



ANNUAL REPORT 2002



DEAR SHAREHOLDERS, CUSTOMERS AND FRIENDS: The Board of Directors, Officers and Staff of NorCal Community Bancorp and its subsidiary, the Bank of Alameda, are very pleased to report that our Company enjoyed an exceptional year in 2002. Although 2002 was challenging in many respects, it proved to be a rewarding period for us in what has been a difficult economic environment for the region and the country.

During the course of last year, our shareholders voted to approve the reorganization of the Bank of Alameda by merging the Bank with the newly formed bank holding company, NorCal Community Bancorp. This merger did not affect the name or services of the Bank of Alameda. The Bank became a wholly-owned subsidiary of NorCal Community Bancorp. The reorganization was undertaken in order to provide the Company with increased flexibility to enter into other business lines, improve capital management capabilities and provide future opportunities to enhance shareholder value.

Although generally adverse economic conditions made last year a difficult financial experience for many companies, our financial results were much improved over the previous year. Some of our outstanding financial highlights for 2002 are as follows:

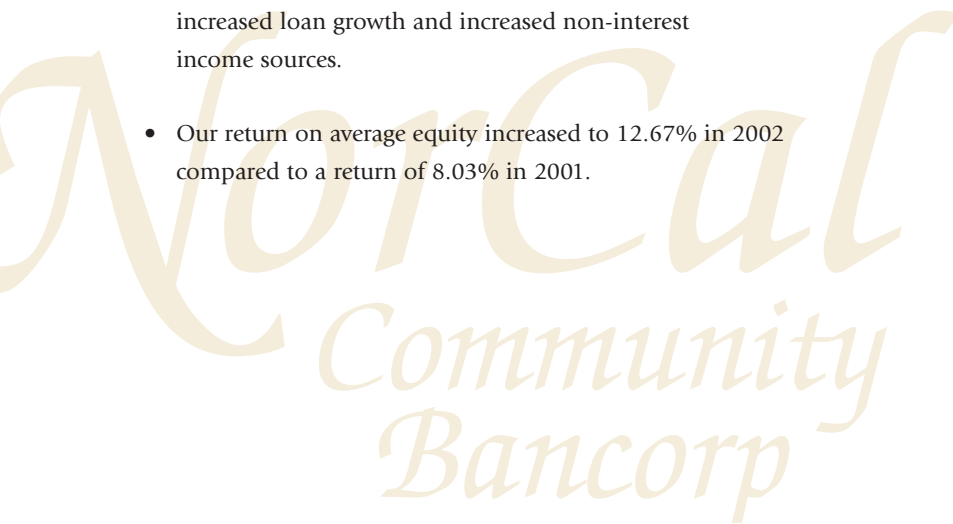
- Net income increased to \$1.2 million, or \$1.00 per diluted share, an increase of 77% compared to 2001 earnings of \$677,000, or \$0.56 per diluted share. This is a reflection of a strong net interest margin, increased loan growth and increased non-interest income sources.
- Our return on average equity increased to 12.67% in 2002 compared to a return of 8.03% in 2001.



TOTAL ASSETS
(IN THOUSANDS)



NET INCOME
(IN THOUSANDS)



- The average net interest margin rose to 5.54% in 2002, compared to 5.06% in 2001. This increase, coupled with growth in loans, helped to increase net interest income by \$1.8 million, or 33% in 2002 compared to 2001.
- Total non-interest income increased 96%, or \$358,000 in 2002 compared to 2001. The Company grew additional sources of non-interest income through the expansion of mortgage services, lockbox services and SBA lending programs.
- Total loans increased \$26.8 million, or 33% at December 31, 2002 compared to December 31, 2001. Total deposits increased \$26.2 million, or 23% at December 31, 2002 compared to December 31, 2001.

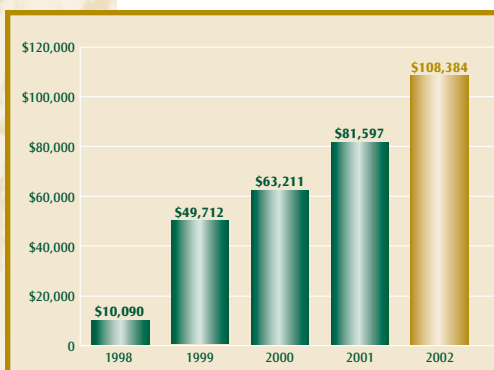
- Total assets increased to \$150.7 million at December 31, 2002, a \$28.9 million, or 24% increase over December 31, 2001 total assets of \$121.8 million.
- The quality of our loan portfolio remained very good. At December 31, 2002 total nonperforming assets were \$264,000, down from \$932,000 at December 31, 2001.

NET INCOME PER DILUTED SHARE



In addition to the financial achievements produced in 2002, Bank of Alameda also delivered new products and expanded services to our banking customers. The following is a brief summary of a few of these products and services:

TOTAL LOANS (IN THOUSANDS)



- In January 2002, Bank of Alameda established a Commercial Banking Center in the City of Emeryville. This office is a full service banking center that targets the business community of the City of Emeryville and the surrounding areas. The Emeryville office contributed significantly to the Company's loan growth in 2002.

TOTAL DEPOSITS (IN THOUSANDS)



- Bank of Alameda now offers SBA loans to small business owners. This important program, that we introduced in 2002, provides eligible business owners with long-term, competitive business financing.

- In 2002, Bank of Alameda expanded its Mortgage Banking services with an array of additional competitive loan products including no cost, no points refinancing loans and flexible loan programs for self employed individuals. All of these products are provided with the highest level of service and professionalism.
- Bank of Alameda introduced Image Statements to our checking account customers in 2002. Image statements are a more convenient and safe way for our customers to maintain their recordkeeping systems. This service, which is provided free of charge, has brought faster and easier statement reconciliation to our checking account customers.
- In 2002, Bank of Alameda introduced the Visa® Business Check Card. This product helps our business checking account customers pay for their business expenses using their Visa® Business Check Card. The charges are posted directly to the customer's account, just like a check, while providing the convenience of not having to wait for check approval. This product provides an assortment of benefits to our business customers and has proved to be an effective tool in managing office expenses.

During 2003 we shall celebrate our five year anniversary. On March 23, 1998, the Bank of Alameda commenced operations and ushered in an era of friendly, community banking that initially served the City of Alameda. Now, five years later, we can all look back at that day and be proud of our efforts, our success and our community support.

In closing, the Board of Directors, Officers and Staff of NorCal Community Bancorp and the Bank of Alameda would like to thank again our founders, shareholders, customers and friends for their ongoing support and confidence.



