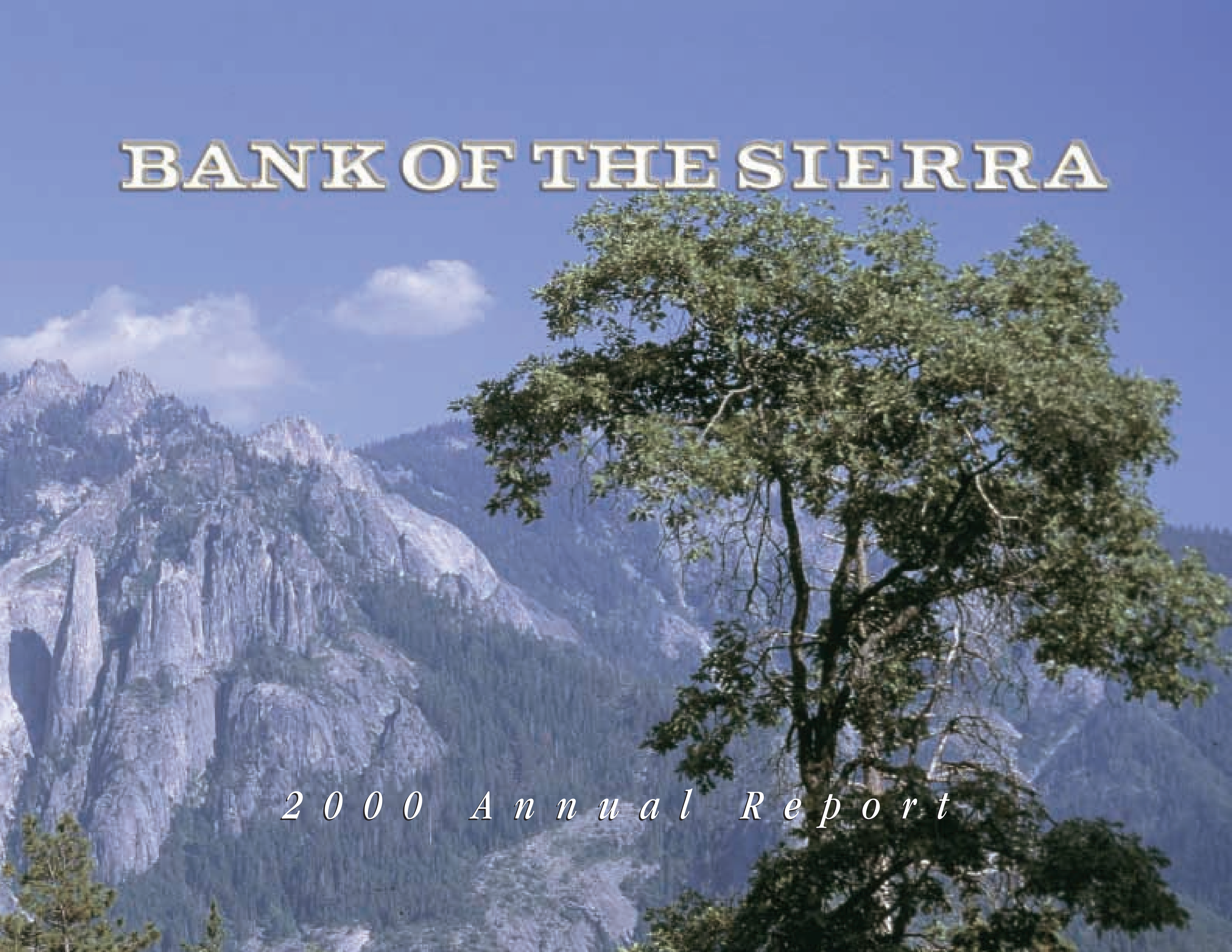
BANK OF THE SIERRA



2000 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

"The best thing about the future is that it comes only one day at a time."

Abraham Lincoln

The future indeed comes one day at a time, just as the quote from Lincoln suggests, but we still need to plan ahead on the one hand and reflect historically on the other. Last year we had perhaps the strongest asset growth in our history, realized largely through acquisition, and also from growth from our existing branches. Net Income in Year 2000 was slightly less than Year 1999, but still strong enough for us to be designated a Premier Performing Bank for Year 2000 and for the 16th time in our history. Looking ahead, we are now well positioned throughout the South Valley to realize stronger net income from this strengthened base.

Our strengthened position in Year 2000 came mainly from the acquisition of Sierra National Bank in May 2000 which added four additional branches in Kern County and which helped push our Total Assets to over $600 million by year-end. In December 2000 we also signed a Definitive Agreement to acquire yet another bank in Kern County, but subsequent to year-end, this agreement was terminated by mutual consent due to a significant reduction in that bank's 2000 earnings which altered the economic composition of the transaction. However, with the four new branches from Sierra National Bank and with growth from our existing twelve branches, we continued to build the presence, the market share and the critical mass necessary to be the dominant multi-community bank in the South Valley.

But our growth is not all brick and mortar. A growing element in our customer base, both consumer and business, is looking towards technology. While much of this access dimension is in place, we re-promoted Sierra Access (Internet Banking with Bill Pay), completely re-designed our website, and then late in the year for our business customers, we installed Sierra Web Cash Manager, an on-line business cash management solution. We also put in place Sierra Loan Access - an automated loan approval process accessible at our website or by telephone. This will be promoted in early 2001.

Another access dimension that we have been testing is an expanded off-site ATM network within our existing trade area. Our latest endeavor is an award winning (2001 Addy Award) free-standing ATM near the South County Civic Center in Porterville. This free-standing drive-up ATM has striking graphics, and it is now our most used off-site ATM. This we think will be a prototype going forward. There is a photograph of this ATM in this Annual Report on page 61.

We also added to our dimension as a full service financial services provider. We already have the securities piece in place with our strategic alliance with Investment Centers of America, Inc. This past year we also invested in California Bankers' Insurance Agency, and we view this as a strong possibility for offering a broader array of insurance products and services in the future. Insurance sales has potential, but the delivery needs must be carefully developed.

With all of this in place, and after a decade of ongoing expansion, we are now viewing 2001 as a year to consolidate our gains, make a strong move toward greater efficiency and to strengthen our balance sheet for the uncertain economic time ahead. In the South Valley, the economy in the late 90's never blossomed like other parts of California, and most sectors of agriculture are depressed. This will be a good year for consolidation and to build a base for future expansion. In the longer view we would anticipate continued growth within existing markets and entering new markets through acquisition or new branch openings.

During the year 2000, we extensively remodeled our flagship office in Porterville and gave it the contemporary look of our newer offices. As a part of that, we replaced the five historic murals and donated them to the Tulare County Museum. We chose the Tulare County Museum over the various City Museums to allow maximum viewing by the public. As a tribute, these murals are pictured in this Annual Report and photographic reproductions will soon hang in the Board Room. These make a strong statement about the early settlers here in Tulare County and are worth remembering.

Finally a note on the most crucial element in what success we have had. That would be the human resources element starting with the Board of Directors and permeating throughout the Officer Staff and Support Staff. Customer service and a traditional delivery system are still critical to our success; technology can and does enable a high level of customer service, but only a high quality staff can deliver it!

In summary, 2000 was a year where the Bank growth was exceptionally strong, a year where net income remained strong, and a year where we advanced strategically by adding to our market strength and presence in the South Valley. On balance it was a good year that postures us well to consolidate our gains in 2001, and continue to develop ambitious plans for the years ahead. Often I have said we have not yet realized our full potential, and we have not, but we do have the means, the will, and the drive to continue on toward that end! I offer this ending quote (meant to be gender neutral) as a tribute to so many that are part of the Bank of the Sierra team.

"Nothing great will ever be achieved without great men, and men are great only if they are determined to be so." **Charles de Gaulle**

Respectfully submitted,

James C. Holly

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's securities consist of one class of Common Stock, no par value, of which there were 9,212,280 shares outstanding as of February 15, 2001, held of record by 736 stockholders. The Bank is an insured bank under the Federal Deposit Insurance Act, up to the applicable limits thereof. Like most state-chartered banks of its size in California, the Bank is not a member of the Federal Reserve System.

With a predominant focus on personal service, Bank of the Sierra has positioned itself as a multi-community independent bank serving the financial needs of individuals and businesses, including agricultural and real estate customers in Tulare and other surrounding counties. Three other dimensions surround this core of community banking: agricultural lending, credit card loans and real estate financing (both construction and long term).

The Bank operates nine full-service branch offices in six Tulare County communities, five full-service offices in three Kern County communities, and one full-service office each in Fresno and Kings Counties. The Bank also has eight credit centers for agricultural lending, credit card loans, construction and real estate lending in Tulare, Kern, Fresno and Kings Counties; and offers a full range of banking services to individuals and various sized businesses in the communities which it serves.

Prior to 1997, the Bank had grown exclusively by establishing de novo full-service branch offices and credit centers in each of its current locations. In February 1997, the Bank made its first branch purchase, the Dinuba Office of Wells Fargo Bank. Between February 1997 and September 1999 the Bank opened three additional de novo offices, in Tulare, Hanford and Fresno. In May 2000, the Bank added four new branches through the acquisition of Sierra National Bank. These branches stretch from California City, in the high desert, westerly to Bakersfield along the Highway 58 corridor, a distance of approximately 81 miles.

The Agricultural Credit Centers, located in Fresno and Porterville, 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 and Analysis - Loan Portfolio Composition" herein.)

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 though 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 administrator is responsible for the program, which generated approximately $11.1 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, cashier's checks, traveler's checks, bank-by-mail, ATM, night depository, safe deposit boxes, direct deposit, automated payroll services, internet banking, phone banking, electronic bill payment and other customary banking services.

As of December 31, 2000, the principal areas in which the Bank directs its lending activities, and the percentage of the total loan portfolio for which each of these areas were responsible, were as follows: (i) agricultural loans (3.87%); (ii) commercial and industrial (including SBA) loans (16.70%); (iii) real estate loans (68.31%); (iv) consumer loans (8.40%); and (v) credit cards (2.72%).

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 transaction, savings, time certificates of deposit and retirement accounts, as well as telephone banking and internet banking with bill pay options. As of December 31, 2000 the Bank had 47,262 deposit accounts with balances totaling approximately $527.8 million as compared to 32,726 deposit accounts with balances totaling approximately $385.8 million at December 31, 1999. The Bank's deposits consist of demand deposits, savings deposits and time deposits with original maturities ranging from one day to five years. As of December 31, 2000, the Bank had $130.6 million or 24.7% in non-interest bearing demand deposits; $31.2 million or 5.9% in savings accounts; $144.4 million or 27.4% in time deposits less than $100,000; $131.5 million or 24.9% in time deposits of more than $100,000; and $90.1 million or 17.1% in other deposits (NOW and Money Market Deposit accounts). As of that same date, there were time deposits of $6.2 million and money market accounts of approximately $3.4 million deposited by local government agencies.

Most of the Bank's deposits are attracted from individuals, business-related sources and smaller municipal entities. This results in a relatively modest average deposit balance of approximately $11,000 at December 31, 2000, but makes the Bank less subject to adverse effects from the loss of a substantial depositor who may be seeking higher yields in other markets or who may have need of money otherwise on deposit with the Bank, especially during periods of inflation or conservative monetary policies.

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 described above. These include shared Automated Teller Machines (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. During the past few 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 parking lot adjacent to a county center, a college campus, a motel and a parking lot adjacent to Highway 190. 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 services and products provided by the Bank.

For non-deposit services, the Bank 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.

The Bank currently has one wholly-owned subsidiary, Sierra Phoenix, Inc. ("Sierra Phoenix"), the sole function of which is to hold certain investments which the Bank is not permitted to hold directly. At the current time, it holds two investments, one of which is stock in Phoenix International, Ltd., Inc., ("Phoenix International") a computer software company which specializes in the production and marketing of client user software for financial institutions. The other investment held is an equity position in California Bankers' Insurance Agency, LLC ("CBIA"), an entity which was formed to facilitate insurance product sales after enabling legislation under the Gramm-Leach-Bliley Financial Services Modernization Act was passed. At the current time, the Bank is a passive investor, through Sierra Phoenix, in both Phoenix International and CBIA. (See "Management's Discussion and Analysis - Investment Portfolio" herein.)

Real Estate Center lending activities are generated by real estate loan officers who are not responsible for branch deposit gathering activities but who are solely dedicated to the Bank's real property secured lending activities. This class of services includes 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. Total revenue generated by the real estate center amounted to $10.6 million, $6.3 million and $5.5 million for 2000, 1999 and 1998, respectively.

The Bank has not engaged in any material research activities relating to the development of new services or the improvement of existing banking services during the last two fiscal years. However, the officers and employees of the Bank are continually engaged in marketing activities, including the evaluation and development of new services, which enable the Bank to retain and improve its competitive position in its service area. The decision to introduce "SierraLine", a telephone banking service, during November of 1998 and "Sierra Access" (Internet Banking) in October of 1999 were a result of such evaluation. These products include electronic bill paying methodologies for enhanced customer value, and marketing plans and programs for these products have been generated over the last year. During the past year, the Bank introduced "Sierra Loan Access", a twenty-four hour, seven days a week available consumer loan application process. This function allows a consumer to gain an answer within fifteen to thirty minutes on a request for any number of consumer loans, including auto, personal revolving lines, credit card or home equity/home improvement loans. This function will be available through the Bank's internet site, during the year 2001. Also during 2000, the Bank started testing "Sierra Web Cash Manager", a commercial checking account cash management system which also functions through the Bank's internet web site. This is expected to be rolled out to all commercial accounts during 2001, after testing is complete. During the year 2000, the Bank further expanded its off-site ATM locations with one at a county administrative office in Porterville, in the parking lot. This facility is in a drive-through mode, and is expected to substantially enhance customer convenience in the Porterville market. This drive-through facility will become an ATM prototype for other locations during succeeding years, as the Bank builds alternate delivery systems in currently under served markets. All of these facilities are meant to enhance public access to the electronic payments system, and better serve the public convenience in the Bank's service area. The cost to the Bank for these development, implementation and marketing activities cannot expressly be calculated with any degree of certainty.

Recent Developments

The Bank is in the process of forming a holding company named Sierra Bancorp, which will become the sole shareholder and holding company of the Bank. The Bank's Board of Directors has approved a plan of reorganization, subject to shareholder approval and all required regulatory approvals or non-disapprovals, under which the business of the Bank will be conducted as a wholly-owned subsidiary of Sierra Bancorp. At that point each outstanding share of the Bank's Common Stock will be converted into one share of Sierra Bancorp's Common Stock. It is anticipated that shareholder approval of the proposed reorganization will be solicited at the Bank's 2001 Annual Meeting of Shareholders, and that the transaction will be completed by the end of the second quarter of 2001. However, no assurance can be given that the reorganization will in fact be completed.

In December 2000, a definitive agreement was signed for the Bank to acquire Taft National Bank ("TNB") for approximately $7.5 million in cash, subject to the approval of TNB stockholders and state and federal regulatory authorities. On February 22, 2001, the Bank and TNB by mutual consent terminated the agreement.

Market for Common Equity

and Related Stockholder Matters

Market Information

The Bank's Common Stock has been listed on The Nasdaq National Market® under the symbol BSRR since June 10, 1999 and the CUSIP number for such Common Stock is #064860109. Trading in the Common Stock of the Bank has not been extensive and 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; Morgan Stanley Dean Witter, Bakersfield, 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 Nasdaq Stock Market®. The information in the following table does not include trading activity between dealers.

Calendar Quarter Ended	Sale Price of the Bank's Common Stock High	Low	Approximate Trading Volume Shares
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
March 31, 2000	9.50	7.50	36,767
June 30, 2000	8.25	7.13	24,913
September 30, 2000	8.00	5.68	39,319
December 31, 2000	7.50	5.75	76,454

Holders

On February 15, 2001 there were approximately 736 stockholders of record of the Common Stock.

