



BANK OF ALAMEDA
1999 ANNUAL REPORT



Dear Shareholders, Customers and Friends:

On behalf of the Board of Directors, officers and staff, it is with great pleasure that we present the 1999 Annual Report for the Bank of Alameda. The initial success we have experienced since opening our doors on March 23, 1998 has continued into 1999. In our first full year of operations, your Bank realized a profit and experienced extraordinary growth. We are pleased to report that for the 12 months ended December 31, 1999 net income was \$460,000 or \$0.56 per diluted share.

The Bank's growth in 1999 stands as evidence of our acceptance and support from the community. Total assets were \$81.2 million at December 31, 1999, a \$37.1 million or 84% increase over December 31, 1998. Total deposits increased \$32.2 million to \$69.4 million at December 31, 1999. Total loans increased \$39.6 million or 393%, from December 31, 1998 to December 31, 1999. In light of our expanding operations and impressive growth, our peers have described the Bank of Alameda as a community bank on the move.

During 1999 the Bank of Alameda began expanding its products, services and conveniences. The Bank opened its second branch location at 1416 Part Street in May 1999. Plans for a third branch location at 883-A Island Drive are underway. We made banking easier and more convenient for our customers by introducing the Online Banking product and our environmentally friendly Electric Vehicle Courier service. During the first half of 2000, the Bank will be launching its 24 hour telephone banking service. In addition, we will begin offering check safekeeping and check imaging to our customers. These products and services are described on our website at www.bankofalameda.com.

The Bank of Alameda, your locally-owned community bank, will continue to make a difference in the community. The Bank strives to maintain its original mission of meeting the needs of the City of Alameda. Our directors, officers and staff take great pride in the Bank's involvement in many worthy organizations. The recognition of the Bank's efforts was evidenced in 1999 by the Alameda Chamber of Commerce naming the Bank of Alameda as "Business of the Year".

We would like to express our sincere appreciation to the entire Bank of Alameda family, including its founders, shareholders, customers, employees, and all members of the community for their enthusiastic support and confidence. We look forward to delivering excellence in financial services into the year 2000 and beyond and will continue to work hard for our community.

A handwritten signature in black ink, appearing to read "James B. Davis".

James B. Davis
Chairman of the Board

A handwritten signature in black ink, appearing to read "Stephen G. Andrews".

Stephen G. Andrews
President and Chief Executive Officer

Bank of Alameda

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999 AND
THE PERIOD FROM MARCH 23, 1998
(DATE OPERATIONS COMMENCED)
TO DECEMBER 31, 1998

AND

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
Bank of Alameda

We have audited the accompanying balance sheet of Bank of Alameda as of December 31, 1999 and 1998 and the related statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of Bank of Alameda as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998, in conformity with generally accepted accounting principles.

Perry - Smith + Co., LLP

Certified Public Accountants

Sacramento, California
February 16, 2000

BANK OF ALAMEDA

BALANCE SHEET

December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
ASSETS		
Cash and due from banks (including an interest-bearing deposit of \$101,456 in 1999)	\$ 3,164,355	\$ 2,192,414
Federal funds sold	3,775,000	8,020,000
Available-for-sale investment securities (Note 2)	22,794,000	22,742,000
Loans, less allowance for loan losses of \$749,948 in 1999 and \$145,500 in 1998 (Notes 3, 8 and 10)	48,961,992	9,944,530
Bank premises and equipment, net (Notes 4 and 8)	799,704	762,876
Accrued interest receivable and other assets (Note 7)	1,683,958	454,408
	<u>\$ 81,179,009</u>	<u>\$ 44,116,228</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 14,764,669	\$ 6,289,197
Interest bearing (Note 5)	54,649,716	30,939,435
Total deposits	69,414,385	37,228,632
Short-term borrowings (Notes 2 and 6)	4,850,000	
Accrued interest payable and other liabilities	232,106	94,093
Total liabilities	74,496,491	37,322,725
Commitments and contingencies (Note 8)		
Shareholders' equity (Note 9):		
Preferred stock - no par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - no par value; 20,000,000 shares authorized; issued and outstanding - 765,330 shares	7,604,652	7,604,652
Accumulated deficit	(385,517)	(845,214)
Accumulated other comprehensive (loss) income (Notes 2 and 12)	(536,617)	34,065
Total shareholders' equity	6,682,518	6,793,503
	<u>\$ 81,179,009</u>	<u>\$ 44,116,228</u>