RETURN ON
AVERAGE
SHAREHOLDERS'
EQUITY

James B. Davis
Chairman of the Board

Stephen G. Andrews
President and Chief Executive Officer



**BOARD OF DIRECTORS,
NORCAL COMMUNITY BANCORP AND BANK OF ALAMEDA**



Left to right: David S. Oliver, M.D.; Eric C. Cross; James L. McKenna;
Robert K. Dahl; Joel Vuylsteke; Michael G. Gorman, Vice Chairman;
James B. Davis, Chairman of the Board; Stephen G. Andrews, President and CEO

Building Shareholder
value



**NorCal Community Bancorp and Subsidiary
Consolidated Financial Statements**

For the Years Ended

December 31, 2002, 2001 and 2000

and

Independent Auditor's Report

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The Shareholders and Board of Directors
NorCal Community Bancorp and Subsidiary

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

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

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

Perry-Smith LLP

Sacramento, California
January 10, 2003

CONSOLIDATED BALANCE SHEET

December 31, 2002 and 2001

	2002	2001
ASSETS		
Cash and due from banks	\$ 5,632,390	\$ 4,329,013
Federal funds sold	2,970,000	1,350,000
Interest-bearing deposits in banks	-	400,000
Investment securities (market value of \$33,384,000 in 2002 and \$32,403,000 in 2001) (Notes 2 and 6)	33,077,899	32,426,074
Loans, less allowance for loan losses of \$1,555,244 in 2002 and \$1,250,859 in 2001 (Notes 3, 9 and 11)	106,829,014	80,346,697
Bank premises and equipment, net (Notes 4 and 9)	711,736	874,750
Accrued interest receivable and other assets (Note 8)	1,471,184	2,039,281
	<u>\$150,692,223</u>	<u>\$121,765,815</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 27,647,199	\$ 21,496,435
Interest-bearing (Note 5)	110,921,552	90,834,210
Total deposits	138,568,751	112,330,645
Long-term debt (Note 7)	1,400,000	-
Accrued interest payable and other liabilities	642,713	519,219
Total liabilities	140,611,464	112,849,864
Commitments and contingencies (Note 9)		
Shareholders' equity (Note 10):		
Preferred stock - no par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - no par value; 30,000,000 shares authorized; issued and outstanding - 1,149,493 shares	7,615,652	7,615,652
Retained earnings	2,146,473	946,245
Accumulated other comprehensive income (Notes 2 and 13)	318,634	354,054
Total shareholders' equity	10,080,759	8,915,951
	<u>\$150,692,223</u>	<u>\$121,765,815</u>

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

CONSOLIDATED STATEMENT OF INCOME
For the Years Ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Interest income:			
Interest and fees on loans	\$ 7,357,940	\$ 6,049,950	\$ 5,014,592
Interest on Federal funds sold	169,624	619,101	894,090
Interest on investment securities:			
Taxable	1,316,467	1,331,441	1,518,952
Exempt from Federal income taxes	136,900	63,063	4,293
Interest on deposits in banks	11,402	6,332	-
 Total interest income	 8,992,333	 8,069,887	 7,431,927
Interest expense:			
Interest on deposits (Note 5)	1,611,532	2,525,962	2,613,536
Interest on borrowings (Notes 6 and 7)	21,134	-	23,738
 Total interest expense	 1,632,666	 2,525,962	 2,637,274
 Net interest income	 7,359,667	 5,543,925	 4,794,653
 Provision for loan losses (Note 3)	 480,000	 525,000	 425,000
 Net interest income after provision for loan losses	 6,879,667	 5,018,925	 4,369,653
Non-interest income:			
Service charges	422,365	246,322	171,248
Gain on sale of loans	70,814	-	-
Gain (loss) on sales and calls of available- for-sale investment securities (Note 2)	13,619	13,909	(15,000)
Other	225,764	114,126	77,753
 Total non-interest income	 732,562	 374,357	 234,001
Non-interest expenses:			
Salaries and employee benefits (Notes 3 and 15)	2,937,442	2,028,756	1,645,530
Occupancy and equipment (Notes 4 and 9)	925,055	819,939	572,971
Other (Note 12)	1,767,504	1,421,407	1,264,571
 Total non-interest expenses	 5,630,001	 4,270,102	 3,483,072
 Income before income taxes	 1,982,228	 1,123,180	 1,120,582
 Income tax expense (Note 8)	 782,000	 446,000	 466,000
 Net income	 \$ 1,200,228	 \$ 677,180	 \$ 654,582
 Basic earnings per share (Note 10)	 \$ 1.04	 \$ 0.59	 \$ 0.57
 Diluted earnings per share (Note 10)	 \$ 1.00	 \$ 0.56	 \$ 0.53

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common Stock		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Shareholders' Equity	Comprehensive Income
	Shares	Amount				
Balance, January 1, 2000	1,147,993	\$ 7,604,652	\$ (385,517)	\$ (536,617)	\$ 6,682,518	
Comprehensive income (Note 13):						
Net income			654,582		654,582	\$ 654,582
Other comprehensive income, net of taxes:						
Unrealized gains on available- for-sale investment securities				527,356	527,356	<u>527,356</u>
Total comprehensive income						<u>\$ 1,181,938</u>
Stock options exercised (Note 10)	1,500	11,000			11,000	
Balance, December 31, 2000	1,149,493	7,615,652	269,065	(9,261)	7,875,456	
Comprehensive income (Note 13):						
Net income			677,180		677,180	\$ 677,180
Other comprehensive income, net of taxes:						
Unrealized gains on available- for-sale investment securities				363,315	363,315	<u>363,315</u>
Total comprehensive income						<u>\$ 1,040,495</u>
Balance, December 31, 2001	1,149,493	7,615,652	946,245	354,054	8,915,951	
Comprehensive income (Note 13):						
Net income			1,200,228		1,200,228	\$ 1,200,228
Other comprehensive income, net of taxes:						
Unrealized losses on available- for-sale investment securities (Note 2)				(35,420)	(35,420)	<u>(35,420)</u>
Total comprehensive income						<u>\$ 1,164,808</u>
Balance, December 31, 2002	1,149,493	\$ 7,615,652	\$ 2,146,473	\$ 318,634	\$10,080,759	

