
BANK OF THE SIERRA
1999 Annual Report

BANK OF THE SIERRA℠

ESTB. 1977

Mission Statement

To provide the highest return on equity to our shareholders consistent with sound banking practices.

Major Strategies

To anticipate and meet the changing needs of those we serve and will serve.

To provide financial products and customer service of the highest quality on a timely, competitive basis.

To provide an environment of challenge and security to our employees.

To assist the communities we serve in their economic and cultural development.

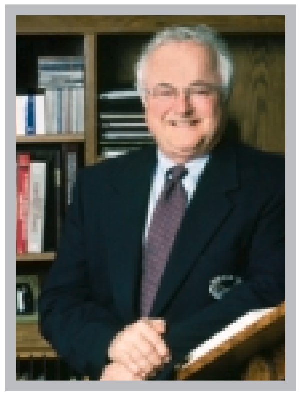
To be an institution of excellence.

President's Message

"We know what we are, but not what we may be."

Ophelia, in Hamlet

The quote at left from Shakespeare speaks of confronting change: change in the business of banking, change in our business economy and change in our culture. In the closing year of this 20th Century, change proceeds more rapidly than ever before and yet in our business of banking we must preserve what still works and initiate change on what does not and most importantly, know the difference. Even then change must work towards meeting our goals and objectives and change must be consistent with our values.



One of our cherished values in this Bank is that of stockholder return, our stewardship responsibility to our stockholders. The year 1999 is our seventeenth consecutive year of increased net income for our Bank, an accomplishment unmatched by any California bank known to us, and an accomplishment consistent with our good stewardship value. To help accomplish this income growth our total assets grew to an historical high of over $458,000,000 as of December 31, 1999. We document this value of stockholder return on the previous page under the title of Mission Statement and Major Strategies.

To realize our Mission Statement of enhanced shareholder value it is our vision that we must be the dominant multi-community bank in the South San Joaquin Valley. Our actions are focused on making that happen. In 1999 we opened our Hanford Office in January and then our Fresno-Shaw Office in October. The Hanford Office is already a strong contributor and with the Fresno-Shaw Office open we have clearly staked out our South Valley geography.

Complementing and augmenting this is our late December announced Definitive Agreement to acquire Sierra National Bank headquartered in Tehachapi and with other offices in California City and Bakersfield. Once this acquisition is consummated it will add four (4) new offices bringing our total to sixteen (16) and it will significantly strengthen our presence in Kern County. We also strengthened our strategic alliance with Investment Centers of America, Inc., by adding another Investment Representative, Kevin Hemmé, who works with our Tulare, Dinuba and Hanford branches.

While this brick-and-mortar expansion is important, the e-commerce dimension of our Bank is progressing also. Our SierraLine (telephone response) launched in 1998 and re-promoted in 1999 now handles over 20,000 calls a month. Our little known Sierra ACH Payment origination service continues to expand. Sierra Access, our online banking program with the bill pay feature, was officially launched in August of 1999 and is growing every month. Our technology partner on Sierra Access can and will add a host of other e-commerce solutions such as Internet accessible loans of all types, improved business cash management services, investment services, insurance services and shopping services. These will be evaluated and added in due course.

All of this speaks to various ways to access our Bank. Foremost it is still a brick-and-mortar proposition, but increasingly customers want alternatives beyond those mentioned. To further this we added to our off-site ATM Network and then custom designed a mobile ATM for use at large community events. We keep adding to our credit card base and even more so to our Sierra CheckCard (debit card) base. All of this provides bank access in an expanded fashion.

Perhaps most memorable for our Shareholders in 1999 was our move to NASDAQ (National Market) on June 10th. This was a move to increase the liquidity in the stock by providing a larger audience through a national market. With this move we have broadened our stockholder base and the daily trading has also increased. We are now working to get better and more comprehensive financial reporting. Our cash dividend policy was also modified in 1999 to a quarterly cash dividend, with a higher payout, so as to tangibly reward stockholders more regularly than an annual dividend provides and a quarterly cash dividend is consistent and traditional for a nationally traded stock.

With all of this we still need the most crucial element of all and that is the talent, energy, creativity and drive of the Bank of the Sierra team. Customer service is still crucial to success; technology can and does enable higher customer service, but only a high quality staff can actually deliver it! We believe we have this element well covered, but we continue to work at this.

Also essential is a dedicated Board of Directors capable of developing and providing an overall policy which enables success. We have been fortunate to have such a Board over the years. During the course of 1999, one of our Founding Directors, Fred R. Berger, Jr., passed away. Fred was always present when needed and when duty called, particularly in the early years when the Bank's credibility was not well formed, but also in the later years. Fred was a strong contributor and will be missed.

In summary, 1999 was yet another successful year, well chronicled in this report and 1999 was a year we advanced not only our net income record, but we advanced strategically adding to our market strength in the South Valley, enhancing customer access in a variety of entry ways and rewarding stockholders in a very tangible way. We have not yet realized our full potential, but in year 2000 and the years beyond, we will expend all reasonable efforts to do so.

Respectfully submitted,

James C. Holly

James C. Holly

"They well deserve to have that know the strongest and surest way to get." *Shakespeare,* King Richard II

Bank of the Sierra was incorporated under the laws of the State of California on September 14, 1977, and commenced operations as a California state-chartered bank on January 19, 1978. The Bank operates nine full-service branch offices in six Tulare County communities, and one full-service branch office each in Kern County, Kings County and Fresno County. The Bank also has eight credit centers for agricultural lending, credit card loans, construction and real estate lending in Tulare, Kern, Kings and Fresno Counties; and offers a full range of banking services to individuals and various sized businesses in the communities which it serves.

With a predominant focus on personal service, Bank of the Sierra has positioned itself as an independent bank serving the financial needs of individuals and businesses, including agricultural and real estate customers in Tulare and other surrounding counties. It is currently the largest independent bank headquartered in Tulare County. Although the Bank is primarily a retail oriented independent community bank, it has three other dimensions which surround this core of community banking: agricultural lending, credit card loans and real estate financing (both construction and long term).

The Agricultural Credit Centers, located in Fresno, Porterville and Bakersfield, provide a complete line of credit services supporting the agricultural activities which are key to the continued economic development of the communities served by the Bank. "Ag lending" clients include a full range of individual farming customers, small business farming organizations and major corporate farming units.

The Bank Card Center, headquartered in Porterville, provides a range of credit, debit and ATM card services, which are made available to each of the customers served by the branch banking offices. That center also provides credit card services to a limited number of affinity program participants. (See Management's Discussion & Analysis, "Loan Composition," for a description of this program.)

The Real Estate Center, with offices in Fresno, Hanford, Visalia, Porterville and Bakersfield, is responsible for a complete line of land acquisition and development loans, construction loans for residential and commercial development, and the origination of 1-4 family first mortgage loans and multi-family credit facilities. In addition, secondary market services are provided through this group and its affiliations with Freddie Mac, Fannie Mae and various non-governmental programs.

The Bank also has an orientation towards Small Business Administration ("SBA") lending and achieved the designation of Preferred Lender during 1999. At the current time, one branch manager is responsible for the program, which generated approximately $8.5 million in loans during the past year. It is anticipated that loans under this program will become an increasing segment of the Bank's loan portfolio over the next few years.

The Bank's principal lending services include commercial, real estate, home equity, agricultural and consumer loans. Related services include credit cards, installment note collection, cashier's checks, traveler's checks, bank-by-mail, ATM, night depository, safe deposit boxes, direct deposit, automated payroll services and other customary banking services.

In addition to the lending activities noted above, the Bank offers a wide range of deposit products for the retail banking market including checking, interest bearing transactions, savings, time certificates of deposit and retirement accounts, as well as telephone banking and internet banking with bill pay options. As of December 31, 1999 the Bank had 32,726 deposit accounts with balances totaling approximately $385.8 million as compared to 30,732 deposit accounts with balances totaling approximately $355.9 million at December 31, 1998.

The Bank attracts deposits through its customer oriented product mix, competitive pricing, convenient locations, extended hours and drive-up banking, all provided with the highest level of customer service. The Bank offers other products and services to its customer base, which complement the lending and deposit services previously reviewed. These include shared ATM and Point of Sale (POS) networks through which customers can gain access to the national and international funds transfer networks. During 1997, in the Bank's continuing efforts to meet the needs of its various communities, a Spanish language option was added to its network of ATMs throughout the Bank's service area. This option allows customers to conduct ATM transactions in Spanish, if they choose to do so, by selecting the Spanish language option when they first insert their ATM card into the machine. During the past two years, the Bank has substantially enhanced its ATM locations to include off-site areas not previously served by cash or deposit facilities, and now has a total of seven such remote centers. These units are located in a hospital, county offices, a college campus, a motel and a Fair office. These locations facilitate cash advances and deposits which would not otherwise be available to consumers at non-branch locations, thereby increasing consumer convenience. In addition, the Bank has a mobile ATM unit which is transportable and is used at fairs, exhibitions and various other community functions within the Bank's market area. In addition to such specifically oriented customer applications, the Bank provides safe deposit, wire transfer capabilities and a convenient customer service group to answer questions and assure a high level of customer satisfaction with the level of services and products provided by the Bank.

For non-deposit services, the Bank also formed a strategic alliance with Investment Centers of America, Inc. (ICA), of Bismarck, North Dakota. Through this arrangement, registered and licensed ICA representatives provide the Bank's customers in the Porterville, Visalia and Tulare offices with convenient access to annuities, insurance products, mutual funds, and a full range of investment products, with available services by appointment in the Bank's other branches.

Market for Common Equity

and Related Stockholder Matters

Market Information

The Bank's Common Stock is included for quotation on the National Association of Securities Dealers Automated Quotation System (The Nasdaq Stock Market). The Bank's Common Stock trades on the Nasdaq Stock Market® under the symbol BSRR and the CUSIP number for such common stock is #064860109. Trading in the Common Stock of the Bank has not been extensive and although trading in the Bank's stock has increased since the stock began trading on Nasdaq on June 10, 1999, such trades cannot be characterized as amounting to an active trading market. Management is aware of the following securities dealers who make a market in the Bank's stock: Hoefer & Arnett, San Francisco, California; J. Alexander Securities, Inc., Los Angeles, California; and Sutro & Co., Los Angeles, California (the "Securities Dealers").

The following table summarizes trades of the Bank's Common Stock, setting forth the approximate high and low sales prices and volume of trading for the periods indicated, based upon information provided by the Securities Dealers. The information in the following table does not include trading activity between dealers.

Holders

On February 15, 2000 there were approximately 730 stockholders of record of the Common Stock.

Dividends

The Bank's dividend policy is generally to pay quarterly cash dividends which total approximately thirty-five percent (35%) of the prior year's net earnings to the extent that such payments are consistent with general considerations of safety and soundness and do not adversely affect the Bank's financial condition. This quarterly dividend policy was put into effect during 1999, and replaced the Board's prior policy of paying an annual dividend of approximately ten percent (10%) of the prior year's net earnings, as a cash dividend in the subsequent year. While the Bank paid such quarterly dividends in 1999 and had paid annual dividends in the approximate amount described above for the previous ten years, no assurance can be given that the Bank's future earnings in any given year will justify the payment of such a dividend. Dividends paid during the year 1999 were $2.03 million or $0.22 per share and dividends paid during the year 1998 were $1.38 million or $0.15 per share. The amount paid in 1998 reflected a combination of the normal dividend based on earnings, in accordance with the Bank's general dividend policy, plus a special dividend in the approximate amount of the Bank's gain on the sale of a portion of the Bank's Phoenix International, LTD, Inc. investment (see "Investment Portfolio" and "Capital Resources" below).

Under California law, the Bank may declare a cash dividend out of the Bank's net profits up to the lesser of the Bank's retained earnings or the Bank's net income for the last three (3) fiscal years (less any distributions made to stockholders during such period), or with the prior written approval of the Commissioner of Financial Institutions in an amount not exceeding the greatest of (i) the retained earnings of the Bank, (ii) the net income of the Bank for its last fiscal year, or (iii) the net income of the Bank for its current fiscal year. The payment of any cash dividends by the Bank will depend not only upon the Bank's earnings during a specified period, but also on the Bank meeting certain regulatory capital requirements. (See Note 13 to the Consolidated Financial Statements.)

Calendar Quarter Ended	Sale Price of the Bank's Common Stock High	Low	Approximate Trading Volume Shares
March 31, 1998	$ 14.50	$ 10.12	173,300
June 30, 1998	11.50	10.25	155,100
September 30, 1998	10.50	8.87	104,100
December 31, 1998	9.50	7.87	87,900
March 31, 1999	9.50	7.63	88,600
June 30, 1999	10.50	8.25	152,800
September 30, 1999	11.43	8.50	76,822
December 31, 1999	10.50	7.44	172,036

The selected financial data presented below is derived from the Consolidated Financial Statements of the Bank, which have been audited by McGladrey & Pullen, LLP, independent public accountants. The selected financial data should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations which follows the Table. Statistical information below is generally based on average daily amounts.

As of December 31 (Dollars in thousands, except per share data)

	1999	1998	1997	1996	1995
Income Statement Summary					
Interest income	$ 34,511	$ 33,652	$ 30,011	$ 26,850	$ 27,151
Interest expense	$ 11,721	$ 12,378	$ 9,846	$ 8,690	$ 10,644
Net interest income before provision for possible loan losses	$ 22,790	$ 21,274	$ 20,165	$ 18,160	$ 16,507
Provision for loan losses	$ 2,118	$ 2,800	$ 2,013	$ 1,493	$ 1,607
Non-interest income	$ 5,346	$ 6,076	$ 4,389	$ 3,544	$ 3,041
Non-interest expense	$ 17,631	$ 16,383	$ 15,463	$ 14,261	$ 12,560
Income before provision for income taxes	$ 8,387	$ 8,167	$ 7,078	$ 5,950	$ 5,381
Provision for income taxes	$ 2,775	$ 2,943	$ 2,536	$ 2,035	$ 1,860
Net Income	$ 5,612	$ 5,224	$ 4,542	$ 3,915	$ 3,521
Balance Sheet Summary					
Total loans, net	$314,474	$270,920	$258,142	$ 217,238	$204,291
Allowance for loan losses	($ 3,319)	($ 4,394)	($ 3,034)	($ 2,904)	($ 2,745)
Securities held to maturity	$ 64,886	$ 53,096	$ 37,033	$ 37,590	$ 37,515
Securities available for sale	$ 27,986	$ 30,656	$ 23,082	$ 13,544	$ 9,156
Cash and due from banks	$ 31,413	$ 24,545	$ 26,774	$ 32,791	$ 21,943
Federal funds sold	-	$ 9,800	$ 5,300	-	$ 16,000
Other real estate owned	$ 2,553	$ 1,273	$ 2,285	$ 2,226	$ 4,022
Premises and equipment, net	$ 11,597	$ 9,491	$ 7,540	$ 6,851	$ 7,231
Total Interest-Earning assets	$410,382	$369,216	$327,264	$ 271,695	$270,202
Total Assets	$458,384	$404,064	$365,333	$ 314,232	$304,607
Total Interest-Bearing liabilities	$327,835	$283,464	$260,373	$ 210,554	$216,316
Total Deposits	$385,818	$355,881	$321,113	$ 283,021	$280,313
Total Liabilities	$421,685	$369,046	$334,882	$ 287,595	$283,333
Total Stockholders' Equity	$ 36,699	$ 35,018	$ 30,451	$ 26,637	$ 21,274

Selected Financial Data

(continued)

As of December 31 (Dollars in thousands, except per share data)

	1999	1998	1997	1996	1995
Per Share Data [1]					
Net Income	$ 0.61	$ 0.57	$ 0.49	$ 0.42	$ 0.38
Book Value	$ 3.98	$ 3.80	$ 3.31	$ 2.89	$ 2.31
Cash Dividends	$ 0.22	$ 0.15	$ 0.05	$ 0.04	$ 0.05
Weighted Average Common Shares Outstanding, Basic	9,212,280	9,212,280	9,212,280	9,212,280	9,212,280
Weighted Average Common Shares Outstanding, Diluted	9,252,193	9,212,280	9,212,280	9,212,280	9,212,280
Selected Financial Ratios					
Return on Average Assets [2]	1.33%	1.33%	1.37%	1.32%	1.18%
Return on Average Equity [3]	16.24%	15.81%	15.74%	16.45%	18.00%
Dividend Payout Ratio [4]	36.07%	26.32%	10.20%	9.52%	13.16%
Net Interest Spread [5]	5.10%	4.97%	5.68%	5.93%	5.25%
Net Interest Margin [6]	5.42%	5.92%	6.68%	6.24%	5.50%
Equity to Assets Ratio [7]	8.22%	8.42%	8.71%	8.48%	6.98%
Tier 1 Capital to Adjusted Total Assets	8.13%	8.16%	8.10%	8.10%	6.96%
Tier 1 Capital to Total Risk-weighted Assets	10.30%	11.54%	10.50%	11.00%	9.50%
Total Capital to Total Risk-weighted Assets	11.32%	12.79%	11.61%	12.30%	10.80%
Non-Performing Loans to Total Loans	0.29%	1.43%	0.55%	1.21%	1.17%
Non-Performing Assets to Total Loans and Other Real Estate Owned	1.08%	1.88%	1.41%	2.20%	3.05%
Net Charge-offs (recoveries) to Average Loans	1.11%	0.55%	0.78%	0.63%	0.64%
Total Interest Expense to Gross Interest Income	33.96%	36.78%	32.81%	32.36%	39.20%
Allowance for Possible Loan Losses to Net Loans at Period End	1.06%	1.62%	1.18%	1.34%	1.34%
Net Loans to Total Deposits at Period End	81.51%	76.13%	80.39%	76.76%	72.88%

(1) All per share data and the average number of shares outstanding have been retroactively restated on a split adjusted basis.
(2) Net income divided by average total assets.
(3) Net income divided by average stockholders' equity.
(4) Dividends declared per share divided by net income per share.
(5) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(6) Represents net interest income (after provision for loan losses) as a percentage of average interest-earning assets.
(7) Average equity divided by average total assets.

This discussion presents management's analysis of the financial condition and results of operations of the Bank as of and for each of the years in the three-year period ended December 31, 1999. The discussion should be read in conjunction with the Consolidated Financial Statements of the Bank and the Notes related thereto which appear elsewhere in this Annual Report.

Statements contained in this report that are not purely historical, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended, including the Bank's expectations, intentions, beliefs or strategies regarding the future. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to the Bank on the date noted, and the Bank assumes no obligation to update any such forward-looking statements. It is important to note that the Bank's actual results could materially differ from those in such forward-looking statements. Factors that could cause actual results to differ materially from those in such forward-looking statements are fluctuations in interest rates, inflation, government regulations, economic conditions, customer disintermediation, and competitive product and pricing pressures in the geographic and business areas in which the Bank conducts its operations.

Following this section, three areas are reviewed, including 1) the external environment impacting the Bank, 2) a summary of the Bank's performance over the past three years, and 3) more detailed information supporting discussion concerning specific asset or liability portfolios or income and expense categories.

External Environment

The major external factors which affect the Bank include general economic conditions, regulatory considerations and trends in the banking and financial services industries.

From a national perspective, the most significant economic factors impacting the Bank are the actions of the Federal Reserve Board (the "FRB"). The duty of the FRB is to monitor and modify interest rates and the money supply, to manage the pace of growth in the economy and the growth of inflationary pressures. These actions impact the Bank and its customers who then deposit or borrow funds in anticipation of certain factors over which the Bank may have little or no control. The consensus forecast for the year 2000 reflects strong consumer spending, rising business productivity and tame inflation. However, there are already signs of additional increases in the targeted fed funds rate and rising pressure on inflation. Based on these criteria and the rapid pace of economic growth in the fourth quarter of 1999, it is expected that the FRB will raise interest rates at least two times during the year 2000. These actions should slow the robust economy, and will impact the Bank's loan growth over the next year as well.