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

BANK OF ALAMEDA

STATEMENT OF OPERATIONS

**For the Year Ended December 31, 1999 and
the Period from March 23, 1998 (Date Operations Commenced)
to December 31, 1998**

	<u>1999</u>	<u>1998</u>
Interest income:		
Interest and fees on loans	\$ 2,777,252	\$ 274,447
Interest on Federal funds sold	284,059	592,851
Interest on investment securities	<u>1,381,893</u>	<u>338,462</u>
Total interest income	4,443,204	1,205,760
Interest expense:		
Interest on deposits (Note 5)	1,383,013	448,255
Interest on short-term borrowings (Note 6)	<u>4,572</u>	<u> </u>
Total interest expense	<u>1,387,585</u>	<u>448,255</u>
Net interest income	3,055,619	757,505
Provision for loan losses (Note 3)	<u>606,000</u>	<u>145,500</u>
Net interest income after provision for loan losses	<u>2,449,619</u>	<u>612,005</u>
Non-interest income:		
Service charges	122,866	33,952
Gain on sales and calls of investment securities (Note 2)	2,491	
Other	<u>49,196</u>	<u>23,571</u>
Total non-interest income	<u>174,553</u>	<u>57,523</u>
Other expenses:		
Salaries and employee benefits (Notes 3 and 14)	1,141,153	692,754
Occupancy and equipment (Notes 4 and 8)	460,406	219,747
Other (Note 11)	<u>788,116</u>	<u>485,905</u>
Total other expenses	<u>2,389,675</u>	<u>1,398,406</u>
Income (loss) before income taxes	234,497	(728,878)
Income tax (benefit) expense (Note 7)	<u>(225,200)</u>	<u>800</u>
Net income (loss)	<u>\$ 459,697</u>	<u>\$ (729,678)</u>
Basic earnings (loss) per share (Note 9)	<u>\$ 0.60</u>	<u>\$ (0.95)</u>
Diluted earnings per share (Note 9)	<u>\$ 0.56</u>	<u> </u>

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

BANK OF ALAMEDA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended December 31, 1999 and the Period from March 23, 1998
(Date Operations Commenced) to December 31, 1998

	Common Stock		Accumulated	Accumulated	Shareholders'	Comprehensive
	Shares	Amount	Deficit	Other Comprehensive Income (Loss)	Equity	Loss
Sale of common stock, net of stock offering costs of \$48,648	765,330	\$ 7,604,652			\$ 7,604,652	
Pre-opening expenses, net of interest income of \$85,028			\$ (115,536)		(115,536)	
Comprehensive loss (Note 12):						
Net loss			(729,678)		(729,678)	\$ (729,678)
Other comprehensive income, net of taxes:						
Unrealized gains on available-for-sale investment securities				\$ 34,065	34,065	34,065
Total comprehensive loss						\$ (695,613)
Balance, December 31, 1998	765,330	7,604,652	(845,214)	34,065	6,793,503	
Comprehensive loss (Note 12):						
Net income						
Other comprehensive loss, net of taxes:						
Unrealized losses on available-for-sale investment securities (Note 2)				(570,682)	(570,682)	\$ 459,697
Total comprehensive loss						\$ (110,985)
Balance, December 31, 1999	765,330	\$ 7,604,652	\$ (385,517)	\$ (536,617)	\$ 6,682,518	

(Continued)