	2002	2001	2000
Disclosure of reclassification amount, net of taxes (Note 13):			
Unrealized holding (losses) gains arising during the year	\$ (26,431)	\$ 372,495	\$ 517,456
Less: reclassification adjustment for gains (losses) included in net income	8,989	9,180	(9,900)
Net unrealized (losses) gains on available-for-sale investment securities	<u>\$ (35,420)</u>	<u>\$ 363,315</u>	<u>\$ 527,356</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 1,200,228	\$ 677,180	\$ 654,582
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	480,000	525,000	425,000
Depreciation and amortization	703,087	474,944	355,729
Federal Home Loan Bank stock dividends	(1,081)	-	-
(Gain) loss on sales and calls of available-for-sale investment securities	(13,619)	(13,909)	15,000
Loss on disposition of premises and equipment	-	14,557	-
Increase in deferred loan origination fees, net	140,716	48,243	31,985
Decrease in deferred Centrix origination costs	78,719	866,504	1,390,948
Decrease (increase) in accrued interest receivable and other assets	812,314	264,278	(68,254)
Increase in accrued interest payable and other liabilities	123,494	150,530	136,583
Deferred taxes	(226,000)	(480,000)	429,000
Net cash provided by operating activities	<u>3,297,858</u>	<u>2,527,327</u>	<u>3,370,573</u>
Cash flows from investing activities:			
Decrease (increase) in interest-bearing deposits in banks	400,000	(400,000)	-
Proceeds from sales and calls of available-for-sale investment securities	6,783,284	8,010,000	2,936,900
Proceeds from matured available-for-sale investment securities	4,875,000	4,865,000	3,660,000
Proceeds from sales and calls of held-to-maturity investment securities	2,500,000	-	-
Proceeds from matured held-to-maturity investment securities	240,000	-	-
Purchases of available-for-sale investment securities	(8,170,877)	(10,608,525)	(9,235,436)
Purchases of held-to-maturity investment securities	(7,284,300)	(8,216,042)	-
Net increase in loans	(27,181,752)	(20,493,399)	(15,138,009)
Purchases of premises and equipment	(175,557)	(222,900)	(407,782)
Proceeds from sales of premises and equipment	1,615	14,691	-
Net cash used in investing activities	<u>(28,012,587)</u>	<u>(27,051,175)</u>	<u>(18,184,327)</u>
Cash flows from financing activities:			
Net increase in demand, interest bearing and savings deposits	26,562,592	17,499,262	15,557,632
Net (decrease) increase in time deposits	(324,486)	3,490,552	6,368,814
Net decrease in short-term borrowings	-	-	(4,850,000)
Proceeds from issuance of long-term debt	1,400,000	-	-
Proceeds from exercised options	-	-	11,000
Net cash provided by financing activities	<u>27,638,106</u>	<u>20,989,814</u>	<u>17,087,446</u>
Increase (decrease) in cash and cash equivalents	2,923,377	(3,534,034)	2,273,692
Cash and cash equivalents, beginning of year	<u>5,679,013</u>	<u>9,213,047</u>	<u>6,939,355</u>
Cash and cash equivalents, end of year	<u>\$ 8,602,390</u>	<u>\$ 5,679,013</u>	<u>\$ 9,213,047</u>

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

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

	2002	2001	2000
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 1,704,238	\$ 2,546,832	\$ 2,559,694
Income taxes	\$ 954,000	\$ 684,000	\$ 36,000
Non-cash investing activities:			
Automobiles acquired through repossession	\$ 109,123	\$ 768,184	\$ 959,023
Net change in unrealized gain (loss) on available-for-sale investment securities	\$ (53,637)	\$ 550,254	\$ 799,093

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

NorCal Community Bancorp (the "Company") was incorporated on December 27, 2001 and subsequently obtained approval of the Board of Governors of the Federal Reserve System to be a bank holding company. On June 21, 2002, Bank of Alameda (the "Bank") consummated a merger with NorCal Community Bancorp that was effected through the exchange of one share of the Company's stock for each share of the Bank's stock. The reorganization represented an exchange of shares between entities under common control, and as a result, assets and liabilities of the Bank were recognized at their carrying amounts in the accounts of the Company.

The Bank operates four banking offices in its primary service area of Alameda County, three in the city of Alameda and one in the city of Emeryville. The Bank's primary business is serving the commercial banking needs of small to mid-sized businesses.

The accounting and reporting policies of the Company and its subsidiary conform with generally accepted accounting principles and prevailing practices within the banking industry.

Reclassifications

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

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

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

Loans

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

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

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

Loan Sales and Servicing

Beginning in 2002, the Company originated and included in the portfolio Small Business Administration (SBA) guaranteed loans that may be sold in the secondary market. Loans held for sale are carried at the lower of cost or market value. Market value is determined by the specific identification method as of the balance sheet date or the date that the purchasers have committed to purchase the loans. At the time the loan is sold, the related right to service the loan is retained with the Company earning future servicing income. This premium may be required to be refunded if the borrower defaults or the loan prepays within ninety days of the settlement date. However, there were no sales of loans subject to these recourse provisions at December 31, 2002. Loans subsequently transferred to the loan portfolio are transferred at the lower of cost or market value at the date of transfer. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. There were no loans held for sale at December 31, 2002. SBA loans with unpaid balances of \$2,006,043 were being serviced for others at December 31, 2002.

Servicing rights acquired through 1) a purchase or 2) the origination of loans which are sold or securitized with servicing rights retained are recognized as separate assets or liabilities. Servicing assets or liabilities are recorded at the difference between the contractual servicing fees and adequate compensation for performing the servicing, and are subsequently amortized in proportion to and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Servicing assets were not considered material for disclosure purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Centrix Loan Program

Beginning in December 1998, the Company participated in a lending program with Centrix Financial LLC (Centrix), a financial management company that originates and markets sub-prime automobile loans. Under the program, to enhance the credit evaluation of the loans, insurance was purchased by the Company which reimburses a portion of the principal on the loan in the event of default. The Company also paid a premium for each loan purchased in addition to paying Centrix a fee to service the loan. The premiums and insurance costs are recorded as deferred costs and amortized as a reduction to interest income over the average life of the loan. In January 2000, the Company discontinued purchasing automobile loans under the program. However, the Company continues to utilize Centrix to service the portfolio.

Repossessed automobiles are vehicles that are currently in the process of liquidation after the vehicle has been repossessed. Repossessed automobiles are carried at the lower of: (1) fair value less estimated costs to sell or, (2) the recorded cost of the automobile. At the time of repossession, the Bank writes the asset down through a charge to the allowance for loan losses to the automobile's estimated fair value, including estimated insurance receivables less estimated costs to sell, and transfers the balance to other assets. On the balance sheet, automobiles acquired through repossession totaled \$109,123 and \$768,184 at December 31, 2002 and 2001, respectively, and are included in accrued interest receivable and other assets.

Allowance for Loan Losses

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

Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses and, (3) where the Company has not experienced losses, the loss experience of peer banks. These estimates are particularly susceptible to changes in the economic environment and market conditions.

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

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

Bank Premises and Equipment

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

Income Taxes

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

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

Cash Equivalents

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

Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Company. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. Earnings per share have been retroactively adjusted for the three-for-two stock split declared in January 2001.