The economy of the San Joaquin Valley is vastly different from that of California generally. Gainful employment of some segments of the labor force is still difficult, and according to the California Employment Development Department, in 1999 the estimated jobless rate in the San Joaquin Valley averaged three times the State's average and nearly triple the National rate. On a positive note, the year to year comparison shows that unemployment dropped an average of 2.1% since January 1999. However, the lack of substantive employment growth affects the Bank's volume of business, and will impact its business plan for the next few years. The Bank is optimistic that its immediate economic environment will improve throughout this year; however, no assurance can be given that such improvement will in fact occur.

The Bank is also affected by changes in the regulatory environment. As a state chartered bank, it is regulated by both the California Department of Financial Institutions (the "Department") and the Federal Deposit Insurance Corporation (the "FDIC"). Federal and state legislation largely defines the Bank's competitive environment, and has a substantial impact on the structure and dynamics of financial services offered, as well as the geographic boundaries within which the Bank may operate. Both agencies promulgate and enforce governmental regulations which affect the Bank in almost every area of its activities, from reporting cash transactions over certain amounts to reporting the number and types of loans granted and denied to members of certain defined socio-economic groups. The Bank's regulatory burden is not expected to substantially diminish in the foreseeable future.

Current trends in the banking and financial services industry are those of mega mergers, with consolidations across various geographic lines and similar or complementary financial intermediaries. Although industry consolidation continues, this has given rise to additional market entrants, and quality loan and deposit customers are being heavily solicited by major nationwide banks, by newer local banks, credit unions and mass marketing programs undertaken through technological methods. Technology has also led to greater innovation and competition, as internet services have allowed depository and non-depository institutions to compete very effectively for the individual and commercial accounts centrally available through technology across regional, state and national borders.

Kenneth E. Goodwin
Executive Vice President &
Chief Operating Officer

Jack B. Buchold
Senior Vice President &
Chief Financial Officer

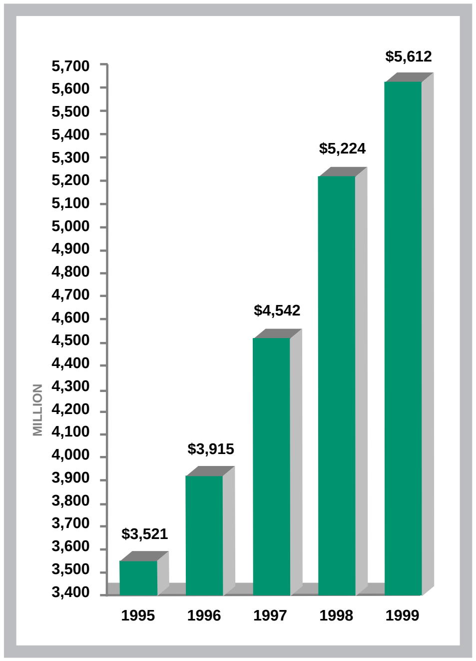
James C. Holly
President & Chief
Executive Officer

Charlie C. Glenn
Senior Vice President &
Chief Credit Officer

Management's Discussion & Analysis

of Financial Condition & Results of Operations (Continued)

Net Income



Bank of the Sierra for many years has countered this increasing competition by providing its own style of community oriented, personalized service which appears to be well received by the populace of the San Joaquin Valley, who appreciate a more personal and customer-oriented environment in which to conduct their financial transactions. In addition, however, to meet the needs of customers with electronic access requirements, the Bank has embraced the electronic age and installed telephone banking and personal computer and internet banking with bill payment capabilities. This high tech and high touch approach allows the individual to customize the Bank's contact methodologies to their particular preference.

Summary of Performance

The Bank's earnings increased during 1999 for the seventeenth consecutive year. Net income was approximately $5.61 million in 1999, an increase of $388,000 or 7.43% over 1998, and $1.07 million over 1997, while net income per share was $0.61 in 1999, as compared to $0.57 in 1998, and $0.49 in 1997. The Bank's Return on Average Assets (ROA) was 1.33% and Return on Average Equity (ROE) was 16.24% in 1999, as compared to 1.33% and 15.81%, respectively, in 1998, and 1.37% and 15.74% in 1997.

The Bank's Return on Equity has been under increasing pressure over the past three years, due to several factors. The primary factor is the Bank's desire to remain comfortably "well-capitalized" under regulatory guidelines, which enables a lesser rate paid on deposit insurance premiums and expedites the processing of applications for approval of new branch sites, among other things. Additionally, as a result of the implementation of SFAS 115, the Bank's reported capital base is greater than its common stock and retained earnings by $346,000 at December 31, 1999 as compared to $2.3 million and $1.5 million respectively, at December 31, 1998 and 1997. This additional reported capital changed the calculation bases for each of the reported periods. Without the SFAS 115 adjustment, the Bank would have reported a Return on Average Equity of 16.75% for 1999, 16.87% for 1998, and 17.04% for 1997.

During 1999, the Bank's net interest income grew 7.13% as compared to 1998, while it grew 5.50% for the period 1998 as compared to 1997, and 11.04% when one compares 1997 to 1996. While the Bank's prime rate increased three times during 1999, increasing competitive pressures have dampened the growth of loan interest and fee income. The Bank's loan growth developed during the third and fourth quarters of 1999, which allowed the Bank to slow costly deposit growth until later in the year; as a result the Bank's interest expense was reduced despite higher average volumes.

Since 1997, the Bank has opened five full service branch offices, and total assets have grown by 46.18% from $314 million at December 31, 1996 to over $458 million at December 31, 1999. At the current time, these newer branches hold deposits of $69 million, or about 66.82% of the Bank's total deposit increase during this three year period. In addition, these branches house about $43 million in loans, or approximately 44.24% of the Bank's net loan growth over the same period. These factors reflect the greater reliance on loan growth generated in credit specialty units, rather than deposit branches, over the past three year period. Although the Bank has historically generated increased business activity levels by providing community-oriented personalized service delivered from a traditional banking office in the local market, the ability to surround its core products with ag lending, real estate lending and Small Business Administration loan capabilities has substantially enhanced its ability to grow throughout the Central Valley Region.

Results of Operations

Net Interest Income and Net Interest Margin

During 1999 the Bank generated net income of $5.61 million as compared to $5.22 million in 1998, an increase of $388,000, or 7.42% over 1998, on a larger average asset base. The Bank earns income from two primary sources. The first is net interest income brought about by the successful deployment of earning assets less the costs of interest-bearing liabilities. The second is net non-interest income, which is generated by service charges and fees charged for services provided, less the operating costs of providing a full range of banking services to our customers.

Net interest income before provisions for loan losses for 1999 was $22.79 million, as compared to $21.27 million in 1998 and $20.16 million in 1997. This represents an increase of $1.51 million for 1999 over 1998, or 7.13%, and an increase of $1.10 million for 1998 over 1997, an increase of 5.50%. Net interest income is the difference between the interest income and fees earned on loans and investments, and the interest expense paid on deposits and other liabilities. The amount by which interest income exceeds interest expense depends on two factors: the volume and mix of earning assets as compared to that of interest-bearing deposits and liabilities, and the interest rates earned versus the interest rates paid on each component of the balance sheet portfolios. The Bank's net interest margin is the net interest income expressed as a percentage of earning assets.

The Bank's net interest margin before provision for loan losses has increased moderately over the past year due to rising national interest rates and in spite of more competitive market participants; it is quite strong at 5.97% for 1999, as compared to 5.92% for 1998, though less than the 6.68% for 1997.

The change in the Bank's net interest margin over the past three years is primarily attributable to the relative reduction in interest and fees earned on the Bank's loan portfolio over the term. The Bank's earning rate on the average loan portfolio for 1999 was 10.19% as compared to 10.82% in 1998 and 11.04% during 1997. The reduced earning rate during 1999 was as a result of generally lower rates of return on each segment of the loan portfolio, coupled with a greater preponderance of real estate secured loans, which have lower rates than other loan types more evident during 1998. This trend has been reflected in each of the last three years when one views the Distribution, Rate & Yield Table. In addition, interest-bearing deposit rates paid in 1999 were 3.93%, as compared to 4.41% and 4.24% during 1998 and 1997, respectively. The costs of borrowed funds were not significant in the overall costs of funds during each of the past three years, due to the low average volume in each of the periods under consideration. Further, investment rates did not change appreciably over the three year period ending December 31, 1999. Rates earned on investments were 5.47% during 1999, as compared to 5.39% and 5.43%, respectively, during 1998 and 1997.

The analysis reflected in the Table noted, shows that earning asset rates declined by 32 basis points, or 3.42% during 1999 as compared to 1998, and by 58 basis points, or 5.84% when 1998 is compared to 1997. By the same token, interest-bearing liability rates dropped 45 basis points, or 10.25% during 1999 as compared to 1998, and increased only 13 basis points, or 3.05% during 1998 as compared to 1997. For 1999 over 1998, reduced deposit pricing was a greater element in an enhanced net interest margin than were rates earned on the Bank's loan portfolio.

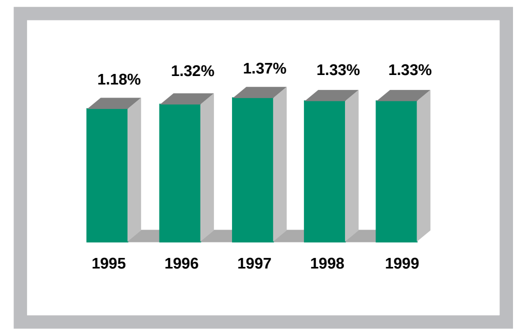
The Distribution, Rate & Yield Table shows, for each of the past three years, the rates earned on each component of the Bank's investment and loan portfolio: the rates paid on each segment of the Bank's interest-bearing liabilities; the amount charged to expense for the Bank's provision for loan losses; and the Bank's net interest margin after such provision. That same Table also shows the Bank's average daily balances for each principal category of assets, liabilities and stockholders' equity; the amount of interest income or interest expense; and the average yield or rate for each category of interest-earning asset and interest-bearing liability along with the net interest margin for each of the reported periods.

During 1999, the Bank's net interest margin was impacted by three primary items. First and foremost was the decline in interest and fees earned on the Bank's average loan portfolio, which was 9.79% larger than the average loan portfolio of 1998. The decline in interest rates paid by the borrower and reduced loan fees was due to the change in mix of the loan portfolio, and a greater proportion of lower yielding real estate secured loans. These loans carry a lower collateral value exposure, and are generally priced to reflect such diminished likelihood of risk. The second area of impact for the Bank's net interest margin was the reduction of interest rates paid on an average interest-bearing liability base that was 5.49% larger than that of 1998. The third area of impact was the increasing shift towards loans in the Bank's average mix of assets held. During 1999, loans averaged 75.64% of interest-earning assets, while during 1998 this average was 73.14%.

As a result of the change in distribution of average assets and the lesser rates garnered on loans coupled with lower deposit rates paid, the Bank's net interest margin increased moderately during 1999. It is expected that during 2000, the Bank will continue to re-deploy its resources towards a higher average volume of loans; however, higher cost deposit growth is likely to reduce the Bank's net interest margin.

During 1999, the Bank's average loan portfolio grew by $25.75 million, or 9.79% with real estate secured loans being the predominant portion of this growth, at $21.05 million, or 81.74%. The second most notable change in the average loan portfolio was the increase in commercial loans, which was $10.20 million or 39.64% of the net loan increase. These increases were partially offset by the average decline of $5.55 million in the credit card portfolio, due to the Bank's sale of its agent card program during 1998. As a result of the increase in less risk-weighted and lower interest rate real estate loans, the Bank's return on average loans outstanding has been reduced. It is anticipated that this decline will be reversed during 2000, as a result of the generally increasing prime rate, and the more recent growth of commercial loans in the Bank's portfolio; however, no absolute assurance can be given that this expectation will, in fact, occur over the next year. The general trend over the last three years has been towards a lower yielding loan portfolio. The mix of the portfolio towards greater levels of real estate secured loans has reduced the rates of return, but also competitive factors across the spectrum of lenders active in the market and the lower rates associated with increased competition, has affected the Bank's rates of return on new and renewing loans.

Return on Average Assets



The higher volume of average interest-bearing deposits is the second area of primary variance from 1998 as mentioned above. During 1999, average interest-bearing deposits grew $12.64 million, or about 4.66% over 1998, while for 1998 over 1997, such deposit growth was $45.61 million or about 20.24%. This growth was brought about by the Bank's entrance into new communities, and allowed the Bank to gain a customer base that would further support new marketing and sales efforts since these new branches were opened in 1997 and later years.

Although deposit rates paid were reduced during 1999 as compared to 1998, it is not expected that this trend will continue into the year 2000. With the increase in the prime rate over the last few months of 1999, the Bank has seen a more competitive deposit market and has noted substantial certificate rates increases over the same period. In fact, the competitive six-month certificate rate for a deposit of $2,500 was 4.40% in June of 1999, and at this writing in early March 2000 the rate for this deposit term

Distribution, Rate & Yield

(dollars in thousands)

Year Ended December 31,

	1999(a)			1998(a)			1997(a)		
Assets	**Average Balance**	**Income/ Expense**	**Average Rate**	**Average Balance**	**Income/ Expense**	**Average Rate**	**Average Balance**	**Income/ Expense**	**Average Rate**
Investments:									
Federal Funds Sold/Due from Time	$ 2,468	$ 174	7.05%	$ 22,652	$ 1,246	5.50%	$ 3,394	$ 175	5.14%
Taxable	$ 52,371	$ 2,898	5.53%	$ 40,287	$ 2,346	5.82%	$ 26,030	$ 1,533	5.89%
Non-taxable[1]	$ 34,759	$ 1,812	5.21%	$ 28,404	$ 1,506	5.30%	$ 24,160	$ 1,328	5.50%
Equity	$ 3,391	$ 90	2.65%	$ 5,232	$ 105	2.01%	$ 5,604	$ 179	3.19%
Total Investments	$ 92,989	$ 4,974	5.35%	$ 96,575	$ 5,203	5.39%	$ 59,188	$ 3,215	5.43%
Loans:[2]									
Agricultural	$ 15,847	$ 1,474	9.30%	$ 18,302	$ 1,828	9.99%	$ 14,071	$ 1,475	10.48%
Commercial	$ 44,786	$ 5,240	11.70%	$ 34,578	$ 4,307	12.46%	$ 30,661	$ 3,836	12.51%
Real Estate	$ 191,281	$ 18,517	9.68%	$ 170,231	$ 17,339	10.19%	$ 161,831	$ 17,021	10.52%
Consumer	$ 25,429	$ 2,831	11.13%	$ 23,039	$ 2,735	11.87%	$ 19,997	$ 2,369	11.85%
Credit Cards	$ 10,879	$ 1,475	13.56%	$ 16,438	$ 2,240	13.63%	$ 15,872	$ 2,095	13.20%
Other	$ 507	$ –	–	$ 388	$ –	–	$ 328	$ –	–
Total Loans	$ 288,729	$ 29,537	10.23%	$ 262,976	$ 28,449	10.82%	$ 242,760	$ 26,796	11.04%
Total Earning Assets[4]	$ 381,718	$ 34,511	9.04%	$ 359,551	$ 33,652	9.36%	$ 301,948	$ 30,011	9.94%
Non-Earning Assets	$ 38,953			$ 32,885			$ 29,273		
Total Assets	$ 420,671			$ 392,436			$ 331,221		

(Table continues and footnotes appear on following page)

and amount is 5.60%. Based on the steep increase in these deposit rates, it is unlikely that the Bank's trend towards lower rates paid on interest-bearing liabilities will continue during the year 2000.

Based on these indications and other current economic conditions, the Bank expects moderate changes in the rates paid on interest-bearing liabilities and rates earned on either the investment or loan portfolio during 2000. Net interest income is expected to increase during 2000, assuming loans and investments grow and there is no substantial increase in deposit rates. However, it is anticipated that the Bank's net interest margin will decline during 2000, as a result of increasing competitive pressure on loan rates, and generally higher deposit rates expected over the same term. Generally speaking, the most noticeable changes in Bank volumes for the year 2000 will be from the anticipated purchase during May 2000 of Sierra National Bank (SNB) and the four branches which comprise its customer base. At the current time, such deposits total approximately $85 million, and it is unknown exactly how much of the deposit base will be transferred at the time of the merger of SNB with and into Bank of the Sierra. It seems likely, however, that a major portion of the depositor base will find Bank of the Sierra's commitment to customer service and competitive deposit rates to their liking, and a substantial volume of SNB's deposit base would transfer to Bank of the Sierra – should this turn out to be the case, it is expected that the Bank's deposit base will grow approximately 25% in 2000, over the Bank's reported base of $385.8 million at December 31, 1999.