BANK OF ALAMEDA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

**For the Year Ended December 31, 1999 and the Period from March 23, 1998
(Date Operations Commenced) to December 31, 1998**

	<u>1999</u>
Disclosure of reclassification amount, net of taxes (Note 12):	
Unrealized holding losses arising during the year	\$ (569,212)
Less: reclassification adjustment for gains included in net income	<u>1,470</u>
Net unrealized losses on available-for-sale investment securities	<u>\$ (570,682)</u>

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

BANK OF ALAMEDA

STATEMENT OF CASH FLOWS

**For the Year Ended December 31, 1999 and
the Period from March 23, 1998 (Date Operations Commenced)
to December 31, 1998**

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net income (loss)	\$ 459,697	\$ (729,678)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Provision for loan losses	606,000	145,500
Depreciation and amortization	442,694	167,675
Gain on sales and calls of available-for-sale investment securities	(2,491)	
Deferred loan origination fees, net	66,543	54,007
Increase in accrued interest receivable and other assets	(703,518)	(472,753)
Increase (decrease) in accrued interest payable and other liabilities	138,013	(470,534)
Deferred taxes	(226,000)	
Net cash provided by (used in) operating activities	<u>780,938</u>	<u>(1,305,783)</u>
Cash flows from investing activities:		
Proceeds from sales and calls of available-for-sale investment securities	10,142,841	3,000,000
Proceeds from matured available-for-sale investment securities	1,500,000	
Purchases of available-for-sale investment securities	(12,817,373)	(25,745,872)
Net increase in loans	(39,690,005)	(10,144,037)
Purchases of premises and equipment	(225,213)	(576,560)
Net cash used in investing activities	<u>(41,089,750)</u>	<u>(33,466,469)</u>
Cash flows from financing activities:		
Net increase in demand, interest-bearing and savings deposits	23,586,073	26,478,523
Net increase in time deposits	8,599,680	10,750,109
Net increase (decrease) in short-term borrowings	4,850,000	(559,300)
Net cash provided by financing activities	<u>37,035,753</u>	<u>36,669,332</u>
(Decrease) increase in cash and cash equivalents	(3,273,059)	1,897,080
Cash and cash equivalents, at beginning of year or date operations commenced	<u>10,212,414</u>	<u>8,315,334</u>
Cash and cash equivalents, end of year	<u>\$ 6,939,355</u>	<u>\$ 10,212,414</u>

(Continued)

BANK OF ALAMEDA
STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended December 31, 1999 and
the Period from March 23, 1998 (Date Operations Commenced)
to December 31, 1998

	1999	1998
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 1,354,226	\$ 375,694
Income taxes	\$ 800	\$ 800
Non-cash investing activities:		
Net change in unrealized gain on available-for-sale investment securities	\$ (870,714)	\$ 57,737
Cash flows from pre-opening activities:		
Pre-opening expenses, net of interest income of \$85,028		\$ (115,536)
Additions to other assets		(5,327)
Additions to other liabilities		564,627
Proceeds from short-term borrowings		559,300
Purchases of bank premises and equipment		(292,382)
Proceeds from sale of stock		7,653,300
Stock offering costs		(48,648)
Cash and cash equivalents at date operations commenced		\$ 8,315,334

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

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On May 20, 1997, the organizers of Bank of Alameda (the "Bank") filed an application with the California Department of Financial Institutions. The application was approved on March 3, 1998 and the Bank opened for business on March 23, 1998. The Bank is engaged in consumer and commercial banking, offering a wide-range of products and services to individuals and businesses throughout the surrounding areas.

The accounting and reporting policies of the Bank 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 1999.

Investment Securities

Investments are classified into one of 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. 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.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

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

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.

Centrix Loan Program

Centrix Financial LLC (Centrix) is a financial management company that originates and markets sub-prime automobile loans. Under the program, to enhance the credit evaluation of the loans, insurance is purchased by the Bank which reimburses substantially all the principal on the loan in the event of default. The Bank also pays 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 this loan type.