Stock-Based Compensation

At December 31, 2002, the Company has one stock-based employee compensation plan, the NorCal Community Bancorp Amended and Restated 1998 Stock Option Plan, which is described more fully in Note 10. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

Pro forma adjustments to the Company's consolidated net earnings and earnings per share are disclosed during the years in which the options become vested. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Stock-Based Compensation (Continued)

	2002	2001	2000
Net income, as reported	\$ 1,200,228	\$ 677,180	\$ 654,582
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	152,169	150,984	49,816
Pro forma net income	\$ 1,048,059	\$ 526,196	\$ 604,766
Basic earnings per share - as reported	\$ 1.04	\$ 0.59	\$ 0.57
Basic earnings per share - pro forma	\$ 0.91	\$ 0.46	\$ 0.53
Diluted earnings per share - as reported	\$ 1.00	\$ 0.56	\$ 0.53
Diluted earnings per share - pro forma	\$ 0.89	\$ 0.44	\$ 0.50
Weighted average fair value of options granted during the year	\$ 5.20	\$ 5.34	\$ 5.57

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

	2002	2001	2000
Dividend yield (not applicable)			
Expected volatility	34.31%	46.48%	38.94% to 43.20%
Risk-free interest rate	3.66%	4.96%	6.21% to 6.67%
Expected option life	10 years	5 years	5 years

Use of Estimates

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

Impact of New Financial Accounting Standards

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. This Statement rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishment of Debt*, and an amendment of that Statement, SFAS No. 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. This Statement also rescinds SFAS No. 44, *Accounting for Intangible Assets of Motor Carriers*. This Statement amends SFAS No. 13, *Accounting for Leases*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required

accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. This Statement is effective for fiscal years beginning after May 15, 2002. Adoption of this Statement is not expected to have a material effect on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. This Statement is effective for exit or disposal activities initiated after December 31, 2002. Adoption of this Statement is not expected to have a material effect on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Impact of New Financial Accounting Standards (Continued)

In October 2002, the FASB issued SFAS No. 147, *Acquisitions of Certain Financial Institutions*. This Statement, which addresses financial accounting and reporting matters for the acquisition of all or part of a financial institution, applies to all such transactions except those between two or more mutual enterprises. This Statement removes acquisitions of financial institutions, other than transactions between two or more mutual enterprises, from the scope of SFAS No. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, and related interpretations. This Statement requires a financial institution to apply SFAS No. 144 and evaluate long-term customer relationship intangible assets (core deposit intangible) for impairment. Under SFAS No. 72, a financial institution may have recorded an unidentifiable intangible asset arising from a business combination. If certain criteria in SFAS No. 147 are met, the amount of the unidentifiable intangible asset will be reclassified to goodwill upon adoption of this Statement and any amortization amounts that were incurred after the adoption of SFAS No. 142 must be reversed. Reclassified goodwill would then be measured for impairment under the provisions of SFAS No. 142. Provisions of this Statement are applicable on or after October 1, 2002. In management's opinion, the adoption of this Statement did not have a

material effect on the Company's consolidated financial position or results of operations.

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

NOTE 2. INVESTMENT SECURITIES

Available-for-Sale:

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

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 1,001,879	\$ 8,121	\$ -	\$ 1,010,000
U.S. Government agencies	11,346,440	348,245	(9,685)	11,685,000
Obligations of states and political subdivisions	4,451,039	80,006	(2,045)	4,529,000
Corporate bonds	3,250,909	59,463	(1,372)	3,309,000
Total	\$ 20,050,267	\$ 495,835	\$ (13,102)	\$ 20,533,000

Net unrealized gains on available-for-sale investment securities totaling \$482,733 were recorded, net of \$164,099 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2002. Proceeds and gross realized gains on sales and calls of available-for-sale investment securities for the year ended December 31, 2002 totaled \$6,783,284 and \$13,619, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 2. INVESTMENT SECURITIES (Continued)

Available-for-Sale: (Continued)

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 1,009,723	\$ 1,204	\$ (1,927)	\$ 1,009,000
U.S. Government agencies	12,737,271	340,729	-	13,078,000
Obligations of states and political subdivisions	6,401,218	140,782	-	6,542,000
Corporate bonds	3,558,418	55,582	-	3,614,000
Total	\$ 23,706,630	\$ 538,297	\$ (1,927)	\$ 24,243,000

Net unrealized gains on available-for-sale investment securities totaling \$536,370 were recorded, net of \$182,316 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2001. Proceeds and gross realized gains on sales and calls of available-for-

sale investment securities for the year ended December 31, 2001 totaled \$8,010,000 and \$13,909, respectively. Proceeds and gross realized losses on sales and calls of available-for-sale investment securities for the year ended December 31, 2000 totaled \$2,936,900 and \$15,000, respectively.

Held-to-Maturity:

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agencies	\$ 3,851,224	\$ 56,776	\$ -	\$ 3,908,000
Obligations of states and political subdivisions	8,430,749	192,140	(4,889)	8,618,000
Corporate bonds	262,926	6,074	-	269,000
Total	\$ 12,544,899	\$ 254,990	\$ (4,889)	\$ 12,795,000

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agencies	\$ 4,918,636	\$ 15,024	\$ (4,660)	\$ 4,929,000
Obligations of states and political subdivisions	2,993,815	278	(29,093)	2,965,000
Corporate bonds	270,623	-	(4,623)	266,000
Total	\$ 8,183,074	\$ 15,302	\$ (38,376)	\$ 8,160,000

During 2002 and 2001, there were no sales, calls or transfers of held-to-maturity investment securities. Prior to 2001, the Company had not classified any investment securities as held-to-maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 2. INVESTMENT SECURITIES (Continued)

The amortized cost and estimated market value of investment securities at December 31, 2002 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the

issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
Within one year	\$ 11,516,063	\$ 11,690,000	\$ 2,791,316	\$ 2,800,000
After one year through five years	7,034,204	7,343,000	8,598,485	8,833,000
After five years	1,500,000	1,500,000	1,155,098	1,162,000
Total	\$ 20,050,267	\$ 20,533,000	\$ 12,544,899	\$ 12,795,000

Investment securities with amortized costs of \$7,941,648 and \$10,786,409 and estimated market values of \$8,282,000 and \$11,052,000 were pledged to secure treasury, tax and loan accounts and

short-term borrowing arrangements at December 31, 2002 and 2001, respectively.