Non-interest Income and Non-interest Expense

As previously noted, the Bank earns income from two primary sources: net interest income and net non-interest income, the first of which has been discussed above. The primary traditional sources of non-interest income are service charges on deposit accounts, gains on sales of loans, loan servicing income and credit card fees. The service charges on deposit accounts and loan sales income for 1999 accounted for 56.83% and 15.64%, respectively, of non-interest income,

Distribution, Rate & Yield (continued)
(dollars in thousands)

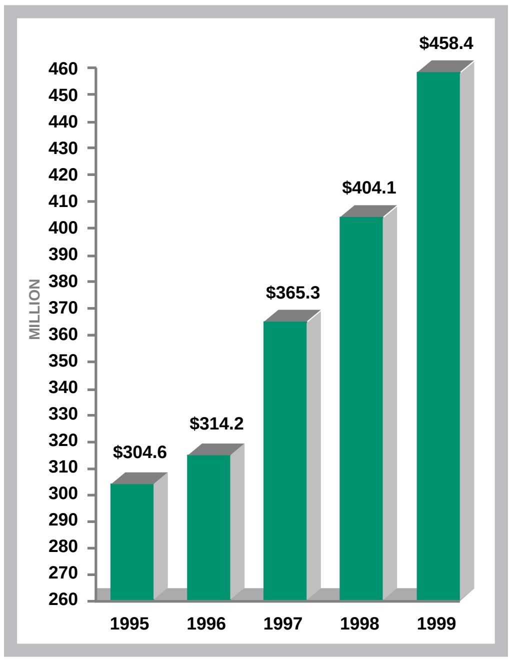
Year Ended December 31,

Liabilities and Shareholders' Equity	1999(a) Average Balance	1999(a) Income/ Expense	1999(a) Average Rate	1998(a) Average Balance	1998(a) Income/ Expense	1998(a) Average Rate	1997(a) Average Balance	1997(a) Income/ Expense	1997(a) Average Rate
Interest-Bearing Deposits:									
NOW	$ 35,413	$ 338	0.95%	$ 32,503	$ 297	0.91%	$ 29,532	$ 245	0.83%
Savings	$ 19,262	$ 357	1.85%	$ 16,809	$ 362	2.15%	$ 15,760	$ 333	2.11%
Money Market	$ 41,841	$ 1,171	2.80%	$ 32,932	$ 866	2.63%	$ 35,494	$ 988	2.78%
TDOA's and IRA's	$ 14,021	$ 633	4.51%	$ 13,012	$ 627	4.82%	$ 12,765	$ 590	4.62%
Certificates of Deposit < $100,000	$ 97,095	$ 4,876	5.02%	$ 105,147	$ 5,858	5.57%	$ 82,358	$ 4,588	5.57%
Certificates of Deposit > $100,000	$ 75,974	$ 3,779	4.97%	$ 70,565	$ 3,933	5.57%	$ 49,448	$ 2,817	5.70%
Total Interest-Bearing Deposits	$ 283,606	$ 11,154	3.93%	$ 270,968	$ 11,943	4.41%	$225,357	$ 9,561	4.24%
Borrowed Funds:									
Federal Funds Purchased	$ 281	$ 5	1.78%	$ –	$ –	–	$ 81	$ 5	6.51%
Repurchase Agreements	$ 10,321	$ 368	3.57%	$ 11,232	$ 435	3.87%	$ 3,504	$ 143	4.09%
Other Borrowings	$ 3,480	$ 194	5.57%	$ –	$ –	–	$ 2,154	$ 136	6.31%
Total Borrowed Funds	$ 14,082	$ 567	4.03%	$ 11,232	$ 435	3.87%	$ 5,739	$ 285	4.96%
Total Interest-Bearing Liabilities	$ 297,688	$ 11,721	3.94%	$ 282,200	$ 12,378	4.39%	$231,096	$ 9,846	4.26%
Demand Deposits	$ 83,766			$ 72,910			$ 68,480		
Other Liabilities	$ 4,655			$ 4,273			$ 2,783		
Stockholders' Equity	$ 34,562			$ 33,053			$ 28,862		
Total Liabilities and Stockholders' Equity	$ 420,671			$ 392,436			$331,221		
Interest Income/Earning Assets			9.04%			9.36%			9.94%
Interest Expense/Earning Assets			3.07%			3.44%			3.26%
Net Interest Margin(3)		$ 22,790	5.97%		$ 21,274	5.92%		$20,165	6.68%
Provision for loan losses charged to operations/earning assets		$ 2,118	0.55%		$ 2,800	0.78%		$ 2,013	0.67%
Net interest margin after provision for loan losses									
Net Interest Income after Provision for Loan Losses		$ 20,672	5.42%		$ 18,474	5.14%		$18,152	6.01%

(a) Average balances are obtained from the best available daily or monthly data.
(1) Yields on tax exempt income have not been computed on a tax equivalent basis.
(2) Loan fees have been included in the calcualtion of interest income. Loan fees were approximately $2,400,000, $2,000,000, and $2,200,000 for the years ended December 31, 1999, 1998 and 1997, respectively. Loans are gross of the allowance for possible loan losses, deferred fees and related direct cost.
(3) Represents net interest income as a percentage of average interest-earning assets.
(4) Non-accrual loans have been included in total loans for purposes of total earning assets.

as compared to 45.75% and 18.10%, respectively, for 1998. Loan servicing income and credit card fees for 1999 were 10.46% and 7.91% respectively, as compared to 9.75% and 10.32%, respectively, during 1998. The differences between the two periods are most noticeable in the change in the level of loan sales income, between the 1999 and 1998 periods reported. During 1999, the Bank sold approximately $31.5 million of its loan servicing portfolio, for a gain of about $331,000 and a portion of its Small Business Administration (SBA) loans for a gain of approximately $120,000. During 1998, the Bank sold about $5 million of credit card agent program accounts, for a gain of approximately $600,000. These two non-recurring activities increased non-interest income for each of the periods reported, and they are not expected to recur during the year 2000.

Total Assets



The primary source of non-interest income continues to be service charges on deposit accounts. The Bank's ratio of service charge income on deposit accounts to average transaction accounts (demand and interest-bearing NOW accounts) has moderately changed over the past three years, decreasing to 2.55% in 1999 from 2.64% in 1998, and 2.28% in 1997. This increase resulted from a higher percentage of collected non-sufficient funds charges, a higher level of collected versus waived activity charges, and a lesser number of service charge free accounts.

Loan sales and servicing income has remained a strong portion of the Bank's overall non-interest income (approximately 26.11% of such income during 1999, as compared to 26.83% during 1998). As a result of the portfolio sales noted previously, it is anticipated that the level of servicing income will decline during the year 2000, to be partially offset by increased levels of individual real estate loan sales during the year, which will enhance loan servicing income in subsequent periods.

Credit card fees during the period under review have decreased both on a volume basis and as a percentage of non-interest income to 7.91% during 1999 from 9.23% in 1998. After the sale of approximately $5 million of credit card receivables during the fourth quarter of 1998, the volume of credit card fees declined by about 25% during 1999, and will comprise an even lesser percentage of non-interest income for subsequent periods.

The primary variance in other operating income when one compares 1999 to 1998, is the sale of a portion of Sierra Phoenix's Phoenix International stock, which provided a gain of approximately $650,000 during 1998.

The Bank has striven to increase its fee income, just as other financial institutions have undertaken the same task over the last few years, to mitigate the effects of a decreasing net interest margin. Based on the Bank's efficiency ratio of 61% for 1999 and 60% for 1998, as compared to the 55% and lower ratios of certain major financial institutions, it is expected that this activity will continue for the foreseeable future.

The Bank's total non-interest expense increased to $17.63 million in 1999 from $16.38 million in 1998 and $15.46 million in 1997. The overall increase in non-interest expenses was brought about by growth in three primary areas. The first was the increase in number of the Bank's operating units and the concurrent increase in personnel costs. The second was the increase in the Bank's occupancy expenses as the result of opening additional offices, and the third was the increase in advertising and marketing provided for an expanded customer base.

During 1999, the Bank opened two new branch offices in Hanford and Fresno and increased staff accordingly. While searching for qualified lending officers, the Bank discovered that its salary scale was below that of other financial intermediaries with similar staff profiles. As a result, the Bank enhanced its salary and benefit levels for professional staff during 1999 to approach competitive levels in our marketplace. These increases comprise a portion of the overall increase in personnel costs during 1999, in addition to those costs assumed in staffing two full service branches in the cities of Hanford and Fresno. Although the number of staff members has increased over each of the past three years, these costs remained relatively constant at slightly over 2% of average earning assets, representing 2.32% of average earning assets in 1999, as compared to 2.25% during 1998 and 2.48% during 1997. Generally speaking, as the Bank's branch network grows, salaries and employee benefits are expected to remain a fairly high percentage of cost as we plan ahead, and then grow into the various facilities we have opened. As each new facility matures and gains greater market share, such personnel costs would become a smaller factor as regards revenue per location; however, this assumes a relatively constant growth pattern. This has not been the history of the Bank, which has traditionally seized opportunities when presented, rather than rely on a stratified and structured approach to increasing Bank size and market share.

Based on the anticipated merger of SNB with and into Bank of the Sierra, it is anticipated that personnel costs will rise significantly during the year 2000, as will occupancy expenses and advertising and marketing costs to support the addition of four customer service branches. It is further expected that the Bank's other costs of operation would increase with the addition of these four branch offices as would the Bank's level of interest and non-interest income; and the year 2000 results would reflect substantive changes in the Bank's balance sheet and statement of operations.

During each of the three years ended December 31, 1999, occupancy and furniture and equipment expenses were about 0.8% of average earning assets and comprised approximately 17% of total non-interest expenses. As the Bank has opened new branches throughout the Central Valley, occupancy costs have risen commensurately, based on new facilities and the costs associated with furniture, fixtures, equipment and technology required to support additional staff. Since technology has become such an important element of labor efficiency and the level of service provided, the centralized service staff required to support a distributed client-server system is also a factor in the Bank's generally higher cost structure compared to similar sized Bank's with outsourced technology providers. For the foreseeable future, with the likely addition of four additional branches during the year 2000, it is expected that occupancy and technology costs will continue to increase as a portion of overall Bank expenses.

The third most notable area of increase in the Bank's other operating costs concerns advertising, community support, donations and business development expenses required to support a multi-community, regional Bank. The Bank's prior history of growth in smaller community markets has not been the case over the past two years, as branches in the larger cities of Bakersfield, Fresno and Hanford have been established. These branch offices, in separate and distinct new communities from those offices previously established in Tulare County, have required a more extensive recognition campaign than those previously undertaken by the Bank, where referrals were more the norm in contiguous markets. These three new branches, in separate counties with larger regional media outlets, have required different name and image distribution methodologies than those previously employed by the Bank; this is expected to continue as the anticipated purchase of Sierra National Bank occurs during the year 2000.

Provision for Loan Losses

Credit risk is inherent in the business of making loans. The Bank sets aside an allowance or reserve for loan losses through charges to earnings. The charges are shown in the income statements as provisions for loan losses, and specifically identifiable and quantifiable losses are immediately charged off against the allowance.

The Bank's loan loss history and provision for loan losses during 1999 was a departure from the norm for the Bank, which has primarily experienced loan losses in the consumer, credit card and commercial loan area, rather than the agricultural loan area, as was the problem during this past year. These loan losses were greatly influenced by the freeze of 1998, and resultant crop problems associated with that meteorological event.

The Bank's provision for loan losses over the past three years has been greatly influenced by nationwide consumer bankruptcies, which are felt primarily in the Bank's unsecured credit card portfolio. These bankruptcies have caused the Bank to charge off a large volume of credit card accounts. The procedures for monitoring the adequacy of the allowance, as well as detailed information concerning the allowance itself, are included below under "Allowance for Possible Loan Losses".

Income Taxes

As indicated in Note 8 in the Notes to the Consolidated Financial Statements, income tax expense is the sum of two components, namely, current tax expense and deferred tax expense. Current tax expense is the result of applying the current tax rate to taxable income. The deferred portion is intended to reflect that income on which taxes are paid differs from financial statement pre-tax income due to the fact that some items of income and expense are recognized in different years for income tax purposes than in the financial statements. These recognition anomalies cause "temporary differences"; eventually, all taxes due are paid.

Most of the Bank's temporary differences involve recognizing substantially more expenses in its financial statements than it has been allowed to deduct for taxes, and therefore until 1997 the Bank normally had a net deferred tax asset. However, at December 31, 1998 a deferred tax liability was largely created by the unrealized gain on the Bank's "available-for-sale" equity investment portfolio, primarily due to an investment in Phoenix International, LTD, Inc. (Phoenix Int'l.) stock. (See discussion under "Investment Portfolio" below.) At December 31, 1999 this portion of the Bank's deferred tax liability was reduced by almost $1.2 million as a result of the decline in value of the Bank's investment in Phoenix Int'l. Due to this change in value, the Bank is reporting a deferred tax asset for the period ending December 31, 1999.

The Bank's income tax expense is also affected by the extent of tax-exempt securities income, as a result of the Bank's investments in state, county and municipal bonds. This income tax-exempt portion of the portfolio averages 36% of the total investment portfolio and is designed to allow long-term asset/liability planning, as well as providing funds to our local communities for their bank qualified debt issues.

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on other companies. Banks, as financial intermediaries, have assets and liabilities that tend to move in concert with inflation both as to interest rates and value. This is especially true for the Bank, with a high percentage of interest rate-sensitive assets and liabilities. A bank can reduce the impact of inflation if it can manage its interest rate sensitivity gap. The Bank attempts to structure its mix of financial instruments and manage its interest rate sensitivity gap in order to minimize the potential adverse effects of inflation or other market forces on its net interest income and therefore its earnings and capital. (See "Interest Rate Risk Management" below.)

Inflation has been moderate for the last several years and has had little or no effect on the financial condition and results of operation of the Bank during the periods discussed herein.

Financial Condition

A comparison between the summary year-end balance sheets for 1999 through 1995 was presented previously in the table of Selected Financial Data. As indicated in that table, the Bank's total assets, loans, deposits and stockholders' equity have each grown over the past five years, with asset growth averaging approximately 10% per year. During the same period, average loan growth was over 11%, while average deposit growth was slightly over 10%, and stockholders' equity grew at an average rate of approximately 15% per year.

The story of the Bank's growth correlates closely over each of the past five years with the establishment of new branch offices during that period, as noted in the Selected Financial Data Table. There was moderate growth during 1996, but during 1997 when the Dinuba and Bakersfield branches were added, growth was more notable, as was growth in 1998 when the Tulare office was opened, and again in 1999 with the opening of both the Hanford and Fresno offices. These newer branches opened since 1997 currently house about $68.5 million in deposits, representing approximately 66% of the Bank's deposit growth since December 31, 1996.

The following discussion of the financial condition of the Bank is segmented into earning assets, comprised of loans and investments; and non-earning assets, comprised of cash and due from banks, and premises and equipment. Each is discussed in relation to its particular volume, rates of change and significance as regards the overall activities of the Bank.

Average assets during 1999 were $420.7 million as compared to $392.4 million during 1998, an increase of $28.3 million, or 7.2%. Average deposits during 1999 were $367.4 million, as compared to $343.9 million for 1998, an increase of $23.5 million, or 6.83%. Average gross loans for 1999 totaled $288.7 million, as compared to $263.0 million in 1998, an increase of $25.7 million, or 9.77%. During the period of comparison for the changes from 1997 to 1998, average assets increased from $331.2 million to $392.4 million, while average deposits grew (resulting largely from the opening of the new branches discussed above) from $293.8 million to $343.9 million over the same period representing increases of 18.5% and 17.0%, respectively. Average gross loans increased over the same period, from $242.8 million to $263.0 million, an increase of $20.2 million, or 8.3%.

Loan growth over the past three years has been rather sporadic due to the slower economy in the Central Valley. As a result, the Bank has tailored its deposit growth strategies to meet the loan growth periods, and allowed certificates of deposit to grow or decline based on the available extent of earning assets. This strategy has allowed the Bank to maintain a strong net interest margin in periods of rising and falling interest rates. Further, the types of loan growth in the Bank's immediate market have been oriented towards real estate lending, both commercial and professional buildings, and single family dwellings. As a result, these two areas have comprised the major portion of Bank loan growth over the past few years.

Earning Assets

Loan Portfolio

The Bank's loan portfolio represents the largest single portion of invested assets, substantially greater than the investment portfolio or any other asset placement category. At December 31, 1999, gross loans represented 69.27% of total assets, as compared to 68.2% and 71.7% at December 31, 1998 and 1997, respectively. The quality and diversification of the Bank's loan portfolio are important considerations when reviewing the Bank's results of operations.

The Selected Financial Data Table reflects the net amount of loans outstanding at December 31 for each year between 1995 and 1999. Note 3 to the Consolidated Financial Statements sets forth the amount of the Bank's total loans outstanding in each category at the dates indicated. The amounts shown in the table are gross figures, which include deferred or unamortized loan originations, extensions, and commitment fees and the associated costs for loans in that category.

Loan Composition

As reflected in the Selected Financial Data Table, loan volumes have increased about $110 million over the last five years, with a major portion of the loan volume increases being reflected during 1997 and 1999. During 1998, the Bank sold certain real estate loans, had a heavy volume of commercial loan payoffs and sold its agent credit card portfolio. As a result, loan volumes grew by a modest 4.9% during the year ended December 31, 1998. During 1999, the Bank slowed its sales of real estate loans, more aggressively sought participations from correspondent banks and initiated the use of marketing support technologies to locate and target likely prospects for increased lending volumes. Generally speaking, each of these endeavors has been successful, and as a result the Bank's loan growth in 1999 over 1998 was $43.55 million, or approximately 16.08%, as opposed to the modest growth reported in the prior year. As also reflected in Note 3 to the Consolidated Financial Statements, the relative distribution of the Bank's real estate loan portfolio has not changed appreciably over the past two years. However, the greatest volume of growth is reflected in real estate secured loans which increased by $38.16 million, or about 21.53% representing about 87.63% of overall loan growth. Such real estate loans have comprised over half of all lending volume during the last few years, and are centered primarily in commercial oriented projects, which comprise 35.92% of total loans. As noted previously, real estate secured lending is an important part of the Bank's focus, and is likely to remain so for the immediate future.

Agricultural production lending, while important to the product line of the Bank, represents only about 4.75% of the overall portfolio, while longer term real estate secured farmland lending represents an additional 5.12% of total loans outstanding. Based on these two amounts, agriculturally oriented lending approximates 10% of total Bank lending activities.

The decline in agricultural loans over the last year has been due to three primary factors, one of which was weather related with the December 1998 freeze and a very wet spring delaying planting, and the second was reduced olive processing capabilities in the immediate market area. The third reason concerns the Bank's strategic withdrawal from financing production lines where year-to-year cash flow variations impede a borrower's ability to meet contractual terms of repayment. With uncertain commodity prices, our borrowers have faced declining equity in farming operations, and some are removing themselves from farming by selling land for housing development.

Commercial and industrial loans (including SBA loans) at December 31, 1999 represented about 15.43% of all loans and are centered in locally oriented commercial activities in the markets where the Bank has a presence. On September 9, 1998, Bank of the Sierra was named #1 Small Business Friendly Lender in California for 1997, by the Office of Advocacy of the Small Business Administration. This award is made to financial institutions whose loan portfolio shows a propensity of lending to small businesses (defined as a commercial loan under $1 million, with a focus on small business loans under $250,000). This award lends credence to the Bank's success in meeting the needs of smaller business owners in the communities in which the Bank conducts its banking activities.

Additionally, the Bank is very active in specific SBA program lending, and has a loan staff dedicated to that particular government guaranteed lending program. As is reflected in Note 3 to the Consolidated Financial Statements, this area of lending activity increased by 55.59% from $4.62 million in 1998 to $7.19 million at December 31, 1999, and now comprises 2.26% of total loans. The Bank is also an SBA Preferred Lender, which allows greater flexibility to meet small business loan requests, with a more timely credit approval process.

Consumer loans represented 8.65% of total loans outstanding at December 31, 1999, and consist primarily of automobile and unsecured lines of credit, which have gained popularity for their ease of use. The Bank has encountered a great deal of competition for consumer lending activities, and has developed a program for lending to people, rather than lending on things. As a result, relationship lending has increased as a portion of overall consumer credit, and is exemplified by home equity lines, other revolving consumer credit facilities and credit card lines. However, a great deal of consumer credit is now granted in the form of home equity lines, which allow a more favorable treatment for interest costs. As a result, consumer credit separately reported is only for term debt and unsecured lines, not inclusive of home equity lines, a more growth oriented category. Such consumer oriented debt, secured by home equity, is captured within the total reported for real estate loans secured by residential property.

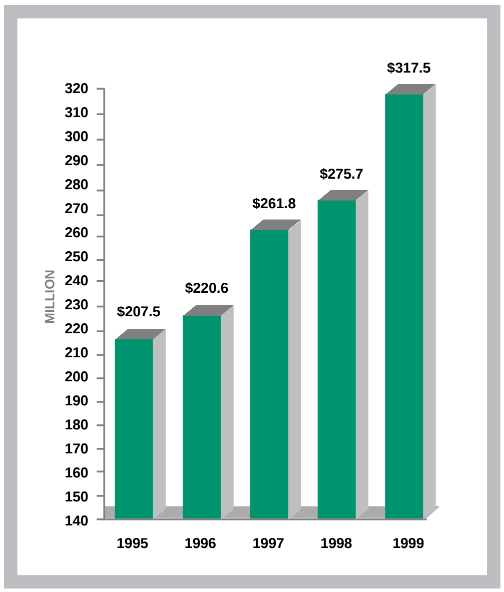
Credit card loans were almost 7% of total loans at December 31, 1997 but were reduced to about 4% of total loans at December 31, 1998, and are 3.36% of total loans at December 31, 1999. During 1998, the Bank sold its agent bank program participant loans to another servicer. This fifteen bank program had represented about 30% of total credit card loans outstanding. This program allowed fifteen other banks the capability of offering VISA credit cards to their customers without undertaking processing-related activities or incurring credit risk. The Bank's affinity program allows profit or non-profit groups or entities the same packages of services. The Bank customized the underwriting standards and revenue sharing arrangements with each affinity program member, and issues a credit card emblazoned with the group's design. This approach allows the program participant to appear as if they were the card issuer, enhancing recognition within their community of customers. The Bank still retains five affinity card program participants, which at December 31, 1999 represented less than one-third of outstanding credit card loans. Although average credit card loans have been reduced by 33.82% between 1998 and 1999, it is likely that with the anticipated purchase of SNB and the solicitation of that customer base coupled with a product program during the year 2000, this segment of the Bank's loan product group will again increase over the next year, although no assurance can be given that this will, in fact, occur.

