

2001 ANNUAL REPORT





Dear Shareholders, Customers and Friends

The Board of Directors, officers and staff of the Bank of Alameda are pleased to present to you our 2001 Annual Report. During our fourth year of operations we navigated profitably through a very tumultuous business landscape shaped by a recession and terrorist attacks that rocked both the financial markets and the psyche of our great nation.

Throughout this difficult time the Bank of Alameda continued to build upon the solid foundation that we laid down when we commenced operations in March 1998. After just a few short years of existence the Bank now operates four branch locations along with courier service, lockbox service, telephone banking and online banking. Community banking is alive and well in the communities we serve as evidenced by our success.

Thanks to the uncompromising dedication of our Board, officers and staff, the Bank of Alameda has become an integral part of the communities that we serve. Our mission is to continue to provide exemplary personal service and to offer a wide range of products designed to meet the financial needs of our business and personal customers.

Because of our efforts and our customer's loyalty the Bank of Alameda continues to grow and prosper. The Bank's growth for the year ended December 31, 2001 compared to the results at December 31, 2000 are as follows:

Total assets of the Bank increased \$22.2 million or 22% to \$121.8 million at December 31, 2001. Total loans increased \$19.4 million or 31% to \$81.6 million at December 31, 2001. Total deposits increased \$21 million or 23% to \$112.3 million at December 31, 2001.

The growth we experienced in 2001 helped fuel our profitability during the harsh economic environment that prevailed throughout the year. For the twelve months ended December 31, 2001 the Bank reported net income of \$677,000 or \$0.56 per diluted share compared to \$655,000 or \$0.53 per diluted share for the twelve months ended December 31, 2000. Although earnings did not increase dramatically in 2001, it was a very successful year in many regards. Core earnings remained solid while the Bank continued to increase the value of our Bank franchise by expanding our branch operations and product delivery capabilities with the corresponding cost increases being absorbed. Furthermore, we were able to successfully endure eleven interest rate cuts by the Fed and a nationwide business recession during this year.

To better serve the growing demand for the Bank of Alameda's business services in the East Bay, we recently opened the Emeryville Commercial Banking Center at 2200 Powell Street, Suite 105 in Emeryville. Additionally, the Bank introduced lockbox services for payment processing for business concerns with repetitive billings such as the Alameda Power and Telecom.

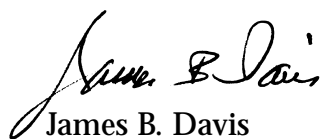
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Other products planned for 2002 include expanded single family mortgage offerings, check imaging and Small Business Administration (SBA) loans. Because of our concern about protection of our valued customer relationships and identity theft the Bank is introducing Visa Debit Photo cards for individuals. We are also introducing a Business Visa Card to allow employers to set specific limits on cards for their employees in order to limit the amounts debited to business accounts.

As we begin our fifth year of operations, we are encouraged by the enhancements we have made, and will continue to make, to better position the Bank of Alameda as the community bank of choice. We continue to work in a special market place with loyal customers and a professional staff.

All of us at the Bank of Alameda would like to express our sincere appreciation to the entire Bank of Alameda family, including our founders, shareholders, customers, employees and all the members of the communities that we serve for their support and confidence throughout our existence. As we start 2002, the Bank is committed to maintaining a strong community presence while continuing to build the Bank franchise value through a steady and profitable growth mode. We are pleased with the Bank's performance in the past and enthusiastic about dealing with the challenges that lie ahead.



James B. Davis
Chairman of the Board



Stephen G. Andrews
President and CEO

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, 2001 and 2000 and the related statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. 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 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 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, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Sacramento, California
February 13, 2002