NOTE 3. LOANS

Outstanding loans are summarized below:

	December 31,	
	2002	2001
Commercial	\$ 14,179,028	\$ 11,385,930
Agricultural	774,820	300,158
Real estate - residential	9,995,118	-
Real estate - mortgage	51,858,380	38,275,664
Real estate - construction	21,847,158	21,318,596
Automobile - Centrix	3,552,329	6,585,683
Consumer - other	6,518,919	3,853,584
	108,725,752	81,719,615
Unamortized premium and insurance costs related to Centrix program	-	78,719
Deferred loan origination fees, net	(341,494)	(200,778)
Allowance for loan losses	(1,555,244)	(1,250,859)
Total	\$ 106,829,014	\$ 80,346,697

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 3. LOANS (Continued)

Changes in the allowance for loan losses were as follows:

	For the Year December 31,		
	2002	2001	2000
Balance, beginning of year	\$ 1,250,859	\$ 959,201	\$ 749,948
Provision charged to operations	480,000	525,000	425,000
Losses charged to allowance	(175,615)	(233,342)	(215,747)
Balance, end of year	\$ 1,555,244	\$ 1,250,859	\$ 959,201

The Company had no individually material loans that were considered to be impaired during the years ended December 31, 2002, 2001 and 2000.

Nonaccrual loans represent a homogeneous pool of automobile loans and totaled \$154,638 and \$148,670 at December 31, 2002 and 2001, respectively. Interest forgone on nonaccrual loans totaled \$21,095 and

\$14,048 for the years ended December 31, 2002 and 2001, respectively. There was no interest foregone on nonaccrual loans for the year ended December 31, 2000.

Salaries and employee benefits totaling \$65,410, \$71,150 and \$51,990 were deferred as loan origination costs during the years ended December 31, 2002, 2001 and 2000, respectively.

NOTE 4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
	2002	2001
Furniture and equipment	\$ 1,482,068	\$ 1,333,402
Leasehold improvements	382,682	357,406
	1,864,750	1,690,808
Less accumulated depreciation and amortization	(1,153,014)	(816,058)
	\$ 711,736	\$ 874,750

Depreciation and amortization included in occupancy and equipment expense totaled \$336,956, \$300,288 and \$226,100 for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 5. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2002	2001
Savings	\$ 6,137,423	\$ 4,695,060
Money market	50,040,913	38,619,200
NOW accounts	25,858,547	18,310,795
Time, \$100,000 or more	10,686,150	11,898,438
Other time	18,198,519	17,310,717
Total	\$ 110,921,552	\$ 90,834,210

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,		
2003	\$ 24,287,244	
2004	2,351,687	
2005	1,502,998	
2006	504,796	
2007	237,944	
	\$ 28,884,669	

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

	Year Ended December 31,		
	2002	2001	2000
Savings	\$ 33,843	\$ 43,994	\$ 56,687
Money market	766,017	1,068,299	1,132,529
NOW accounts	52,698	63,773	103,507
Time, \$100,000 or more	291,097	558,829	622,834
Other time	467,877	791,067	697,979
Total	\$ 1,611,532	\$ 2,525,962	\$ 2,613,536

NOTE 6. SHORT-TERM BORROWING ARRANGEMENTS

The Company has \$4,500,000 in unsecured borrowing arrangements with three of its correspondent banks. There were no short-term borrowings outstanding under these arrangements at December 31, 2002 and 2001.

The Company can borrow up to the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 2002, investment securities with amortized costs totaling \$6,941,533 and estimated market values totaling \$7,257,000 were pledged to the correspondent bank under this agreement. During the years ended December 31,

2002 and 2001, the Company had no outstanding borrowings under this agreement. Interest expense totaled \$23,738 for the year ended December 31, 2000.

In addition, the Company can borrow up to the market value of securities pledged to another of its correspondent banks. At December 31, 2002, investment securities with amortized costs totaling \$1,000,115 and estimated market values totaling \$1,025,000 were pledged to the correspondent bank. There were no outstanding borrowings under this arrangement during the years ended December 31, 2002 and 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 7. LONG-TERM DEBT

The Company could borrow from its correspondent bank, on either a short-term or long-term basis, up to \$2,000,000 secured by the Company's interest in its shares of common stock of the Bank. Proceeds from the advances are to be used to downstream capital to the Bank.

Under the terms of the credit agreement, the Company may draw on the line of credit through June 30, 2003. Borrowing and repayment terms allow the Company to draw on and partially or wholly repay outstanding borrowings and re-borrow, provided that the total outstanding borrowings at any one time do not exceed the maximum credit limit of \$2,000,000. Effective July 1, 2003, any outstanding principal shall be converted to a term loan to be repaid in annual installments as follows:

Installment Amount Equal to:	Due Date
3.75% of the June 30, 2003 balance	June 30, 2003
3.75% of the June 30, 2003 balance	June 30, 2004
5.00% of the June 30, 2003 balance	June 30, 2005
5.00% of the June 30, 2003 balance	June 30, 2006
12.50% of the June 30, 2003 balance	June 30, 2007
12.50% of the June 30, 2003 balance	June 30, 2008
12.50% of the June 30, 2003 balance	June 30, 2009
12.50% of the June 30, 2003 balance	June 30, 2010
12.50% of the June 30, 2003 balance	June 30, 2011
20.00% of the June 30, 2003 balance	June 30, 2012

Advances from the correspondent bank at December 31, 2002 consisted of the following:

Amount	Rate
\$ 700,000	5.00%
700,000	4.50%
\$ 1,400,000	

The terms of this agreement contain various restrictive covenants. The Company was in compliance with these covenants at December 31, 2002.

NOTE 8. INCOME TAXES

The provision for income taxes for the years ended December 31, 2002, 2001 and 2000 consisted of the following:

	Federal	State	Total
2002			
Current	\$ 743,000	\$ 265,000	\$ 1,008,000
Deferred	(179,000)	(47,000)	(226,000)
Income tax expense	\$ 564,000	\$ 218,000	\$ 782,000
2001			
Current	\$ 712,000	\$ 214,000	\$ 926,000
Deferred	(389,000)	(91,000)	(480,000)
Income tax expense	\$ 323,000	\$ 123,000	\$ 446,000
2000			
Current	\$ 21,000	\$ 16,000	\$ 37,000
Deferred	323,000	106,000	429,000
Income tax expense	\$ 344,000	\$ 122,000	\$ 466,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 8. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2002	2001
Deferred tax assets:		
Allowance for loan losses	\$ 562,000	\$ 473,000
Organizational costs	4,000	22,000
Future benefit of State tax liability	62,000	58,000
Bank premises and equipment	32,000	17,000
	660,000	570,000
Deferred tax liabilities:		
Tax accounting for book accruals	(157,000)	(293,000)
Unrealized gain on available-for-sale investment securities	(164,000)	(182,000)
	(321,000)	(475,000)
Net deferred tax assets	\$ 339,000	\$ 95,000