Another portion of the Bank's loan business which is not readily apparent from the loan volumes presented in Note 3 to the Consolidated Financial Statements is that of residential real estate loans which are generated internally by the real estate mortgage loan department and then sold in the secondary market to government sponsored enterprises or other long-term lenders. The Bank has consistently been among the largest real estate mortgage lenders in Tulare County for the past ten years. During 1999, the Bank originated and sold more than 600 such loans with aggregate balances of approximately $41 million. Further, the Bank originates and sells agricultural mortgage loans to certain other investors. These loans numbered 242 and servicing of these loans totaled $90.4 million in volume as of December 31, 1999. Total loans serviced for others numbered 1,780 with servicing totals of $208.0 million at December 31, 1999, as compared to 1,700 loans with gross receivables of $220.8 million in 1998, and 2,020 loans with total receivables of $256.7 million in 1997.

In the usual course of business, the Bank makes commitments to extend credit as long as there are no violations of any condition established in the contractual arrangement. Total commitments to extend credit were $136 million at December 31, 1999 as compared to $115 million at December 31, 1998. These commitments represented 32% and 30%, of outstanding gross loans at December 31, 1999 and 1998, respectively, net of credit card lines available which were $33 million and $31 million, at December 31, 1999 and 1998, respectively. The Bank's stand-by letters of credit at December 31, 1999 and 1998 were $7.3 million and $7.0 million, respectively, which represented approximately 6% of total commitments outstanding at the end of each of the reported periods.

Because the Bank is not involved with chemicals or toxins that might have an adverse effect on the environment, its primary exposure to environmental legislation is through its lending activities. The Bank's lending procedures include steps to identify and monitor this exposure to avoid any significant loss or liability related to environmental regulations.

Total Loans



Non-performing Assets

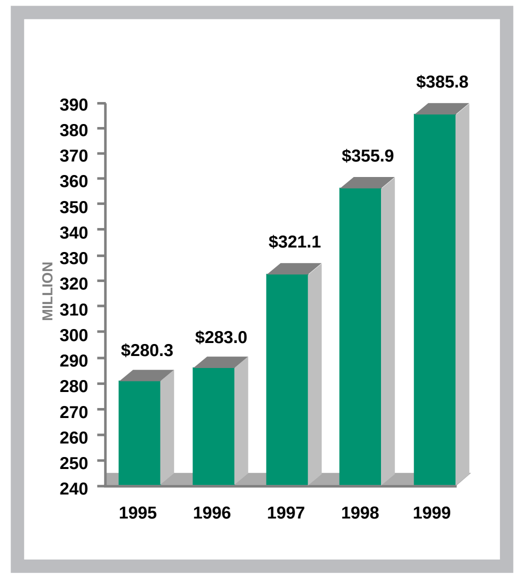
Non-performing assets are comprised of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a deferral of interest or principal and other real estate owned ("OREO"). Loans are generally placed on non-accrual status when they become 90 days past due unless management believes the loan is adequately collateralized and in the process of collection. Loans may be restructured by management when a borrower has experienced some change in financial status causing an inability to meet the original repayment terms and where the Bank believes the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means that management intends to offer for sale.

Management's classification of a loan as non-accrual or restructured is an indication that there is reasonable doubt as to the full collectibility of principal or interest on the loan; at this point, the Bank stops recognizing income from the interest on the loan and reverses any uncollected interest that had been accrued but unpaid. These loans may or may not be collateralized, but collection efforts are continuously pursued.

The Non-performing Assets Table provides information with respect to components of the Bank's non-performing assets at the date indicated.

Non-performing loans as a percentage of total gross loans decreased substantially during 1999 to 0.28% as compared to 1.43% at December 31, 1998, a decrease of 80%. During 1999, two previously identified agricultural credits were charged-off, substantially reducing the 1998 level of non-performing loans. A continuing portion of non-performing loans is due to the still high level of consumer bankruptcies, causing credit card loan losses and a high level of non-performing credits in this relatively small portion of overall Bank loans. Although the Bank's overall level of non-performing loans declined substantially, the level of OREO doubled during 1999 from $1.2 million at December 31, 1998 to $2.6 million at December 31, 1999. This increase was the result of aggressive collection activities undertaken over the last year to resolve problem and non-accrual credits.

Total Deposits



As a result of the reduction in non-performing loans, which was partially offset by the increase in the level of OREO, the Bank's overall level of non-performing assets declined from 1.88% at December 31, 1998 to 1.08% at December 31, 1999. At December 31, 1999, the Bank had no substantive credits where the borrower's ability to comply with contracted repayment terms was in doubt.

Allowance for Possible Loan Losses

Credit risk is inherent in the business of extending credit, and the Bank sets aside an allowance or reserve for loan losses through charges to earnings. The charges are reflected in the income statement as the provision for loan losses. The specifically identifiable and quantifiable losses are immediately charged off against the allowance.

The Bank formally assesses the adequacy of the allowance on a quarterly basis. This assessment is comprised of: (i) reviewing the adversely graded, delinquent or otherwise questionable loans; (ii) generating an estimate of the loss potential in each such loan; (iii) adding a risk factor for industry, economic or other external factors; and (iv) evaluating the present status of each loan and the impact of potential future events.

This process involves judgmental discretion, and eventual losses may therefore differ from even the most recent estimates. Due to these limitations, the Bank assumes that there are losses inherent in the current loan portfolio which will be sustained, but which have not yet been identified. The Bank therefore maintains the allowance at an amount larger than the amount considered adequate based solely on the assessment process described above.

The Allowance for Loan Losses Table summarizes, for the periods indicated, loan balances at the end of each year and daily averages during the period; changes in the allowance for loan losses arising from loans charged-off, recoveries on loans previously charged-off, additions to the allowance which have been charged to operating expense, and certain ratios relating to the allowance for loan losses.

An analysis of the charges in the allowance for loan losses, including charge-off and recoveries by category, is presented in the Allowance for Loan Losses Table. At December 31, 1999 the allowance for loan losses totaled $3.32 million and represented 1.05% of outstanding gross loans, as compared to $4.4 million or 1.59% of gross loans at December 31, 1998. The provision (expense) for loan losses was $2.1 million for the year ended December 31, 1999 as compared to $2.8 million in 1998. During the past four years the Bank has had a significantly higher provision for loan losses than in the past. This is a result of the Bank's substantial loan growth, the Bank's enhanced internal loan grading system and the high number of personal bankruptcies which have primarily affected the Bank's credit card portfolio.

Further, the Bank's independent loan review consultants, as well as the Bank's external auditors, the FDIC and the California Department of Financial Institutions review the allowance for loan losses as an integral part of their examination processes. The regulatory agencies may require additions to the allowance based on their judgment about specific loans, based on information available at the time of their examinations.

In light of deteriorating agricultural conditions, a slow economy and continuing consumer bankruptcies, the Bank has strengthened the credit process by reducing the size of the largest loans it would be willing to underwrite, revising certain credit policies to address deterioration of asset quality and standardizing credit granting criteria. As the Allowance for Loan Losses Table reflects, except for the increase in ag loan charge-offs during 1999, credit card losses represent the largest single element of total loan losses over the past five years, comprising 45.25% of all loan losses for the five years ended December 31, 1999. These losses have arisen primarily from one affinity group portfolio, which has been greatly reduced in size and numbers of accounts over the past two years. In addition, the Bank has enhanced underwriting standards with respect to all credit card programs, and has re-priced some of the plans within this portfolio group.

Although management believes the allowance is adequate to absorb losses as they arise, there can be no assurance that the Bank will not sustain losses in any given period which could be substantial in relation to the size of the allowance.

Investment Portfolio

The major components of the Bank's earning asset base are the investment securities portfolio and the loan portfolio. The structure and composition of these two portfolios are very significant to any analysis of the financial condition of the Bank. The loan portfolio analysis has previously been addressed.

Since implementing Financial Accounting Standards Board Statement 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) on December 31, 1993, the Bank has classified its investments into two portfolios: those held-to-maturity and those available-for-sale. In addition, while SFAS 115 also provides for a trading portfolio classification, the Bank has no investments which are so classified. The held-to-maturity portfolio consists only of investments that the Bank has both the intention and ability to hold until maturity, to be sold only in the event of concerns with an issuer's creditworthiness, a change in tax law that eliminates their tax exempt status or other infrequent situations as permitted by SFAS 115. The Bank's held-to-maturity group primarily consists of long-term tax exempt obligations and certain pledged treasury and agency issues.

The Bank's investment portfolio is composed primarily of: (1) U.S. Treasury and Agency issues for liquidity; (2) state, county and municipal obligations which provide limited tax free income and pledging potential; and (3) other equity investments. The relative distribution of these groups within the overall portfolio has not varied appreciably over the past few years, except for a decrease in Treasuries and the increased volume of the equity portfolio. The increase within the equity portfolio is due to a greater ownership of stock in the Federal Home Loan Bank, as well as an investment in Phoenix Int'l, which is the vendor from whom the Bank's integrated data processing system was purchased during 1994. At December 31, 1999, this investment, with an adjusted cost basis of approximately $250,000, had a market value of about $926,000, a substantial reduction of its $3.5 million market value at December 31, 1998. As a result of certain changes in Federal laws and regulations, the Bank was required to form a wholly owned subsidiary, Sierra Phoenix, Inc. ("Sierra Phoenix"), in 1996 to hold this investment for the Bank. As a result, this investment is reflected in the Consolidated Financial Statements of the Bank, but the Bank does not own the investment directly. The Bank has no stated intention to dispose of this equity investment at any time in the immediate future.

The Bank's available-for-sale group consists primarily of U.S. Treasury and Agency securities which could be sold for liquidity needs and asset/liability concerns, with original maturities normally up to five years from the date of purchase. In addition, this group includes equity investments, the largest of which are the Federal Home Loan Bank of San Francisco and Phoenix Int'l. In addition, the Bank holds equity investments in Pacific Coast Bankers Bancshares, California Economic Development Lending Initiative, Community Bankers Insurance Agency, LLC, and Farmer Mac. The Farmer Mac investment is a required element to allow the Bank to sell certain agricultural loans to this quasi-governmental agency, whereas the Bank's Phoenix Int'l investment arose from its use of their integrated banking software. The latter investment increased significantly in value after the firm's initial public offering in July 1996. This security is currently listed on Nasdaq as PHXX, and although it was a significant portion of the Bank's SFAS 115 mark-to-market investment portfolio gain, no assurance can be given that the value of this equity investment will continue to be a significant element. The Bank's interest in Phoenix Int'l was transferred to Sierra Phoenix in January 1997.

Note 2 of the Notes to Consolidated Financial Statements reflects the amortized cost and fair market values for the total portfolio for each of the categories of investments for the past three years, and Note 2 to the Consolidated Financial Statements summarizes the maturity characteristics of each of these categories. Expected remaining maturities may differ from remaining contractual maturities because obligors may have the right to prepay certain obligations with or without penalties. There are no obligations originated by individual issuers which are held by the Bank which are in excess of 10% of the stockholders' equity of the Bank, except as noted below.

The investment portfolio serves the following purposes: 1) it provides liquidity to even out cash flows from the loan and deposit activities of customers; 2) it provides a source of pledged assets for securing public deposits and borrowed funds; 3) it provides a large base of assets, the maturity and interest rate characteristics of which can be changed more readily than the loan portfolio to better match changes in the deposit base and other funding sources of the Bank; 4) it is an alternative interest-earning use of funds when loan demand is light; and 5) it can provide partially tax exempt income.

Total investments were $92.9 million at December 31, 1999, an increase of $9.1 million or 10.89% from December 31, 1998. The most noticeable difference in the portfolio during 1999 has been the increase of held-to-maturity investments, rather than available-for-sale investments. Total held-to-maturity investments increased by 22.21% from 1998 to 1999, whereas total available-for-sale investments decreased by 10.63% over the same period, largely due to a decline in the market value of equity securities. This change in the relative mix of the portfolio in the percentage of total investments in the held-to-maturity category, from 63.40% of the portfolio at December 31, 1998 to 69.87% of the investment portfolio at year-end 1999, reflects the Bank's desire to hold more investments to maturity, and the increased level of pledged investments which are used to support borrowing at the FHLB, local agency public deposits and securities sold under repurchase agreements to commercial depositors. The Bank traditionally holds all investments until their call or maturity. Liquidity needs are generally met by deposit growth or other liability funding, hence a greater preponderance of investments in "held-to-maturity" is more likely in the Bank's overall investment portfolio. In addition there has been a notable increase in the level of taxable investments (treasury and agency securities), which were 63% of the Bank's total average investments during 1999 as compared to 52% during 1998, and 48% during 1997.

Securities pledged as collateral on repurchase agreements, public deposits and for other purposes as required or permitted by law were $63.2 million and $53.1 million, for December 31, 1999 and 1998, respectively.

Non-Earning Assets

Cash and Due From Banks

Cash on hand and balances due from correspondent banks represent the major portion of the Bank's non-earning assets. At December 31, 1999 these areas comprised 6.85% of total assets and 64.72% of total non-earning assets, compared to 6.07% of total assets and 70.43% of non-earning assets at December 31, 1998. While these amounts appear to be a high percentage of total non-earning assets, at December 31, 1999 the Bank held approximately 20% more cash than would normally be the case, as a result of Y2K preparedness. The Bank, like other financial institutions, increased ATM, teller and vault cash levels, in addition to correspondent Bank cash levels, in preparation for Y2K customer withdrawals. Although customer demands for cash did increase somewhat over the last few days before the century date roll over, no material differences in cash requests were noted between December 31, 1999 and other end-of-month periods.

The Bank's operating branches lie at the southern extremity of the Federal Reserve Bank (FRB) of San Francisco's responsibility area of check clearing activities, while the Bank's item processing activities are performed in the Bakersfield locale, which is within the FRB's Los Angeles Branch Office's responsibility area. As a result, a greater volume of the Bank's balances with correspondent banks have been uncollected funds, and therefore due from bank balances have traditionally been greater than similar size institutions in more metropolitan areas where collection activity is more regionalized.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to income over the estimated useful lives of the assets and leasehold improvements are amortized over the terms of the related lease, or the estimated useful lives of the improvements, whichever is shorter. Depreciation expense was $1.6 million for the year ended December 31, 1999 as compared to $1.7 million during 1998.

As reported in Note 4 of the Notes to Consolidated Financial Statements there have been substantial changes in the level of investment in premises and equipment at December 31, 1999 as compared to December 31, 1998. Land and buildings increased with the addition of the Hanford and Fresno branches and additional computer hardware and new furnishings were placed in service for these two locations, increasing furniture and equipment categories. The Bank's overall investment in land, premises and equipment increased by $3.4 million during 1999 or 20.9%. With the anticipated addition of four Sierra National Bank branches during 2000, it is expected that this will bring about additions of approximately $3.0 million to total gross premises and furniture, fixtures and equipment.

Deposits

The Bank's deposit volumes for each of the past two years have exhibited characteristics brought about by less aggressive deposit pricing. Given the moderate growth of average loans from 1997 to 1998 and the Bank's lower deposit levels during the same period, management did not feel the need to substantially expand the Bank's deposit gathering activities for any identifiable purpose. During 1999, the Bank's loan growth accelerated due to the three factors previously noted in the loan composition narratives; however, such loan growth was primarily exhibited during the last half of the year. As a result, deposit growth lagged behind loan growth, and deposit pricing was not aggressive until the third and fourth quarters of 1999.

Year-end 1999 volumes increased approximately $30 million over the previous year, however, as may be seen in the Distribution, Rate & Yield Table, interest rates paid on interest-bearing accounts declined by about 48 basis points. The growth from December 31, 1998 to December 31, 1999 was approximately 8.41%, and the deposit growth from the two new branches opened during 1999 accounted for 44.84% of the increase in deposits.

An important component in analyzing net interest margin is the composition and cost of the Bank's deposit base. Net interest margin is improved to the extent that growth in deposits can be focused in the less volatile and somewhat more traditional core deposits, which are non-interest-bearing demand, NOW, savings and money market deposit accounts.

The average rate paid on interest-bearing deposits declined to 3.93% for the 1999 year from 4.41% for the year ended December 31, 1998. As noted above, the Bank's loan and deposit growth tended to accelerate towards the end of 1999. Concurrently, the increase in the prime rate and deposit rates brought about a narrowing interest margin and a greater reliance on borrowed funds, at slightly higher costs, to support the Bank's increased loan level. As a result, it is unlikely that during the year 2000, the Bank will report an interest-bearing liability expense rate lower than the 3.94% that is reported for 1999. Further, it is expected that the Bank's net interest margin at 5.97%, will decline during the next year as a result of higher funding costs.

Potentially, the most volatile deposits in a financial institution are the large certificates of deposits, those generally over $100,000. Because these deposits (particularly when considered together with a customer's other specific deposits) may exceed FDIC insurance limits, depositors may select shorter maturities to offset perceived risk elements associated with deposits over $100,000. The Bank's community-oriented deposit gathering activities in the central San Joaquin Valley, however, has engendered a less volatile than usual base of depositor certificates over $100,000. The Bank has not found these certificates to be exceptionally volatile because it does not solicit deposits from brokers, nor has it encouraged these certificates by paying premium interest rates. The preponderance of maturities of jumbo deposits are within the three-to-twelve months time frame, and most of the customer accounts have been with the Bank for over two years, limiting such deposit volatility.

In addition to the deposit liabilities available in the local market, the Bank provides a non-deposit cash management product to its commercial business customers. This product group is categorized as a non-deposit "sweep account," and at December 31, 1999, the Bank's financial statements reflected $8.6 million in repurchase agreements, which represent such "sweep accounts." At December 31, 1998, the Bank's financial statements reflected approximately $9.9 million in repurchase agreements, secured by pledged investments held segregated from the Bank's own securities portfolio. This volume was $10.7 million at December 31, 1997.

Short-Term Borrowings

The Bank utilizes short-term borrowing to fund loan growth when longer-term deposit growth has not kept pace with customer loan requests. In addition, short-term borrowings may be used to purchase additional investments when anticipated maturity dates are near term or when additional liquidity is required to support higher customer cash utilization levels, as was the case at December 31, 1999 due to Y2K considerations.

Short-term borrowings are overnight advances from the Federal Home Loan Bank of San Francisco (FHLB) and securities sold under repurchase agreements, which generally mature in one day, and are detailed in Note 6 of the Notes to Consolidated Financial Statements.

Capital Resources

The Bank uses a variety of measures to evaluate capital adequacy. Management reviews various capital measurements on a monthly basis and takes appropriate action to ensure that such measurements are within established internal and external guidelines. The external guidelines, which are issued by the FDIC, establish a risk-adjusted ratio relating capital to different categories of assets and off-balance-sheet exposures. There are two categories of capital under the FDIC guidelines: Tier 1 and Tier 2 Capital. Tier 1 Capital includes common stockholders' equity less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on securities available-for-sale, which are carried at fair market value. Tier 2 Capital includes preferred stock and certain types of debt equity, which the Bank does not hold, as well as the allowance for loan losses, subject to certain limitations.