Dividends

The Bank paid cash dividends of $2.12 million or $0.23 per share during 2000 and $2.02 million or $.22 per share in 1999 representing approximately 38% and 39% of the prior year's earnings respectively, pursuant to a policy of paying quarterly cash dividends totaling at least thirty-five percent (35%) of the prior year's net earnings to the extent consistent with general considerations of safety and soundness and provided that such payments do not adversely affect the Bank's financial condition. In view of the Bank's recent growth resulting in part from the acquisition of Sierra National Bank in May 2000, the Board of Directors has decided to revise the dividend policy for 2001 and the foreseeable future to pay dividends totaling approximately between twenty percent (20%) and twenty-five percent (25%) of the prior year's net earnings, subject to the same limitations as the previous dividend policy. The Bank has also implemented a plan to return the Bank from an "adequated capitalized" to a "well-capitalized" position by the end of 2001 if possible, and if necessary the Bank may consider a further modification of its dividend policy to achieve this goal. (See "Management's Discussion and Analysis - Capital Resources" herein.)

While the Bank anticipates paying cash dividends in the future pursuant to this new policy, no assurance can be given that the Bank's future earnings in any given year will justify the payment of such a dividend. In addition, the Bank is in the process of forming a holding company (see "Recent Developments" herein), and the amount and timing of the payment of dividends by the holding company will be dependent on the earnings and financial condition of the Bank. The power of the Bank's Board of Directors to declare cash dividends is limited by statutory and regulatory restrictions. Although it is anticipated that the holding company will continue to pay dividends in the future consistent with the Bank's newly revised dividend policy, no assurance can be given that the Bank's and the holding company's future earnings in any given year will justify the payment of such a dividend.

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.)

Selected Financial Data

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 and other data from our internal accounting system. 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. Statistical information below is generally based on average daily amounts.

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

	2000	1999	1998	1997	1996
Income Statement Summary					
Interest income	$ 46,993	$ 34,511	$ 33,652	$ 30,011	$ 26,850
Interest expense	$ 18,677	$ 11,721	$ 12,378	$ 9,846	$ 8,690
Net interest income before provision for possible loan losses	$ 28,316	$ 22,790	$ 21,274	$ 20,165	$ 18,160
Provision for loan losses	$ 2,760	$ 2,118	$ 2,800	$ 2,013	$ 1,493
Non-interest income	$ 6,436	$ 5,346	$ 6,076	$ 4,389	$ 3,544
Non-interest expense	$ 23,769	$ 17,631	$ 16,383	$ 15,463	$ 14,261
Income before provision for income taxes	$ 8,223	$ 8,387	$ 8,167	$ 7,078	$ 5,950
Provision for income taxes	$ 2,742	$ 2,775	$ 2,943	$ 2,536	$ 2,035
Net Income	$ 5,481	$ 5,612	$ 5,224	$ 4,542	$ 3,915
Balance Sheet Summary					
Total loans, net	$416,392	$314,474	$270,920	$ 258,142	$217,238
Allowance for loan losses	($ 5,362)	($ 3,319)	($ 4,394)	($ 3,034)	($ 2,904)
Securities held-to-maturity	$ -	$ 64,886	$ 53,096	$ 37,033	$ 37,590
Securities available-for-sale	$112,516	$ 27,986	$ 30,656	$ 23,082	$ 13,544
Cash and due from banks	$ 43,433	$ 31,413	$ 24,545	$ 26,774	$ 32,791
Federal funds sold	$ 246	$ -	$ 9,800	$ 5,300	$ -
Other real estate owned	$ 1,530	$ 2,553	$ 1,273	$ 2,285	$ 2,226
Premises and equipment, net	$ 14,477	$ 11,597	$ 9,491	$ 7,540	$ 6,851
Total Interest-Earning Assets	$535,689	$410,382	$369,216	$ 327,264	$271,695
Total Assets [1]	$606,726	$458,384	$404,064	$ 365,333	$314,232
Total Interest-Bearing Liabilities	$431,468	$327,835	$283,464	$ 260,373	$210,554
Total Deposits	$527,776	$385,818	$355,881	$ 321,113	$283,021
Total Liabilities	$565,944	$421,685	$369,046	$ 334,882	$287,595
Total Stockholders' Equity	$ 40,782	$ 36,699	$ 35,018	$ 30,451	$ 26,637

(Table continues and footnotes appear on the following page.)

Selected Financial Data

(continued)

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

	2000	1999	1998	1997	1996
Per Share Data [2]					
Net Income	$ 0.60	$ 0.61	$ 0.57	$ 0.49	$ 0.42
Book Value	$ 4.43	$ 3.98	$ 3.80	$ 3.31	$ 2.89
Cash Dividends	$ 0.23	$ 0.22	$ 0.15	$ 0.05	$ 0.04
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	9,212,280	9,252,193	9,212,280	9,212,280	9,212,280
Selected Financial Ratios					
Return on Average Assets [3]	0.96%	1.33%	1.33%	1.37%	1.32%
Return on Average Equity [4]	14.30%	16.24%	15.81%	15.74%	16.45%
Dividend Payout Ratio [5]	38.33%	36.07%	26.32%	10.20%	9.52%
Net Interest Spread [6]	4.60%	5.10%	4.97%	5.68%	5.93%
Net Interest Margin [7]	5.48%	5.97%	5.92%	6.68%	6.80%
Equity to Assets Ratio [8]	6.69%	8.22%	8.42%	8.71%	8.48%
Tier 1 Capital to Adjusted Total Assets	5.64%	8.13%	8.16%	8.10%	8.10%
Tier 1 Capital to Total Risk-Weighted Assets	7.76%	10.30%	11.54%	10.50%	11.00%
Total Capital to Total Risk-Weighted Assets	9.00%	11.32%	12.79%	11.61%	12.30%
Non-Performing Loans to Total Loans	0.73%	0.29%	1.43%	0.55%	1.21%
Non-Performing Assets to Total Loans and Other Real Estate Owned	1.05%	1.08%	1.88%	1.41%	2.20%
Net Charge-Offs (recoveries) to Average Loans	0.43%	1.11%	0.55%	0.78%	0.63%
Total Interest Expense to Gross Interest Income	39.74%	33.96%	36.78%	32.81%	32.36%
Allowance for Possible Loan Losses to Net Loans at Period End	1.29%	1.06%	1.62%	1.18%	1.34%
Net Loans to Total Deposits at Period End	78.90%	81.51%	76.13%	80.39%	76.76%

(1) On May 19, 2000, Bank of the Sierra acquired the net assets of Sierra National Bank. The transaction was accounted for using the purchase method of accounting. Bank of the Sierra paid $9,563,000 in cash (including acquisition-related costs of $463,000) for net assets of $3,694,000. The resulting purchase price in excess of net assets acquired (intangibles) is $5,869,000. The allocation of the purchase price is preliminary as not all estimations have been finalized.

(2) All per share data and the average number of shares outstanding have been retroactively restated on a split adjusted basis.

(3) Net income divided by average total assets.

(4) Net income divided by average stockholders' equity.

(5) Dividends declared per share divided by net income per share.

(6) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(7) Represents net interest income as a percentage of average interest-earning assets.

(8) 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, 2000. The discussion should be read in conjunction with the Consolidated Financial Statements of the Bank and the Notes related thereto.

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 (i) the external environment impacting the Bank, (ii) a summary of the Bank's performance over the past three years and (iii) 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 ("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 year 2000 reflected strong consumer spending, rising business productivity and tame inflation. However, prior to March 31, 2001 we have already seen the FRB, through actions of the Federal Open Market Committee ("FOMC") implement policies which have had the effect of reducing the Bank's Prime Rate by 150 basis points, or one and one-half full percentage points. These reductions are meant to spur additional growth and keep the country from a recession; however, no assurance can be given that this, in fact, will occur.

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 2000 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, year to year comparisons show that unemployment is moderating; however, the lack of substantive employment growth affects the Bank's volume of business in its smaller communities, which have become a smaller segment of the Bank's overall growth, over the past few years.

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 ("DFI") and 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. The Bank's regulatory burden is not expected to substantially diminish in the foreseeable future.

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

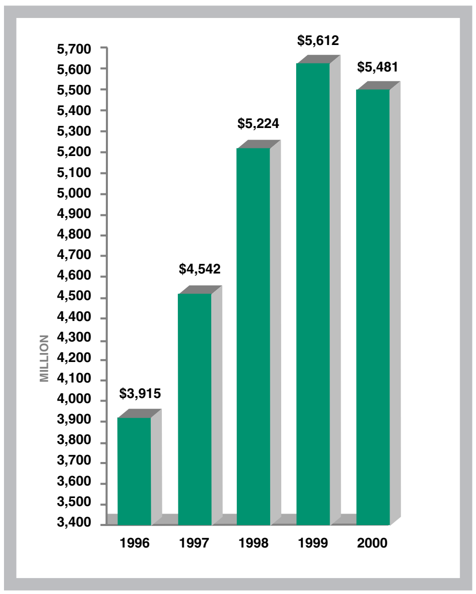
Current trends in the banking and financial services industry are those of geographic, product line and financial intermediary mergers. With industry consolidation, quality loan and deposit customers are being heavily solicited by major nationwide banks, insurance companies, investment brokerages, credit unions and mass marketing programs. Technology has also led to greater innovation and competition, as internet services have allowed depository and non-depository institutions to compete very effectively for consumer and business accounts centrally available through technology, across various regional, state and national, and product borders.

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 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 declined somewhat during 2000, after seventeen consecutive years of increased profitability. For 2000, net income was $5.48 million, compared to the $5.61 million in 1999 and net income at $5.22 million in 1998. Net income per share was $0.60 for 2000, as compared to $0.61 during 1999 and $0.57 in 1998. The Bank's Return on Average Assets ("ROA") was .96% and Return on Average Equity ("ROE") was 14.30% in 2000, as compared to 1.33% and 16.24%, respectively in 1999, and 1.33% and 15.81%, respectively for 1998.

Net Income



During 2000, the Bank's net interest income grew 24.25% as compared to 1999, while it grew 7.15% for the period 1999 compared to 1998. While the Bank's prime rate increased three times during both 2000 and 1999, loan volume is the primary reason for higher interest income levels during both periods.

During the year 2000, the Bank acquired Sierra National Bank, a Tehachapi based, four branch financial institution with approximately $87 million in total assets. This acquisition, when coupled with internal growth of approximately $61 million, increased the Bank's overall size by approximately 32% to $607 million, from $458 million in 1999. The total costs of this acquisition were substantial in relation to the Bank's earnings and asset size. The cost of operating these four new branches in 2000 somewhat outstripped the Bank's incremental earnings from this source. The purchase of SNB was a strategic decision meant to improve the Bank's long-term potential, although it negatively impacted earnings in 2000. The additional customer base and branch locations are within the Central Valley footprint contiguous to that area already developed by the Bank. Although the Bank has additional training, remodeling and information systems upgrade requirements as a result of the acquisition, it is felt that such purchase will enhance shareholder value for the foreseeable future.

Based on the prior year's performance changes, the additional asset base and customer account volumes, the Bank is evaluating each business activity that comprises its business base for procedural, staffing and profitability comparisons over the next year. It is anticipated that these reviews will enhance incremental profitability over the subsequent years, although no absolute assurance can be given that this, in fact, will occur.

The Bank's asset size increased by approximately 32% over the last year, while its capital for financial reporting purposes grew by only 11%. As a result, the Bank's capital ratio declined over the period reported, even after the substantial increase in accumulated other comprehensive income. This increase was primarily due to the increase in market value of available-for-sale investments, during the fourth quarter of 2000.

This asset growth without concurrent capital growth in roughly the same percentage has prompted the Bank's move from "well capitalized" under regulatory guidelines, to "adequately capitalized". Nonetheless, the Bank has formulated plans for the year 2001, which are intended to enhance the Bank's capital level by the end of the year. (See "Capital Resources") There can be no absolute assurance given, however, that this, in fact, will occur. Numerous local market, general economic and regulatory changes could impact such ratios by the end of 2001.

Results of Operations

Net Interest Income and Net Interest Margin

During 2000 the Bank generated net income of $5.48 million as compared to $5.61 million in 1999 and $5.22 million in 1998. This $5.48 million for 2000 was a reduction of 2.32% from $5.61 million in 1999, which was an increase of 7.47% over 1998. 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 2000 was $28.32 million compared to $22.79 million and $21.27 million in 1999 and 1998, respectively. This represents an increase of 24.25% in 2000 over 1999 and an increase of 7.15% in 1999 over 1998. 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 the provision for loan losses for 2000 was 5.48%, a decline of about 8.21% from the 5.97% reported for 1999. For the year 1998, this margin was 5.92%.

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 2000 was 10.01% as compared to 10.23% in 1999 and 10.82% during 1998. The reduced earning rate during 2000 was as a result of generally lower rates of return on real estate secured loans. This trend has been reflected in each of the last three years when one views the Distribution, Rate and Yield Table on the following page. In addition, interest-bearing deposit rates increased to 4.42% for 2000, as compared to 3.93% in 1999 and 4.41% during 1998. The cost of borrowed funds has also become more significant in the overall costs of funds during each of the past three years, due to the increasing volume in each of the periods under consideration. Further, investment portfolio returns did not change appreciably over the three year period ending December 31, 2000. Rates earned on investments were 5.81% during 2000, as compared to 5.35% and 5.39%, respectively, during 1999 and 1998.

The analysis reflected in the Distribution, Rate and Yield Table shows that overall earning asset rates increased moderately to 9.09% during 2000, from 9.04% in 1999. However, the 1999 rate was a reduction from the 9.36% reported for 1998. By the same token, the overall interest-bearing liability rate paid in 2000 was 4.49%, as compared to 3.94% in 1999 and 4.39% for 1998. Both areas, interest earned and interest paid, reflected increases during 2000 as compared to 1999, and decreases between 1998 and 1999. However the increased rate paid in 2000 was far greater on a percentage basis, than was the increase in earnings rates. As a result, the Bank's net interest margin before the provision for loan losses fell during 2000 to 5.48% compared to 5.97% for 1999 and 5.92% for 1998.

The Distribution, Rate and 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.

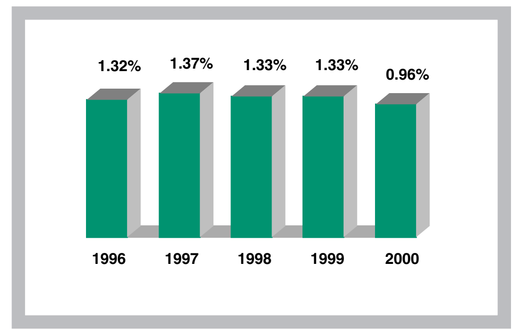
During 2000, the Bank's net interest margin was impacted by three primary items. First and foremost was the increase in interest paid on the Bank's average interest-bearing deposit portfolio, which was 37.19% larger than the average of 1999. Secondly, the decline in interest rates paid by borrowers and 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 third area of impact for the Bank's net interest margin was the increase of interest rates paid on a larger average interest-bearing liability base.

As a result of the change in distribution of average assets and the lesser rates garnered on loans coupled with higher deposit rates paid, the Bank's net interest margin decreased during 2000. It is expected that during 2001, the Bank will continue to sustain a lower level of return on its loan portfolio, as a result of the decline in the Bank's prime rate during the first two months of the year. While the Bank's overall cost of funds will also decline, it is anticipated that the Bank's net interest margin will decrease during 2001.

During 2000, the Bank's average loan portfolio grew by $114.6 million, or 39.68% with real estate secured loans being the predominant portion of this growth, at $91.9 million, or 80.19%. The second most notable change in the average loan portfolio was the increase in commercial loans, which was $17.0 million or 14.87% of the net loan increase. 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 continue during 2001, as a result of the generally decreasing prime rate, and the continued growth of real estate secured loans in the Bank's portfolio. 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 competitive factors across the spectrum of lenders active in the market and the lower rates associated with increased competition have also affected the Bank's rates of return on new and renewing loans.