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 Bank's service area. These estimates are particularly susceptible to changes in the economic environment and market conditions. The allowance is established through a provision for loan losses which is charged to expense.

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 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.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 (Loss) Per Share

Basic earnings (loss) per share (EPS), which excludes dilution, is computed by dividing income (loss) 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 Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS. However, diluted EPS are not presented when a net loss occurs because the conversion of potential common stock is antidilutive.

Stock-Based Compensation

Stock options are accounted for under the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Bank's stock at the date of grant over the exercise price. However, if the fair value of stock-based compensation computed under a fair value based method, as prescribed in Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, is material to the financial statements, pro forma net income (loss) and earnings (loss) per share are disclosed as if the fair value method had been applied.

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.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pre-opening Expenses

During the organizational period, the Bank incurred the following pre-opening expenses:

Consulting fees	\$ 129,254
Legal fees	24,623
Advertising and promotion	9,996
Stationery and supplies	5,098
Interest expense	2,495
Other	<u>29,098</u>
	<u>\$ 200,564</u>

Interest earned on the proceeds from the sale of common stock totaling \$85,028 was used to offset applicable expenses. Net pre-opening expenses of \$115,536 were charged to accumulated deficit at the date the Bank commenced operations. Stock offering costs totaling \$48,648 were charged against proceeds, providing net capital of \$7,604,652 from the sale of common stock.

New Financial Accounting Standard

In June 1998, the Financial Accounting Standards Board issued SFAS 133, *Accounting for Derivative Instruments and Hedging Activity*, which was subsequently amended by SFAS 137 to delay the effective date to all fiscal quarters of fiscal years beginning after June 15, 2000. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. Management does not believe that the adoption of SFAS 133 will have a significant impact on its financial position and results of operations when implemented.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated market value of available-for-sale investment securities at December 31, 1999 and 1998 consisted of the following:

	1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 1,504,703	\$ 355	\$ (58)	\$ 1,505,000
U.S. Government agencies	14,496,797		(614,797)	13,882,000
Obligations of states and political subdivisions	4,557,894		(126,894)	4,431,000
Corporate bonds	3,047,583		(71,583)	2,976,000
Total	<u>\$ 23,606,977</u>	<u>\$ 355</u>	<u>\$ (813,332)</u>	<u>\$ 22,794,000</u>

Net unrealized losses on available-for-sale investment securities totaling \$812,977 were recorded, net of \$276,360 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 1999. Proceeds and gross realized gains on sales and calls of available-for-sale investment securities for the year ended December 31, 1999 totaled \$10,142,841 and \$2,491, respectively.

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 1,014,345	\$ 4,655		\$ 1,019,000
U.S. Government agencies	14,507,907	17,225	\$ (2,132)	14,523,000
Obligations of states and political subdivisions	3,533,325	77,880	(17,205)	3,594,000
Corporate bonds	3,628,686	1,741	(24,427)	3,606,000
Total	<u>\$ 22,684,263</u>	<u>\$ 101,501</u>	<u>\$ (43,764)</u>	<u>\$ 22,742,000</u>

Net unrealized gains on available-for-sale investment securities totaling \$57,737 were recorded, net of \$23,672 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 1998. There were no sales or transfers of available-for-sale investment securities for the period from March 23, 1998 (date operations commenced) to December 31, 1998. Proceeds on calls of available-for-sale investment securities for the period from March 23, 1998 (date operations commenced) to December 31, 1998 totaled \$3,000,000.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

The amortized cost and estimated market value of available-for-sale investment securities at December 31, 1999 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.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Within one year	\$ 2,355,609	\$ 2,351,000
After one year through five years	11,535,948	11,181,000
After five years through ten years	<u>9,715,420</u>	<u>9,262,000</u>
	<u>\$ 23,606,977</u>	<u>\$ 22,794,000</u>

Investment securities with amortized costs of \$6,166,093 and estimated market values of \$5,820,000 were pledged to secure treasury, tax and loan accounts and short-term borrowing arrangements at December 31, 1999. There were no securities pledged at December 31, 1998.