The Bank's current capital position exceeds all current guidelines established by the FDIC. By the current regulatory definitions, the Bank was "well-capitalized," the highest rating of the five capital categories defined under FDIC regulations, at December 31, 1999 and 1998. At December 31, 1999, the Bank had a Tier 1 risk-based capital ratio of 10.30%, a total capital to risk-weighted assets ratio of 11.32%, and a leverage ratio of 8.13%. The Bank had a Tier 1 risk-based capital ratio of 11.54%, a total risk-based capital ratio of 12.79% and leverage ratio of 8.16% at December 31, 1998. Note 13 of the Notes to Consolidated Financial Statements provides more detailed

Management's Discussion & Analysis

of Financial Condition & Results of Operations (Continued)

Non-performing Assets

(dollars in thousands)

	As of December 31,				
Nonaccrual Loans: (1)	**1999**	**1998**	**1997**	**1996**	**1995**
Agricultural	$ –	$ 635	$ –	$ –	$ –
Commercial and Industrial	$ –	$ 175	$ 570	$ 970	$ 763
Real Estate					
Secured by Commercial/Professional Office Properties including construction and development	$ –	$ –	$ –	$ 94	$ –
Secured by Residential Properties	$ 130	$ 125	$ –	$ 20	$ 24
Secured by Farmland	$ –	$ –	$ 270	$ 15	$ –
Held for Sale	$ –	$ –	$ –	$ –	$ –
Consumer Loans	$ 38	$ 58	$ 57	$ 73	$ 17
Credit Cards	$ 220	$ 125	$ 269	$ 242	$ 59
TOTAL	$ 388	$ 1,118	$ 1,166	$ 1,414	$ 863
Loans 90 days or more past due & still accruing: (as to principal OR interest)					
Agricultural	$ 73	$ 1,637	$ –	$ –	$ –
Commercial and Industrial	$ 27	$ 127	$ 63	$ 9	$ 2
Real Estate					
Secured by Commercial/Professional Office Properties including construction and development	$ –	$ 411	$ –	$ 599	$ 1,257
Secured by Residential Properties	$ 382	$ –	$ 149	$ 17	$ 20
Secured by Farmland	$ –	$ 545	$ –	$ –	$ –
Held for Sale	$ –	$ –	$ –	$ 346	$ 158
Consumer Loans	$ 4	$ 7	$ 1	$ 29	$ 9
Credit Cards	$ 40	$ 93	$ 58	$ 259	$ 126
TOTAL	$ 526	$ 2,820	$ 271	$ 1,259	$ 1,572
Restructured Loans (2)	N/A	N/A	N/A	N/A	N/A
Other Real Estate Owned	$ 2,553	$ 1,273	$ 2,285	$ 2,226	$ 4,022
Total non-performing assets	$ 3,467	$ 5,211	$ 3,722	$ 4,899	$ 6,457
Non-performing loans as percentage of total gross loans	0.29%	1.43%	0.55%	1.02%	1.10%
Non-performing assets as a percentage of total gross loans and other real estate owned	1.08%	1.88%	1.41%	1.85%	2.90%

(1) During the fiscal year ended December 31, 1999 approximately $11,000 of interest income related to these loans was included in net income. Additional interest income of approximately $14,000 would have been recorded for the year ended December 31, 1999 if these loans had been paid in accordance with their original terms and had been outstanding throughout the applicable period then ended or, if not outstanding throughout the applicable period then ended, since origination.

(2) A "restructured loan" is one where the terms were renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.

Allowance for Loan Losses
(dollars in thousands)

	As of December 31,				
Balances:	**1999**	**1998**	**1997**	**1996**	**1995**
Average gross loans outstanding during period	$ 288,729	$ 262,976	$ 242,760	$ 212,919	$ 206,870
Gross loans outstanding at end of period	$ 317,510	$ 275,664	$ 261,849	$ 220,561	$ 207,531
Allowance for Loan Losses:					
Balance at beginning of period	$ 4,394	$ 3,034	$ 2,904	$ 2,745	$ 2,466
Provision Charged to Expense	$ 2,118	$ 2,800	$ 2,013	$ 1,493	$ 1,607
Loan Charge-offs					
Agricultural	$ 1,880	$ –	$ –	$ –	$ –
Commercial & Industrial Loans	$ 290	$ 236	$ 564	$ 421	$ 386
Real Estate Loans	$ –	$ –	$ 20	$ 14	$ 239
Consumer Loans	$ 374	$ 398	$ 133	$ 129	$ 221
Credit Card Loans	$ 729	$ 907	$ 1,277	$ 859	$ 612
Total	$ 3,273	$ 1,541	$ 1,994	$ 1,423	$ 1,458
Recoveries					
Agricultural	$ 1	$ –	$ –	$ –	$ –
Commercial & Industrial Loans	$ 28	$ 42	$ 56	$ 47	$ 90
Real Estate Loans	$ –	$ 3	$ 1	$ –	$ –
Consumer Loans	$ 12	$ 18	$ 9	$ 18	$ 22
Credit Card Loans	$ 39	$ 41	$ 45	$ 24	$ 18
Total	$ 80	$ 101	$ 111	$ 89	$ 130
Net Loan Charge-offs	$ 3,193	$ 1,440	$ 1,883	$ 1,334	$ 1,328
Balance at end of period	$ 3,319	$ 4,394	$ 3,034	$ 2,904	$ 2,745
Ratios:					
Net Loan Charge-offs to Average Loans	1.11%	0.55%	0.78%	0.63%	0.64%
Net Loan Charge-offs to Gross Loans at End of Period	1.01%	0.52%	0.72%	0.60%	0.64%
Allowance for Loan Losses to Gross Loans at End of Period	1.05%	1.59%	1.16%	1.32%	1.32%
Allowance for Loan Losses to Net Loans at end of Period	1.06%	1.62%	1.18%	1.34%	1.34%
Net Loan Charge-offs to Allowance for Loan Losses at End of Period	96.20%	32.77%	62.06%	45.94%	42.38%
Net Loan Charge-offs to Provision charged to operating expense	150.76%	51.43%	93.54%	89.35%	82.64%

information concerning the Bank's capital amounts and ratios as of December 31, 1999 and 1998.

Net income has provided $15.37 million in capital over the last three years, of which $3.82 million or approximately 25% was distributed in dividends. The retention of earnings has been the Bank's sole source of capital since 1982, and it is not expected that this single source will be supplemented or augmented by the issuance of additional debt or equity capital in the immediate future.

The Bank's dividend policy is generally to pay quarterly cash dividends which total approximately thirty-five percent (35%) of the prior year's net earnings to the extent that such payments are consistent with general considerations of safety and soundness and do not adversely affect the Bank's financial condition. This quarterly dividend policy was put into effect during 1999, and replaced the Board's prior policy of paying an annual dividend of approximately ten percent (10%) of the prior year's net earnings, as a cash dividend in the subsequent year. While the Bank paid such quarterly dividend in 1999 and had paid annual dividends in the approximate amount described above for the previous ten years, no assurance can be given that the Bank's future earnings in any given year will justify the payment of such a dividend. Dividends paid during the year 1999 were $2.03 million or $0.22 per share and dividends paid during the year 1998 were $1.4 million or $0.15 per share. The amount paid in 1998 reflected a combination of the normal dividend based on earnings, in accordance with the Bank's general dividend policy, plus a special dividend in the approximate amount of the Bank's gain on the sale of a portion of the Bank's Phoenix Int'l investment (see "Investment Portfolio" and "Capital Resources" above).

On December 27, 1999 a definitive agreement was signed for the Bank to acquire Sierra National Bank ("SNB") headquartered in Tehachapi, California for approximately $9.1 million in cash, subject to the approval of SNB stockholders and state and federal regulatory agencies. SNB has four branches in Kern County which will be incorporated into the current branch structure of the Bank. The transaction is expected to be completed in May 2000 and will be accounted for as a purchase transaction. This commitment represents a material amount of the Bank's assets. At the time of purchase, an intangible asset of approximately $4.5 million will be created.

Risk Management

The Bank must address on a daily basis the various and sundry factors which impact its continuing operations. Two of these factors, the economic climate which encompasses our business environment and the regulatory framework which governs our practices and procedures, have been previously discussed. In addition to the two factors identified above, there are several risks specific to the operation of a financial institution which need to be managed: market risk, interest rate risk, liquidity risk and asset quality risk.

Market Risk Management

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Bank does not engage in trading of financial instruments. The Bank has risk management policies to monitor and limit exposure to market risk arising due to changes in interest rates. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, can be found in Note 14 of the Notes to the Consolidated Financial Statements and in "Investment Portfolio" above. The Bank performs an earnings simulation analysis and a market value of portfolio equity calculation to identify more dynamic interest rate risk exposures than those apparent in the standard GAP analysis.

The Sendero simulation estimates the effects of specific interest rate changes over a twelve-month period, for the Bank's net interest margin. DRI/McGraw Hill, the economic forecasting firm, provides U.S. interest rate projections and historical rates which are updated monthly. The rate scenarios consist of key rate and yield curve projections, which are run against the Bank's investment, loan, deposit and borrowed funds portfolios. These rate projections can be ramped (arbitrarily driven upwards or downwards from the current level), economic (based on current trends and econometric models) or flat (unchanged from current actual levels).

The Bank simulation program utilizes specific individual loan and deposit rates, maturities and repricing information to determine the effects of a given interest rate change on the Bank's earning asset and interest-bearing liability portfolio structures. These simulations also provide information on the fair market values of these portfolios, as well, at specific points along the time horizon. Although these simulations are meant to provide management with adequate information to manage the Bank's anticipated interest rate risk under current and anticipated conditions, market conditions and customer activities can change over time. For that reason, management must consider simulations, current economic data, projected economic data and various other topics and factors in their efforts to manage the Bank's exposure to interest rate and market value of portfolio equity risk.

The Bank's policy is to limit the change in the Bank's net interest margin and economic value to plus or minus 5%, based on a 200 basis point (bp) change in interest rates over a one year term. It is also the Bank's policy to limit the change in the Bank's net interest margin and economic value to plus or minus 10% based on interest rate shocks of 200 bp. As of December 31, 1999, the Bank had the following estimated net interest margin sensitivity profile.

	Immediate Change in Rate	
	+200 bp	-200 bp
Net Interest Margin Change	($371,000)	($360,000)

The above profile illustrates that if there were an immediate increase of 2% in the prime rate, the Bank's net interest margin would decline by $371,000, or approximately 1.35%. By the same token, if there were an immediate downward adjustment of 200 bp or 2% in the prime rate, the Bank's net interest margin would be adversely affected by $360,000 over the next year.

These anticipated reductions in the Bank's level of net interest income in a declining rate environment are based on the Bank's interest rate profile at December 31, 1999. As noted in the interest rate sensitivity discussion, an immediate decrease in market rates and the prime rate would mean a decline in the Bank's net interest income in the short term. This is due to the fact that deposits do not re-price as rapidly as loans, and certain variable rate deposits are less likely to re-price, based on the December 31, 1999 rates paid on such deposit accounts.

Conversely, with the Bank's December 31, 1999 investment, loan and deposit portfolios at the current rates, it is projected that in a rising rate environment, the Bank's net interest margin would also be reduced. First, one should examine the likelihood of an immediate change in market rates of 200 basis points. At December 31, 1999, this would mean a prime rate increase to 10.50%, and a six-month certificate of deposit rate increase from 5.36% to 7.36%, on January 3, 2000. Since the end of 1999, the Federal Open Market Committee (FOMC) has increased the fed funds rate twice, at 25 basis point increments. This amounts to a fifty basis point increase between December 31, 1999 and March 28, 2000, substantially different than the example given. While this immediate 200 basis point increase is unlikely, it is projected to negatively affect the Bank's net interest margin due to the structure and volume of the Bank's interest-earning assets and interest-bearing liabilities.

In addition, the Bank calculates changes in the economic value of its security portfolio based on various rate scenarios. Under the conditions outlined above, an immediate change in rate of plus or minus 200 bp would change the value of the Bank's portfolio in the following fashion. Should market rates immediately change 200 bp upward, the value of the investment portfolio would decrease by $5.5 million or 5.92%. Conversely, should rates immediately drop by 200 bp, the market value of the investment portfolio would increase by $2.5 million or 2.69%.

The projected market value of the investment portfolio due to an immediate change in rates of 200 basis points is predicated on the types, terms to maturity, coupon and purchase rates, as well as call or step-up features within the portfolio. The Bank had a "barbell" structure at December 31, 1999, which is the descriptive term for a portfolio with heavy weighting towards short- and long-term maturities. The Bank uses the short-term maturities of treasury and agency issues for liquidity, while long-term state, county and municipal issues are used primarily for tax planning purposes. As a result, if rates were to increase as noted, the value of the longer term state, county and municipal portfolio would drop significantly, while shorter term treasury and agency issues would decrease in value on a more moderate basis. Conversely, should market rates immediately drop by 200 basis points, a great number of the state, county and municipal issues would be called, thereby reducing the value of the gain due to payoffs by issuing agencies, and the Bank's reinvestment of investment proceeds would occur at reduced earning rates.

Further, the economic value of the Bank's loan and deposit portfolios would also change under the interest rate variances previously discussed. The amount of change is based on the profiles of each loan and deposit class, which include: the rate, the likelihood of prepayment or repayment, whether its rate is fixed or floating, the maturity of the instrument and the particular circumstances of the customer. The quantification of the change in economic value can somewhat be noted by Note 14, Fair Value of Financial Instruments, in the Consolidated Financial Report; however, such values change over time based on certain assumptions about interest rates and likely changes in the yield curve.

Interest Rate Risk Management

The principal objective of interest rate risk management is to manage the financial components of the Bank so as to optimize net income under varying interest rate environments. The focus of this process (often referred to as "asset/liability management") is the development, analysis, implementation and monitoring of earnings enhancement strategies that provide stable earnings and capital levels during periods of changing interest rates.

Interest rate risk occurs when assets and liabilities reprice at different times as interest rates change. Generally speaking, the rates of interest that the Bank earns on its assets, and pays on its liabilities, are established contractually for specified periods of time. Unfortunately, market interest rates change over time and if a financial institution cannot quickly adapt to interest rate changes, then as a result it may be exposed to lower profit margins or even losses. For instance, if the Bank were to fund long-term assets with short-term deposits, and interest rates were to rise over the term of the assets, the short-term deposits would rise in cost, decreasing or perhaps eliminating the prior amount of net interest income. Similar risks exist when rate sensitive assets (for example, prime rate-based loans) are funded by longer term fixed rate liabilities in a falling interest rate environment.

The Bank performs earnings-at-risk analyses and net interest income simulations based on multiple rate scenarios and projected on-balance-sheet changes, to estimate the potential effects of changing interest rates. The Bank uses four standard scenarios: rates unchanged, most likely rates, rising rates and declining rates, in analyzing interest rate sensitivity for policy measurement. These rate scenarios provide earnings impact calculations, which are compared to interest rate risk limits established by Bank policy. Subject to those limits, the Bank may maintain a particular gap position to achieve a more desirable risk/return trade-off. Earnings-at-risk simulations allow the Bank to fully explore the complex relationships within the gap over time and for various interest rate environments. The results during 1999 showed that the Bank's interest rate sensitivity was well within policy limits.

Interest Rate Sensitivity Gap

(dollars in thousands)

As of December 31, 1999

	Within Three Months	After Three Months but Within One Year	After One Year but Within Five Years	After Five Years	Total
Interest-Earning Assets:					
Federal Funds Sold	-	-	-	-	-
Investment Securities	$ 4,002	$ 15,343	$ 47,142	$ 26,385	$ 92,872
Loans	$ 139,464	$ 8,815	$ 52,124	$ 117,107	$ 317,510
Non-Earning Assets:	-	-	-	-	$ 48,002
TOTAL ASSETS	$ 143,466	$ 24,158	$ 99,266	$ 143,492	$ 458,384
Interest-Bearing Liabilities:					
Interest-Bearing Demand Deposits (NOW)	$ 37,122	-	-	-	$ 37,122
Savings Deposits	$ 19,043	-	-	-	$ 19,043
MMDA's	$ 43,553	-	-	-	$ 43,553
Other Time Deposits	$ 66,686	$ 40,182	$ 7,895	$ 98	$ 114,861
Time Deposits of $100,000 or more	$ 55,351	$ 22,798	$ 2,669	-	$ 80,818
Borrowed Funds	$ 32,438	-	-	-	$ 32,438
TOTAL	$ 254,193	$ 62,980	$ 10,564	$ 98	$ 327,835
Demand Deposits:	-	-	-	-	$ 90,421
Other Liabilities & Capital:	-	-	-	-	$ 40,128
TOTAL LIABILITIES & CAPITAL					$ 458,384
Interest Rate Sensitivity Gap	($ 110,727)	($ 38,822)	$ 88,702	$ 143,394	-
Cumulative Interest Rate Sensitivity Gap	($ 110,727)	($ 149,549)	($ 60,847)	$ 82,547	
Cumulative Gap as a % of Total Assets	-24.16%	-32.63%	-13.27%	18.01%	

As the Bank looks toward managing interest rate risk in 2000, it is confronted with several risk scenarios. If interest rates continue to rise, net interest income may actually increase if deposit rates increase more slowly than increases in lending rates. The Bank could, however, experience additional pressure on net interest income if there is a substantial movement in deposit rates relative to loan rates. A declining interest rate environment might result in a decrease in loan rates, while deposit rates might remain relatively stable, since average deposits rates paid decreased during 1999. This interest rate scenario could also create significant downward pressure on net interest income. Based on its current and projected balance sheet, the Bank expects that its net interest margin will be negatively affected during 2000; however, the Bank does not expect that a change in interest rates would affect its liquidity position.

The Interest Rate Sensitivity Gap Table sets forth the interest rate sensitivity of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 1999, the interest rate sensitivity gap, cumulative interest rate sensitivity gap and the cumulative interest rate sensitivity gap ratio. For purposes of the table, an asset or liability is considered rate sensitive within a specified period when it can be re-priced or matures within its contractual terms.

As illustrated in the Interest Rate Sensitivity Gap Table, the Bank is liability sensitive within the first time period, which means that if market rates were to decrease in the short term, and the prime rate was to also decrease, the Bank would experience increasing earnings as a result of such change. However, during the first time period, it is assumed that variable or prime rate related loans would re-price more rapidly than interest-bearing deposits, which would place pressure on the Bank's net interest margin, as happened during 1998. This reflects the fact that given the Bank's current level of variable rates paid on NOW's, savings and money market deposit accounts, it is unlikely that any downward adjustment would be likely. This means that loan rates would come down, in the short term for variable and prime rate loans, without commensurate reductions in rates paid on deposit accounts, thereby lowering the Bank's net interest margin. However, the Bank anticipates that floating rate loans will increase in price during 2000, and that deposit rates may have seen their highest period of adjustment during late 1999 and the first months of 2000. Based on this scenario, the Bank's net interest margin is expected to deteriorate for the first quarter of 2000, then moderately improve over the rest of the year. However, no assurance can be given that this will, in fact, occur.

Liquidity Risk Management

Liquidity refers to the Bank's ability to maintain a cash flow adequate to fund operations, meet obligations and other commitments in a timely and cost-effective fashion. Historically, through providing various communities with traditional banking services, the Bank has developed a sizable source of relatively stable and low cost funds in the form of core deposits. The principal sources of liquidity for the Bank during the years 1999, 1998 and 1997 have been proceeds from the sales of loans and an increase in deposit levels.