Additionally, loan volume over the past three years has become a larger portion of the average asset base. During the year 2000, the loan portfolio was 70.4% of average total assets, while for 1999 and 1998 such volume represented 68.6% and 67.0%, respectively, of average assets. Year-end figures may differ somewhat due to seasonality and customer pre-payments.

Return on Average Assets



The higher volume of average interest-bearing deposits during 2000 is another area of primary variance from 1999 as mentioned above. During 2000, average interest-bearing liabilities grew $118.4 million, or 39.78%, while during 1999, average interest-bearing deposits grew $12.64 million or about 4.66% over 1998, and while for 1998 over 1997, such deposit growth was $45.61 million or about 20.24%. This growth was primarily brought about by the Bank's purchase of the four branches of Sierra National Bank, which added $81.7 million in total deposit liabilities, $57.8 million of which were interest-bearing. The relative ratio of transaction accounts to total deposit accounts within SNB also contributed to higher costs in item processing, for the Bank as a whole, over the year 2000.

Distribution, Rate & Yield

(dollars in thousands)

Year Ended December 31,

	2000(a)			1999(a)			1998(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	$ 3,959	$ 243	6.14%	$ 2,468	$ 174	7.05%	$ 22,652	$ 1,246	5.50%
Taxable	$ 66,993	$ 4,316	6.44%	$ 52,371	$ 2,898	5.53%	$ 40,287	$ 2,346	5.82%
Non-taxable(1)	$ 40,211	$ 2,022	5.03%	$ 34,759	$ 1,812	5.21%	$ 28,404	$ 1,506	5.30%
Equity	$ 2,680	$ 34	1.27%	$ 3,391	$ 90	2.65%	$ 5,232	$ 105	2.01%
Total Investments	$ 113,843	$ 6,615	5.81%	$ 92,989	$ 4,974	5.35%	$ 96,575	$ 5,203	5.39%
Loans:(2)									
Agricultural	$ 15,921	$ 1,735	10.90%	$ 15,847	$ 1,474	9.30%	$ 18,302	$ 1,828	9.99%
Commercial	$ 61,830	$ 7,232	11.70%	$ 44,786	$ 5,240	11.70%	$ 34,578	$ 4,307	12.46%
Real Estate	$ 283,147	$ 26,338	9.30%	$ 191,281	$ 18,517	9.68%	$ 170,231	$ 17,339	10.19%
Consumer	$ 30,795	$ 3,672	11.92%	$ 25,429	$ 2,831	11.13%	$ 23,039	$ 2,735	11.87%
Credit Cards	$ 10,987	$ 1,401	12.75%	$ 10,879	$ 1,475	13.56%	$ 16,438	$ 2,240	13.63%
Other	$ 610	$ -	-	$ 507	$ –	–	$ 388	$ –	–
Total Loans	$ 403,290	$ 40,378	10.01%	$ 288,729	$ 29,537	10.23%	$ 262,976	$ 28,449	10.82%
Total Earning Assets(3)	$ 517,133	$ 46,993	9.09%	$ 381,718	$ 34,511	9.04%	$ 359,551	$ 33,652	9.36%
Non-Earning Assets	$ 56,093			$ 38,953			$ 32,885		
Total Assets	$ 573,226			$ 420,671			$ 392,436		

(Table continues and footnotes appear on following page)

It should be noted that of the Bank's average growth reflected in the Distribution, Rate and Yield Table, during the three years ended 2000, the Bank's average deposits increased $159.0 million, while the loan portfolio increased $140.3 million and average borrowed funds increased by $15.8 million. As a result, the ratio of net loans to total deposits decreased to 78.90% at December 31, 2000 compared to 81.51% at December 31, 1999.

Although deposit rates paid increased during 2000 as compared to 1999, it is not expected that this trend will continue into the year 2001. With the decrease in the prime rate over the first three months of 2001, the Bank has seen a more competitive deposit market and has begun a money market account deposit promotion, in order to support core deposit growth and decrease the Bank's reliance on borrowed funds and out-of-area funding sources.

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 both the investment and loan portfolio during 2001. Net interest income is expected to increase slightly during 2001, assuming loans and investments moderately grow and there is no substantial increase in deposit rates. However, it is anticipated that the Bank's net interest margin will decline during 2001, as a result of increasing competitive pressure on loan rates, coupled with a lower prime rate and very competitive rates in the deposit portfolio, although no assurance can be given that this will, in fact, occur.

Non-Interest Income and Non-Interest Expense

As previously noted, the Bank earns income from two primary sources: net interest income and non-interest income, the first of which has already been discussed. The primary traditional sources of non-interest income for the Bank 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 2000 accounted for 63.47% and 7.85%, respectively, of non-interest

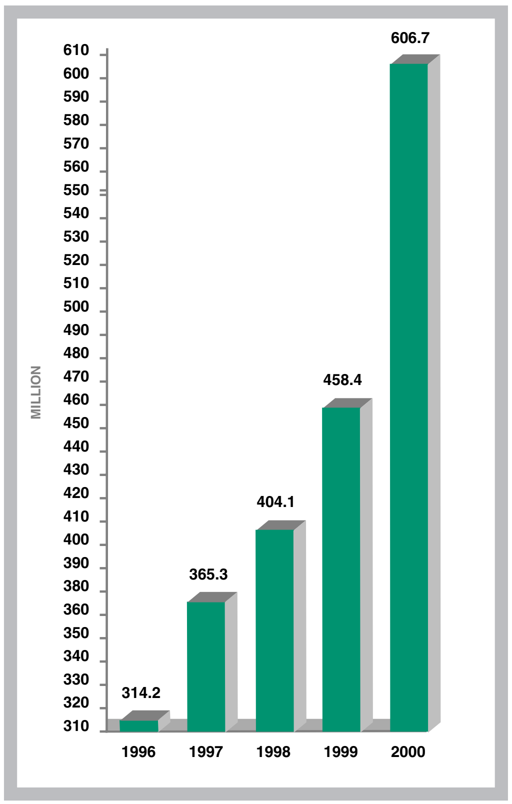
Distribution, Rate & Yield (continued)
(dollars in thousands)

	Year Ended December 31,								
	2000(a)			1999(a)			1998(a)		
Liabilities and Shareholders' Equity	**Average Balance**	**Income/ Expense**	**Average Rate**	**Average Balance**	**Income/ Expense**	**Average Rate**	**Average Balance**	**Income/ Expense**	**Average Rate**
Interest-Bearing Deposits:									
NOW	$ 47,498	$ 412	0.87%	$ 35,413	$ 338	0.95%	$ 32,503	$ 297	0.91%
Savings	$ 27,698	$ 574	2.07%	$ 19,262	$ 357	1.85%	$ 16,809	$ 362	2.15%
Money Market	$ 53,784	$ 1,539	2.86%	$ 41,841	$ 1,171	2.80%	$ 32,932	$ 866	2.63%
TDOA's and IRA's	$ 19,924	$ 887	4.45%	$ 14,021	$ 633	4.51%	$ 13,012	$ 627	4.82%
Certificates of Deposit < $100,000	$ 134,199	$ 7,480	5.57%	$ 97,095	$ 4,876	5.02%	$ 105,147	$ 5,858	5.57%
Certificates of Deposit > $100,000	$ 105,970	$ 6,310	5.95%	$ 75,974	$ 3,779	4.97%	$ 70,565	$ 3,933	5.57%
Total Interest-Bearing Deposits	$ 389,073	$ 17,202	4.42%	$ 283,606	$ 11,154	3.93%	$ 270,968	$ 11,943	4.41%
Borrowed Funds:									
Federal Funds Purchased	$ 439	$ 30	6.83%	$ 281	$ 5	1.78%	$ –	$ –	–
Repurchase Agreements	$ 13,573	$ 601	4.43%	$ 10,321	$ 368	3.57%	$ 11,232	$ 435	3.87%
Other Borrowings	$ 13,017	$ 844	6.48%	$ 3,480	$ 194	5.57%	$ –	$ –	–
Total Borrowed Funds	$ 27,029	$ 1,475	5.46%	$ 14,082	$ 567	4.03%	$ 11,232	$ 435	3.87%
Total Interest-Bearing Liabilities	$ 416,102	$ 18,677	4.49%	$ 297,688	$ 11,721	3.94%	$ 282,200	$ 12,378	4.39%
Demand Deposits	$ 113,757			$ 83,766			$ 72,910		
Other Liabilities	$ 5,029			$ 4,655			$ 4,273		
Stockholders' Equity	$ 38,338			$ 34,562			$ 33,053		
Total Liabilities and Stockholders' Equity	$ 573,226			$ 420,671			$ 392,436		
Interest Income/Earning Assets			9.09%			9.04%			9.36%
Interest Expense/Earning Assets			3.61%			3.07%			3.44%
Net Interest Margin(4)		$ 28,316	5.48%		$ 22,790	5.97%		$ 21,274	5.92%
Provision for loan losses charged to operations/earning assets		$ 2,760	0.53%		$ 2,118	0.55%		$ 2,800	0.78%
Net Interest Income after Provision for Loan Losses		$ 25,556	4.94%		$ 20,672	5.42%		$ 18,474	5.14%

(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 $2,132,000, $2,400,000, and $2,000,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Loans are gross of the allowance for possible loan losses, deferred fees and related direct cost.
(3) Non-accrual loans have been included in total loans for purposes of total earning assets.
(4) Represents net interest income as a percentage of average interest-earning assets.

income, as compared to 56.83% and 15.64%, respectively, for 1999. Loan servicing income and credit card fees for 2000 were 8.08% and 7.33%, respectively, as compared to 10.46% and 7.91%, respectively, during 1999. After the increase in the volume of service charges on deposit accounts, the differences between the two periods are most noticeable in the change in the level of loan sales income. During 1999, the Bank sold a portion of its Small Business Administration (SBA) loans for a gain of approximately $120,000. This non-recurring activity increased non-interest income for the period reported, and did not recur during the year 2000.

Total Assets



Between 1998 and 1999, non-interest income declined from $6.1 million to $5.3 million. There was, however, a gain of approximately $640,000 when the Bank sold some of its holdings in Phoenix International.

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 remained relatively constant over the past three years, at 2.53% for 2000, 2.55% in 1999, and 2.64% in 1998. This slight decline over the past three years, however, is especially indicative of the changes in the Bank's income generating activities, and is intended to be changed during 2001 by generating additional 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, although it declined substantially to approximately 15.93% of such income during 2000, compared to 26.11% during 1999. As a result of the portfolio sales noted previously, the level of servicing declined during the year 2000, which is expected to be offset by increased levels of individual real estate loan refinancings and sales during the year 2001, which will hopefully 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 7.33% during 2000 from 7.91% in 1999. 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 has comprised a lesser percentage of non-interest income in subsequent periods.

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 64% for 2000, 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 substantially to $23.8 million as compared to $17.6 in 1999 and $16.4 million in 1998. The overall increase in non-interest expense 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 after the acquisition of four former Sierra National Bank ("SNB") offices. 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 item processing activities provided for an expanded customer base.

Based on the merger of SNB with and into Bank of the Sierra, it was anticipated that personnel costs would rise significantly during the year 2000, as would occupancy expenses and advertising and marketing costs to support the addition of four customer service branches. It was further expected that the Bank's 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 income.

This was certainly the case during 2000. Personnel costs rose with the acquisition, however, there was an additional increase in salary costs as a result of competitive factors in the local market place. The Bank found that it could not attract or retain experienced lending officers without enhancing its salary schedule, which was accomplished during the year. As a result of these higher salaries, coupled with greater staffing levels after the acquisition, the Bank's personnel expenses grew to $11.5 million for 2000, an increase of $2.7 million, or 30.28% over 1999. However, despite these increases, personnel costs declined slightly as a percentage of average earning assets, representing 2.23% of average earning assets for 2000 as compared to 2.32% for 1999.

Item processing costs represent the second largest area of increase in 2000 over 1999. Item processing costs were $1.1 million in 2000 compared to $253,000 for 1999. This increase of $843,000 or over 300% represents the change in services provided, the vendor used and the volume of checks and other items processed. During 2000, the Bank's processing site was changed from Bakersfield to Fresno and the Bay Area with the change in vendors, and the services provided were enhanced to include image capture of processed items and reports generated. These changes were made to facilitate a change to image statements in subsequent periods and to on-line statements. These additional costs, coupled with greater volumes due to the four additional branches, increased item-processing costs to .21% of average earning assets during 2000, as compared to .07% for 1999.

Occupancy costs for 2000 totaled $3.6 million, a 23.12% increase over the $2.9 million reported for 1999. Although SNB had four operating branches, it had six office locations, two of which were disposed of later in the year, however all of the six locations contributed to increased expense levels. As a result of the purchase, the Bank's branch office locations increased from twelve to sixteen, an increase of 33%. For the year, occupancy costs decreased slightly as a percentage of average earning assets to .70%, as compared to .77% during 1999.

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 provisions in 2000, 1999 and 1998 were $2.8 million, $2.1 million and $2.8 million, respectively.

The Bank's provision for loan losses and history for 2000 was a realization of two factors: a slowing agricultural economy and a substantially larger loan portfolio. Each of these areas has had a profound effect on the Bank's current lending pattern and the loan loss provision. Further, the periodic loan loss provision expense has been replaced by a continuing adequacy test, thereby changing the amount and frequency of charges to the Bank's earnings. (See "Allowance for Possible Loan Losses" herein).

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 1999. 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 few 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 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" investment portfolio. (See "Investment Portfolio" herein.) In addition, since the unrealized gain on investments varies over time and with changes in the economy and financial markets, the amount of deferred tax liability changes accordingly. At December 31, 2000 the Bank's deferred tax asset was primarily due to temporary differences in the reported allowance for loan losses, deferred compensation and other real estate owned ("OREO") expense.

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" herein.)

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 2000 through 1996 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 most pronounced over the last year, as a result of the acquisition of SNB. While the Bank's growth over the past year approximated $148 million, about $87 million, or 59% was due to this acquisition. Of the Bank's loan growth, these four SNB branches account for over $41 million, or approximately 39% of the Bank's total loan growth between December 31, 1999 and 2000. Of the Bank's total deposit growth over the same period, about $84 million or about 59% was accounted for by the acquisition of these four branches.

Prior to this past year, the story of the Bank's growth correlated closely with the establishment of new branch offices, 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 five newer branches opened since 1997 currently house about $90.5 million in deposits, representing approximately 37% of the Bank's deposit growth since December 31, 1996.

Average assets were $573.2 million during 2000 as compared to $420.7 million during 1999, and $392.4 million in 1998, representing an increase of $152.5 million, or 36.2% for 2000 compared to 1999, and 7.2% for 1999 compared to 1998. Average deposits during 2000 were $502.8 million, as compared to $367.4 million for 1999, an increase of $135.4 million, or 36.9%. This represented an increase of 6.83% over the $343.9 million reported for 1998. Average gross loans for 2000 totaled $403.3 million, as compared to $288.7 million in 1999, an increase of $114.6 million, or 39.7%; $288.7 million at December 31, 1999 represented an increase of 9.8% over the $263.0 million reported for 1998.

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 but somewhat declining 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 areas have comprised the major portion of Bank loan growth over the past few years.

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, 2000, gross loans represented 69.5% of total assets, as compared to 69.3% and 68.2% at December 31, 1999 and 1998, respectively. The quality and diversification of the Bank's loan portfolio are important considerations when reviewing the Bank's results of operations.

Loan Portfolio Composition

The Loan Distribution Table on the following page sets forth the composition and percentage distribution of the Bank's loan portfolio at the dates indicated. As reflected in that Table, loan volumes have increased over $200 million or 91.2% over the last five years, with a major portion of the loan volume increases being reflected over the past two years. Of the Bank's loan growth during 2000, about 69% was from existing branches, while 31% was due to the acquisition of four branches of SNB. Of the internal loan growth of $63 million, about $20 million or approximately 32% was in the real estate credit center, while $3 million or about 5% was in the ag loan credit center, and $40 million or 63% was in various categories spread among the twelve previously existing branches.