3. LOANS

Outstanding loans are summarized below:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Commercial	\$ 5,591,231	\$ 1,421,135
Real estate – mortgage	12,726,079	5,706,263
Real estate – construction	9,287,660	1,668,546
Automobile – Centrix	17,968,807	
Consumer – other	<u>1,922,542</u>	<u>1,348,093</u>
	47,496,319	10,144,037
Unamortized premium and insurance costs related to Centrix program	2,336,171	
Deferred loan origination fees, net	(120,550)	(54,007)
Allowance for loan losses	<u>(749,948)</u>	<u>(145,500)</u>
	<u>\$ 48,961,992</u>	<u>\$ 9,944,530</u>

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. LOANS (Continued)

Changes in the allowance for loan losses were as follows:

	December 31,	
	1999	1998
Balance, beginning of year	\$ 145,500	
Provision charged to operations	606,000	\$ 145,500
Losses charged to allowance	(1,552)	
	<u>\$ 749,948</u>	<u>\$ 145,500</u>
Balance, end of year	<u>\$ 749,948</u>	<u>\$ 145,500</u>

The Bank had no material loans that were considered to be impaired during the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998.

Nonaccrual loans totaled \$271,000 at December 31, 1999. Interest forgone on nonaccrual loans totaled \$19,510 for the year ended December 31, 1999. There were no loans on nonaccrual status at December 31, 1998.

Salaries and employee benefits totaling \$100,472 were deferred as loan origination costs during the year ended December 31, 1999.

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
	1999	1998
Furniture and equipment	\$ 810,293	\$ 592,721
Leasehold improvements	283,862	276,221
	1,094,155	868,942
Less accumulated depreciation and amortization	(294,451)	(106,066)
	<u>\$ 799,704</u>	<u>\$ 762,876</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$188,385 and \$106,066 for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998, respectively.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Savings	\$ 2,882,000	\$ 1,876,244
Money market	20,269,491	11,249,114
NOW accounts	12,148,436	7,063,968
Time, \$100,000 or more	8,243,095	4,566,262
Other time	<u>11,106,694</u>	<u>6,183,847</u>
	<u>\$ 54,649,716</u>	<u>\$ 30,939,435</u>

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2000	\$ 18,156,813
2001	1,025,628
2002	<u>167,348</u>
	<u>\$ 19,349,789</u>

Interest expense recognized on interest-bearing deposits for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Savings	\$ 43,482	\$ 17,930
Money market	567,840	179,538
NOW accounts	66,241	31,012
Time, \$100,000 or more	303,191	93,002
Other time	<u>402,259</u>	<u>126,773</u>
	<u>\$ 1,383,013</u>	<u>\$ 448,255</u>

6. SHORT-TERM BORROWING ARRANGEMENTS

The Bank has a total of \$2,000,000 in unsecured borrowing arrangements with two of its correspondent banks. There were no short-term borrowings outstanding under these arrangements at December 31, 1999 and 1998.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. SHORT-TERM BORROWING ARRANGEMENTS (Continued)

In addition, the Bank can borrow up to the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 1999, investment securities with amortized costs totaling \$5,131,909 and estimated market values totaling \$4,838,000 were pledged to a correspondent bank under this agreement. At December 31, 1999, the Bank had outstanding borrowings of \$4,850,000 at an interest rate of 5.6%. There were no borrowings outstanding under this arrangement at December 31, 1998. Interest expense totaled \$4,572 for the year ended December 31, 1999.