To manage the Bank's own balance sheet liquidity properly, cash inflows must be timed to coincide with anticipated outflows and the available cash on hand or cash equivalents must be sufficient to meet varying demands. The timing of inflows and outflows may be accomplished through well matched maturities. This requires that similar volumes of short-term liquid assets be available to support short-term volatile liabilities and that maturities of the remaining longer-term assets not be concentrated in any single time period. The Bank manages its liquidity in such a fashion as to be able to meet any unexpected sudden changes in levels of assets held or deposit liabilities assumed.

The Bank requires sources of funds to meet short-term cash requirements which may be brought about by loan growth or deposit outflows, or other asset purchases or liability repayments. These funds are traditionally made available by drawing down correspondent Bank deposit accounts, selling securities, selling other assets or borrowing funds from other institutions. In addition, the Bank may have a temporary overnight funds sold position and a portfolio of securities available-for-sale, which could be sold should the need arise for immediate liquidity. As of December 31, 1999, although there were no fed funds sold, these two segments comprised 30% of total investment funds, as compared to 43% at December 31, 1998. In addition to on-balance-sheet liquidity, the Bank has available off-balance-sheet liquidity in the form of available lines of credit, which it may use to meet seasonal or conditional opportunities, or to meet regular commitments. This affords the Bank the availability of minimizing excessive liquidity, which could subject the Bank to lower earnings as a result of higher volumes of shorter-term more liquid assets. At December 31, 1999, such off-balance-sheet liquidity approximated $30 million, or 7% of total Bank assets, a slight decrease from that noted at December 31, 1998.

One method of computing liquidity using the concept of matching maturities is to calculate the ratio of short-term investments to short-term non-core funds. This liquidity ratio was 17.77% at December 31, 1999 as compared to 27.81% at December 31, 1998. The reduction was due to a larger portion of investments securing specific local agency, repurchase agreements, and borrowed funds. In addition, the Bank's volatile liability ratio at December 31, 1999 was 18.59% as compared to 17.62% at the year-end 1998. These ratios would imply that the Bank had a slightly greater dependency on Certificates of Deposits over $100,000 at the end of 1999, while also having a greater amount of short-term investments available to fund variances in liquidity as a result of volatile liability maturities. As was previously discussed, short-term borrowings were also utilized to support liquidity needs at December 31, 1999 due to higher levels of cash held for Y2K considerations. (See "Short-Term Borrowings" above.)

At year-end 1999, the Bank's customers had invested $8.6 million in the Bank's sweep product, as compared to $9.9 million at year-end 1998. The average amount represented by customer invested funds in sweep products during 1999 was $10.3 million, as compared to $11.2 million during 1998. In addition, from time to time the Bank draws on its borrowing capacity from the FHLB. Such borrowed funds, which represent overnight purchases from the FHLB, or "variable rate credit advances", are priced at a prevailing mark-up over the FHLB's matched maturity cost of borrowing. For the Bank, this cost approximates the overnight "Fed Funds" rate, plus fifty basis points.

Asset Quality Risk Management

Banks have generally suffered their most severe earnings declines as a result of customers' inability to generate sufficient cash flow to service their debts, or as a result of the downturns in national and regional economies which have brought about declines in overall property values. Credit risk is inherent in the business of making loans, since loan losses can result from a borrower's inability or unwillingness to repay. The Bank sets aside an allowance or reserve for loan losses through charges to earnings to cover such losses. In addition, certain investments which the Bank may purchase have the potential of becoming less valuable as the conditions change in the obligor's financial capacity to repay, based on regional economies or industry downturns. As a result of these types of failures, an institution may suffer asset quality risk, and may lose the ability to obtain full repayment of an obligation to the Bank. Since loans are the most significant assets of the Bank, and generate the largest portion of revenues, the Bank's management of asset quality risk is focused primarily on loan quality.

The Bank achieves a certain level of loan quality by establishing a sound credit plan, which includes defining goals and objectives and devising and documenting credit policies and procedures. These policies and procedures identify certain markets, set goals for portfolio growth or contraction, and establish limits on industry and geographic concentrations. In addition, these policies establish the Bank's underwriting standards and the methods of monitoring ongoing credit quality. Unfortunately, however, the Bank's asset quality risk may be affected by external factors such as the level of interest rates, employment, general economic conditions, real estate values and trends in particular industries or more geographic markets. The Bank's internal factors for controlling risk are centered in underwriting practices, credit granting procedures, training, risk management techniques and familiarity with our loan customers as well as the relative diversity and geographic concentration of our loan portfolio.

As a multi-county, regional bank headquartered in and serving Tulare County (with a smaller presence in each of Kern, Kings and Fresno counties), the Bank must contend with the attendant vagaries of the California and San Joaquin Valley markets. The Bank's asset quality has suffered during the last several years due to consumer bankruptcies and weather related agricultural loan losses, but the San Joaquin Valley hopefully is experiencing a slow but sustained economic recovery. The Bank is optimistic that the local economy will continue to improve over time, but no assurance can be given that such improvement will in fact continue. Detailed information concerning the Bank's asset quality is provided in the sections entitled "Non-performing Assets" and "Allowance for Possible Loan Losses" above.

Year 2000 Issues (Y2K)

Management initiated an enterprise-wide program to prepare the Bank's computer systems and applications for the Year 2000 (Y2K) issue. The Bank examined its primary integrated Bank operating system (Phoenix) and peripheral and ancillary applications and determined that it was fully Y2K compliant. Additionally, the FDIC expected the Bank to assure compliance by its suppliers, customers, creditors, borrowers and other financial service organizations. As has been noted in television, radio and local coverage, the Y2K century date rollover had limited effect on bank data systems. The Bank experienced no difficulties whatsoever in the change to the new millenium, and all preparation, plans and procedures for manual support of daily operations after January 3, 2000 were not required, although the FDIC did make contact with the Bank on January 1 and January 3, 2000.

The Bank's total expenditures for Y2K compliance approximated $1.75 million, which included systems, application programs, workstation and server upgrades throughout the organization. In addition, the re-prioritization of MIS projects and the re-allocation of personnel activities to performing validations of Y2K capability for over 100 internally utilized software applications were expenses which were not capitalized, but became a portion of the Bank's MIS costs of operation during 1999. While MIS projects will be re-visited during 2000, certain delays in implementation of specific projects is likely to continue until later in the year. Overall, however, operating costs for Y2K compliance were all assumed during 1999.

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bank of the Sierra
Porterville, California

We have audited the accompanying consolidated balance sheets of Bank of the Sierra and subsidiary as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Bank'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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial position of Bank of the Sierra and subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

McGladrey & Pullen, LLP

Pasadena, California
February 2, 2000

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Consolidated Balance Sheets

Bank of the Sierra and Subsidiary

Assets — December 31,	1999	1998
Cash and due from banks	**$ 31,413,000**	$ 24,545,000
Federal funds sold	**-**	9,800,000
Securities (Note 2):		
Held-to-maturity, fair market value 1999 $63,402,000; 1998 $54,210,000	**64,886,000**	53,096,000
Available-for-sale	**27,986,000**	30,656,000
	92,872,000	83,752,000
Loans (Notes 3, 9 and 10)	**317,510,000**	275,664,000
Less:		
Allowance for loan losses	**(3,319,000)**	(4,394,000)
Deferred loan fees and costs, net	**283,000**	(350,000)
Net loans	**314,474,000**	270,920,000
Premises and equipment, net (Note 4)	**11,597,000**	9,491,000
Other real estate owned, net	**2,553,000**	1,273,000
Accrued interest receivable	**2,498,000**	2,403,000
Deferred taxes (Note 8)	**537,000**	-
Other assets	**2,440,000**	1,880,000
	$ 458,384,000	$ 404,064,000

Liabilities and Stockholders' Equity

	1999	1998
Liabilities		
Deposits (Note 11)		
Non-interest-bearing demand (Note 3)	**$ 90,421,000**	$ 82,315,000
Interest-bearing:		
Demand	**80,675,000**	71,072,000
Savings	**19,043,000**	17,849,000
Time (Note 5)	**195,679,000**	184,645,000
Total deposits	**385,818,000**	355,881,000
Federal funds purchased and repurchase agreements (Note 6)	**18,638,000**	9,898,000
Short-term Federal Home Loan Bank advances	**13,800,000**	-
Deferred taxes (Note 8)	**-**	93,000
Other liabilities	**3,429,000**	3,174,000
Total liabilities	**421,685,000**	369,046,000
Commitments and Contingencies (Note 10)		
Stockholders' Equity (Notes 2, 12 and 13)		
Common stock, no par value; 24,000,000 shares authorized; 9,212,280 shares issued and outstanding	**2,285,000**	2,285,000
Retained earnings	**34,068,000**	30,483,000
Accumulated other comprehensive income	**346,000**	2,250,000
Total stockholders' equity	**36,699,000**	35,018,000
	$ 458,384,000	$ 404,064,000

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Bank of the Sierra and Subsidiary

Years Ended December 31,	1999	1998	1997
Interest income:			
Interest and fees on loans	**$ 29,537,000**	$ 28,449,000	$ 26,796,000
Interest on federal funds sold and interest-bearing deposits	**174,000**	1,246,000	179,000
Interest on investment securities:			
Taxable	**2,988,000**	2,451,000	1,708,000
Tax exempt	**1,812,000**	1,506,000	1,328,000
	34,511,000	33,652,000	30,011,000
Interest expense:			
Deposits	**11,154,000**	11,943,000	9,561,000
Short-term borrowings	**567,000**	435,000	285,000
Total interest expense	**11,721,000**	12,378,000	9,846,000
Net interest income	**22,790,000**	21,274,000	20,165,000
Provision for loan losses (Note 3)	**2,118,000**	2,800,000	2,013,000
Net interest income after provision for loan losses	**20,672,000**	18,474,000	18,152,000
Other operating income:			
Service charges on deposit accounts	**3,038,000**	2,780,000	2,237,000
Gain on sales of loans	**836,000**	1,100,000	574,000
Credit card fees	**423,000**	561,000	467,000
Investment securities gains (Note 2)	**6,000**	650,000	6,000
Loan servicing income (Note 3)	**560,000**	530,000	944,000
Other	**483,000**	455,000	161,000
	5,346,000	6,076,000	4,389,000
Operating expenses:			
Salaries and employee benefits	**8,842,000**	8,079,000	7,488,000
Occupancy expense:			
Furniture and equipment	**1,554,000**	1,507,000	1,498,000
Premises (Note 9)	**1,391,000**	1,386,000	1,107,000
Other (Note 7)	**5,844,000**	5,411,00	5,370,000
	17,631,000	16,383,000	15,463,000
Income before provision for income taxes	**8,387,000**	8,167,000	7,078,000
Provision for income taxes (Note 8)	**2,775,000**	2,943,000	2,536,000
Net income	**$ 5,612,000**	$ 5,224,000	$ 4,542,000
Basic and diluted earnings per common share	**$ 0.61**	$ 0.57	$ 0.49

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Bank of the Sierra and Subsidiary

Years Ended December 31,	1999	1998	1997
Net income	**$ 5,612,000**	$ 5,224,000	$ 4,542,000
Other comprehensive income, before tax; unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	**(3,062,000)**	1,710,000	(368,000)
Less reclassification adjustment for (gains) included in net income	**(6,000)**	(645,000)	-
Other comprehensive income (loss), before tax	**(3,068,000)**	1,065,000	(368,000)
Income tax expense (credit) related to items of other comprehensive income	**(1,164,000)**	340,000	(54,000)
Other comprehensive income (loss)	**(1,904,000)**	725,000	(314,000)
Comprehensive income	**$ 3,708,000**	$ 5,949,000	$ 4,228,000

See Notes to Consolidated Financial Statements

For Years Ended December 31, 1999, 1998 and 1997

	Common Stock			Accumulated Other Comprehensive Income	
	Shares	Amount	Retained Earnings		Total
Balance,					
December 31, 1996	4,606,140	$ 2,285,000	$ 22,513,000	$ 1,839,000	$ 26,637,000
Cash dividend ($.045 per share)	-	-	(414,000)	-	(414,000)
Two-for-one stock split	4,606,140	-	-	-	-
Other comprehensive (loss)	-	-	-	(314,000)	(314,000)
Net income	-	-	4,542,000	-	4,542,000
Balance,					
December 31, 1997	9,212,280	2,285,000	26,641,000	1,525,000	30,451,000
Cash dividend ($.15 per share)	-	-	(1,382,000)	-	(1,382,000)
Other comprehensive (loss)	-	-	-	725,000	725,000
Net income	-	-	5,224,000	-	5,224,000
Balance,					
December 31, 1998	9,212,280	2,285,000	30,483,000	2,250,000	35,018,000
Cash dividend ($.22 per share)	-	-	(2,027,000)	-	(2,027,000)
Other comprehensive (loss)	-	-	-	(1,904,000)	(1,904,000)
Net income	-	-	5,612,000	-	5,612,000
Balance,					
December 31, 1999	**9,212,280**	**$ 2,285,000**	**$ 34,068,000**	**$ 346,000**	**$ 36,699,000**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Bank of the Sierra and Subsidiary

Years Ended December 31,	1999	1998	1997
Cash flows from Operating Activities			
Net income	**$ 5,612,000**	$ 5,224,000	$ 4,542,000
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) on call of securities held-to-maturity	**-**	(5,000)	(6,000)
(Gain) on sale of securities available-for-sale	**(6,000)**	(645,000)	-
Loss from sale of other real estate owned, net of write-downs	**48,000**	108,000	46,000
(Gain) on sales of loans	**(836,000)**	(1,100,000)	(574,000)
Loss on sale of equipment	**5,000**	9,000	67,000
Provision for loan losses	**2,118,000**	2,800,000	2,013,000
Depreciation and amortization	**1,580,000**	1,661,000	1,345,000
Net amortization (accretion) on securities	**18,000**	93,000	(126,000)
Increase (decrease) in unearned net loan fees	**(633,000)**	(323,000)	254,000
Deferred taxes	**533,000**	(763,000)	414,000
Proceeds from sales of loans held-for-sale	**53,082,000**	41,292,000	36,180,000
Originations of loans held-for-sale	**(55,095,000)**	(38,919,000)	(39,155,000)
(Increase) decrease in interest receivable and other assets	**(655,000)**	894,000	(1,185,000)
Increase in other liabilities	**256,000**	630,000	95,000
Net cash provided by operating activities	**6,027,000**	10,956,000	3,910,000
Cash flows from Investing Activities			
Maturities of securities held-to-maturity	**9,781,000**	10,656,000	2,688,000
Maturities of securities available-for-sale	**3,887,000**	984,000	4,593,000
Proceeds from calls of securities held-to-maturity	**-**	2,213,000	399,000
Proceeds from calls of securities available-for-sale	**2,078,000**	856,000	207,000
Purchases of securities held-to-maturity	**(21,616,000)**	(28,942,000)	(2,464,000)
Purchases of securities available-for-sale	**(6,330,000)**	(7,784,000)	(14,640,000)
(Increase) decrease in federal funds sold	**9,800,000**	(4,500,000)	(5,300,000)
(Increase) in loans receivable, net	**(43,033,000)**	(16,556,000)	(39,743,000)
Proceeds from sale of premises and equipment	**-**	-	190,000
Purchases of premises and equipment	**(3,691,000)**	(3,621,000)	(2,280,000)
Proceeds from sales of other real estate owned	**341,000**	1,241,000	493,000
Other	**(826,000)**	(308,000)	(477,000)
Net cash (used in) investing activities	**(49,609,000)**	(45,761,000)	(56,334,000)

See Notes to Consolidated Financial Statements

Years Ended December 31,	1999	1998	1997
Cash flows from Financing Activities			
Increase in deposits	**$ 29,937,000**	$ 34,768,000	$ 30,051,000
Increase (decrease) in short-term borrowings	**22,540,000**	(810,000)	8,722,000
Cash dividends paid	**(2,027,000)**	(1,382,000)	(414,000)
Net cash acquired in assumption of deposits (Note 11)	**-**	-	8,048,000
Net cash provided by financing activities	**50,450,000**	32,576,000	46,407,000
Increase (decrease) in cash and due from banks	**6,868,000**	(2,229,000)	(6,017,000)
Cash and Due from Banks			
Beginning of year	**24,545,000**	26,774,000	32,791,000
End of year	**$ 31,413,000**	$ 24,545,000	$ 26,774,000
Supplemental Disclosures of Cash Flow Information			
Cash paid for:			
Interest	**$ 11,779,000**	$ 12,394,000	$ 9,850,000
Income taxes	**$ 1,970,000**	$ 3,362,000	$ 2,270,000
Supplemental Schedule of Non-cash Investing and Financing Activities			
Other real estate acquired in settlement of loans	**$ 1,295,000**	$ 280,000	$ 472,000
Loans made to finance the sale of other real estate	**$ 355,000**	$ 79,000	$ 246,000
Acquisition of branch facility (Note 11):			
Fair value of premises and equipment	**$ -**	$ -	$ 11,000
Other liabilities assumed	**-**	-	(18,000)
Deposits assumed	**-**	-	(8,041,000)
Net cash acquired in assumption of deposits	**$ -**	$ -	$ (8,048,000)

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1. Nature of Banking Activities and Significant Accounting Policies

Nature of banking activities

Bank of the Sierra (the Bank) and subsidiary is a California state-chartered commercial bank which commenced operations in 1978. The Bank has 12 branches located in Tulare, Kern, Kings and Fresno counties and its deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC).

The Bank maintains a diversified loan portfolio comprised of agricultural, commercial, consumer, real estate construction and mortgage loans. Loans are made primarily within the market areas of the South Central San Joaquin Valley of California, specifically Tulare, Kings, Kern, Madera and Fresno counties. These areas have diverse economies with principal industries being agriculture, real estate and light manufacturing. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrowers. The Bank's policy requires that collateral be obtained on substantially all loans. Such collateral is primarily first trust deeds on property.

As of December 31, 1999, real estate-related loans accounted for approximately 68% of total loans. Substantially all of these loans are secured by first trust deeds with an initial loan-to-value ratio of generally not more than 75%.

A summary of the Bank's significant accounting policies is as follows:

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Bank of the Sierra and Sierra Phoenix, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. The Bank formed the wholly owned subsidiary, Sierra Phoenix, Inc., to hold the stock of Phoenix International, Inc. on behalf of the Bank.

Use of estimates in the preparation of financial statements

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

Cash and due from banks

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks. Cash flows from loans originated by the Bank, deposits, federal funds sold and repurchase agreements are reported net.

The Bank maintains amounts due from banks which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts.

The Bank is required to maintain reserve balances in cash with the Federal Reserve Bank of San Francisco. The total of those reserve requirements was approximately $450,000 at December 31, 1999 and 1998.

Securities held-to-maturity

Securities classified as held-to-maturity are those debt securities that the Bank has both the intent and the ability to hold to maturity, regardless of changes in market condition, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives.

The sale of a security within three months of its maturity date or after at least 85% of the principal outstanding has been collected is considered a maturity for purposes of classification and disclosure.

Securities available-for-sale

Securities classified as available-for-sale are those debt and equity securities that the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses, net of the related deferred tax effect, are reported as other comprehensive income or loss. The amortization of premiums and accretion of discounts, computed by the interest method over their contractual lives, are recognized in interest income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and fees and an allowance for loan losses.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible, based on evaluation of the collectibility of loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and the volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions.

In addition, the FDIC and the California Department of Financial Institutions (DFI), as an integral part of their examination process, review the allowance for loan losses. These agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan is impaired when it is probable that the creditor will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. The amount of impairment, if any, and subsequent changes are included in the allowance for loan losses.

Interest and fees on loans

Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized as an adjustment of the related loan's yield. The Bank is generally amortizing these amounts over the contractual life. Loans available-for-sale are reported at the lower of aggregate cost or market with the net deferred fees and costs associated with these loans being deferred and recognized in income when the loans are sold as a gain on sale of loans.