During the past few years, the Bank has implemented targeted marketing campaigns, which focus on product groups, such as lending. While the Bank has grown throughout the branch system, predominant loan growth has been in the real estate secured area. Over the past five years reflected, real estate secured lending has grown from 61.4% of total loans, to 68.3%, a relative change of about 11%. Generally speaking, over these five years noted, there has not been a significant change in the relative distribution of loans, except within the loans secured by real estate portfolio where construction and development loans have increased by about 50% over the term. Such loans now represent about 39.3% of total loans outstanding at December 31, 2000. Real estate 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 3.87% of the overall portfolio, while longer term real estate secured farmland lending represents an additional 4.17% of total loans outstanding. Based on these two amounts, agriculturally oriented lending approximates 8% of total Bank lending activities, down from 10% of total lending at year-end 1999.

The decline in agricultural loans over the last two years has been due to three primary factors, one of which was weather related with the December 1998 freeze and the second was reduced local plantings due to foreign competition. The third reason concerns the Bank's strategic withdrawal from financing production lines where year-to-year cash flow variations impede borrowers' 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 and other development.

Commercial and industrial loans (including SBA loans) at December 31, 2000 represented about 16.7% of total loans, up slightly from 15.4% at December 31, 1999 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

Loan Distribution

(dollars in thousands)

As of December 31,

	2000	1999	1998	1997	1996
Agricultural	$ 16,306	$ 15,096	$ 19,249	$ 16,147	$ 10,841
Commercial and Industrial	$ 59,554	$ 41,817	$ 38,459	$ 36,644	$ 37,115
Real Estate:					
Secured by Commercial/Professional Office Properties including construction and development	$ 165,759	$ 114,038	$ 79,749	$ 72,920	$ 57,410
Secured by Residential Properties	$ 102,594	$ 74,052	$ 74,359	$ 70,751	$ 64,457
Secured by Farmland	$ 17,575	$ 16,250	$ 14,913	$ 19,353	$ 12,866
Held for Sale	$ 2,128	$ 10,957	$ 8,108	$ 4,287	$ 738
Total Real Estate	$ 288,056	$ 215,297	$ 177,129	$ 167,311	$ 135,471
Small Business Administration loans	$ 10,883	$ 7,185	$ 4,618	$ 2,918	$ 2,700
Consumer Loans	$ 35,416	$ 27,449	$ 24,564	$ 21,879	$ 18,429
Credit Cards	$ 11,481	$ 10,666	$ 11,645	$ 16,950	$ 16,005
TOTAL LOANS	$ 421,696	$ 317,510	$ 275,664	$ 261,849	$ 220,561
Percentage of Total Loans					
Agricultural	3.87%	4.75%	6.98%	6.17%	4.92%
Commercial and Industrial	14.12%	13.17%	13.95%	13.99%	16.83%
Real Estate:					
Secured by Commercial/Professional Office Properties including construction and development	39.31%	35.92%	28.94%	27.85%	26.03%
Secured by Residential Properties	24.33%	23.32%	26.97%	27.02%	29.22%
Secured by Farmland	4.17%	5.12%	5.41%	7.39%	5.83%
Held for Sale	0.50%	3.45%	2.94%	1.64%	0.33%
Total Real Estate	68.31%	67.81%	64.26%	63.90%	61.41%
Small Business Administration loans	2.58%	2.26%	1.68%	1.11%	1.22%
Consumer Loans	8.40%	8.65%	8.91%	8.36%	8.36%
Credit Cards	2.72%	3.36%	4.22%	6.47%	7.26%
	100.00%	100.00%	100.00%	100.00%	100.00%

Management's Discussion & Analysis

of Financial Condition & Results of Operations (Continued)

Loan Maturity

(dollars in thousands)

As of December 31, 2000

	Three months or less	Three months thru twelve months	One to five years	Over five years	Total	Floating rate: due after one year	Fixed rate: due after one year
Agricultural	$ 7,648	$ 4,740	$ 3,517	$ 401	$ 16,306	$ 1,694	$ 2,224
Commercial and Industrial[1]	$ 10,264	$ 26,024	$ 17,200	$ 16,949	$ 70,437	$ 18,170	$ 15,979
Real Estate	$ 17,696	$ 27,109	$ 59,090	$ 184,161	$ 288,056	$ 84,641	$ 158,610
Consumer Loans	$ 463	$ 17,692	$ 14,321	$ 2,940	$ 35,416	$ 53	$ 17,208
Credit Cards	$ 676	$ 2,427	$ 8,378	$ -	$ 11,481	$ -	$ 8,378
TOTAL	$ 36,747	$ 77,992	$ 102,506	$ 204,451	$ 421,696	$ 104,558	$ 202,399

(1) Includes Small Business Administration Loans

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, which during 2000 generated over $11 million in such loans. The Bank is an active SBA loan sales organization, as well. Further, the Bank is an SBA Preferred Lender, which allows greater flexibility to meet small business loan requests, with a more timely credit approval process.

Consumer loans represented 8.4% of total loans at December 31, 2000 and 8.7% of total loans outstanding at December 31, 1999. These 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 represented 2.7% of total loans outstanding at December 31, 2000, having declined from over 7% of total loans at December 31, 1996. During 1998, the Bank sold its agent program participant loans to another servicer. This fifteen bank agent program had represented about 30% of total credit card loans outstanding. This program allowed 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, 2000 represented less than one-third of outstanding credit card loans. The credit card segment of the Bank's loan product group remains an important part of the Bank's overall customer relationship lending strategy.

Another portion of the Bank's loan business 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 2000, the Bank originated and sold more than 300 such loans with aggregate balances of approximately $38 million. Further, the Bank originates and sells agricultural mortgage loans to certain other investors. These loans numbered 228 and servicing of these loans totaled $78.3 million in volume as of December 31, 2000. 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.

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 $138 million at December 31, 2000 as compared to $136 million at December 31, 1999. These commitments represented 23% and 32% of outstanding gross loans at December 31, 2000 and 1999, respectively, net of credit card lines available which were $39 million and $33 million at December 31, 2000 and 1999, respectively. The Bank's stand-by letters of credit at December 31, 2000 and 1999 were $7.9 million and $7.3 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.

Loan Maturity

The Loan Maturity Table, on the previous page, shows the amounts of total loans and leases outstanding as of December 31, 2000, which, based on remaining scheduled repayments of principal, are due within one year after one but within five years and in more than five years. The principal balance of loans due after one year are indicated by both fixed and floating rate categories. (Non-accrual loans are intermixed within each category.)

At December 31, 2000, the total amount of loans within the Interest Rate Sensitivity Gap Table (on page 30) that will mature within one year was $114.7 million. Those loans that will mature after one year with predetermined (fixed) interest rates was approximately $205.6 million and the amount of loans with floating or adjustable interest rates that will mature after one year was approximately $101.4 million.

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 re-negotiated resulting in a deferral of interest or principal and 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 (on page 26) 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 more than doubled to .73% at December 31, 2000 as compared to .29% at December 31, 1999. During 2000, additional agriculturally related credits were identified as potential problems, and were placed on non-accrual status, while during 1999, two previously identified agricultural credits were charged-off, which reduced the carry-over level of the 1998 non-performing loans. The increase in non-performing assets at December 31, 2000 is primarily due to agriculturally related credits, which total approximately $1.8 million or 41% of the $4.4 million reported. As noted previously, this segment of the Bank's total loan portfolio has been declining as a percentage of total loans since 1998. Although the Bank's overall level of non-performing loans increased substantially, the level of OREO was reduced during 2000 from $2.6 million at December 31, 1999 to $1.5 million at December 31, 2000. This decrease was the result of aggressive sale activities undertaken over the last year to dispose of OREO properties.

As a result of the lower level of OREO, the Bank's overall level of non-performing assets decreased slightly to 1.05% at December 31, 2000 when compared with 1.08% at December 31, 1999, despite the increase in non-proforming loans discussed above. At December 31, 2000, the Bank had two credits totaling $6.1 million where the borrowers' ability to comply with contracted repayment terms was in doubt. Both of these credits are agriculturally oriented.

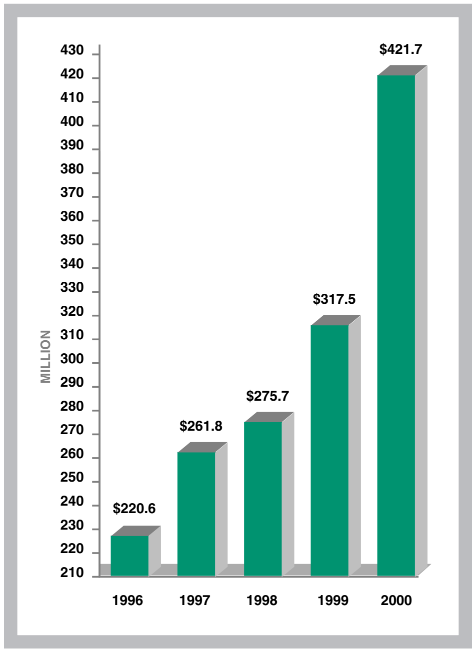
Allowance for Possible Loan Losses

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.

Total Loans



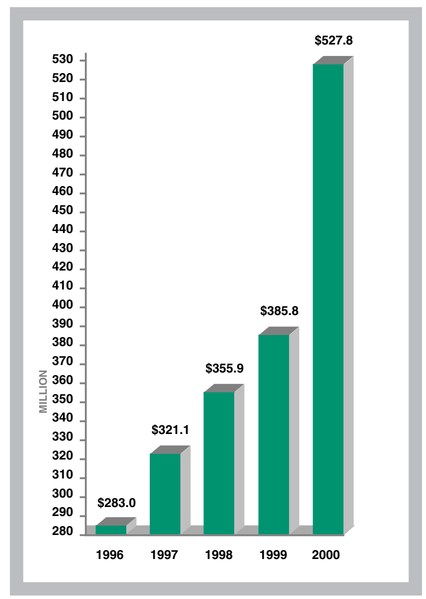
This process involves judgmental discretion, and eventual losses may therefore differ from even the most recent estimates. Due to these limitations, the Bank assumes that there are losses inherent in the current loan portfolio which will be sustained, but which have not yet been identified. The Bank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

The Bank's Allowance for Loan Losses at December 31, 2000 represents 1.27% of outstanding gross loans, whereas a year earlier, the allowance stood at 1.05%. The provisions in 2000, 1999, and 1998 were $2.8 million, $2.1 million, and $2.8 million, respectively. With the acquisition of SNB, the Bank's reserve level was adjusted by over $1 million. That amount, combined with a provision that was about 30% larger than the provision for 1999 and a net charge-off level almost 46% less than 1999, brought about an increased level of reserves on a gross loan base that was approximately $104 million larger at December 31, 2000 than it was at year end 1999.

The Allowance for Loan Losses Table (on page 27) 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.

Further, the Bank's independent loan review consultants, as well as the Bank's external auditors, the FDIC and the DFI 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.

Total Deposits



In light of deteriorating agricultural conditions, the Bank's history of credit losses sustained over the past few years, 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. 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 credit worthiness, a change in tax law that eliminates their tax exempt status or other infrequent situations as permitted by SFAS 115. Historically, the Bank's held-to-maturity group primarily consisted of long-term tax exempt obligations and certain pledged treasury and agency issues.

During the fourth quarter of 2000, the Bank adopted Financial Accounting Standards Board Statement 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Upon adoption of this statement, the Bank reclassified substantially all of its investments from the held-to-maturity portfolio, to the available-for-sale portfolio. As a result of such reclassification, the Bank's unrecorded potential increase in market value net of tax effect was recorded on the balance sheet as an increase in accumulated other comprehensive income. Such reclassification was completed in order to allow the Bank to more actively manage this portfolio which now totals in excess of $100 million.

The Bank's investment portfolio is composed primarily of: (i) U.S. Treasury and Agency issues for liquidity; (ii) state, county and municipal obligations which provide limited tax free income and pledging potential; and (iii) 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 continued reduction in Treasuries, and the increased volume of the state and political subdivisions and U.S. government agencies and corporations, due to increased yield considerations of an incremental approximate 25 basis points. In addition, the Bank has more actively invested in corporate bonds and mortgage backed securities than has previously been the case. The increase within the equity portfolio is due to a greater ownership of stock in the Federal Home Loan Bank; as well as the investment in Phoenix International noted herein, which is the vendor from whom the Bank's integrated data processing system was purchased during 1994. At December 31, 2000, this investment, with an adjusted cost basis of approximately $250,000, had a market value of about $239,000, a substantial reduction of its $926,000 market value at December 31, 1999. As a result of certain changes in Federal laws and regulations, the Bank was required to form a wholly owned subsidiary, 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. Although the Bank had no stated intention to dispose of this equity investment, the company has been sold, and the Bank expects proceeds from the liquidation to occur during the first and third quarters of 2001.

The Bank's available-for-sale group now consists of all investment portfolio items. These investments could be sold for liquidity needs and asset/liability concerns. In addition, this group includes equity investments, the largest of which are the Federal Home Loan Bank of San Francisco and Phoenix International. In addition, the Bank holds equity investments in Pacific Coast Bankers Bancshares ("PCBB"), 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 International investment arose from its use of their integrated banking software.

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 two years and Note 2 to the Consolidated Financial Statements summarizes the maturity characteristics of each of these categories.

The investment portfolio serves the following purposes: (i) it provides liquidity to even out cash flows from the loan and deposit activities of customers; (ii) it provides a source of pledged assets for securing public deposits and borrowed funds; (iii) 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; (iv) it is an alternative interest-earning use of funds when loan demand is light; and (v) it can provide partially tax exempt income.

Total investments were $112.5 million at December 31, 2000, an increase of $19.7 million or 21.22% from December 31, 1999. The most noticeable difference in the portfolio during 2000 has been the reclassification of all held-to-maturity items to available-for-sale investments. The Bank has traditionally held all investments until their call or maturity. However, under more active portfolio management it is anticipated that this will change.

Securities pledged as collateral on repurchase agreements, public deposits and for other purposes as required or permitted by law were $45.9 million and $63.2 million, for December 31, 2000 and 1999, respectively.

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, 2000 these areas comprised 7.16% of total assets and 61.14% of total non-earning assets, compared to 6.85% of total assets and 64.72% of non-earning assets at December 31, 1999. This increase has been commensurate with the increase in the Bank's branch system over the past year, as well as the result of transaction account and item count increases with the addition of four SNB branches.

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 Fresno and Walnut locales; Fresno lies within the FRB's San Francisco region, while Walnut 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 $1.8 million for the year ended December 31, 2000 as compared to $1.6 million during 1999.

Summary of Deposits
(dollars in thousands)

	As of December 31,					
	2000		1999		1998	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Interest-bearing deposits:						
NOW	$ 47,498	0.87%	$ 35,413	0.95%	$ 32,503	0.91%
Savings	$ 27,698	2.07%	$ 19,262	1.85%	$ 16,809	2.15%
Money Market	$ 53,784	2.86%	$ 41,841	2.80%	$ 32,932	2.63%
TDOA's and IRA's	$ 19,924	4.45%	$ 14,021	4.51%	$ 13,012	4.82%
Time Certificates of Deposits:						
Less than $100,000	$ 134,119	5.57%	$ 97,095	5.02%	$ 105,147	5.57%
Greater than $100,000	$ 105,970	5.95%	$ 75,974	4.97%	$ 70,565	5.57%
Total interest-bearing deposits	$ 389,073	4.42%	$ 283,606	3.93%	$ 270,968	4.41%
Non-interest-bearing demand deposits	$ 113,757		$ 83,766		$ 72,910	
TOTAL DEPOSITS	$ 502,830		$ 367,372		$ 343,878	

As reported in Note 4 of the Notes to Consolidated Financial Statements there have been substantial increases in the level of investment in premises and equipment at December 31, 2000 as compared to December 31, 1999. Land and buildings increased with the addition of the four SNB branches and additional computer hardware was placed in service for these locations, increasing furniture and equipment categories. The Bank's overall investment in land, premises and equipment increased by $4.6 million during 2000, from $19.8 million to $24.5 million.