The provision for income tax expense differs from amounts computed by applying the statutory Federal income tax rate to income before income taxes. The effects for these differences for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002		2001		2000	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense,						
at statutory rate	\$ 673,957	34.0	\$ 381,881	34.0	\$ 380,998	34.0
State franchise tax, net of Federal tax effect	154,014	7.8	80,975	7.2	80,241	7.2
Interest on obligations of states						
and political subdivisions	(43,895)	(2.2)	(18,953)	(1.7)	(1,318)	(.1)
Other	(2,076)	(.1)	2,097	.2	6,079	.5
	\$ 782,000	39.5	\$ 446,000	39.7	\$ 466,000	41.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 9. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases four branch offices and its administrative offices under non-cancelable operating leases. The leases were originated at various times beginning in 1998 and have terms of between 60 and 120 months. The leases expire at different points between 2005 and 2009, with some leases containing three or five year renewal options.

Future minimum lease payments are as follows:

Year Ending December 31,		
2003	\$	367,343
2004		380,746
2005		376,985
2006		213,699
2007		125,850
Thereafter		73,089
	\$	1,537,712

Rental expense included in occupancy and equipment expense totaled \$376,563, \$331,920 and \$248,857 for the years ended December 31, 2002, 2001 and 2000.

Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and letters of credit as it does for loans included on the balance sheet.

The following financial instruments represent off-balance-sheet credit risk:

	December 31,	
	2002	2001
Commitments to extend credit	\$ 28,119,000	\$ 20,113,000
Letters of credit	\$ 612,000	\$ 527,000

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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The

Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Letters of credit are conditional commitments issued by the Company to guarantee the performance or financial obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

At December 31, 2002, commercial loan commitments represent approximately 30% of total commitments and are generally secured by accounts receivable and inventory. Real estate loan commitments represent approximately 46% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. Personal lines of credit and credit card commitments represent the remaining 24% of total commitments. In addition, the majority of the Company's loan commitments have variable interest rates.

Significant Concentrations of Credit Risk

The Company grants real estate mortgage, real estate construction, commercial and consumer loans to customers in the Bank's geographic service area. Although the Company has a diversified loan portfolio, a substantial portion of its portfolio is secured by real estate.

As of December 31, 2002, in management's judgment, a concentration existed in real estate loans. At that date, approximately 77% of the loans were real estate related, with commercial real estate representing 48%, residential real estate representing 9% and real estate construction loans representing 20%.

As of December 31, 2001, in management's judgment, a concentration existed in real estate loans. At that date, approximately 73% of the loans were real estate related, with commercial real estate representing 47% and real estate construction loans representing 26%.

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

Federal Reserve Requirement

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits. The average amount of such reserve balance required at December 31, 2002 and 2001 was \$25,000.

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$4,155,500 at December 31, 2002.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 10. SHAREHOLDERS' EQUITY

Dividends

The Company's primary source of income with which to pay dividends is dividends from the Bank. The California Financial Code restricts the total dividend payment of any bank in any one year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period.

At December 31, 2002, the Bank had retained earnings of \$2,146,473 which were free of such restrictions and available for dividend payments to the Company.

Earnings Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2002, 2001 and 2000 is shown below.

	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2002			
Basic earnings per share	\$ 1,200,228	1,149,493	\$ 1.04
Effect of dilutive stock options		50,807	
Diluted earnings per share	\$ 1,200,228	1,200,300	\$ 1.00
December 31, 2001			
Basic earnings per share	\$ 677,180	1,149,493	\$ 0.59
Effect of dilutive stock options		62,411	
Diluted earnings per share	\$ 677,180	1,211,904	\$ 0.56
December 31, 2000			
Basic earnings per share	\$ 654,582	1,148,523	\$ 0.57
Effect of dilutive stock options		85,991	
Diluted earnings per share	\$ 654,582	1,234,514	\$ 0.53

Stock Options

During 1998, the Board of Directors adopted a stock option plan for which 342,750 shares of common stock are reserved for issuance to employees and directors under incentive and nonstatutory agreements. The plan requires that the option price may not be less than the fair market value of

the stock at the date the option is granted, and that the stock must be paid for in full at the time the option is exercised. All options expire on a date determined by the Board of Directors, but not later than ten years from the date of grant. Certain options are exercisable when granted and others vest over a five year period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 10. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

A summary of the activity within the plan follows:

	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	263,813	\$ 8.48	260,813	\$ 8.45	222,338	\$ 7.35
Options granted	23,900	\$ 10.01	3,000	\$ 11.50	54,975	\$ 12.54
Options exercised	-	-	-	-	(1,500)	\$ 7.33
Options canceled	-	-	-	-	(15,000)	\$ 7.33
Options outstanding, end of year	<u>287,713</u>	<u>\$ 8.61</u>	<u>263,813</u>	<u>\$ 8.48</u>	<u>260,813</u>	<u>\$ 8.45</u>
Options exercisable, end of year	<u>207,221</u>	<u>\$ 8.02</u>	<u>179,980</u>	<u>\$ 7.73</u>	<u>128,121</u>	<u>\$ 7.33</u>

A summary of options outstanding at December 31, 2002 follows:

Range of Exercise Prices	Number of Options Outstanding December 31, 2002	Weighted Average Remaining Contractual Life	Options Exercisable December 31, 2002
\$ 7.33	198,338	5.4 years	175,838
\$ 7.83	7,500	5.5 years	4,500
\$10.01	23,900	9.7 years	-
\$11.50	3,000	8.1 years	600
\$12.08	12,000	7.3 years	4,800
\$12.67	42,975	7.5 years	21,483
Total	<u>287,713</u>		<u>207,221</u>

Regulatory Capital

The Company and the Bank are subject to certain regulatory capital requirements administered by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC). Failure to meet these 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 Company's consolidated

financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Company and the Bank met all their capital adequacy requirements as of December 31, 2002 and 2001.

In addition, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since that notification that management believes have changed the categories.