Sale of loans

The Bank sells loans or participating interests in loans while retaining servicing to Freddie Mac, Fannie Mae and other outside investors to provide funds for additional lending and to generate servicing income. Under such agreements, the Bank continues to service the loans and the buyer receives its share of principal collected together with interest at an agreed-upon rate. This rate generally differs from the loans' contractual interest rate.

Gains and losses on sales of loans are recognized at the time of sale and are calculated based on the difference between the selling price and the allocated book value of loans sold. Book value allocations are determined in accordance with Financial Accounting Standards Board (FASB) Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Any inherent risk of loss on loans sold is transferred to the buyer at the date of sale.

The Bank has issued various representations and warranties associated with the sale of loans. These representations and warranties may require the Bank to repurchase loans with underwriting deficiencies as defined per the applicable sales agreements and certain past due loans within 90 days of the sale. The Bank experienced no losses during the years ended December 31, 1999, 1998 and 1997 regarding these representations and warranties.

Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the following estimated useful lives of the assets.

	Years
Premises	30
Leasehold improvements	15 - 20
Furniture and equipment	3 - 20

Leasehold improvements are amortized over the lesser of the term of the lease or the life of the improvements.

Other real estate owned

Other real estate owned (OREO) represents properties acquired through foreclosure or other proceedings. OREO is held for sale and is recorded at the lower of the carrying amounts of the related loans or the estimated fair value of the properties less estimated costs of disposal. Any write-down to estimated fair value less cost to sell at the time of transfer to OREO is charged to the allowance for credit losses. Property is evaluated regularly by management and reductions of the carrying amount to estimated fair value less estimated costs to dispose are recorded as necessary. Depreciation is recorded based on the recorded amount of depreciable assets after they have been owned for one year. Depreciation and additions to or reductions from valuation allowances are recorded in income.

Mortgage servicing

Net servicing revenue on mortgage loans that the Bank has originated and sold approximates adequate compensation as defined under FASB Statement No. 125. The Bank has not purchased any material servicing rights. As a result, the Bank has not recorded any capitalized mortgage servicing rights on the balance sheet as of December 31, 1999 or 1998.

Note 1. Nature of Banking Activities and Significant Accounting Policies, Continued

Income taxes

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

401(k) profit sharing plan

The 401(k) profit sharing plan (the Plan) allows participants to defer, on a pretax basis, up to 15% of their salary (but in no event more than $10,000 per participant in the 1999 calendar year) and accumulate tax-deferred earnings as a retirement fund. The Bank may make a discretionary contribution to match the participants' contributions annually. The amount of the matching contribution may vary from year to year. The matching contribution is discretionary and subject to the approval of the Board of Directors.

Earnings per share

The weighted average number of shares used in computing basic earnings per share for the years ended December 31, 1999, 1998 and 1997 was 9,212,280. For 1999 the weighted average number of shares used in computing diluted earnings per share was 9,252,193, with the difference of 39,913 due to dilutive stock options. For 1998 there was no effect on earnings per share for stock options outstanding as the effect was antidilutive. There were no stock options outstanding in 1997. Earnings per share and cash dividends paid in 1997 have been adjusted to reflect the effect of the stock splits.

Segment information

In accordance with FASB Statement No. 131, *Disclosure about Segments of an Enterprise and Related Information*, the Bank has determined the products and services are all classified as banking products that are regulated by the FDIC and the DFI. In addition, the Bank has analyzed the type and class of customers and its distribution methods, and has determined that the Bank has one reportable segment.

Fair value of financial instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction at December 31, 1999 or 1998. The estimated fair value amounts for 1999 and 1998 have been measured as of their respective year ends and have not been re-evaluated or updated subsequent to this date for purposes of these financial statements. As such, the estimated fair value of these financial instruments subsequent to the reporting date may be different than the amounts reported at year end.

The information in Note 14 should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only required for a limited portion of the Bank's assets.

Due to the wide range of valuation techniques and the degree of subjectivity used in making the estimate, comparisons between the Bank's disclosures and those of other banks may not be meaningful.

The following methods and assumptions were used by the Bank in estimating the fair value of its financial instruments:

Cash and cash equivalents

The carrying amounts reported in the balance sheets for cash and due from banks, interest-bearing deposits and federal funds sold approximate their fair value.

Securities

Carrying amounts approximate fair value for securities available-for-sale. Fair value for securities held-to-maturity is based on quoted market prices where available or on quoted markets for similar securities in the absence of quoted prices on the specific security.

Loans

For variable rate loans that reprice frequently and have experienced no significant change in credit risk, fair value is based on carrying value. At December 31, 1999 and 1998, variable rate loans comprised approximately 44% and 55%, respectively, of the loan portfolio. Fair value for all other loans is estimated based on discounted cash flows using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. Prepayments prior to the repricing date are not expected to be significant. Loans are expected to be held-to-maturity and any unrealized gains or losses are not expected to be realized.

Loans held for sale

Fair value is based on quoted market prices of similar loans sold in the secondary markets.

Accrued interest receivable and payable

The fair value of both accrued interest receivable and payable approximates their carrying amounts.

Deposit liabilities

The fair value disclosed for demand deposits is, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amount). The carrying amounts for variable rate money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed rate certificates of deposit is not expected to be significant.

Short-term borrowings

The fair value of all short-term borrowings approximates their carrying amounts.

Off-balance-sheet instruments

Fair value for off-balance-sheet instruments (guarantees, letters of credit and lending commitments) is based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Other off-balance-sheet instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit and credit card commitments. Such financial instruments are recorded in the financial statements when they are funded.

Reclassifications

Certain amounts in the prior year's financial statements and related footnote disclosures were reclassified to conform to the current year presentation with no effect on net income or stockholders' equity.

Current accounting development

In June 1999, the FASB issued Statement No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*. This Statement defers the effective date of FASB Statement No. 133 to all fiscal quarters beginning after June 15, 2000. The Bank has no derivatives and does not engage in hedging activities.

Note 2. Securities

Amortized cost and fair value of securities being held to maturity as of December 31 are summarized as follows:

	1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 7,582,000	$ -	$ (71,000)	$ 7,511,000
U.S. government agencies and corporations	21,045,000	8,000	(552,000)	20,501,000
State and political subdivisions	36,259,000	283,000	(1,152,000)	35,390,000
	$ 64,886,000	$ 291,000	$ (1,775,000)	$ 63,402,000

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 11,108,000	$ 157,000	$ -	$ 11,265,000
U.S. Government agencies and corporations	11,007,000	32,000	(20,000)	11,019,000
State and political subdivisions	30,981,000	980,000	(35,000)	31,926,000
	$ 53,096,000	$ 1,169,000	$ (55,000)	$ 54,210,000

Note 2. Securities, Continued

Amortized cost and fair value of securities available for sale as of December 31 are summarized as follows:

1999

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 17,538,000	$ 11,000	$ (46,000)	$ 17,503,000
U.S. government agencies and corporations	2,487,000	–	(12,000)	2,475,000
Mortgage-backed securities	270,000	3,000	(1,000)	272,000
Corporate bonds	4,974,000	3,000	(47,000)	4,930,000
Federal Home Loan Bank and other equity securities	1,880,000	–	–	1,880,000
Investment in Phoenix International, Inc. common stock	249,000	677,000	–	926,000
	$ 27,398,000	$ 694,000	$ (106,000)	$ 27,986,000

1998

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 21,089,000	$ 399,000	$ –	$ 21,488,000
U.S. government agencies and corporations	3,063,000	20,000	–	3,083,000
Mortgage-backed securities	346,000	12,000	–	358,000
Corporate bonds	220,000	7,000	–	227,000
Federal Home Loan Bank and other equity securities	2,033,000	–	–	2,033,000
Investment in Phoenix International, Inc. common stock	249,000	3,218,000	–	3,467,000
	$ 27,000,000	$ 3,656,000	$ –	$ 30,656,000

The amortized cost and fair value of debt and equity securities being held-to-maturity and available-for-sale as of December 31, 1999 by contractual maturity are shown below. Federal Home Loan Bank stock and other equity securities and Phoenix International, Inc. common stock which are not due at any maturity date have been classified separately in the maturity table.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,772,000	$ 4,763,000	$ 14,575,000	$ 14,573,000
Due after one through five years	36,535,000	36,067,000	10,694,000	10,607,000
Due after five through ten years	12,631,000	12,367,000	-	-
Due after ten years	10,948,000	10,205,000	-	-
Federal Home Loan Bank and other equity securities	-	-	1,880,000	1,880,000
Investment in Phoenix International, Inc. common stock	-	-	249,000	926,000
	$ 64,886,000	$ 63,402,000	$ 27,398,000	$ 27,986,000

Gross realized gains from securities transactions during the years ended December 31 are as follows. There were no realized losses on such sales during the three years ended December 31, 1999. Gains on held-to-maturity securities are due to the call of the securities by the issuers.

	1999	1998	1997
Gross realized gains:			
Available for sale	**$ 6,000**	$ 645,000	$ -
Held to maturity	**-**	5,000	6,000

Securities held-to-maturity with a carrying amount of $42,020,000 and $26,630,000 at December 31, 1999 and 1998, respectively, and securities available-for-sale with a carrying amount of $21,158,000 and $26,509,000 at December 31, 1999 and 1998, respectively, were pledged as collateral on repurchase agreements, public deposits and for other purposes as required or permitted by law.

Note 3. Loans and Allowance for Loan Losses

Major classifications of loans at December 31 are as follows:

	1999	1998
Agricultural	$ 15,096,000	$ 19,249,000
Commercial and industrial	41,817,000	38,459,000
Real estate loans:		
Secured by commercial and professional office properties, including construction and development	114,038,000	79,749,000
Secured by residential properties	74,052,000	74,359,000
Secured by farmland	16,250,000	14,913,000
Held for sale	10,957,000	8,108,000
Total real estate	215,297,000	177,129,000
Small Business Administration loans	7,185,000	4,618,000
Consumer loans	27,449,000	24,564,000
Credit cards	10,666,000	11,645,000
	$ 317,510,000	$ 275,664,000

Impaired loans

Information about impaired loans as of and for the years ended December 31 is as follows:

	1999	1998
Loans receivable for which there is a related allowance for loan losses determined in accordance with FASB Statement No. 114, as amended	$ 167,000	$ 935,000
Other impaired loans	221,000	183,000
Total impaired loans	$ 388,000	$ 1,118,000
Related allowance for loan losses	$ 222,000	$ 803,000
Average balance (based on month-end balances)	$ 1,193,000	$ 922,000
Interest income recognized	$ 11,000	$ 28,000

The Bank is not committed to lend additional funds to debtors whose loans have been modified.

The Bank had non-accrual loans of $388,000 and $1,118,000 as of December 31, 1999 and 1998, respectively. Interest income that would have been earned on such non-accrual loans, had such loans performed according to their loan terms, would have been $14,000, $102,000 and $93,000 in 1999, 1998 and 1997, respectively.

Loan servicing

The Bank originates mortgage loans for sale to investors and generally retains the servicing rights for the loans sold. These loans sold are not included in the accompanying consolidated balance sheets. The Bank's loan administration (servicing) portfolio at December 31 consists of the following:

	1999		1998	
	Loans	Amount	Loans	Amount
Loans serviced for:				
Federal National Mortgage Association	334	$ 24,354,000	313	$ 22,636,000
Federal Home Loan Mortgage Corporation	1,204	93,233,000	1,094	82,567,000
Others, principally one company	242	90,408,000	293	115,614,000
	1,780	$ 207,995,000	1,700	$ 220,817,000

Mortgage servicing fiduciary funds, which are segregated in special bank accounts, are included in demand deposits in the accompanying consolidated balance sheets. At December 31, 1999 and 1998, such funds totaled $907,000 and $1,943,000, respectively.

During the year ended December 31, 1999, the Bank sold the servicing rights on approximately $32 million in adjustable rate mortgage loans. The total gain on the sale of the servicing rights was $331,000 and is included in loan servicing income in the accompanying consolidated statements of income.

Allowance for loan losses

Changes in the allowance for loan losses are as follows for the years ended December 31:

	1999	1998	1997
Allowance at beginning of year	$ 4,394,000	$ 3,034,000	$ 2,904,000
Provision charged to income	2,118,000	2,800,000	2,013,000
Loans charged off	(3,273,000)	(1,541,000)	(1,994,000)
Recoveries on loans previously charged off	80,000	101,000	111,000
Allowance at end of year	$ 3,319,000	$ 4,394,000	$ 3,034,000

Notes to Consolidated Financial Statements

Note 4. Premises and Equipment

Premises and equipment consist of the following as of December 31:

	1999	1998
Land	**$ 1,309,000**	$ 872,000
Premises	**6,252,000**	3,869,000
Leasehold improvements	**1,591,000**	1,642,000
Construction in progress	**40,000**	610,000
Furniture and equipment	**10,655,000**	9,418,000
	19,847,000	16,411,000
Less accumulated depreciation and amortization	**8,250,000**	6,920,000
	$11,597,000	$ 9,491,000

Note 5. Deposits

The aggregate amount of jumbo certificates of deposit and other time deposits, each with a minimum denomination of $100,000, was approximately $80,818,000 and $82,212,000 in 1999 and 1998, respectively. At December 31, 1999, the scheduled maturities of certificates of deposit and other time deposits are as follows:

	Amount
Three months or less	$ 122,037,000
Over three months through one year	62,980,000
Over one year through three years	9,341,000
Over three years	1,321,000
	$ 195,679,000

Note 6. Short-term Borrowings

The table below shows information for short-term borrowings. These borrowings generally mature in less than 30 days. As of December 31, 1999, the Bank had available unused lines of credit totaling $6,968,000.

	1999		1998		1997	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31:						
Federal funds purchased and repurchase agreements	**$ 18,638,000**	**4.95%**	$ 9,898,000	3.54 %	$ 10,708,000	4.08 %
Federal Home Loan Bank advances	**13,800,000**	**3.53**	-	-	-	-
Total	**$ 32,438,000**		$ 9,898,000		$ 10,708,000	
Year ended December 31 average balance:						
Federal funds purchased and repurchase agreements	**$ 10,602,000**	**3.52%**	$ 11,199,000	3.63 %	$ 3,504,000	4.11 %
Federal Home Loan Bank advances	**3,480,000**	**5.57**	-	-	-	-
Total	**$ 14,082,000**		$ 11,199,000		$ 3,504,000	
Maximum month-end balance:						
Federal funds purchased and repurchase agreements	**$ 20,766,000**	**NA**	$ 14,160,000	NA	$ 10,708,000	NA
Federal Home Loan Bank advances	**17,300,000**	**NA**	-	NA	-	NA

NA – Not applicable

The Bank enters into sales of securities under agreements to repurchase which generally mature within one day. The obligations to repurchase securities sold are reported as a liability in the accompanying consolidated balance sheets. The dollar amount of securities underlying the agreements remains in the asset accounts. The securities underlying the agreements are book entry securities. During the period, the securities were delivered by appropriate entry into the counterparty's account maintained at Zions National Bank.

The carrying and estimated fair value of investment securities consisting of U.S. Treasury notes and U.S. government agencies and corporations underlying the agreements at year end are as follows:

	1999	1998	1997
Carrying Value	**$ 23,058,000**	$ 22,416,000	$ 10,537,000
Estimated fair value	**22,832,000**	22,546,000	10,544,000

As of December 31, 1999, Federal Home Loan Bank advances are collateralized by securities held to maturity with a carrying amount of $8,500,000 and securities available for sale with a carrying amount of $9,158,000.

Note 7. Other Operating Expenses

Other operating expenses consist of the following for the years ended December 31:

	1999	1998	1997
Advertising and promotion	**$ 711,000**	$ 485,000	$ 495,000
Data processing:			
Item processing	**253,000**	293,000	379,000
Other data processing	**536,000**	383,000	398,000
Deposit services	**686,000**	609,000	496,000
Loan services:			
Loan processing	**384,000**	335,000	386,000
Other real estate owned	**167,000**	144,000	116,000
Credit card processing	**489,000**	638,000	631,000
Other loan services	**71,000**	82,000	85,000
Professional services:			
Legal and accounting	**302,000**	467,000	528,000
Other professional services	**392,000**	419,000	403,000
Stationery and supplies	**499,000**	447,000	477,000
Other operating:			
Telephone and data communication	**531,000**	515,000	461,000
Postage and mail	**285,000**	227,000	209,000
Other	**431,000**	341,000	283,000
Sundry and tellers	**107,000**	26,000	23,000
	$ 5,844,000	$ 5,411,000	$ 5,370,000

Note 8. Income Taxes

The components of income tax expense related to operations for the years ended December 31 are as follows:

	1999	1998	1997
Current income taxes:			
Federal	**$ 1,476,000**	$ 2,625,000	$ 1,420,000
State	**766,000**	1,081,000	702,000
	2,242,000	3,706,000	2,122,000
Deferred income taxes:			
Federal	**176,000**	(575,000)	329,000
State	**357,000**	(188,000)	85,000
	533,000	(763,000)	414,000
	$ 2,775,000	$ 2,943,000	$ 2,536,000

The Bank's income tax expense differed from the statutory federal rate as follows:

	1999	1998	1997
Expected federal taxes at statutory rate	**$ 2,935,000**	$ 2,859,000	$ 2,477,000
California franchise tax, net of federal income tax benefit	**595,000**	580,000	506,000
Benefit from tax-exempt securities income	**(568,000)**	(510,000)	(440,000)
Other, net	**(187,000)**	14,000	(7,000)
	$ 2,775,000	$ 2,943,000	$ 2,536,000

The net deferred tax asset (liability) consists of the following as of December 31:

	1999	1998
Deferred tax assets:		
Deferred compensation	**$ 222,000**	$ 178,000
Allowance for loan losses	**497,000**	1,175,000
State taxes	**239,000**	367,000
Other real estate owned expense	**343,000**	300,000
Mark to market, loans held for sale	**-**	64,000
Accrued expenses	**157,000**	150,000
	1,458,000	2,234,000
Deferred tax liabilities:		
Premises and equipment	**(415,000)**	(398,000)
Unrealized gain on securities available for sale	**(242,000)**	(1,405,000)
Mark to market, loans held for sale	**(108,000)**	-
Other	**(156,000)**	(524,000)
	(921,000)	(2,327,000)
Net deferred tax asset (liability)	**$ 537,000**	$ (93,000)

There is no valuation allowance on deferred tax assets as management believes these assets are more likely than not to be realized.

Note 9. Commitments and Contingencies

Financial instruments with off-balance-sheet risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets.

Note 9. Commitments and Contingencies, Continued

The Bank's exposure to credit loss in the event of non-performance by the other parties to the financial instrument for these commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank does not anticipate any material losses as a result of these commitments.

A summary of the contract amount of the Bank's exposure to off-balance-sheet risk as of December 31 is as follows:

	1999	1998
Commitments to extend credit	**$ 95,879,000**	$ 76,469,000
Standby letters of credit	**7,288,000**	6,986,000
Credit card commitments	**33,102,000**	31,153,000

Commitments to extend credit

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. If deemed necessary upon extension of credit, the amount of collateral obtained is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required when deemed necessary by the Bank.

Credit card commitments

Credit card commitments are commitments on credit cards and are unsecured.

Lease commitments and rental expense

The Bank leases facilities and equipment under operating leases with various expiration dates through 2013. Total rental expense under operating leases was $399,000, $396,000, and $338,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The future annual minimum lease payments under non-cancelable operating leases are as follows:

Years Ending December 31,	Amount
2000	$ 384,000
2001	384,000
2002	383,000
2003	383,000
2004	383,000
Thereafter	1,670,000
	$ 3,587,000

Litigation

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the financial statements.