It is anticipated that over the next year, the four SNB branches acquired will be somewhat remodeled and refurnished to resemble the rest of the Bank's branch system. The common look and feel for all branches should be completed during the next year, when additional increases in furniture and equipment costs will also be realized.

Deposits

The Bank's deposit volume for the last year has grown substantially, both as a result of the acquisition of four SNB branches, and the growth of the other twelve branches within the system. In addition, the Bank has recently promoted higher rates in money market deposit accounts to generate additional core deposits and reduce the Bank's reliance on borrowed funds.

Year-end 2000 volumes increased approximately $142 million or 37% over the previous year; about $82 million or 58% of this increase was due to the acquisition of four SNB branches. In addition, interest rates paid on interest-bearing accounts increased by about 49 basis points due to higher competitive rates and the generally increasing overall deposit costs.

The Summary of Deposits Table above summarizes the distribution of average deposits and average rates paid for the period indicated.

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 accounts, savings accounts and money market deposit accounts. At December 31, 2000 such deposits totaled $251.8 million, or 47.7% of total deposits, as compared to $190.1 million, or 49.3% of total deposits at December 31, 1999.

The average rate paid on interest-bearing deposits increased to 4.42% for the 2000 year from 3.93% for the year ended December 31, 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, the Bank experienced a narrower net interest margin, which was 5.48% for 2000, as compared to 5.97% for 1999. At the current time, with decreasing overall lending rates and very competitive deposit rates, it appears that this trend may continue into 2001, and the Bank may continue with a low net interest margin over the short term, until market conditions and rates stabilize later in the year.

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 has not 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. The scheduled maturities of the Bank's Certificates of Deposit and other time deposits are set forth in Note 5 of the Notes to the Consolidated Financial Statements.

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, 2000, the Bank's financial statements reflected $13.6 million in repurchase agreements, which represent such "sweep accounts." At December 31, 1999, the Bank's financial statements reflected approximately $8.6 million in repurchase agreements, secured by pledged investments held segregated from the Bank's own securities portfolio. This volume was $9.9 million at December 31, 1998.

The cost of these "sweep accounts" has been somewhat lower than the Bank's interest expense for longer term funds, as a result of their overnight investment aspect. Generally speaking, it is anticipated that while this product will remain a part of the Bank's service capacity, it will become a smaller source of funds used, over the next few years as customers gain access to higher interest-bearing short term deposit options. Interest costs during 2000 approximated 4.4% as a result of higher short-term market rates, while during 1999 and 1998, such interest costs were 3.6% and 3.9%, respectively.

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 maturities 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 Notes to the 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.

At the current time, the Bank is "adequately capitalized" by regulatory standards. At December 31, 1999 the Bank was "well capitalized"; however, with the addition of SNB assets of about $87 million, and additional growth of about $61 million, the Bank's growth far outstripped its rate of capital accumulation, and its regulatory capital rating fell. Additionally, with the purchase of SNB for cash, the Bank created an intangible asset, which is deducted from the Bank's reported GAAP capital, for regulatory purposes. As a result, the Bank's reported capital ratios are substantially reduced from those ratios reported at December 31, 1999.

At December 31, 2000, the Bank had a Tier 1 risk-based capital ratio of 7.8%, a total capital to risk-weighted assets ratio of 9.0%, and a leverage ratio of 5.6%. At December 31, 1999 the Bank had a Tier 1 risk-based capital ratio of 10.3%, a total capital to risk-weighted assets ratio of 11.3% and a leverage ratio of 8.1%. Note 13 of the Notes to Consolidated Financial Statements provides more detailed information concerning the Bank's capital amounts and ratios as of December 31, 2000 and 1999.

Net income has provided $16.3 million in capital over the last three years, of which $5.5 million or approximately 34% 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 paid cash dividends of $2.12 million or $0.23 per share during 2000 and $2.02 million or $.22 per share in 1999, pursuant to a policy of paying quarterly cash dividends totaling at least thirty-five percent (35%) of the prior year's net earnings to the extent consistent with general considerations of safety and soundness and provided that such payments do not adversely affect the Bank's financial

Management's Discussion & Analysis

of Financial Condition & Results of Operations (Continued)

Non-Performing Assets

(dollars in thousands)

	As of December 31,				
	2000	**1999**	**1998**	**1997**	**1996**
Non-Accrual Loans:[1]					
Agricultural	$ 652	$ –	$ 635	$ –	$ –
Commercial and Industrial[2]	$ 47	$ –	$ 175	$ 570	$ 970
Real Estate					
Secured by Commercial/Professional Office Properties including construction and development	$ –	$ –	$ –	$ –	$ 94
Secured by Residential Properties	$ –	$ 130	$ 125	$ –	$ 20
Secured by Farmland	$ 1,267	$ –	$ –	$ 270	$ 15
Consumer Loans	$ 22	$ 38	$ 58	$ 57	$ 73
Credit Cards	$ 132	$ 220	$ 125	$ 269	$ 242
TOTAL	$ 2,120	$ 388	$ 1,118	$ 1,166	$ 1,414
Loans 90 days or more past due & still accruing: (as to principal OR interest)					
Agricultural	$ –	$ 73	$ 1,637	$ –	$ –
Commercial and Industrial[2]	$ 377	$ 27	$ 127	$ 63	$ 9
Real Estate					
Secured by Commercial/Professional Office Properties including construction and development	$ 334	$ –	$ 411	$ –	$ 599
Secured by Residential Properties	$ 94	$ 382	$ –	$ 149	$ 17
Secured by Farmland	$ 106	$ –	$ 545	$ –	$ –
Held for Sale	$ –	$ –	$ –	$ –	$ 346
Consumer Loans	$ 31	$ 4	$ 7	$ 1	$ 29
Credit Cards	$ 22	$ 40	$ 93	$ 58	$ 259
TOTAL	$ 964	$ 526	$ 2,820	$ 271	$ 1,259
Restructured Loans[3]	N/A	N/A	N/A	N/A	N/A
Other Real Estate Owned	$ 1,530	$ 2,553	$ 1,273	$ 2,285	$ 2,226
Total non-performing assets	$ 4,614	$ 3,467	$ 5,211	$ 3,722	$ 4,899
Non-performing loans as percentage of total gross loans	0.73%	0.29%	1.43%	0.55%	1.02%
Non-performing assets as a percentage of total gross loans and other real estate owned	1.05%	1.08%	1.88%	1.41%	1.85%

(1) During the fiscal year ended December 31, 2000 approximately $29,000 of interest income related to these loans was included in net income. Additional interest income of approximately $52,000 would have been recorded for the year ended December 31, 2000 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) Includes Small Business Administration Loans.

(3) 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:	**2000**	**1999**	**1998**	**1997**	**1996**
Average gross loans outstanding during period	$ 403,290	$ 288,729	$ 262,976	$ 242,760	$ 212,919
Gross loans outstanding at end of period	$ 421,696	$ 317,510	$ 275,664	$ 261,849	$ 220,561
Allowance for Loan Losses:					
Balance at beginning of period	$ 3,319	$ 4,394	$ 3,034	$ 2,904	$ 2,745
Adjustments[1]	$ 1,018	$ –	$ –	$ –	$ –
Provision Charged to Expense	$ 2,760	$ 2,118	$ 2,800	$ 2,013	$ 1,493
Loan Charge-offs					
Agricultural	$ 324	$ 1,880	$ –	$ –	$ –
Commercial & Industrial Loans[2]	$ 705	$ 290	$ 236	$ 564	$ 421
Real Estate Loans	$ –	$ –	$ –	$ 20	$ 14
Consumer Loans	$ 253	$ 374	$ 398	$ 133	$ 129
Credit Card Loans	$ 657	$ 729	$ 907	$ 1,277	$ 859
Total	$ 1,939	$ 3,273	$ 1,541	$ 1,994	$ 1,423
Recoveries					
Agricultural	$ 27	$ 1	$ –	$ –	$ –
Commercial & Industrial Loans[2]	$ 44	$ 28	$ 42	$ 56	$ 47
Real Estate Loans	$ –	$ –	$ 3	$ 1	$ –
Consumer Loans	$ 66	$ 12	$ 18	$ 9	$ 18
Credit Card Loans	$ 67	$ 39	$ 41	$ 45	$ 24
Total	$ 204	$ 80	$ 101	$ 111	$ 89
Net Loan Charge-offs	$ 1,735	$ 3,193	$ 1,440	$ 1,883	$ 1,334
Balance at end of period	$ 5,362	$ 3,319	$ 4,394	$ 3,034	$ 2,904
Ratios:					
Net Loan Charge-offs to Average Loans	0.43%	1.11%	0.55%	0.78%	0.63%
Net Loan Charge-offs to Gross Loans at End of Period	0.41%	1.01%	0.52%	0.72%	0.60%
Allowance for Loan Losses to Gross Loans at End of Period	1.27%	1.05%	1.59%	1.16%	1.32%
Allowance for Loan Losses to Net Loans at End of Period	1.29%	1.06%	1.62%	1.18%	1.34%
Net Loan Charge-offs to Allowance for Loan Losses at End of Period	32.36%	96.20%	32.77%	62.06%	45.94%
Net Loan Charge-offs to Provision charged to operating expense	62.86%	150.76%	51.43%	93.54%	89.35%

(1) Adjustment due to acquisition of Sierra National Bank.
(2) Includes Small Business Administrative Loans.

condition. In view of the Bank's recent growth resulting in part from the acquisition of Sierra National Bank in May, 2000, the Board of Directors has decided to revise the dividend policy for 2001 and the foreseeable future to pay dividends totaling approximately between twenty percent (20%) and twenty-five percent (25%) of the prior year's net earnings, subject to the same limitations as the previous dividend policy. While the Bank anticipates paying cash dividends in the future pursuant to this new policy, no assurance can be given that the Bank's future earnings in any given year will justify the payment of such a dividend. In addition, the Bank is in the process of forming a holding company (see "Recent Developments" herein), and the amount of the payment of dividends by the holding company will be dependent on the earnings and financial condition of the Bank. The power of the Bank's Board of Directors to declare cash dividends is limited by statutory and regulatory restrictions. Although it is anticipated that the holding company will continue to pay dividends in the future consistent with the Bank's current dividend policy, no assurance can be given that the Bank's and the holding company's future earnings in any given year will justify the payment of such a dividend.

The Bank's rate of capital retention during 2000 was lower than in previous years because the acquisition of SNB reduced earnings in 2000, but the Bank did not implement its revised dividend policy until 2001. The Bank has budgeted a lower growth target for 2001, will be embarking on a program of reduced dividends relative to earnings, and expects to enhance its capital position from "adequately capitalized" to "well capitalized" from a regulatory perspective, during 2001. Should the Bank not be able to achieve a "well capitalized" position by the end of the year 2001, it is likely that the Bank would again defer growth during 2002 so that capital accumulation will allow the Bank to re-capture its "well capitalized" status during that year. In addition, if appropriate, the Bank would consider further modification of its recently revised dividend policy.

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.

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 2000 showed that the Bank's interest rate sensitivity was well within policy limits.

The Interest Rate Sensitivity Gap Table (on page 30) sets forth the interest rate sensitivity of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 2000, 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 were 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 just happened during the first three months of this year. This reflects the fact that given the Bank's current level of variable rates paid on NOWs, 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 due to competitive factors; this would thereby lower the Bank's net interest margin. Based on current market conditions, the Bank's net interest margin is expected to decline during 2001.

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 source of liquidity for the Bank during the last year was the 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, 2000, these two segments comprised 99% of total investment funds, as compared to 30% at December 31, 1999. Due from Time Certificate of Deposits comprised the other 1%. Although the Bank's investments are all "available-for-sale" not all could be used for liquidity, should the need arise, due to approximately $62 million being pledged for various purposes. 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, 2000, such off-balance-sheet liquidity approximated $33 million, or 5% of total Bank assets, a slight increase from the $30 million noted at December 31, 1999.

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 23.7% at December 31, 2000 as compared to 17.8% at December 31, 1999. The increase was due to a smaller portion of investments securing specific local agency, repurchase agreements and borrowed funds. In addition, the Bank's volatile liability ratio at December 31, 2000 was 23.6% as compared to 18.6% at year-end 1999. These ratios would imply that the Bank had a slightly greater dependency on Certificates of Deposits over $100,000 and short-term borrowed funds at the end of 2000, while also having a greater amount of short-term investments available to fund variances in liquidity as a result of volatile liability maturities.

At year-end 2000, the Bank's customers had invested $13.6 million in the Bank's sweep product, as compared to $8.6 million at year-end 1999. The average amount represented by customer invested funds in sweep products during 2000 was $14.0 million, as compared to $10.6 million during 1999. 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.

Quantitative and Qualitative Disclosures About Market 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. 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 Bancware 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's simulation program utilizes specific individual loan and deposit rates, maturities and re-pricing 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 risk 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, 2000, the Bank had the following estimated net-interest margin sensitivity profile.

	Immediate Change in Rate	
	+200 bp	-200 bp
Net Interest Margin Change	$926,000	($904,000)

The above profile illustrates that if there were an immediate increase of 2% in the prime rate, the Bank's net interest margin would increase by $926,000, or approximately 2.59%. By the same token, if there were an immediate downward adjustment of 200 bp or 2% in the prime rate, the

Interest Rate Sensitivity Gap

(dollars in thousands)

As of December 31, 2000

	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	$ 246	$ -	$ -	-	$ 246
Due from time	$ 271	$ 570	$ 390	$ -	$ 1,231
Investment Securities	$ 3,924	$ 16,145	$ 58,269	$ 34,178	$ 112,516
Loans	$ 171,626	$ 24,381	$ 64,560	$ 161,129	$ 421,696
Non-Earning Assets:	$ -	$ -	$ -	$ -	$ 71,037
TOTAL ASSETS	$ 176,067	$ 41,096	$ 123,219	$ 195,307	$ 606,726
Interest-Bearing Liabilities:					
Interest-Bearing Demand Deposits (NOW)	$ 45,815	$ -	$ -	$ -	$ 45,815
Savings Deposits	$ 31,195	$ -	$ -	$ -	$ 31,195
MMDA's	$ 44,239	$ -	$ -	$ -	$ 44,239
Time Deposits < $100,000	$ 74,654	$ 60,835	$ 8,806	$ 138	$ 144,433
Time Deposits > $100,000	$ 76,577	$ 51,279	$ 3,646	$ -	$ 131,502
Borrowed Funds	$ 34,284	$ -	$ -	$ -	$ 34,284
TOTAL	$ 306,764	$ 112,114	$ 12,452	$ 138	$ 431,468
Demand Deposits:	$ -	$ -	$ -	$ -	$ 130,592
Other Liabilities & Capital:	$ -	$ -	$ -	$ -	$ 44,666
TOTAL LIABILITIES & CAPITAL					$ 606,726
Interest Rate Sensitivity Gap	($ 130,697)	($ 71,018)	$ 110,767	$ 195,169	$ -
Cumulative Interest Rate Sensitivity Gap	($ 130,697)	($ 201,715)	($ 90,948)	$ 104,221	
Cumulative Gap as a % of Total Assets	(21.54%)	(33.25%)	(14.99%)	17.18%	

Bank's net interest margin would be adversely affected by $904,000 over the next year.

This anticipated reduction in the Bank's level of net interest income in a declining rate environment is based on the Bank's interest rate profile at December 31, 2000. As previously 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 generally deposits do not re-price as rapidly as loans, and certain variable rate deposits are less likely to re-price, such as NOW or savings accounts based on the December 31, 2000 moderate rates paid on these accounts.