7. INCOME TAXES

The (benefit from) provision for income taxes for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>1999</u>			
Current		\$ 800	\$ 800
Deferred	\$ (167,000)	(59,000)	(226,000)
Income tax benefit	<u>\$ (167,000)</u>	<u>\$ (58,200)</u>	<u>\$ (225,200)</u>
<u>1998</u>			
Current		\$ 800	\$ 800
Deferred			
Income tax expense	<u>\$ -</u>	<u>\$ 800</u>	<u>\$ 800</u>

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 1999 and 1998 consisted of the following:

	<u>1999</u>	<u>1998</u>
Deferred tax assets:		
Allowance for loan losses	\$ 306,000	\$ 55,000
Net operating loss carryforward	1,190,000	420,000
Bank premises and equipment		2,000
Organizational costs	58,000	76,000
Unrealized loss on available-for-sale investment securities	<u>276,000</u>	
Deferred tax assets before valuation allowance	1,830,000	553,000
Valuation allowance		<u>(321,000)</u>
Deferred tax assets after valuation allowance	<u>1,830,000</u>	<u>232,000</u>
Deferred tax liabilities:		
Tax accounting for book accruals	(1,303,000)	(179,000)
Future liability of State tax asset	(20,000)	(29,000)
Bank premises and equipment	(5,000)	
Unrealized gain on available-for-sale investment securities		<u>(24,000)</u>
Total deferred tax liabilities	<u>1,328,000</u>	<u>(232,000)</u>
Net deferred tax assets	<u>\$ 502,000</u>	<u>\$ -</u>

During the year ended December 31, 1999, the valuation allowance was eliminated as the Bank will, more likely than not, be able to utilize all net deferred tax assets as a result of profitable operations. Due to the initial losses recognized during the first nine months of operations, a valuation allowance was recorded for a significant portion of the Bank's deferred tax assets at December 31, 1998.

At December 31, 1999, the Bank had federal and state net operating loss carryforwards (NOLs) of \$2,693,000 and \$2,513,000, respectively. The Federal NOLs expire in the years 2018 and 2019. The State NOLs expire in the years 2006 and 2007.

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank leases two branch offices under non-cancelable operating leases. The Otis Drive branch lease expires in 2003 and has two three-year renewal options. The Park Street branch lease expires in 2009 and has two five-year renewal options.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2000	\$ 168,973
2001	172,632
2002	144,053
2003	47,008
2004	47,008
Thereafter	<u>188,032</u>
	<u>\$ 767,706</u>

Rental expense included in occupancy and equipment expense totaled \$186,952 and \$74,498 for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998, respectively.

Financial Instruments With Off-Balance-Sheet Risk

The Bank 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. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

The Bank'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 Bank uses the same credit policies in making commitments as it does for loans included on the balance sheet.

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

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Commitments to extend credit	\$ 10,394,801	\$ 4,351,706

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

8. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank 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.

At December 31, 1999, commercial loan commitments represent approximately 29% of total commitments and are generally secured by accounts receivable and inventory. Real estate loan commitments represent approximately 66% 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 5% of total commitments. In addition, the majority of the Bank's loan commitments have variable interest rates.

Significant Concentrations of Credit Risk

The Bank grants real estate mortgage, real estate construction, commercial and consumer loans to customers in the Bank's geographic service area. Although the Bank has a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate. Additionally, automobiles secure a substantial portion of the Bank's consumer loans under the Centrix program. However, personal and business income represent the primary source of repayment for a majority of these loans.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$24,900 at December 31, 1999.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHAREHOLDERS' EQUITY

Earnings (Loss) Per Share

A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the year ended December 31, 1999 is shown below. For the period from March 23, 1998 (date operations commenced) to December 31, 1998, only the basic loss per share computation is shown because including common stock equivalents would be anti-dilutive.