	December 31,			
	2002		2001	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
NorCal Community Bancorp and Subsidiary	\$ 9,762,125	6.4%		
Minimum regulatory requirement	\$ 6,069,000	4.0%		
Bank of Alameda	\$ 11,051,551	7.3%	\$ 8,561,897	7.0%
Minimum requirement for "Well-Capitalized" institution	\$ 7,586,000	5.0%	\$ 6,116,000	5.0%
Minimum regulatory requirement	\$ 6,069,000	4.0%	\$ 4,892,000	4.0%
Tier 1 Risk-Based Capital Ratio				
NorCal Community Bancorp and Subsidiary	\$ 9,762,125	8.6%		
Minimum regulatory requirement	\$ 4,552,000	4.0%		
Bank of Alameda	\$ 11,051,551	9.7%	\$ 8,561,897	9.0%
Minimum requirement for "Well-Capitalized" institution	\$ 6,828,000	6.0%	\$ 5,698,000	6.0%
Minimum regulatory requirement	\$ 4,552,000	4.0%	\$ 3,799,000	4.0%
Total Risk-Based Capital Ratio				
NorCal Community Bancorp and Subsidiary	\$ 11,186,175	9.8%		
Minimum regulatory requirement	\$ 9,104,000	8.0%		
Bank of Alameda	\$ 12,475,601	11.0%	\$ 9,749,047	10.3%
Minimum requirement for "Well-Capitalized" institution	\$ 11,380,000	10.0%	\$ 9,497,000	10.0%
Minimum regulatory requirement	\$ 9,104,000	8.0%	\$ 7,598,000	8.0%

NOTE 11. RELATED PARTY TRANSACTIONS

During the normal course of business, the Company enters into transactions with related parties, including Directors and officers. These

transactions include borrowings from the Company with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers during 2002:

Balance, January 1, 2002	\$ 189,313
Disbursements	30,000
Amounts repaid	<u>(55,211)</u>
Balance, December 31, 2002	<u>\$ 164,102</u>
Undisbursed commitments to related parties, December 31, 2002	<u>\$ 69,440</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 12. OTHER EXPENSES

Other expenses for the years ended December 31, 2002, 2001 and 2000 consisted of the following:

	2002	2001	2000
Data processing	\$ 442,486	\$ 328,492	\$ 280,164
Professional fees	308,177	264,365	216,913
Centrix servicing fees	64,870	130,035	216,906
Stationery and supplies	119,747	83,564	73,388
Advertising and promotion	112,527	105,481	62,630
Communications and postage	109,634	92,167	56,521
Other operating expenses	610,063	417,303	358,049
	\$ 1,767,504	\$ 1,421,407	\$ 1,264,571

NOTE 13. COMPREHENSIVE INCOME

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive (loss) income that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Company's available-for-sale investment securities are included in other comprehensive (loss) income.

Total comprehensive income and the components of accumulated other comprehensive (loss) income are presented in the Statement of Changes in Shareholders' Equity.

For the years ended December 31, 2002, 2001 and 2000, the Company held securities classified as available-for-sale which had unrealized (losses) gains as follows:

	Before Tax	Tax Benefit (Expense)	After Tax
For the Year Ended December 31, 2002			
Other comprehensive loss:			
Unrealized holding losses	\$ (40,018)	\$ 13,587	\$ (26,431)
Reclassification adjustment for gains included in net income	13,619	(4,630)	8,989
	\$ (53,637)	\$ 18,217	\$ (35,420)
For the Year Ended December 31, 2001			
Other comprehensive income:			
Unrealized holding gains	\$ 564,163	\$ (191,668)	\$ 372,495
Reclassification adjustment for gains included in net income	13,909	(4,729)	9,180
	\$ 550,254	\$ (186,939)	\$ 363,315
For the Year Ended December 31, 2000			
Other comprehensive income:			
Unrealized holding gains	\$ 784,093	\$ (266,637)	\$ 517,456
Reclassification adjustment for losses included in net income	(15,000)	5,100	(9,900)
	\$ 799,093	\$ (271,737)	\$ 527,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made as of a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair value presented.

The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at December 31, 2002 and 2001:

Cash and cash equivalents: For cash and cash equivalents, the carrying amount is estimated to be fair value.

Interest-bearing deposits in banks: The fair values of interest-bearing deposits in banks are estimated using discounted cash flow analysis, using interest rates available at the reporting date for similar deposits.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers.

Loans: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The carrying amount of accrued interest receivable approximates its fair value.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Long-term debt: The fair value of long-term debt is estimated using a discounted cash flow analysis using interest rates currently available to the Company for similar debt instruments.

Commitments to extend credit: Commitments to extend credit are primarily for variable rate loans and letters of credit. For these commitments, there is no difference between the committed amounts and their fair values. Commitments to fund fixed rate loans and letters of credit are at rates which approximate fair value at each reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 14. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 5,632,390	\$ 5,632,390	\$ 4,329,013	\$ 4,329,013
Federal funds sold	2,970,000	2,970,000	1,350,000	1,350,000
Interest-bearing deposits in banks	-	-	400,000	400,000
Investment securities	33,077,899	33,384,000	32,426,074	32,403,000
Loans	106,829,014	109,748,000	80,346,697	82,741,000
Accrued interest receivable	980,195	980,195	949,846	949,846
Financial liabilities:				
Deposits	\$ 138,568,751	\$ 138,756,000	\$ 112,330,645	\$ 112,602,000
Long-term debt	1,400,000	1,400,000	-	-
Accrued interest payable	91,058	91,058	162,630	162,630
Off-balance-sheet financial instruments:				
Commitments to extend credit	\$ 28,119,000	\$ 28,119,000	\$ 20,113,000	\$ 20,113,000
Standby letters of credit	612,000	612,000	527,000	527,000

NOTE 15. EMPLOYEE RETIREMENT PLAN

During 1998, the Board of Directors adopted a Salary Deferral 401(k) Plan. The plan is available to employees meeting certain age and length of service requirements. Under the plan, employees can defer a selected portion of

their annual compensation and the Company may match each employee contribution in an amount to be determined annually under a formula established by the Company. The Company made contributions of \$51,188, \$35,840 and \$25,840 for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

BALANCE SHEET

December 31, 2002

ASSETS	
Cash and due from banks	\$ 48,032
Investment in subsidiary	11,370,185
Other assets	<u>62,542</u>
	<u>\$ 11,480,759</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	
Long-term borrowings	<u>\$ 1,400,000</u>
Shareholders' equity:	
Common stock	7,615,652
Retained earnings	2,146,473
Accumulated other comprehensive income	<u>318,634</u>
Total shareholders' equity	<u>10,080,759</u>
	<u>\$ 11,480,759</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

STATEMENT OF INCOME

For the Period from June 21, 2002 (Date Operations Commenced) to December 31, 2002

Income:		
Dividends declared by subsidiary - eliminated in consolidation		<u>\$ 200,000</u>
Expenses:		
Interest expense		21,134
Salaries and benefits		10,940
Other expenses		<u>119,894</u>
Total expenses		<u>151,968</u>
Income before equity in undistributed income of subsidiary		48,032
Equity in undistributed income of subsidiary		<u>632,121</u>
Income before income taxes		680,153
Income tax benefit		<u>62,542</u>
Net income		<u>\$ 742,695</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS *(Continued)*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Period From June 21, 2002 (Date Operations Commenced) to December 31, 2002