Conversely, with the Bank's December 31, 2000 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 be enhanced. First, one should examine the likelihood of an immediate change in market rates of 200 basis points. At December 31, 2000, this would mean a prime rate increase to 11.5%, which did not happen. In fact, up to March 31, 2001, the Fed has reduced overall interest rates, and prime has fallen by 150 basis points, or one and one-half percentage points. Under the current conditions, it is believed that the Bank will evidence a constricted net interest margin over the short term, with a slightly improved net interest margin over subsequent quarters of 2001, although no assurance can be given that such improvement will in fact occur.

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 rates 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 $6.6 million or 5.5%. Conversely, should rates immediately drop by 200 bp, the market value of the investment portfolio would increase by $5.7 million or 4.8%.

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, 2000, 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, some 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.

Bank of the Sierra's Historic Murals

For over 20 years, these five historic murals, painted by William Metcalf, graced the interior of the Bank's flagship office in Porterville, California. In 2000 when the branch office was remodeled, the murals were removed and donated to the Tulare County Museum.

Diggin' & Dreamin' - The Miners

The Gold Rush of 1849 brought California international attention and triggered a wave of migration that never really ended. The prospect of finding gold and other precious materials such as silver, magnesium and manganese attracted settlers who stayed in the San Joaquin Valley even after mining activity subsided.

The Providers - The Farmers & Ranchers

Farming and ranching are the long established basic components of the San Joaquin Valley's economy. Initially supporting only dry land wheat farming and cattle ranching, our land has been transformed into the most productive in the world by numerous irrigation projects that supply us with fresh, clean water, the real gold in California.

Steel Rails and Iron Men - The Railroaders

In the days when transportation was limited, it was the railroads that opened up settlement on a large scale. Trains provided a lifeline into the San Joaquin, delivering the elements of development and most important, transporting the vast agricultural production of The Valley to market.

They Broke the Trail - The Mountain Men

The Mountain Men were the first travelers from the United States to travel to the San Joaquin Valley, with the Jedediah Smith party probably being the earliest in 1834. Mainly seeking furs, they reported their travels and experiences, establishing routes, passes and trails that enabled permanent settlers to later follow.

Building a Nation - The Loggers

The San Joaquin Valley once claimed numerous sawmills that drew on the ample supply of timber in the nearby mountains. Their output of finished lumber was sold not just locally but nationally and from those raw materials a nation was built.

Bank of the Sierra's President, James C. Holly, presents murals detailing history of the San Joaquin Valley to Kathy Howell, Director of the Tulare County Museum at Mooney Grove in Visalia, California, Jim Maples and Bill Maze, Tulare County Supervisors. (left to right)

Auditor's Report

Bank of the Sierra and Subsidiary

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

RSM international

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with generally accepted accounting principles.

McGladrey & Pullen, LLP

Pasadena, California
February 2, 2001

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Consolidated Balance Sheets

Bank of the Sierra and Subsidiary

Assets December 31,	**2000**	**1999**
Cash and due from banks	**$ 43,433,000**	$ 31,413,000
Interest-bearing deposits in other banks	**1,231,000**	-
Federal funds sold	**246,000**	-
Securities (Notes 2 and 6):		
Held-to-maturity, fair market value 1999 $63,402,000	**-**	64,886,000
Available-for-sale	**112,516,000**	27,986,000
	112,516,000	92,872,000
Loans (Notes 3, 6, 9 and 10)	**421,696,000**	317,510,000
Less:		
Allowance for loan losses	**(5,362,000)**	(3,319,000)
Deferred loan costs, net	**58,000**	283,000
Net loans	**416,392,000**	314,474,000
Premises and equipment, net (Note 4)	**14,477,000**	11,597,000
Other real estate owned, net	**1,530,000**	2,553,000
Accrued interest receivable	**4,902,000**	2,498,000
Deferred taxes (Note 8)	**1,354,000**	537,000
Intangibles, net	**5,574,000**	60,000
Other assets	**5,071,000**	2,380,000
Total assets	**$ 606,726,000**	$ 458,384,000

Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 10)		
Non-interest-bearing demand (Note 2)	**$ 130,592,000**	$ 90,421,000
Interest-bearing:		
Demand	**90,054,000**	80,675,000
Savings	**31,195,000**	19,043,000
Time (Note 5)	**275,935,000**	195,679,000
Total deposits	**527,776,000**	385,818,000
Federal funds purchased and repurchase agreements (Note 6)	**13,584,000**	18,638,000
Short-term Federal Home Loan Bank advances (Note 6)	**20,700,000**	13,800,000
Other liabilities	**3,884,000**	3,429,000
Total liabilities	**565,944,000**	421,685,000
Commitments and Contingencies (Notes 9 and 15)		
Stockholders' Equity (Notes 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	**37,430,000**	34,068,000
Accumulated other comprehensive income	**1,067,000**	346,000
Total stockholders' equity	**40,782,000**	36,699,000
Total Liabilities and Stockholders' Equity	**$ 606,726,000**	$ 458,384,000

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Bank of the Sierra and Subsidiary

Years Ended December 31,	2000	1999	1998
Interest income:			
Interest and fees on loans	**$ 40,378,000**	$ 29,537,000	$ 28,449,000
Interest on federal funds sold and interest-bearing deposits	**243,000**	174,000	1,246,000
Interest on investment securities:			
Taxable	**4,350,000**	2,988,000	2,451,000
Tax exempt	**2,022,000**	1,812,000	1,506,000
Total interest income	**46,993,000**	34,511,000	33,652,000
Interest expense:			
Deposits	**17,202,000**	11,154,000	11,943,000
Short-term borrowings	**1,475,000**	567,000	435,000
Total interest expense	**18,677,000**	11,721,000	12,378,000
Net interest income	**28,316,000**	22,790,000	21,274,000
Provision for loan losses (Note 3)	**2,760,000**	2,118,000	2,800,000
Net interest income after provision for loan losses	**25,556,000**	20,672,000	18,474,000
Other operating income:			
Service charges on deposit accounts	**4,085,000**	3,038,000	2,780,000
Gain on sales of loans	**505,000**	836,000	1,100,000
Credit card fees	**472,000**	423,000	561,000
Investment securities gains (Note 2)	**119,000**	6,000	650,000
Loan servicing income (Note 3)	**520,000**	560,000	530,000
Other	**735,000**	483,000	455,000
	6,436,000	5,346,000	6,076,000
Operating expenses:			
Salaries and employee benefits	**11,519,000**	8,842,000	8,079,000
Occupancy expense:			
Furniture and equipment	**1,964,000**	1,554,000	1,507,000
Premises (Note 9)	**1,662,000**	1,391,000	1,386,000
Other (Note 7)	**8,624,000**	5,844,000	5,411,00
	23,769,000	17,631,000	16,383,000
Income before provision for income taxes	**8,223,000**	8,387,000	8,167,000
Provision for income taxes (Note 8)	**2,742,000**	2,775,000	2,943,000
Net income	**$ 5,481,000**	$ 5,612,000	$ 5,224,000
Basic and diluted earnings per common share	**$ 0.60**	$ 0.61	$ 0.57
Weighted average shares outstanding, basic	**9,212,280**	9,212,280	9,212,280
Weighted average shares outstanding, diluted	**9,212,280**	9,252,193	9,212,280

Consolidated Statements of Comprehensive Income

Bank of the Sierra and Subsidiary

Years Ended December 31,	2000	1999	1998
Net income	**$ 5,481,000**	$ 5,612,000	$ 5,224,000
Other comprehensive income, before tax; unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	**1,346,000**	(3,062,000)	1,710,000
Less reclassification adjustment for (gains) included in net income	**(119,000)**	(6,000)	(645,000)
Other comprehensive income (loss), before tax	**1,227,000**	(3,068,000)	1,065,000
Income tax applicable to items of other comprehensive income (loss)	**506,000**	(1,164,000)	340,000
Other comprehensive income (loss)	**721,000**	(1,904,000)	725,000
Comprehensive income	**$ 6,202,000**	$ 3,708,000	$ 5,949,000

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Bank of the Sierra and Subsidiary

For Years Ended December 31, 2000, 1999 and 1998

	Common Stock				
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 1997	9,212,280	$ 2,285,000	$ 26,641,000	$ 1,525,000	$ 30,451,000
Cash dividend ($.15 per share)	-	-	(1,382,000)	-	(1,382,000)
Other comprehensive income	-	-	-	725,000	725,000
Net income	-	-	5,224,000	-	5,224,000
Balance, December 31, 1998	9,212,280	2,285,000	30,483,000	2,250,000	35,018,000
Cash dividend ($.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
Cash dividend ($.23 per share)	-	-	(2,119,000)	-	(2,119,000)
Other comprehensive income	-	-	-	721,000	721,000
Net income	-	-	5,481,000	-	5,481,000
Balance, December 31, 2000	**9,212,280**	**$ 2,285,000**	**$ 37,430,000**	**$ 1,067,000**	**$ 40,782,000**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Bank of the Sierra and Subsidiary

Years Ended December 31,	2000	1999	1998
Cash flows from Operating Activities			
Net income	**$ 5,481,000**	$ 5,612,000	$ 5,224,000
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) on call of securities held-to-maturity	**-**	-	(5,000)
(Gain) on sale of securities available-for-sale	**(119,000)**	(6,000)	(645,000)
Loss from sale of other real estate owned, net of write-downs	**119,000**	48,000	108,000
(Gain) on sales of loans	**(505,000)**	(836,000)	(1,100,000)
(Gain) loss on disposal of equipment	**(8,000)**	5,000	9,000
Provision for loan losses	**2,760,000**	2,118,000	2,800,000
Depreciation and amortization	**1,754,000**	1,580,000	1,661,000
Amortization of intangibles	**214,000**	36,000	36,000
Net amortization (accretion) on securities	**(103,000)**	18,000	93,000
(Decrease) in unearned net loan fees	**(152,000)**	(633,000)	(323,000)
Deferred taxes	**(968,000)**	533,000	(763,000)
Proceeds from sales of loans held-for-sale	**38,200,000**	53,082,000	41,292,000
Originations of loans held-for-sale	**(28,866,000)**	(55,095,000)	(38,919,000)
(Increase) decrease in interest receivable and other assets	**(1,108,000)**	(691,000)	858,000
Increase in other liabilities	**(824,000)**	256,000	630,000
Net cash provided by operating activities	**15,875,000**	6,027,000	10,956,000
Cash flows from Investing Activities			
Maturities of securities held-to-maturity	**3,910,000**	9,781,000	10,656,000
Maturities of securities available-for-sale	**14,804,000**	3,887,000	984,000
Proceeds from calls of securities held-to-maturity	**386,000**	-	2,213,000
Proceeds from calls of securities available-for-sale	**-**	2,078,000	856,000
Purchases of securities held-to-maturity	**(14,668,000)**	(21,616,000)	(28,942,000)
Purchases of securities available-for-sale	**(16,755,000)**	(6,330,000)	(7,784,000)
Proceeds from sales of securities available-for-sale	**9,528,000**	-	-
Principal paydowns of securities available-for-sale	**575,000**	-	-
Decrease in interest-bearing deposit in other banks	**763,000**	-	-
(Increase) decrease in federal funds sold	**5,034,000**	9,800,000	(4,500,000)
(Increase) in loans receivable, net	**(62,631,000)**	(43,033,000)	(16,556,000)
Purchases of premises and equipment	**(2,600,000)**	(3,691,000)	(3,621,000)
Proceeds from sales of other real estate owned	**2,605,000**	341,000	1,241,000
Acquisition of SNB, net of cash acquired (Note 11)	**(4,804,000)**	-	-
Other	**-**	(826,000)	(308,000)
Net cash (used in) investing activities	**(63,853,000)**	(49,609,000)	(45,761,000)

See Notes to Consolidated Financial Statements

Years Ended December 31,	2000	1999	1998
Cash flows from Financing Activities			
Increase in deposits	**$ 60,271,000**	$ 29,937,000	$ 34,768,000
Increase (decrease) in short-term borrowings	**1,846,000**	22,540,000	(810,000)
Cash dividends paid	**(2,119,000)**	(2,027,000)	(1,382,000)
Net cash provided by financing activities	**59,998,000**	50,450,000	32,576,000
Increase (decrease) in cash and due from banks	**12,020,000**	6,868,000	(2,229,000)
Cash and Due from Banks			
Beginning of year	**31,413,000**	24,545,000	26,774,000
End of year	**$ 43,433,000**	$ 31,413,000	$ 24,545,000
Supplemental Disclosures of Cash Flow Information			
Cash paid for:			
Interest	**$ 17,332,000**	$ 11,779,000	$ 12,394,000
Income taxes	**$ 4,128,000**	$ 1,970,000	$ 3,362,000
Supplemental Schedule of Non-Cash Investing and Financing Activities			
Other real estate acquired in settlement of loans	**$ 1,492,000**	$ 1,295,000	$ 280,000
Loans made to finance the sale of other real estate	**$ 28,000**	$ 355,000	$ 79,000
Transfer of held-to-maturity securities to available-for-sale	**$ 75,202,000**	$ -	$ -
Acquisition of Sierra National Bank:			
Fair value of assets acquired:			
Federal funds sold	**$ 5,280,000**		
Due from banks, time	**1,994,000**		
Securities available-for-sale	**14,843,000**		
Loans, net	**53,320,000**		
Premises and equipment	**2,026,000**		
Cash surrender value of life insurance	**2,149,000**		
Other assets	**1,345,000**		
Other real estate owned	**614,000**		
Deferred taxes	**355,000**		
Intangibles	**5,869,000**		
Deposits	**(81,687,000)**		
Other liabilities	**(1,304,000)**		
Net cash purchase price	**$ 4,804,000**		

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 16 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, Fresno, Kern, Kings and Madera 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, 2000, 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

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, interest-bearing deposits in other 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, 2000 and 1999.

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 conditions, 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.

Intangibles

On May 19, 2000, the Bank acquired the net assets of Sierra National Bank. The transaction was accounted for using the purchase method of accounting. The Bank paid $9,563,000 in cash (including acquisition-related costs of $463,000) for net assets of $3,694,000. The resulting purchase price in excess of net assets acquired (intangibles) of $5,869,000, is being amortized over a period of 15 years using the straight-line method. (Also see Note 11.)

Impairment of long-lived assets

The Bank periodically reviews its long-lived assets and intangibles related to those assets to determine potential impairment by comparing the carrying value of the long-lived assets and identified goodwill to the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Bank would recognize an impairment loss at that date. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows) of the long-lived assets and identified goodwill.

Interest and fees on loans

Interest on loans is recognized in accordance with 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 amortizing these amounts over the contractual life of the loan. 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 or loss 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, 2000, 1999 and 1998 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 computed 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.

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

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 amount of servicing rights. As a result, the Bank has not recorded any capitalized mortgage servicing rights on the balance sheet as of December 31, 2000 or 1999.

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) savings plan

The 401(k) savings plan (the Plan) allows participants to defer, on a pre-tax basis, up to 15% of their salary (but in no event more than $10,500 per participant in the 2000 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, 2000, 1999 and 1998 was 9,212,280. For 2000 and 1998 there was no effect on earnings per share for stock options outstanding as the effect was antidilutive. 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.

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, 2000 or 1999. The estimated fair value amounts for 2000 and 1999 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, 2000 and 1999, variable rate loans comprised approximately 47% and 44%, 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 previously reported net income or stockholders' equity.

Current accounting development

In September 2000, the FASB issued Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Liabilities. This statement replaces FASB Statement No. 125. It revises the standards for securitizations and other transfers of financial assets and collateral after March 2001 and requires certain disclosures, but it carries over most of Statement No. 125's provisions without reconsideration. Management does not believe there will be a material effect on the Bank's Consolidated Financial Statements upon the adoption of Statement No. 140.

