 15, 2002. Because the Company accounts for the compensation cost associated with its stock option plans under the intrinsic value method, the alternative methods of transition will not apply to the Company. The additional disclosure requirements of the statement are included in these financial statements. In management s opinion, the adoption of this Statement did not have a material impact on the Company s consolidated financial position or results of operations.

**2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES**

The amortized cost and estimated market value of available-for-sale investment securities at December 31, 2002 and 2001 consisted of the following:

| | 2002 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. Government agencies | $ 10,619,453 | $ 886,000 | | $ 11,505,453 |
| Obligations of states and political subdivisions | 16,629,640 | 933,000 | $ (101,000) | 17,461,640 |
| U.S. Government agencies collateralized by mortgage obligations | 44,420,348 | 1,117,000 | (144,000) | 45,393,348 |
| Corporate bonds | 973,983 | 41,000 | | 1,014,983 |
| Other securities | 2,348,123 | | | 2,348,123 |
| | $ 74,991,547 | $ 2,977,000 | $ (245,000) | $ 77,723,547 |

| | 2001 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
| U.S. Government agencies | $ 8,476,631 | $ 199,400 | $ (1,300) | $ 8,674,731 |
| Obligations of states and political subdivisions | 12,440,463 | 610,600 | (22,600) | 13,028,463 |
| U.S. Government agencies collateralized by mortgage obligations | 35,674,586 | 1,102,700 | (183,600) | 36,593,686 |
| Federal Home Loan Mortgage Corporation non-cumulative preferred stock | 1,018,719 | | (18,700) | 1,000,019 |
| Corporate bonds | 967,242 | 56,500 | | 1,023,742 |
| Other securities | 265,553 | | | 265,553 |
| | $ 58,843,194 | $ 1,969,200 | $ (226,200) | $ 60,586,194 |

Net unrealized gains on available-for-sale investment securities totaling $2,732,000 and $1,743,000 are recorded net of $874,000 and $697,000 in tax expense as accumulated other comprehensive income within shareholders equity at December 31, 2002 and 2001, respectively.

Proceeds and gross realized gains from the sale, call or maturity of available-for-sale investment securities totaled $2,120,000 and $26,559, respectively, for the year ended December 31, 2002. Proceeds and gross realized gains from the sale, call or maturity of available-for-sale investment securities totaled $21,262,139 and $468,150, respectively, for the year ended December 31, 2001. Proceeds from the call or maturity of available-for-sale investment securities totaled $3,225,690 for the year ended December 31, 2000. No gains or losses were realized on these calls or maturities.

The amortized cost and estimated market value of available-for-sale investment securities at December 31, 2002 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Estimated Market Value |
|---|---|---|
| Within one year | $ 1,636,229 | $ 1,660,791 |
| After one year through five years | 10,273,366 | 10,997,445 |
| After five years through ten years | 5,305,888 | 5,791,507 |
| After ten years | 11,007,593 | 11,532,333 |
| | 28,223,076 | 29,982,076 |
| Investment securities not due at a single maturity date: | | |
| U.S. Government agencies collateralized by mortgage obligations | 44,420,348 | 45,393,348 |
| Other securities | 2,348,123 | 2,348,123 |
| | $ 74,991,547 | $ 77,723,547 |

Investment securities with amortized costs totaling $23,681,467 and $14,127,454 and market values totaling $25,269,000 and $14,613,000 were pledged to secure public deposits, other contractual obligations and short-term borrowing arrangements at December 31, 2002 and 2001, respectively.

**3. LOANS**

Outstanding loans are summarized as follows:

| | December 31, | |
|---|---|---|
| | **2002** | **2001** |
| Commercial | $ 70,407,871 | $ 57,374,961 |
| Real estate | 57,498,310 | 41,857,806 |
| Real estate construction, land development and other land loans | 21,735,949 | 27,461,865 |
| Agricultural | 3,977,995 | 1,158,594 |
| Installment | 5,580,688 | 5,517,307 |
| Other | 12,900 | 301,759 |
| | 159,213,713 | 133,672,292 |
| Deferred loan fees, net | (487,620) | (400,880) |
| Allowance for credit losses | (2,432,936) | (2,474,159) |
| | $ 156,293,157 | $ 130,797,253 |

At December 31, 2002 and 2001, loans originated under Small Business Administration (SBA) programs totaling $16,696,690 and $12,194,952, respectively, were included in the real estate and commercial categories.

Changes in the allowance for credit losses were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| Balance, beginning of year | $ 2,474,159 | $ 2,046,576 | $ 2,236,342 |
| Provision charged to operations | | 622,500 | 50,000 |
| Losses charged to the allowance | (352,596) | (391,005) | (1,142,860) |
| Recoveries | 311,373 | 196,088 | 903,094 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, end of year | $ | 2,432,936 | $ | 2,474,159 | $ | 2,046,576 |

The recorded investment in loans that were considered to be impaired totaled $951,634 and $1,108,089 at December 31, 2002 and 2001, respectively. The related allowance for credit losses on these impaired loans at December 31, 2002 and 2001 was $194,000 and $198,000, respectively. The average recorded investment in impaired loans during 2002, 2001 and 2000 was $782,000, $1,175,000 and $1,687,000 , respectively. Interest income on impaired loans is recognized on a cash basis and totaled $175, $2,481 and $18,744 for the years ended December 31, 2002, 2001 and 2000, respectively.

At December 31, 2002 and 2001, nonaccrual loans totaled $466,227 and $1,109,362, respectively. Interest foregone on nonaccrual loans totaled $61,635, $46,416 and $14,193 for the years ended December 31, 2002, 2001 and 2000, respectively.