	<u>Net Income (Loss)</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 1999</u>			
Basic earnings per share	\$ 459,697	765,330	<u>\$ 0.60</u>
Effect of dilutive stock options	_____	<u>61,161</u>	
Diluted earnings per share	<u>\$ 459,697</u>	<u>826,491</u>	<u>\$ 0.56</u>
<u>For the period from March 23, 1998 (date operations commenced) to December 31, 1998</u>			
Basic loss per share	<u>\$ (729,678)</u>	<u>765,330</u>	<u>\$ (0.95)</u>

Stock Options

During 1998, the Bank established a stock option plan for which 229,500 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.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

The Bank has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*. Accordingly, no compensation expense has been recognized under its stock option plan. Had compensation cost for the plan been determined based on the fair value at grant date for awards in 1998 consistent with the provisions of SFAS 123, the Bank's net income (loss) and income (loss) per share for the year ended December 31, 1999 and for the period from March 23, 1998 (date operations commenced) to December 31, 1998 would have been reduced (increased) to the pro forma amounts indicated below:

	1999	1998
Net income (loss) – as reported	\$ 459,697	\$ (729,678)
Net income (loss) – pro forma	\$ 430,405	\$ (845,759)
Basic income (loss) - as reported	\$ 0.60	\$ (0.95)
Basic income (loss) - pro forma	\$ 0.56	\$ (1.11)
Diluted income per share - as reported	\$ 0.56	
Diluted income per share - pro forma	\$ 0.52	

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

	1998
Dividend yield (not applicable)	
Expected volatility	33.00%
Risk-free interest rate	5.70%
Expected option life	2 to 5 years

A summary of the activity within the plan follows:

	1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	148,325	\$ 11.03		
Options granted			148,325	\$ 11.03
Options canceled	(100)	\$ 11.00		
Options outstanding, end of year	<u>148,225</u>	\$ 11.03	<u>148,325</u>	\$ 11.03
Options exercisable, end of year	<u>74,606</u>	\$ 11.00	<u>62,800</u>	\$ 11.00
Weighted average fair value of options granted during the year				\$ 3.69

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

A summary of options outstanding at December 31, 1999 follows:

<u>Range of Exercise Prices</u>	<u>Number of Options Outstanding December 31, 1999</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Options Exercisable December 31, 1999</u>
\$11.00 to \$11.75	<u>148,225</u>	9 years	<u>74,606</u>

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by 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 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 quantitative 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.

Quantitative measures established by regulation to ensure capital adequacy require 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 Bank meets all its capital adequacy requirements as of December 31, 1999.

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 Bank's category.

	<u>1999</u>		<u>1998</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Leverage Ratio</u>				
Bank of Alameda	\$ 7,219,135	11.9%	\$ 6,759,438	17.0%
Minimum requirement for "Well-Capitalized" institution	\$ 3,038,900	5.0%	\$ 1,992,100	5.0%
Minimum regulatory requirement	\$ 2,431,100	4.0%	\$ 1,593,600	4.0%

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

	1999		1998	
	Amount	Ratio	Amount	Ratio
<u>Tier 1 Risk-Based Capital Ratio</u>				
Bank of Alameda	\$ 7,219,135	11.7%	\$ 6,759,438	32.3%
Minimum requirement for "Well-Capitalized" institution	\$ 3,716,200	6.0%	\$ 1,255,300	6.0%
Minimum regulatory requirement	\$ 2,477,400	4.0%	\$ 836,800	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Bank of Alameda	\$ 7,969,083	12.9%	\$ 6,904,938	33.0%
Minimum requirement for "Well-Capitalized" institution	\$ 6,193,600	10.0%	\$ 2,092,100	10.0%
Minimum regulatory requirement	\$ 4,954,900	8.0%	\$ 1,673,700	8.0%

10. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and officers. These transactions include borrowings from the Bank 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 1999:

Balance, January 1, 1999	\$ 31,724
Amounts repaid	<u>(16,004)</u>
Balance, December 31, 1999	<u>\$ 15,720</u>
Undisbursed commitments to related parties, December 31, 1999	<u>\$ 1,000,000</u>

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. OTHER EXPENSES

Other expenses for the year ended December 31, 1999 and the period from March 23, 1998 (date operations commenced) to December 31, 1998 consisted of the following:

	1999	1998
Data processing	\$ 190,817	\$ 93,848
Professional fees	135,297	112,991
Stationery and supplies	77,987	81,847
Centrix servicing fees	69,588	
Communications and postage	45,760	20,200
Insurance	37,585	25,127
Advertising	32,948	33,233
Imprinted check charges	27,595	28,304
Other operating expenses	170,539	90,355
	<u>\$ 788,116</u>	<u>\$ 485,905</u>

12. COMPREHENSIVE INCOME (LOSS)

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

For the year ended December 31, 1999 and for the period from March 23, 1998 (date operations commenced) to December 31, 1998, the Bank held securities classified as available-for-sale which had unrealized (losses) gains as follows:

	Before Tax	Tax Benefit (Expense)	After Tax
<u>For the Year Ended December 31, 1999</u>			
Other comprehensive loss:			
Unrealized holding losses	\$ (868,223)	\$ 299,011	\$ (569,212)
Reclassification adjustment for gains included in net income	2,491	(1,021)	1,470
Total other comprehensive loss	<u>\$ (870,714)</u>	<u>\$ 300,032</u>	<u>\$ (570,682)</u>
<u>For the Period From March 23, 1998 (date operations commenced) to December 31, 1998</u>			
Other comprehensive income:			
Unrealized holding gains	<u>\$ 57,737</u>	<u>\$ (23,672)</u>	<u>\$ 34,065</u>

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

13. 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 Bank'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 Bank'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 Bank to estimate the fair value of its financial instruments at December 31, 1999 and 1998:

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

Available-for-sale investment securities: For available-for-sale 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 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 Bank for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings: Short-term borrowings were originated near year-end. The carrying amount is estimated to be fair value.

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

BANK OF ALAMEDA
NOTES TO FINANCIAL STATEMENTS
(Continued)

13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and due from banks	\$ 3,164,355	\$ 3,164,355	\$ 2,192,414	\$ 2,192,414
Federal funds sold	3,775,000	3,775,000	8,020,000	8,020,000
Available-for-sale investment securities	22,794,000	22,794,000	22,742,000	22,742,000
Loans	48,961,992	49,227,000	9,944,530	10,096,000
Accrued interest receivable	<u>877,989</u>	<u>877,989</u>	<u>468,053</u>	<u>468,053</u>
	<u>\$ 79,573,336</u>	<u>\$ 79,838,344</u>	<u>\$ 43,366,997</u>	<u>\$ 43,518,467</u>
Financial liabilities:				
Deposits	\$ 69,414,385	\$ 69,367,000	\$ 37,228,632	\$ 37,257,000
Short-term borrowings	4,850,000	4,850,000		
Accrued interest payable	<u>105,920</u>	<u>105,920</u>	<u>72,561</u>	<u>72,561</u>
	<u>\$ 74,370,305</u>	<u>\$ 74,322,920</u>	<u>\$ 37,301,193</u>	<u>\$ 37,329,561</u>
Off-balance-sheet financial instruments:				
Commitments to extend credit	<u>\$ 10,394,801</u>	<u>\$ 10,394,801</u>	<u>\$ 4,351,706</u>	<u>\$ 4,351,706</u>

14. EMPLOYEE RETIREMENT PLAN

The Bank 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 Bank may match each employee contribution in an amount to be determined annually under a formula established by the Bank. The Bank made contributions of \$10,934 for the year ended December 31, 1999. No contributions were made to the plan during 1998.



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Chairman of the Board
Bank of Alameda

Stephen G. Andrews
President and CEO
Bank of Alameda

Eric C. Cross
President and CEO, Cross & Associates, Inc.

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Retired Ascend Communications Executive
and Owner, Riviera Ventures, LLC

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Vice President, FVS Enterprises, Inc.

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Physician and General Surgeon

Joel Vuylsteke
Former President and CEO, Alameda First
National Bank

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Lorna Goforth
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Bank of Alameda

MEMBER FDIC