Financial instruments with concentration of credit risk

Concentration by geographic location

The Bank makes commercial, residential and consumer loans to customers primarily in the South Central San Joaquin Valley of California, specifically Tulare, Kings, Kern, Madera and Fresno counties. A substantial portion of the Bank's customers' abilities to honor their contracts is dependent on the economy in these areas. Although the Bank's loan portfolio is diversified, there is a relationship in this region between the local agricultural economy and the economic performance of loans made to non-agricultural customers.

Concentration by organization

The Bank has undertaken an effort to market its credit card program locally through the establishment of relationships with various organizations, commonly referred to as affinity groups. The Bank has no affinity group that individually accounts for more than 20% of the credit card portfolio.

Note 10. Related-party Transactions

Stockholders of the Bank, and officers and directors, including their families and companies of which they are principal owners, are considered to be related-parties. These related parties were loan customers of, and had other transactions with, the Bank in the ordinary course of business. In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with non-related-parties.

Total loans to related-parties were approximately $183,000 and $1,086,000 at December 31, 1999 and 1998, respectively. The activity in such loans is as follows for the years ending December 31:

	1999	1998
Balance, beginning	**$ 1,086,000**	$ 882,000
New loans or advances under revolving lines	**7,990,000**	14,543,000
Repayments	**(8,893,000)**	(14,339,000)
Balance, ending	**$ 183,000**	$ 1,086,000

None of these loans are past due, non-accrual or restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 1999 and 1998.

Related-party deposits were approximately $2,467,000 and $1,836,000 at December 31, 1999 and 1998, respectively.

Note 11. Acquisition of a Branch

In February 1997, the Bank acquired a branch facility in Dinuba, California. This acquisition has been accounted for using the purchase method of accounting. Accordingly, operating results of the branch are included in the consolidated statements of income from the date of acquisition. The Bank assumed deposits totaling $8,048,000. The Bank paid a deposit premium of $144,000 for the assumption of the deposits.

Note 12. Stock Option Agreements

In June 1998, the Bank adopted the 1998 Stock Option Plan (the Plan) under which options to purchase shares of the Bank's common stock have been or may be granted to directors, officers and employees of the Bank. The exercise price of the options granted is based on the fair market value of the common stock at the date of grant.

For participants with ten years of service at the date of grant, options vest immediately. For the remaining participants, the options become exercisable in equal increments over a five-year period. The Plan expires ten years from the date of adoption.

The Plan covers a total of 2,763,864 shares, of which two-thirds are reserved for the grant of options to full-time salaried officers and employees of the Bank. The remaining one-third shares may be granted to anyone eligible to participate in the Plan, including directors, officers and employees. Options from the Plan may be granted as incentive stock options or non-qualified stock options. As of December 31, 1999, there are grants outstanding for 450,000 shares under non-qualified stock options and 640,000 shares under incentive stock options.

The following is a summary of stock option activity during the two years ended December 31, 1999:

Outstanding at January 1, 1998:	-
Granted, all at $9.00 per share	996,000
Terminated	-
Exercised	-
Outstanding at December 31, 1998	996,000
Granted, all at $9.00 per share	132,000
Terminated	(38,000)
Exercised	-
Outstanding at December 31, 1999	1,090,000
At December 31, 1999:	
Shares available to grant, end of year	1,673,864
Weighted average remaining contractual life	9 years

At December 31, 1999 and 1998, share options exercisable were 727,000 and 633,000, respectively.

The Bank has adopted FASB Statement No. 123, *Accounting for Stock-based Compensation*, but elected to continue to apply the accounting provisions of Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, no compensation cost has been recognized. Had compensation cost for the Bank's stock option plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of FASB Statement No. 123, the Bank's net income and earnings per share would have been reduced on a pro-forma basis by the amounts indicated below:

	1999	1998
Net income:		
As reported	**$ 5,612,000**	$ 5,224,000
Pro forma	**5,402,000**	3,774,000
Earnings per share, basic and diluted:		
As reported	**0.61**	0.57
Pro forma	**0.59**	0.41

Note 12. Stock Option Agreements, Continued

The fair value of each option grant and the related compensation cost shown above is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	1999	1998
Weighted average fair value per share of stock options granted	**$ 3.12**	$ 3.05
Expected life in years	**7.5 years**	7.5 years
Risk-free interest rate	**6.21 %**	4.98 %
Dividends as a percent of stock price	**2.46 %**	1.75 %
Expected price volatility	**30.85 %**	32.71 %

Note 13. Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve qualitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of December 31, 1999, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1999, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios, as of December 31, 1999 and 1998, are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio
	($000s)		($000s)		($000s)	
As of December 31, 1999						
Total capital (to risk-weighted assets)	**$ 40,060**	**11.3 %**	**≥ $ 28,220**	**≥ 8.0 %**	**≥ $ 35,275**	**≥ 10.0 %**
Tier I capital (to risk-weighted assets)	**36,293**	**10.3**	**≥ 14,110**	**≥ 4.0**	**≥ 21,165**	**≥ 6.0**
Tier I capital (to average weighted assets)	**36,293**	**8.1**	**≥ 17,853**	**≥ 4.0**	**≥ 22,317**	**≥ 5.0**
As of December 31, 1998						
Total capital (to risk-weighted assets)	36,201	12.8	≥ 22,583	≥ 8.0	≥ 28,229	≥ 10.0
Tier I capital (to risk-weighted assets)	32,662	11.5	≥ 11,292	≥ 4.0	≥ 16,937	≥ 6.0
Tier I capital (to average assets)	32,662	8.2	≥ 16,015	≥ 4.0	≥ 20,019	≥ 5.0

Dividends

The Bank is restricted as to the amount of dividends which can be paid. Dividends declared by banks that exceed the net income (as defined) for the current year plus retained net income for the preceding two years must be approved by DFI. The Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.

Note 14. Fair Value of Financial Instruments and Interest Rate

The fair value of the Bank's financial instruments is as follows at December 31:

	1999		1998	
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
Assets				
Cash and due from banks	**$ 31,413**	**$ 31,413**	$ 24,545	$ 24,545
Federal funds sold	**-**	**-**	9,800	9,800
Securities held to maturity	**64,886**	**63,402**	53,096	54,210
Securities available for sale	**27,986**	**27,986**	30,656	30,656
Loans, net	**303,317**	**311,089**	262,812	266,728
Loans held for sale	**10,957**	**10,694**	8,108	8,108
Accrued interest receivable	**2,498**	**2,498**	2,403	2,403
Liabilities				
Deposits	**385,818**	**383,442**	355,881	357,461
Federal funds purchased and repurchase agreements	**18,638**	**18,638**	9,898	9,898
Short-term Federal Home Loan Bank advances	**13,800**	**13,800**	-	-
Accrued interest payable	**619**	**619**	677	677

Fair value of commitments

The estimated fair value of fee income on letters of credit at December 31, 1999 and 1998, is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 1999 and 1998.

Interest rate risk

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair value of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are more likely to prepay in a falling rate environment and less likely to prepay in a rising rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

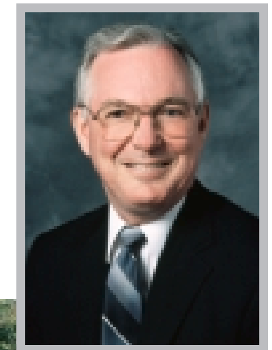
Note 15. Definitive Agreement

In December 1999, a definitive agreement was signed for the Bank to acquire Sierra National Bank (SNB) for approximately $9.1 million in cash, subject to the approval of SNB stockholders and state and federal regulatory authorities. SNB has four branches in Kern County. The transaction is expected to be completed in April 2000 and will be accounted for as a purchase.

Branch Locations

Porterville Offices

Arthur T. Cardell
Sr. Vice President/Manager



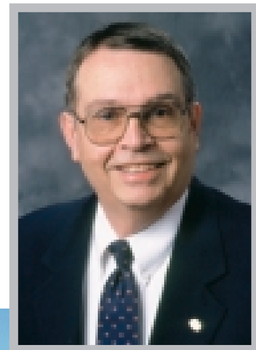
Deborah K. Hill	V.P./Senior Commercial Loan Officer
Janice A. Castle	A.V.P./Commercial Loan Officer
Linda G. Childers	A.V.P./Personal Banking Officer
Yolanda Stewart	A.V.P./Operations Manager

Main Office
90 North Main Street
Porterville, CA 93257
559/782-4300

S. Dianne Miller	A.V.P./Personal Banking Officer
Susan M. Cornell	A.V.P./Operations Manager

1498 West Olive
Porterville, CA 93257
559/782-4500

Lindsay Office

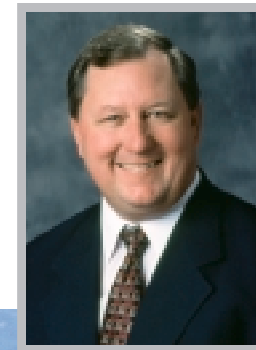


George D. Davis
Vice President/Manager

Joanne M. Conway	Personal Banking Officer	
Lisa R. Ruffa	Operations Manager	

142 South Mirage
Lindsay, CA 93247
559/562-6311

Exeter Office



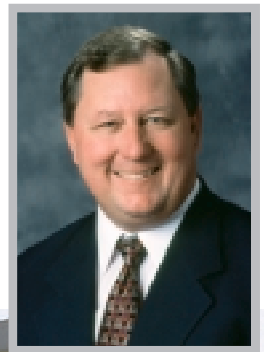
Jerry G. Hawkins
Vice President/Manager

Stefani D. Woods	Commercial Loan Officer
William A. Kinney	A.V.P./Operations Manager

1103 West Visalia Road
Exeter, CA 93221
559/592-4134

Branch Locations

Three Rivers Office



Jerry G. Hawkins
Vice President/Manager

Carole A. Terry	A.V.P./Operations Manager

40884 Sierra Drive
Three Rivers, CA 93271
559/561-5910

Visalia Downtown Office

Richard M. Wehmueller
Vice President/Manager

Jeri L. Eubanks	V.P./Commercial Loan Officer
Cydney E. Oster	V.P./Commercial Loan Officer
Beth S. Messinger	Commercial Loan Officer
Judy K. Williams	A.V.P./Operations Manager

128 East Main Street
Visalia, CA 93291
559/740-4200

Visalia Mooney Office

J. Stan Vaughn
Vice President/Manager

Joseph J. Yodsnukis A.V.P./Commercial Loan Officer
Sheryl L. Beshwate A.V.P./Operations Manager

2515 South Mooney Blvd.
Visalia, CA 93277
559/636-0100

Dinuba Office

James W. Stewart
Vice President/Manager

Terri A. Enos Personal Banking Officer
Gloria L. Ortega A.V.P./Operations Manager

401 East Tulare
Dinuba, CA 93618
559/591-6921

Branch Locations

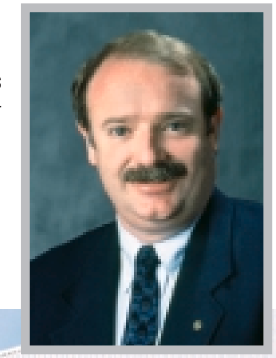
Bakersfield Office

Larry J. Mueller
Vice President/Manager

Michael S. Haffermann V.P./Senior Commercial Loan Officer
Mark A. Olague A.V.P./ Commercial Loan Officer
Sandra M. McFarland A.V.P./Operations Manager

5060 California Avenue
Bakersfield, CA 93309
661/325-0101

Tulare Office



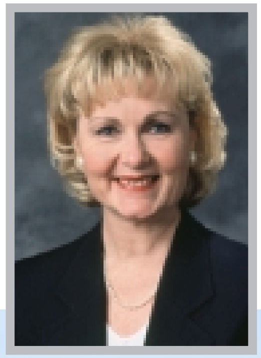
John R. Thomas
Vice President/Manager

Lyneé D. Shahan Personal Banking Officer
Belinda J. Emerson A.V.P./Operations Manager

246 East Tulare Avenue
Tulare, CA 93274
559/686-4900

Hanford Office

Sherill L. Calhoun
Vice President/Manager

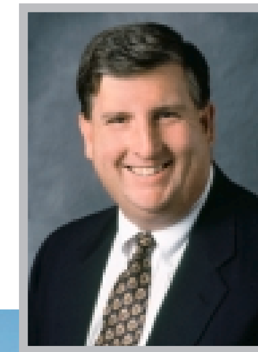


Cindy A. Anderson A.V.P./Commercial Loan Officer
Ronda M. Craft A.V.P./Operations Manager

427 West Lacey Boulevard
Hanford, CA 93230
559/585-6700

Fresno Office

J. Frank Oliver
Vice President/Manager



Ronald P. Leach V.P./Commercial Loan Officer
Katherine A. Garvis A.V.P./Commercial Loan Officer
Michele Wallace A.V.P./Operations Manager

636 East Shaw Avenue
Fresno, CA 93710
559/248-0112

Corporate Officers

Credit Center Officers

Ag Credit Centers

William R. Mehrten	Vice President/Manager
Gary D. Brunsvik	V.P./Senior Ag Loan Officer
Robert D. Elledge	V.P./Ag Loan Officer
Anthony S. Mungary	V.P./Ag Loan Officer
Anthony J. Espino	A.V.P./Ag Loan Officer

Bank Card Center

Randy P. Mahre	Vice President/Manager
Lori E. Russell	Operations Manager

Real Estate Centers

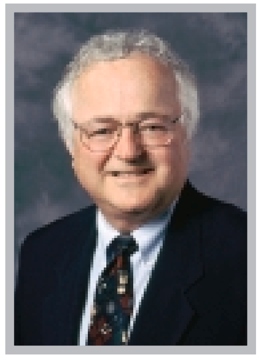
Arthur W. Zschau	Vice President/Manager
Gerald C. Collins	V.P./Construction Loan Officer
Thomas J. McDermott	V.P./Secondary Marketing Officer
Crystal L. Cowart	A.V.P./Mortgage Loan Officer
Darlene M. Fillmore	A.V.P./Senior Real Estate Loan Officer
Sherri L. Jackson	A.V.P./Loan Production Manager
Judi A. Singer	A.V.P./Mortgage Loan Officer
Bonnie L. Boyd	Mortgage Loan Officer
Gregory J. Haag	Mortgage Loan Officer
William D. Hopper	Mortgage Loan Officer
Dennis D. Pfendler	Mortgage Loan Officer
Zella Rahn	Mortgage Loan Officer
Lupe Romero	Mortgage Loan Officer
Vincent B. Salinas	Mortgage Loan Officer
Donald R. Shipman	Mortgage Loan Officer
Barry D. Simpson	Mortgage Loan Officer

Administrative Officers

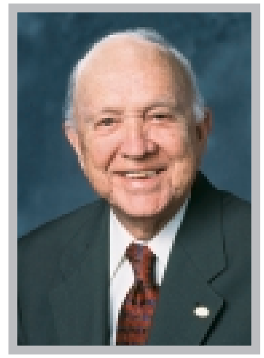
James C. Holly	President & Chief Executive Officer
Kenneth E. Goodwin	Executive V.P. & Chief Operating Officer
Jack B. Buchold	Senior V.P. & Chief Financial Officer
Charlie C. Glenn	Senior V.P. & Chief Credit Officer
C. Thomas Elford	V.P./Senior Loan Officer
Pamela J. Galli	V.P./Compliance Officer
Cindy L. Herron	V.P./Controller
Linda S. Hudspeth	V.P./Director of Loan Operations
Ronald L. Pope	V.P./Management Information Services
Joe L. Ruiz, Jr.	V.P./Operations Administrator
Richard H. Schmid	V.P./Chief Appraiser
Susan H. Treganza	V.P./Director of Marketing
Richard W. Vorreyer	V.P./Director of Human Resources
Mona M. Little	A.V.P./Operations Manager
Steven W. Sell	A.V.P./Appraiser
Frank W. Wittich, Jr.	A.V.P./Special Assets Manager
K. Kyle Amos	Applications Administrative Officer
Mark L. Anderson	Special Assets Center Supervisor
Grace M. Delgado	Operations Manager, Customer Service Center
Timothy B. Dennis	Phoenix System Administration Officer
Kathy M. Keller	Assistant to the President
Richard E. Tipton	Network Service Manager

Board of Directors

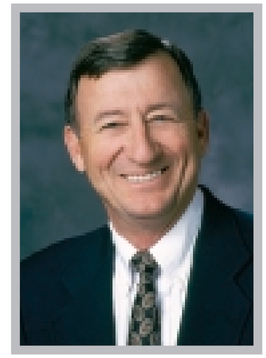
Morris A. Tharp
Chairman
President & Owner, E.M. Tharp, Inc.



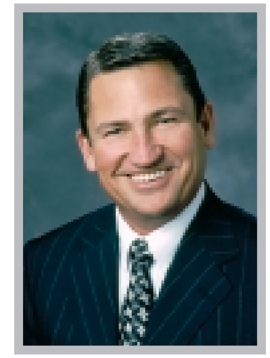
James C. Holly
President
President, Bank of the Sierra



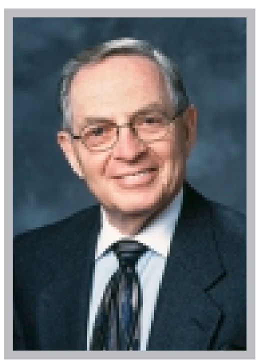
Robert H. Tienken
Secretary
Realtor/Farmer



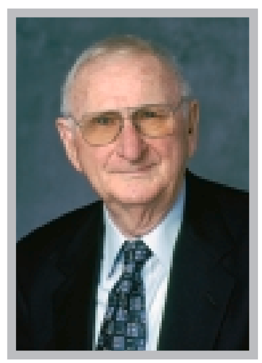
Albert L. Berra
Director
Orthodontist/Rancher



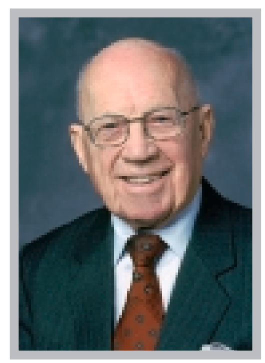
Gregory A. Childress
Director
Olive Grower



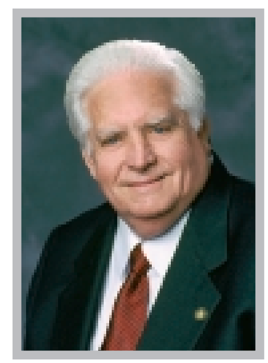
Robert L. Fields
Director
Retired Investor



Vince L. Jurkovich
Director
President, Porterville Pipe Company



Howard H. Smith
Director
Property Management/Investor



Gordon T. Woods
Director
Owner, G.T. Woods Construction

In Memoriam
Fred R. Berger, Jr.

We are saddened by the passing of Fred R. Berger, Jr., during 1999. Fred was a Founding Director of Bank of the Sierra and was dedicated and committed to the Bank's growth and overall well-being. We will miss his loyal service to the Board and his ongoing contributions to the Bank.

The Bank will provide free of charge to any shareholder, upon written request to Jack B. Buchold, Senior Vice President and Chief Financial Officer of the Bank, at Post Office Box 1930, Porterville, California 93258, a copy of the Bank's 1999 Annual Report on Form 10-K including financial statements (but without exhibits) filed with the Federal Deposit Insurance Corporation. If a shareholder desires copies of the exhibits to the report, they will be provided upon payment by the shareholder of the cost of furnishing the exhibits.

Quarterly financial reports and other news releases may also be obtained from this individual.