Salaries and employee benefits totaling $162,847, $90,936 and $63,669 have been deferred as loan origination costs for the years ended December 31, 2002, 2001 and 2000, respectively.

**4. EQUIPMENT LEASED TO OTHERS**

Equipment leased to others consisted of the following:

| | December 31, | |
|---|---|---|
| | **2002** | **2001** |
| Computer equipment | $ 3,192,301 | $ 3,854,016 |
| Accumulated depreciation | (2,749,265) | (2,434,218) |
| Allowance for residual losses | (203,163) | (203,163) |
| | $ 239,873 | $ 1,216,635 |

Changes in the allowance for residual losses were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| Balance, beginning of year | $ 203,163 | $ 103,649 | $ 38,849 |
| Losses charged to allowance | | (486) | |
| Provision charged to operations | | 100,000 | 64,800 |
| Balance, end of year | $ 203,163 | $ 203,163 | $ 103,649 |

Depreciation expense totaled $976,762, $1,207,958 and $1,378,997 for the years ended December 31, 2002, 2001 and 2000, respectively.

Minimum future rental income on noncancelable operating leases for the year ending December 31, 2003 is $121,413.

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**5. BANK PREMISES AND EQUIPMENT**

Bank premises and equipment consisted of the following:

| | December 31, | |
|---|---|---|
| | 2002 | 2001 |
| Land | $ 250,000 | $ 250,000 |
| Buildings and improvements | 1,185,314 | 1,157,764 |
| Furniture, fixtures and equipment | 3,149,712 | 2,512,294 |
| Leasehold improvements | 1,515,150 | 464,284 |
| | 6,100,176 | 4,384,342 |
| Less accumulated depreciation and amortization | (2,964,419) | (2,520,103) |
| | $ 3,135,757 | $ 1,864,239 |

Depreciation and amortization included in occupancy and equipment expense totaled $574,528, $413,764 and $397,320 for the years ended December 31, 2002, 2001 and 2000, respectively.

## 6. DISCONTINUED OPERATIONS

The Board of Directors approved the discontinuation of Clovest s operations on July 15, 1998 (the measurement date). At the measurement date, management estimated the net realizable value of each asset and established a plan of disposition. The plan of disposition calls for the expedient but judicious sale of assets. Management anticipates no further significant losses will be incurred in connection with the disposition of the remaining assets in Clovest.

At December 31, 2002 and 2001 and for the years then ended, the Company s investment in Clovest and the results of Clovest s operations are not material. Operating losses from the measurement date to December 31, 2000 totaled approximately $830,000. Asset dispositions subsequent to the measurement date totaled $8,842,000 at December 31, 2000. At December 31, 2000, Clovest had no commitments to fund further development of any projects.

**7. ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS**

Accrued interest receivable and other assets consisted of the following:

| | December 31, | |
|---|---|---|
| | 2002 | 2001 |
| Accrued interest receivable | $ 1,206,778 | $ 1,007,246 |
| Net deferred tax assets (Note 10) | 419,000 | 693,000 |
| Cash surrender value of life insurance (Note 14) | 5,580,923 | 3,848,835 |
| Prepaid expenses | 221,085 | 180,859 |
| Federal Home Loan Bank stock | 659,100 | 160,600 |
| Other | 545,242 | 588,036 |
| | | |
| | $ 8,632,128 | $ 6,478,576 |

**8. DEPOSITS**

Interest-bearing deposits consisted of the following:

| | December 31, | |
|---|---|---|
| | 2002 | 2001 |
| Savings | $ 14,918,823 | $ 11,769,996 |
| Money market | 59,391,693 | 50,597,843 |
| NOW accounts | 40,886,795 | 30,740,328 |
| Time, $100,000 or more | 21,624,034 | 17,114,349 |
| Time, under $100,000 | 35,693,926 | 32,894,019 |
| | $ 172,515,271 | $ 143,116,535 |

Aggregate annual maturities of time deposits are as follows:

| Year Ending December 31, | |
|---|---|
| 2003 | $ 38,215,769 |
| 2004 | 18,173,992 |
| 2005 | 928,199 |
| | $ 57,317,960 |

Interest expense recognized on interest-bearing deposits consisted of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Savings | $ 88,184 | $ 144,501 | $ 233,720 |
| Money market | 817,591 | 1,366,056 | 1,024,492 |
| NOW accounts | 79,524 | 118,847 | 198,431 |
| Time, $100,000 or more | 333,753 | 839,772 | 731,912 |
| Time, under $100,000 | 1,073,942 | 1,645,960 | 1,931,303 |
| | $ 2,392,994 | $ 4,115,136 | $ 4,119,858 |

## 9. SHORT-TERM BORROWINGS, LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

**Short-Term Borrowings and Long-Term Debt**

Advances from the Federal Home Loan Bank of San Francisco at December 31, 2002 and 2001 consisted of the following:

| 2002 | | | 2001 | | |
|---|---|---|---|---|---|
| **Amount** | **Rate** | **Maturity Date** | **Amount** | **Rate** | **Maturity Date** |
| $ 1,000,000 | 2.44% | May 7, 2003 | $ 1,000,000 | 2.46% | May 20, 2002 |
| 1,000,000 | 3.33% | November 20, 2003 | 1,000,000 | 3.33% | November 20, 2003 |
| 2,000,000 | 3.28% | February 23, 2004 | 1,000,000 | 3.99% | November 22, 2004 |
| 3,000,000 | 3.38% | March 4, 2004 | | | |
| 1,000,000 | 3.70% | April 15, 2004 | | | |
| 1,000,000 | 3.99% | November 22, 2004 | | | |
| 9,000,000 | | | 3,000,000 | | |