Perry-Smith LLP

BANK OF ALAMEDA

BALANCE SHEET December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Cash and due from banks	\$ 4,329,013	\$ 3,818,047
Federal funds sold	1,350,000	5,395,000
Interest-bearing deposits in banks	400,000	-
Investment securities (market value of \$32,403,000 in 2001 and \$26,087,000 in 2000) (Note 2)	32,426,074	26,087,000
Loans, less allowance for loan losses of \$1,250,859 in 2001 and \$959,201 in 2000 (Notes 3, 8 and 10)	80,346,697	61,293,045
Bank premises and equipment, net (Notes 4 and 8)	874,750	981,386
Accrued interest receivable and other assets (Note 7)	<u>2,039,281</u>	<u>2,010,498</u>
	<u>\$121,765,815</u>	<u>\$ 99,584,976</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 21,496,435	\$ 15,940,587
Interest-bearing (Note 5)	<u>90,834,210</u>	<u>75,400,244</u>
Total deposits	112,330,645	91,340,831
Accrued interest payable and other liabilities (Note 7)	<u>519,219</u>	<u>368,689</u>
Total liabilities	<u>112,849,864</u>	<u>91,709,520</u>
Commitments and contingencies (Note 8)		
Shareholders' equity (Notes 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 - 1,149,493 shares	7,615,652	7,615,652
Retained earnings	946,245	269,065
Accumulated other comprehensive income (loss) (Notes 2 and 12)	<u>354,054</u>	<u>(9,261)</u>
Total shareholders' equity	<u>8,915,951</u>	<u>7,875,456</u>
	<u>\$121,765,815</u>	<u>\$ 99,584,976</u>

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

BANK OF ALAMEDA

STATEMENT OF INCOME For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Interest income:			
Interest and fees on loans	\$ 6,049,950	\$ 5,014,592	\$ 2,777,252
Interest on Federal funds sold	619,101	894,090	284,059
Interest on investment securities:			
Taxable	1,331,441	1,518,952	1,381,893
Exempt from Federal income taxes	63,063	4,293	-
Interest on deposits in banks	6,332	-	-
Total interest income	8,069,887	7,431,927	4,443,204
Interest expense:			
Interest on deposits (Note 5)	2,525,962	2,613,536	1,383,013
Interest on short-term borrowings (Note 6)	-	23,738	4,572
Total interest expense	2,525,962	2,637,274	1,387,585
Net interest income	5,543,925	4,794,653	3,055,619
Provision for loan losses (Note 3)	525,000	425,000	606,000
Net interest income after provision for loan losses	5,018,925	4,369,653	2,449,619
Non-interest income:			
Service charges	246,322	171,248	122,866
Gain (loss) on sales and calls of available-for-sale investment securities (Note 2)	13,909	(15,000)	2,491
Other	114,126	77,753	49,196
Total non-interest income	374,357	234,001	174,553
Other expenses:			
Salaries and employee benefits (Notes 3 and 14)	2,028,756	1,645,530	1,141,153
Occupancy and equipment (Notes 4 and 8)	819,939	572,971	460,406
Other (Note 11)	1,421,407	1,264,571	788,116
Total other expenses	4,270,102	3,483,072	2,389,675
Income before income taxes	1,123,180	1,120,582	234,497
Income tax expense (benefit) (Note 7)	446,000	466,000	(225,200)
Net income	\$ 677,180	\$ 654,582	\$ 459,697
Basic earnings per share (Note 9)	\$ 0.59	\$ 0.57	\$ 0.40
Diluted earnings per share (Note 9)	\$ 0.56	\$ 0.53	\$ 0.37

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

BANK OF ALAMEDA

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the Years Ended December 31, 2001, 2000 and 1999

	Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
	Shares	Amount				
Balance, January 1, 1999	1,147,993	\$ 7,604,652	\$ (845,214)	\$ 34,065	\$6,793,503	
Comprehensive loss (Note 12):						
Net income			459,697		459,697	\$ 459,697
Other comprehensive loss, net of taxes:						
Unrealized losses on available- for-sale investment securities				(570,682)	(570,682)	(570,682)
Total comprehensive loss						<u>\$ (110,985)</u>
Balance, December 31, 1999	1,147,993	7,604,652	(385,517)	(536,617)	6,682,518	
Comprehensive income (Note 12):						
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	527,356
Total comprehensive income						<u>\$ 1,181,938</u>
Stock options exercised (Note 9)	<u>1,500</u>	<u>11,000</u>			<u>11,000</u>	
Balance, December 31, 2000	1,149,493	7,615,652	269,065	(9,261)	7,875,456	
Comprehensive income (Note 12):						
Net income			677,180		677,180	\$ 677,180
Other comprehensive income, net of taxes:						
Unrealized gains on available- for-sale investment securities (Note 2)				363,315	363,315	363,315
Total comprehensive income						<u>\$ 1,040,495</u>
Balance, December 31, 2001	<u>1,149,493</u>	<u>\$ 7,615,652</u>	<u>\$ 946,245</u>	<u>\$ 354,054</u>	<u>\$ 8,915,951</u>	
				<u>2001</u>	<u>2000</u>	<u>1999</u>
Disclosure of reclassification amount, net of taxes (Note 12):						
Unrealized holding gains (losses) arising during the year				\$ 372,495	\$ 517,456	\$ (569,212)
Less: reclassification adjustment for gains (losses) included in net income				9,180	(9,900)	1,470
Net unrealized gains (losses) on available-for-sale investment securities				<u>\$ 363,315</u>	<u>\$ 527,356</u>	<u>\$ (570,682)</u>

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

BANK OF ALAMEDA

STATEMENT OF CASH FLOWS For the Years Ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 677,180	\$ 654,582	\$ 459,697
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	525,000	425,000	606,000
Depreciation and amortization	474,944	355,729	442,694
(Gain) loss on sales and calls of available-for-sale investment securities	(13,909)	15,000	(2,491)
Loss on disposition of premises and equipment	14,557	-	-
Decrease in deferred loan origination costs, net	914,747	1,422,933	66,543
Decrease (increase) in accrued interest receivable and other assets	269,278	(68,254)	(703,518)
Increase in accrued interest payable and other liabilities	150,530	136,583	138,013
Deferred taxes	(485,000)	429,000	(226,000)
Net cash provided by operating activities	<u>2,527,327</u>	<u>3,370,573</u>	<u>780,938</u>
Cash flows from investing activities:			
Increase in interest-bearing deposits in banks	(400,000)	-	-
Proceeds from sales and calls of available-for-sale investment securities	8,010,000	2,936,900	10,142,841
Proceeds from matured available-for-sale investment securities	4,865,000	3,660,000	1,500,000
Purchases of available-for-sale investment securities	(10,608,525)	(9,235,436)	(12,817,373)
Purchases of held-to-maturity investment securities	(8,216,042)		
Net increase in loans	(20,493,399)	(15,138,009)	(39,690,005)
Purchases of premises and equipment	(222,900)	(407,782)	(225,213)
Proceeds from sales of premises and equipment	14,691	-	-
Net cash used in investing activities	<u>(27,051,175)</u>	<u>(18,184,327)</u>	<u>(41,089,750)</u>
Cash flows from financing activities:			
Net increase in demand, interest bearing and savings deposits	17,499,262	15,557,632	23,586,073
Net increase in time deposits	3,490,552	6,368,814	8,599,680
Net (decrease) increase in short-term borrowings	-	(4,850,000)	4,850,000
Proceeds from exercised options	-	11,000	-
Net cash provided by financing activities	<u>20,989,814</u>	<u>17,087,446</u>	<u>37,035,753</u>
(Decrease) increase in cash and cash equivalents	(3,534,034)	2,273,692	(3,273,059)
Cash and cash equivalents, at beginning of year	<u>9,213,047</u>	<u>6,939,355</u>	<u>10,212,414</u>
Cash and cash equivalents, end of year	<u>\$ 5,679,013</u>	<u>\$ 9,213,047</u>	<u>\$ 6,939,355</u>

(Continued)

BANK OF ALAMEDA

STATEMENT OF CASH FLOWS (Continued)

For the Years Ended December 31, 2001, 2000 and 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 2,546,832	\$ 2,559,694	\$ 1,354,226
Income taxes	\$ 684,000	\$ 36,000	\$ 800
Non-cash investing activities:			
Automobiles acquired through repossession	\$ 768,184	\$ 959,023	\$ -
Net change in unrealized gain (loss) on available-for-sale investment securities	\$ 550,254	\$ 799,093	\$ (870,714)

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 2001.