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Shareholders' Equity</u>	<u>Comprehensive Income</u>
	<u>Shares</u>	<u>Amount</u>				
Stock issued to effect merger with the Bank	1,149,493	\$ 7,615,652	\$ 1,403,778	\$ 304,312	\$ 9,323,742	
Comprehensive income:						
Net income (including dividend received of \$200,000)			742,695		742,695	\$ 742,695
Other comprehensive gain, net of tax:						
Unrealized gain on available-for-sale investment securities				14,322	14,322	<u>14,322</u>
Total comprehensive income						<u>\$ 757,017</u>
Balance, December 31, 2002	<u>1,149,493</u>	<u>\$ 7,615,652</u>	<u>\$ 2,146,473</u>	<u>\$ 318,634</u>	<u>\$ 10,080,759</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 16. PARENT ONLY CONDENSED FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS

For the Period From June 21, 2002 (Date Operations Commenced) to December 31, 2002

Cash flows from operating activities:	
Net income	\$ 742,695
Adjustments to reconcile net income to net cash provided by operating activities:	
Undistributed net income of subsidiary	(632,121)
Increase in other assets	<u>(62,542)</u>
Net cash provided by operating activities	48,032
Cash flows used in investing activities:	
Capital contributed to subsidiary	<u>(1,400,000)</u>
Cash flows provided by financing activities:	
Proceeds from the issuance of long-term debt	<u>1,400,000</u>
Increase in cash and cash equivalents	48,032
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 48,032</u>
Non-cash investing activities:	
Net change in unrealized gains on available-for-sale investment securities	\$ 21,700
Issuance of common stock in exchange for common stock of the Bank	\$ 9,323,742

NorCal Community Bancorp

NORCAL COMMUNITY BANCORP

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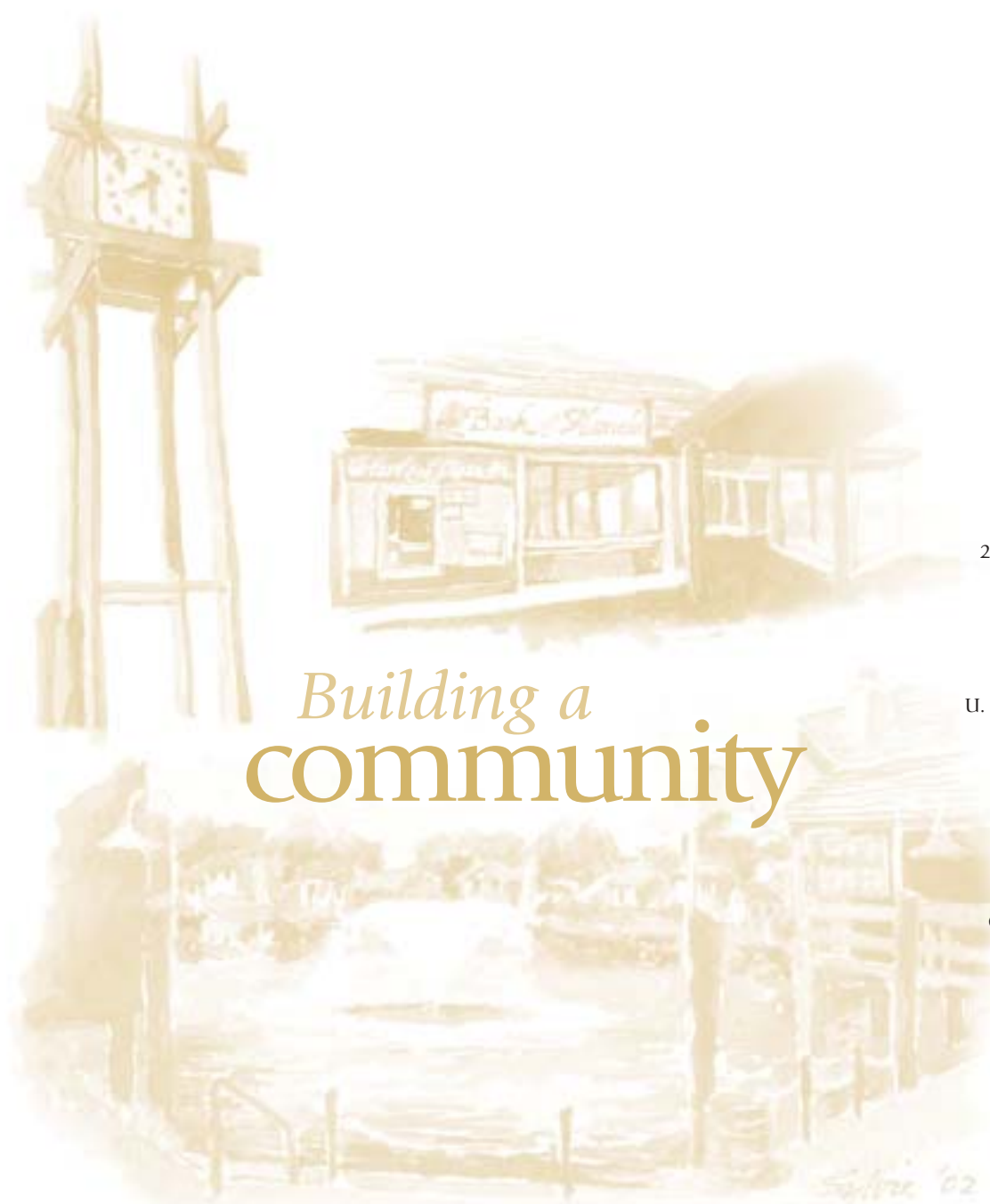
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AND BANK OF ALAMEDA
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Stephen G. Andrews

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**NORCAL COMMUNITY BANCORP
CORPORATE OFFICERS:**

James B. Davis

Chairman of the Board

Stephen G. Andrews

President and CEO

Jeanette E. Reynolds

Senior Vice President, Chief Financial Officer and Corporate Secretary

BANK OF ALAMEDA OFFICERS:

James B. Davis

Chairman of the Board

Stephen G. Andrews

President and CEO

Jeanette E. Reynolds

Senior Vice President, Chief Financial Officer and Corporate Secretary

Michael K. Roberts

Senior Vice President and Chief Information Officer

P. Troy Williams

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Vice President, Mortgage Lending

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Ted Del Mundo

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Assistant Vice President, Construction Lending

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Georganne M. Bellomo

Branch Service Manager

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Branch Service Manager

Vicki L. Masters

Branch Service Manager

Danni Stewart-Lofton

Branch Service Manager



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