Note 2. Securities

Amortized cost and fair value of securities being held to maturity as of December 31, 1999 is summarized as follows:

	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

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

2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 13,540,000	$ 19,000	$ (2,000)	$ 13,557,000
U.S. government agencies and corporations	40,705,000	573,000	(74,000)	41,204,000
State and political subdivisions	41,407,000	1,180,000	(68,000)	42,519,000
Mortgage-backed securities	7,513,000	141,000	(4,000)	7,650,000
Corporate bonds	4,985,000	56,000	(2,000)	5,039,000
Federal Home Loan Bank and other equity securities	2,551,000	6,000	(10,000)	2,547,000
	$ 110,701,000	$ 1,975,000	$ (160,000)	$ 112,516,000

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	2,129,000	677,000	–	2,806,000
	$ 27,398,000	$ 694,000	$ (106,000)	$ 27,986,000

Notes to Consolidated Financial Statements

Note 2. Securities, Continued

The amortized cost and fair value of debt and equity securities available-for-sale as of December 31, 2000 by contractual maturity are shown below. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be repaid without any penalties. Therefore, the mortgage-backed securities and the Federal Home Loan Bank stock and other equity securities which do not have a maturity date have been classified separately in the maturity table.

	Amortized Cost	Fair Value
Due in one year or less	$ 19,980,000	$ 20,018,000
Due after one through five years	53,506,000	54,317,000
Due after five through ten years	13,662,000	14,032,000
Due after ten years	13,494,000	13,952,000
Federal Home Loan Bank and other equity securities	2,546,000	2,547,000
Mortgage-backed securities	7,513,000	7,650,000
	$ 110,701,000	$ 112,516,000

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.

	2000	1999	1998
Gross realized gains:			
Available-for-sale	**$ 119,000**	$ 6,000	$ 645,000
Held-to-maturity	**-**	-	5,000

Securities held-to-maturity with a carrying amount of $42,020,000 at December 31, 1999 and securities available-for-sale with a carrying amount of $62,364,000 and $21,158,000 at December 31, 2000 and 1999, respectively, were pledged as collateral on repurchase agreements, public deposits and for other purposes as required or permitted by law.

Gross unrealized gains of $560,000 and gross unrealized losses of $791,000 were recorded in accumulated comprehensive income as a result of a transfer of securities from the held-to-maturity category to the available-for-sale category on October 1, 2000. The carrying basis of the securities transfer was $75,202,000 at the date of transfer.

Note 3. Loans and Allowance for Loan Losses

Major classifications of loans at December 31 are as follows:

	2000	1999
Agricultural	**$ 16,306,000**	$ 15,096,000
Commercial and industrial	**59,554,000**	41,817,000
Real estate loans:		
Secured by commercial and professional office properties, including construction and development	**165,759,000**	114,038,000
Secured by residential properties	**102,594,000**	74,052,000
Secured by farmland	**17,575,000**	16,250,000
Held for sale	**2,128,000**	10,957,000
Total real estate	**288,056,000**	215,297,000
Small Business Administration loans	**10,883,000**	7,185,000
Consumer loans	**35,416,000**	27,449,000
Credit cards	**11,481,000**	10,666,000
	$ 421,696,000	$ 317,510,000

Impaired loans

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

	2000	1999
Loans receivable for which there is a related allowance for loan losses determined in accordance with FASB Statement No. 114, as amended	**$ 1,928,000**	$ 167,000
Other impaired loans	**192,000**	221,000
Total impaired loans	**$ 2,120,000**	$ 388,000
Related allowance for loan losses	**$ 675,000**	$ 222,000
Average balance (based on month-end balances)	**$ 651,000**	$ 1,193,000
Interest income recognized on impaired loans	**$ 29,000**	$ 11,000

The Bank is not committed to lend additional funds to debtors whose loans are impaired.

The Bank had non-accrual loans of $2,120,000 and $168,000 as of December 31, 2000 and 1999, 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 $52,000, $14,000 and $102,000 in 2000, 1999 and 1998, 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:

	2000		1999	
	Loans	Amount	Loans	Amount
Loans serviced for:				
Federal National Mortgage Association	**353**	**$ 25,990,000**	334	$ 24,354,000
Federal Home Loan Mortgage Corporation	**979**	**72,015,000**	1,204	93,233,000
Others, principally one company	**228**	**78,256,000**	242	90,408,000
	1,560	**$ 176,261,000**	1,780	$ 207,995,000

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, 2000 and 1999, such funds totaled $833,000 and $907,000, 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 1999 consolidated statement of income.

Allowance for loan losses

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

	2000	1999	1998
Allowance at beginning of year	**$ 3,319,000**	$ 4,394,000	$ 3,034,000
Provision charged to income	**2,760,000**	2,118,000	2,800,000
Loans charged off	**(1,939,000)**	(3,273,000)	(1,541,000)
Recoveries on loans previously charged off	**204,000**	80,000	101,000
Acquisition of allowance related to Sierra National Bank	**1,018,000**	-	-
Allowance at end of year	**$ 5,362,000**	$ 3,319,000	$ 4,394,000

Note 4. Premises and Equipment

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

	2000	1999
Land	**$ 2,028,000**	$ 1,309,000
Premises	**8,013,000**	6,252,000
Leasehold improvements	**1,696,000**	1,591,000
Construction in progress	**188,000**	40,000
Furniture and equipment	**12,526,000**	10,655,000
	24,451,000	19,847,000
Less accumulated depreciation and amortization	**9,974,000**	8,250,000
	$ 14,477,000	$ 11,597,000

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 $131,502,000 and $80,818,000 in 2000 and 1999, respectively. At December 31, 2000, the scheduled maturities of certificates of deposit and other time deposits are as follows:

	Amount
Three months or less	$ 151,231,000
Over three months through six months	89,569,000
Over six months through one year	22,545,000
Over one year through three years	10,288,000
Over three years	2,302,000
	$ 275,935,000

Notes to Consolidated Financial Statements

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, 2000, the Bank had available unused lines of credit totaling $33,000,000.

	2000		1999		1998	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31:						
Federal funds purchased and repurchase agreements	**$ 13,584,000**	**4.20%**	$ 18,638,000	4.95%	$ 9,898,000	3.54 %
Federal Home Loan Bank advances	**20,700,000**	**6.13**	13,800,000	3.53	-	-
Total	**$ 34,284,000**		$ 32,438,000		$ 9,898,000	
Year ended December 31 average balance:						
Federal funds purchased and repurchase agreements	**$ 13,977,000**	**4.51%**	$ 10,602,000	3.52%	$ 11,199,000	4.11 %
Federal Home Loan Bank advances	**13,017,000**	**6.48**	3,480,000	5.57	-	-
Total	**$ 26,994,000**		$ 14,082,000		$ 11,199,000	
Maximum month-end balance:						
Federal funds purchased and repurchase agreements	**$ 20,756,000**	**NA**	$ 20,766,000	NA	$ 14,160,000	NA
Federal Home Loan Bank advances	**35,123,000**	**NA**	17,300,000	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 Zion's 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:

	2000	1999	1998
Carrying value	**$ 16,510,000**	$ 23,058,000	$ 22,416,000
Estimated fair value	**16,510,000**	22,832,000	22,546,000

Pursuant to collateral agreements with the Federal Home Loan Bank, advances are collateralized by the Bank's stock in the Federal Home Loan Bank and by the carrying value of the following collateral at December 31:

	2000	1999
Securities held-to-maturity	**$ -**	$ 8,500,000
Securities available-for-sale	**-**	9,158,000
Qualifying first mortgage loans	**91,960,000**	-

Note 7. Other Operating Expenses

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

	2000	1999	1998
Advertising and promotion	**$ 925,000**	$ 711,000	$ 485,000
Amortization of intangibles	**214,000**	36,000	36,000
Data processing:			
Item processing	**1,096,000**	253,000	293,000
Other data processing	**441,000**	536,000	383,000
Deposit services	**1,090,000**	686,000	609,000
Loan services:			
Loan processing	**428,000**	384,000	335,000
Other real estate owned	**462,000**	167,000	144,000
Credit card processing	**532,000**	489,000	638,000
Other loan services	**39,000**	71,000	82,000
Professional services:			
Legal and accounting	**709,000**	302,000	467,000
Other professional services	**428,000**	392,000	419,000
Stationery and supplies	**605,000**	499,000	447,000
Other operating:			
Telephone and data communication	**797,000**	531,000	515,000
Postage and mail	**309,000**	285,000	227,000
Other	**371,000**	395,000	305,000
Sundry and tellers	**178,000**	107,000	26,000
	$ 8,624,000	$ 5,844,000	$ 5,411,000

Note 8. Income Taxes

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

	2000	1999	1998
Current income taxes:			
Federal	**$ 2,620,000**	$ 1,476,000	$ 2,625,000
State	**1,090,000**	766,000	1,081,000
	3,710,000	2,242,000	3,706,000
Deferred income taxes:			
Federal	**(767,000)**	176,000	(575,000)
State	**(201,000)**	357,000	(188,000)
	(968,000)	533,000	(763,000)
	$ 2,742,000	$ 2,775,000	$ 2,943,000

The Bank's income tax expense differed from the statutory federal income tax rate of 35% in 2000, 1999 and 1998 as follows:

	2000	1999	1998
Expected federal taxes at statutory rate	**$ 2,878,000**	$ 2,935,000	$ 2,859,000
California franchise tax, net of federal income tax benefit	**580,000**	595,000	580,000
Benefit from tax-exempt securities income	**(615,000)**	(568,000)	(510,000)
Other, net	**(101,000)**	(187,000)	14,000
	$ 2,742,000	$ 2,775,000	$ 2,943,000

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

	2000	1999
Deferred tax assets:		
Deferred compensation	**$ 466,000**	$ 222,000
Allowance for loan losses	**1,333,000**	497,000
State taxes	**357,000**	239,000
Other real estate owned expense	**430,000**	343,000
Accrued expenses	**34,000**	157,000
	2,620,000	1,458,000
Deferred tax liabilities:		
Premises and equipment	**(414,000)**	(415,000)
Unrealized gain on securities available-for-sale	**(748,000)**	(242,000)
Mark to market, loans held for sale	-	(108,000)
Other	**(104,000)**	(156,000)
	(1,266,000)	(921,000)
Net deferred tax asset	**$ 1,354,000**	$ 537,000

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.

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:

	2000	1999
Commitments to extend credit	**$ 90,787,000**	$ 95,879,000
Standby letters of credit	**7,927,000**	7,288,000
Credit card commitments	**39,280,000**	33,102,000

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.

Note 9. Commitments and Contingencies, Continued

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 $432,000, $399,000, and $396,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The future annual minimum lease payments under noncancelable operating leases are as follows:

Years Ending December 31,	Amount
2001	$ 397,000
2002	396,000
2003	395,000
2004	395,000
2005	350,000
Thereafter	1,332,000
	$ 3,265,000

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, Fresno, Kern, Kings and Madera 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 $1,366,000 and $183,000 at December 31, 2000 and 1999, respectively. The activity in such loans is as follows for the years ending December 31:

	2000	1999
Balance, beginning	**$ 183,000**	$ 1,086,000
New loans or advances under revolving lines	**14,056,000**	7,990,000
Repayments	**(12,873,000)**	(8,893,000)
Balance, ending	**$ 1,366,000**	$ 183,000

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, 2000 and 1999.

Related-party deposits were approximately $3,754,000 and $2,467,000 at December 31, 2000 and 1999, respectively.

Note 11. Acquisition of a Bank

As discussed in Note 1, on May 19, 2000, the Bank acquired Sierra National Bank (SNB). This acquisition has been accounted for using the purchase method of accounting. Accordingly, operating results of SNB are included in the consolidated statements of income from the date of acquisition. The Bank paid $9,563,000 for SNB and acquired $4,759,000 of cash for a net cash purchase price of $4,804,000. The allocation of the purchase price is based on management's estimates of the fair value of assets acquired and liabilities assumed using published market values, contractual cash flows of loans and deposits using current market rates, appraisals and other estimations. As of December 31, 2000, the allocation of the purchase price is preliminary as not all estimations have been finalized.

Unaudited pro forma consolidated results of operations for the years ended December 31, 1999 and 2000 as though SNB had been acquired as of January 1, 1999 follow:

	2000	1999
Total interest income	**$ 49,433,000**	$ 40,776,000
Net income	**4,775,000**	5,937,000
Basic and diluted earnings per common and common equivalent share	**0.52**	0.64

The above amounts reflect adjustments for amortization of intangibles and additional depreciation on revalued purchased assets as if the business combination had occurred on January 1, 1999.

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, 2000, there are grants outstanding for 400,000 shares under non-qualified stock options and 655,000 shares under incentive stock options.

The following is a summary of stock option activity during the three years ended December 31, 2000:

Outstanding at January 1, 1998:	-
Granted, all at $9.00 per share	996,000
Terminated	-
Exercised	-
Outstanding at January 1, 1999:	996,000
Granted, all at $9.00 per share	132,000
Terminated	(38,000)
Exercised	-
Outstanding at December 31, 1999:	1,090,000
Granted, all at $9.00 per share	72,000
Terminated	(107,000)
Exercised	-
Outstanding at December 31, 2000:	1,055,000
At December 31, 2000:	
Shares available to grant, end of year	1,708,864
Weighted average remaining contractual life	8 years
Weighted average exercise price of outstanding shares	$ 9.00

At December 31, 2000, 1999 and 1998, share options exercisable were 699,000, 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 and related Interpretations for stock options issued to employees. 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:

	2000	1999	1998
Net income:			
As reported	**$ 5,481,000**	$ 5,612,000	$ 5,224,000
Pro forma	**5,281,000**	5,402,000	3,774,000
Earnings per share, basic and diluted:			
As reported	**0.60**	0.61	0.57
Pro forma	**0.57**	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:

	2000	1999	1998
Weighted average fair value per share of stock options granted	**$ 2.45**	$ 3.12	$ 3.05
Expected life in years	**10 years**	7.5 years	7.5 years
Risk-free interest rate	**6.13%**	6.21 %	4.98 %
Dividends as a percent of stock price	**2.88%**	2.46 %	1.75 %
Expected price volatility	**28.03%**	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, 2000, the most recent notification from the FDIC categorized the Bank as adequately 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 following table. 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 following table) 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, 2000, 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, are presented in the following table:

	Actual		Minimum for Capital Adequacy Purposes		To be Well-Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	($000s)		($000s)		($000s)	
As of December 31, 2000						
Total capital (to risk-weighted assets)	**$ 39,025**	**9.0 %**	**$ 34,703**	**8.0 %**	**$ 43,379**	**10.0 %**
Tier I capital (to risk-weighted assets)	**33,647**	**7.8**	**17,532**	**4.0**	**26,027**	**6.0**
Tier I capital (to average weighted assets)	**33,647**	**5.6**	**24,120**	**4.0**	**30,150**	**5.0**
As of December 31, 1999						
Total capital (to risk-weighted assets)	39,918	11.3	28,200	8.0	35,250	10.0
Tier I capital (to risk-weighted assets)	36,293	10.3	14,100	4.0	21,150	6.0
Tier I capital (to average weighted assets)	36,293	8.1	17,851	4.0	22,314	5.0

Dividends

The Bank is restricted as to the amount of dividends which can be paid. Dividends declared by banks that exceed 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 Risk

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

	2000		1999	
	Carrying	Fair Value	Carrying	Fair Value
	(in thousands)			
Assets				
Cash and due from banks	**$ 43,433**	**$ 43,433**	$ 31,413	$ 31,413
Interest-bearing deposits in other banks	**1,231**	**1,231**	-	-
Federal funds sold	**246**	**246**	-	-
Securities held-to-maturity	**-**	**-**	64,886	63,402
Securities available-for-sale	**112,516**	**112,516**	27,986	27,986
Loans, net	**414,264**	**420,919**	303,808	311,089
Loans held-for-sale	**2,128**	**2,128**	10,666	10,694
Accrued interest receivable	**4,902**	**4,902**	2,498	2,498
Liabilities				
Deposits	**527,776**	**504,663**	385,818	385,744
Federal funds purchased and repurchase agreements	**13,584**	**13,584**	18,638	18,638
Short-term Federal Home Loan Bank advances	**20,700**	**20,700**	13,800	13,800
Accrued interest payable	**1,087**	**1,087**	619	619

Fair value of commitments

The estimated fair value of fee income on letters of credit at December 31, 2000 and 1999, is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2000 and 1999.