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 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 Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

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

Centrix Loan Program

Beginning in December 1998, the Bank 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 Bank which reimburses a portion of the principal on the loan in the event of default. The Bank 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 Bank discontinued purchasing automobile loans under the program. However, the Bank 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 \$768,184 and \$959,023 at December 31, 2001 and 2000, 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 Bank'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 Bank has not experienced losses, the loss experience of peer banks. Management also computes specific and expected loss reserves for loan commitments. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank'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, 2001 and 2000, respectively, reflects management's estimate of possible losses in the portfolio.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 (liabilities) 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 Bank. 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

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 and earnings 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)

Impact of New Financial Accounting Standards

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to replace SFAS No. 125 which was issued in June 1996. The original statement addressed issues related to transfers of financial assets in which the transferor has some continuing involvement with the transferred assets or with the transferee. SFAS No. 140 resolves implementation issues which arose as a result of SFAS No. 125, but carries forward most of the provisions of the original statement. SFAS No. 140 was effective for transfers occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Management does not believe the adoption of this statement has had a significant impact on the Bank's financial statements.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*. SFAS No. 141 addresses the financial accounting and reporting for business combinations and requires the use of a single method to account for business combinations, the purchase method of accounting. In addition, SFAS No. 141 requires that intangible assets be recognized as assets apart from goodwill if they meet one of two criteria, the contractual-legal criterion or the separability criterion. SFAS No. 141 applies to all business combinations for which the date of acquisition is July 1, 2001 or later.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Pursuant to SFAS No. 142, goodwill and other intangible assets that have indefinite useful lives will be evaluated periodically for impairment rather than amortized. The provisions of this statement apply to financial statements for fiscal years beginning after December 15, 2001, except for goodwill or other intangible assets acquired after June 30, 2001 for which SFAS No. 142 is immediately effective. Management does not believe the adoption of SFAS No. 141 and SFAS No. 142 will have a significant impact on the Bank's current financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which replaces SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provision of Accounting Principles Board Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business*, for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Management does not believe the adoption of this statement will have a significant impact on the Bank's current financial position or results of operations.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. INVESTMENT SECURITIES

Available-for-Sale:

The amortized cost and estimated market value of available-for-sale investment securities at December 31, 2001 and 2000 consisted of the following:

	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	<u>3,558,418</u>	<u>55,582</u>	<u>-</u>	<u>3,614,000</u>
Total	<u>\$ 23,706,630</u>	<u>\$ 538,297</u>	<u>\$ (1,927)</u>	<u>\$ 24,243,000</u>

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.

	2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 500,127	\$ 2,873	\$ -	\$ 503,000
U.S. Government agencies	15,916,546	50,717	(77,263)	15,890,000
Obligations of states and political subdivisions	5,673,670	24,348	(19,018)	5,679,000
Corporate bonds	<u>4,010,541</u>	<u>17,279</u>	<u>(12,820)</u>	<u>4,015,000</u>
Total	<u>\$ 26,100,884</u>	<u>\$ 95,217</u>	<u>\$ (109,101)</u>	<u>\$ 26,087,000</u>

Net unrealized losses on available-for-sale investment securities totaling \$13,884 were recorded, net of \$4,623 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2000. 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. 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.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. INVESTMENT SECURITIES (Continued)

Held to Maturity:

	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	<u>\$ 8,183,074</u>	<u>\$ 15,302</u>	<u>\$ (38,376)</u>	<u>\$ 8,160,000</u>

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

The amortized cost and estimated market value of investment securities at December 31, 2001 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	\$ 8,097,001	\$ 8,224,000	\$ 2,279,236	\$ 2,285,000
After one year through five years	15,109,629	15,519,000	5,903,838	5,875,000
After five years	500,000	500,000	-	-
Total	<u>\$ 23,706,630</u>	<u>\$ 24,243,000</u>	<u>\$ 8,183,074</u>	<u>\$ 8,160,000</u>