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 and Subsequent Events

In December 2000, a definitive agreement was signed for the Bank to acquire Taft National Bank (TNB) for approximately $7.5 million in cash, subject to the approval of TNB stockholders and state and federal regulatory authorities. On February 22, 2001, the Bank terminated its agreement to purchase TNB. The termination agreement provides for the Bank to be reimbursed for certain acquisition-related expenses not to exceed $100,000.

The Bank is in the process of forming a holding company. The holding company will be named Sierra Bancorp. Each outstanding share of Bank of the Sierra common stock will be exchanged for one share of Sierra Bancorp common stock. The exchange will be accounted for similar to a pooling of interests with no effect on the net assets of the Bank.

Note 16. Selected Quarterly Financial Data (Unaudited)

(Dollars in thousands, except per share data)

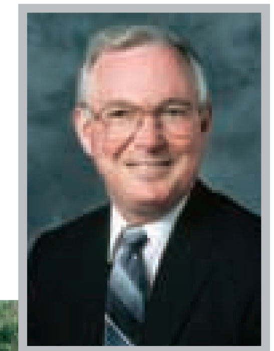
Quarterly Financial Data 2000 Quarter	1st	2nd	3rd	4th
Interest income	$ 9,707	$ 11,305	$ 13,069	$ 12,912
Net interest income	$ 6,006	$ 6,874	$ 7,880	$ 7,556
Net interest income after provision for loan losses	$ 5,316	$ 6,184	$ 7,190	$ 6,866
Net income	$ 1,170	$ 1,257	$ 1,441	$ 1,613
Net income per share, basic	$ 0.13	$ 0.14	$ 0.16	$ 0.17
Dividends declared	$ 0.05	$ 0.06	$ 0.06	$ 0.06

(Dollars in thousands, except per share data)

Quarterly Financial Data 1999 Quarter	1st	2nd	3rd	4th
Interest income	$ 8,155	$ 8,268	$ 8,840	$ 9,248
Net interest income	$ 5,418	$ 5,564	$ 5,819	$ 5,989
Net interest income after provision for loan losses	$ 5,343	$ 4,979	$ 5,049	$ 5,301
Net income	$ 1,160	$ 1,196	$ 1,383	$ 1,873
Net income per share, basic	$ 0.13	$ 0.13	$ 0.14	$ 0.21
Dividends declared	$ -	$ 0.12	$ 0.05	$ 0.05

Branch Locations

Porterville Offices



Arthur T. Cardell
Sr. Vice President/Manager

Deborah K. Hill	V.P./Senior Commercial Loan Officer
William R. Mehrten	V.P./Commercial Loan Officer
Janice A. Castle	A.V.P./Commercial Loan Officer
Susan M. Cornell	A.V.P./Operations Manager

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S. Dianne Miller	A.V.P./Personal Banking Officer
Yolanda Stewart	A.V.P./Operations Manager

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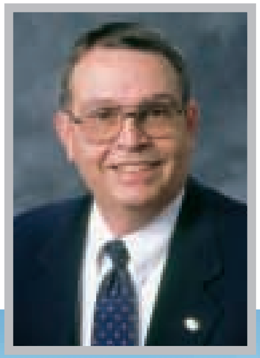
Lindsay Office



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Exeter Office

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Branch Locations

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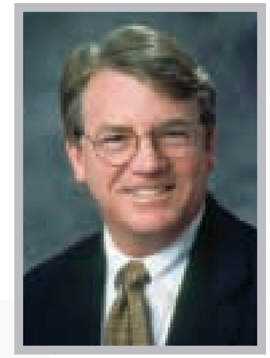
Visalia Offices



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Vice President/Manager

Gloria L. Ortega	A.V.P./Operations Manager

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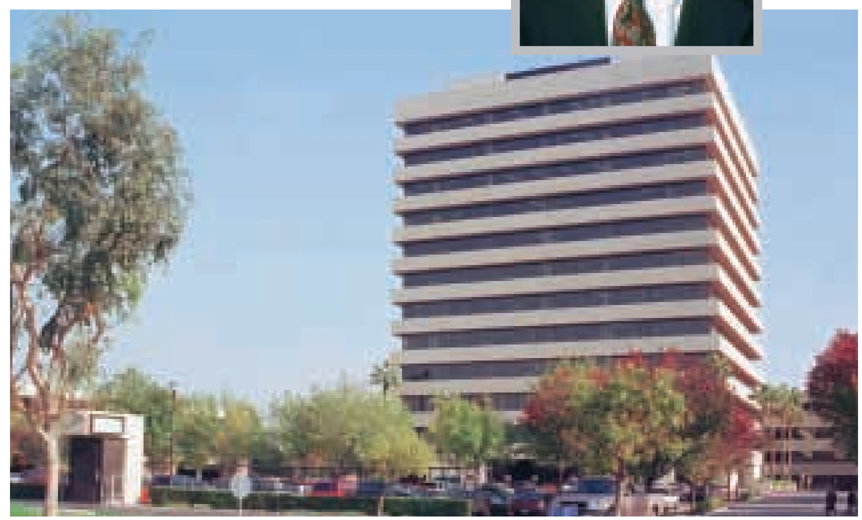
Larry J. Mueller
Vice President/Manager

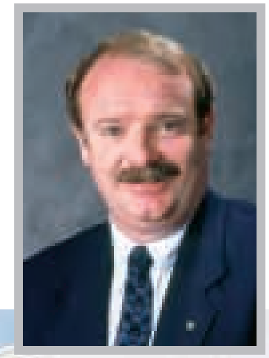


Michael S. Haffermann	V.P./Senior Commercial Loan Officer
Linda Brown	A.V.P./Commercial Loan Officer
Sandra M. McFarland	A.V.P./Operations Manager

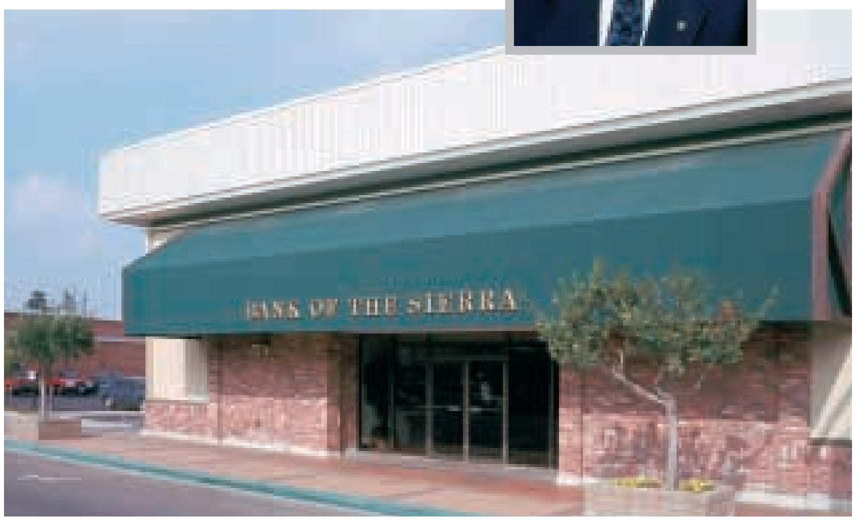
5060 California Avenue
Bakersfield, CA 93309
661/325-0101

Branch Locations

Tulare Office



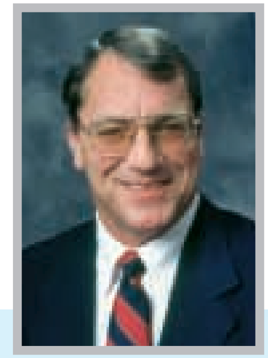
John R. Thomas
Vice President/Manager



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



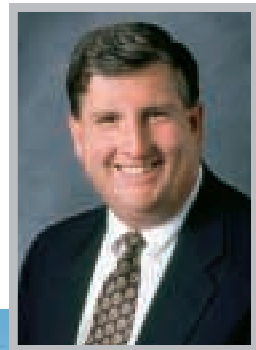
J. Stan Vaughn
Vice President/Manager

Ronald Greenlee 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

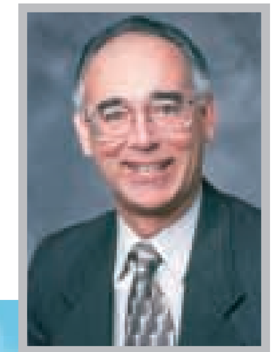
J. Frank Oliver
Vice President/Manager



Ronald P. Leach	V.P./Commercial Loan Officer	636 East Shaw Avenue
Katherine A. Garvis	A.V.P./Commercial Loan Officer	Fresno, CA 93710
Michele Wallace	A.V.P./Operations Manager	**559/248-0112**

Tehachapi Offices

Bruce A. Hamlin
Vice President/Area Manager



Sandi Coward	A.V.P./Commercial Loan Officer
Julie Leiva	A.V.P./Operations Manager

Main Office
224 West “F” Street
Tehachapi, CA 93561
661/822-6801

Tracy Jones A.V.P./Operations Manager

Old Town Office
21000 Mission Boulevard
Tehachapi, CA 93561
661/822-9191

Branch Locations

California City Office

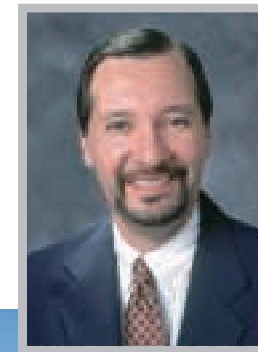
Bruce A. Hamlin
Vice President/Area Manager

Cindy Reidmiller A.V.P./Operations Manager

8031 California City Boulevard
California City, CA 93505
760/373-8602

Bakersfield Ming Office

Mark A. Olague
Vice President/Manager



Kathy Lostetter V.P./Commercial Loan Officer
Kathy Williams Operations Manager

1621 Mill Rock Way
Bakersfield, CA 93311
661/663-3400

Henderson & Hwy. 65 ATM

Drive-through ATM located in the parking lot of the South Valley Government Center, Henderson and Highway 65, Porterville, California.

Springville ATM

Drive-through ATM located in the parking lot of the Springville Inn, Highway 190, Springville, California.

Other Off-Site ATM Locations

Sierra View District Hospital
Porterville, California

Porterville College
Porterville, California

Government Plaza Lobby
Visalia, California

Porterville Inn
Porterville, California

Tulare County Courthouse
Visalia, California

Corporate Officers

Credit Center Officers

Ag Credit Centers

Ronald Paternoster	Vice President/Manager
William Donohoe	V.P./Ag Loan Officer
Robert D. Elledge	V.P./Ag Loan Officer
Anthony S. Mungary	V.P./Ag Loan Officer

Bank Card Center

Randy P. Mahre	Vice President/Manager
Lori E. Russell	Operations Manager
Debra McTyre	Merchant Representative

Real Estate Centers

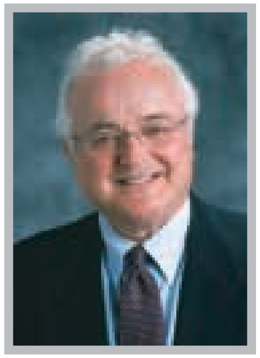
Jeri Eubanks	Vice President/Manager
Gerald C. Collins	V.P./Construction Loan Officer
Thomas J. McDermott	V.P./Secondary Marketing Officer
Dennis D. Pfendler	V.P./Sales Manager
Darlene M. Fillmore	A.V.P./Senior Real Estate Loan Officer
Sherri L. Jackson	A.V.P./Loan Production Manager
Matthew Collier	Mortgage Loan Officer
Rita Davenport	Mortgage Loan Officer
Kelly DeLussa	Real Estate Loan Officer
Gregory J. Haag	Mortgage Loan Officer
Sheffie Hilliard	Mortgage Loan Officer
Zella Rahn	Mortgage Loan Officer
Donald R. Shipman	Mortgage Loan Officer
Barry D. Simpson	Construction Loan Officer
Julia Simpson	Mortgage Loan Officer
Penny Underwood	Mortgage Loan Officer
Christine Young	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
Mona M. Carr	V.P./Brach/Central Operations Administrator
C. Thomas Elford	V.P./General Credit Administrator
Pamela J. Galli	V.P./Director of Compliance
Cindy L. Herron	V.P./Controller
Linda S. Hudspeth	V.P./Director of Loan Operations
Larry J. Mueller	V.P./General Credit Administrator
Ronald L. Pope	V.P./Management Information Services
Joe L. Ruiz, Jr.	V.P./Support Operations Administrator
Richard H. Schmid	V.P./Chief Appraiser
Donald Sowers	V.P./Director of Human Resources
Susan H. Treganza	V.P./Director of Marketing
Frank W. Wittich, Jr.	V.P./Special Assets Manager
Linda G. Childers	A.V.P./Consumer Credit Administrator
Stephen W. Sell	A.V.P./Appraiser
Judi Singer	A.V.P./Special Assets Center Supervisor
K. Kyle Amos	Applications Administrative Officer
Bryan W. Christmas	Appraiser
Grace M. Delgado	Operations Manager, Customer Service Center
Timothy B. Dennis	Phoenix System Administration Officer
Kelly Schieler	Assistant to the President
Richard E. Tipton	Network Administrator
Gregory Williams	MIS Project Administrator

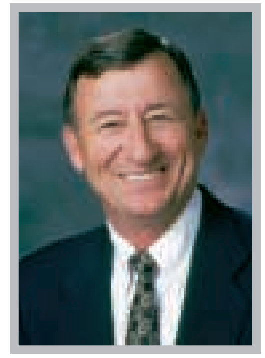
Board of Directors

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

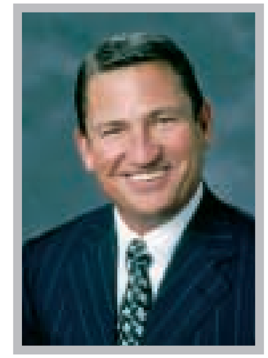


James C. Holly
President
President, Bank of the Sierra

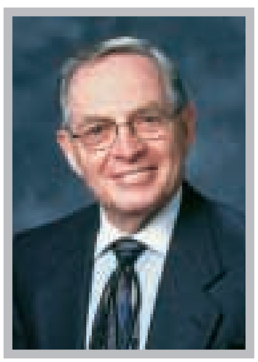
Robert H. Tienken
Secretary
Retired (formerly Realtor/Farmer)



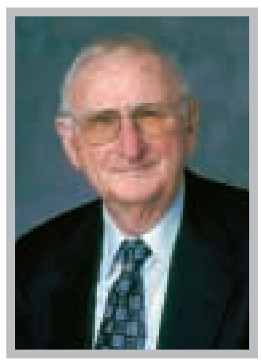
Albert L. Berra
Director
Orthodontist/Rancher



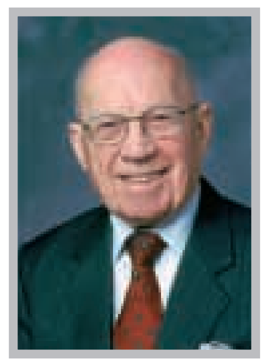
Gregory A. Childress
Director
Rancher



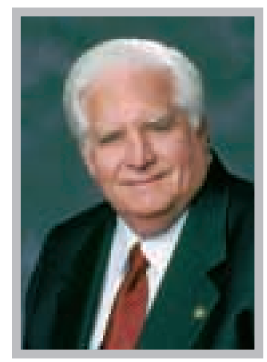
Robert L. Fields
Director
Retired Investor



Vince L. Jurkovich
Director
President, Porterville Concrete Pipe Company



Howard H. Smith
Director
Retired/Investor



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

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 2000 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.