Investment securities with amortized costs of \$10,786,409 and \$12,679,369 and estimated market values of \$11,052,000 and \$12,643,000 were pledged to secure treasury, tax and loan accounts and short-term borrowing arrangements at December 31, 2001 and 2000, respectively.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. LOANS

Outstanding loans are summarized below:

	December 31,	
	2001	2000
Commercial	\$ 11,385,930	\$ 4,952,603
Agricultural	300,158	459,232
Real estate - mortgage	38,275,664	23,372,544
Real estate - construction	21,318,596	17,695,106
Automobile - Centrix	6,585,683	11,959,389
Consumer - other	3,853,584	3,020,684
	81,719,615	61,459,558
Unamortized premium and insurance costs related to Centrix program	78,719	945,223
Deferred loan origination fees, net	(200,778)	(152,535)
Allowance for loan losses	(1,250,859)	(959,201)
Total	\$ 80,346,697	\$ 61,293,045

Changes in the allowance for loan losses were as follows:

	For the Year December 31,		
	2001	2000	1999
Balance, beginning of year	\$ 959,201	\$ 749,948	\$ 145,500
Provision charged to operations	525,000	425,000	606,000
Losses charged to allowance	(233,342)	(215,747)	(1,552)
Balance, end of year	\$ 1,250,859	\$ 959,201	\$ 749,948

The Bank had no individually material loans that were considered to be impaired during the years ended December 31, 2001, 2000 and 1999.

Nonaccrual loans represent a homogeneous pool of automobile loans and totaled \$148,670 at December 31, 2001. Interest forgone on nonaccrual loans totaled \$14,048 for the year ended December 31, 2001. The Bank had no nonaccrual loans at December 31, 2000.

Salaries and employee benefits totaling \$71,150, \$51,990 and \$100,472 were deferred as loan origination costs during the years ended December 31, 2001, 2000 and 1999, respectively.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
	2001	2000
Furniture and equipment	\$ 1,333,402	\$ 1,129,023
Leasehold improvements	357,406	372,914
	1,690,808	1,501,937
Less accumulated depreciation and amortization	(816,058)	(520,551)
Total	\$ 874,750	\$ 981,386

Depreciation and amortization included in occupancy and equipment expense totaled \$300,288, \$226,100 and \$188,385 for the years ended December 31, 2001, 2000 and 1999, respectively.

5. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2001	2000
Savings	\$ 4,695,060	\$ 4,022,532
Money market	38,619,200	30,491,583
NOW accounts	18,310,795	15,167,526
Time, \$100,000 or more	11,898,438	10,855,455
Other time	17,310,717	14,863,148
Total	\$ 90,834,210	\$ 75,400,244

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2002	\$ 27,389,980
2003	1,432,385
2004	368,120
2005	18,670
Total	\$ 29,209,155

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. INTEREST-BEARING DEPOSITS (Continued)

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2001, 2000 and 1999 consisted of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Savings	\$ 43,994	\$ 56,687	\$ 43,482
Money market	1,068,299	1,132,529	567,840
NOW accounts	63,773	103,507	66,241
Time, \$100,000 or more	558,829	622,834	303,191
Other time	791,067	697,979	402,259
Total	<u>\$ 2,525,962</u>	<u>\$ 2,613,536</u>	<u>\$ 1,383,013</u>

6. SHORT-TERM BORROWING ARRANGEMENTS

The Bank 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, 2001 and 2000.

The Bank can borrow up to the total market value of securities pledged to a correspondent bank under a repurchase agreement. At December 31, 2001, investment securities with amortized costs totaling \$9,786,409 and estimated market values totaling \$10,008,000 were pledged to the correspondent bank under this agreement. At December 31, 2001 and 2000, the Bank had no outstanding borrowings under this agreement. Interest expense totaled \$23,738 and \$4,572 for the years ended December 31, 2000 and 1999, respectively.

In addition, the Bank can borrow up to the market value of securities pledged to another of its correspondent banks. At December 31, 2001, investment securities with amortized costs totaling \$1,000,000 and estimated market values totaling \$1,044,000 were pledged to the correspondent bank. There were no outstanding borrowings under this arrangement at December 31, 2001 and 2000.

7. INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2001, 2000 and 1999 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2001</u>			
Current	\$ 712,000	\$ 214,000	\$ 926,000
Deferred	<u>(389,000)</u>	<u>(91,000)</u>	<u>(480,000)</u>
Income tax expense	<u>\$ 323,000</u>	<u>\$ 123,000</u>	<u>\$ 446,000</u>

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. INCOME TAXES (Continued)

	Federal	State	Total
<u>2000</u>			
Current	\$ 21,000	\$ 16,000	\$ 37,000
Deferred	323,000	106,000	429,000
Income tax expense	\$ 344,000	\$ 122,000	\$ 466,000
<u>1999</u>			
Current	\$ -	\$ 800	\$ 800
Deferred	(167,000)	(59,000)	(226,000)
Income tax benefit	\$ (167,000)	\$ (58,200)	\$ (225,200)

Deferred tax assets (liabilities) at December 31, 2001 and 2000 consisted of the following:

	2001	2000
Deferred tax assets:		
Allowance for loan losses	\$ 473,000	\$ 375,000
Organizational costs	22,000	41,000
Future benefit of State tax liability	58,000	18,000
Bank premises and equipment	17,000	3,000
Unrealized loss on available-for-sale investment securities	-	5,000
Total deferred tax assets	570,000	442,000
Deferred tax liabilities:		
Tax accounting for book accruals	(293,000)	(640,000)
Unrealized gain on available-for-sale investment securities	(182,000)	-
Total deferred tax liabilities	(475,000)	(640,000)
Net deferred tax assets (liabilities)	\$ 95,000	\$ (198,000)

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. INCOME TAXES (Continued)

The provision for income tax expense (benefit) 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, 2001, 2000 and 1999 are as follows:

	2001		2000		1999	
	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	\$ 381,881	34.0	\$ 380,998	34.0	\$ 79,729	34.0
State franchise tax, net of Federal tax effect	80,975	7.2	80,241	7.2	16,918	7.2
Interest on obligations of states and political subdivisions	(18,953)	(1.7)	(1,318)	(.1)	-	-
Net decrease in valuation allowance	-	-	-	-	(321,000)	(136.9)
Other	2,097	.2	6,079	.5	(847)	(.3)
Total income tax expense (benefit)	<u>\$ 446,000</u>	<u>39.7</u>	<u>\$ 466,000</u>	<u>41.6</u>	<u>\$ (225,200)</u>	<u>(96.0)</u>

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Bank 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 2003 and 2009 with some leases containing three or five year renewal options.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2002	\$ 339,102
2003	225,840
2004	223,259
2005	214,715
2006	211,530
Thereafter	<u>237,644</u>
Total	<u>\$ 1,452,090</u>

Rental expense included in occupancy and equipment expense totaled \$331,920, \$248,857 and \$186,952 for the years ended December 31, 2001, 2000 and 1999.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. COMMITMENTS AND CONTINGENCIES (Continued)

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 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 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 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,	
	2001	2000
Commitments to extend credit	\$ 20,113,000	\$ 21,258,000
Letters of credit	\$ 527,000	\$ 576,000

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 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.

Letters of credit are conditional commitments issued by the Bank 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, 2001, commercial loan commitments represent approximately 25% of total commitments and are generally secured by accounts receivable and inventory. Real estate loan commitments represent approximately 52% 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 23% 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.

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, 2001 was \$25,000.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. COMMITMENTS AND CONTINGENCIES (Continued)

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled \$444,823 at December 31, 2001.

9. SHAREHOLDERS' EQUITY

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. 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, 2001, retained earnings of \$946,245 were free of such restrictions.

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, 2001, 2000 and 1999 is shown below.

	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2001</u>			
Basic earnings per share	\$ 677,180	1,149,493	<u>\$ 0.59</u>
Effect of dilutive stock options		<u>62,411</u>	
Diluted earnings per share	<u>\$ 677,180</u>	<u>1,211,904</u>	<u>\$ 0.56</u>
<u>December 31, 2000</u>			
Basic earnings per share	\$ 654,582	1,148,523	<u>\$ 0.57</u>
Effect of dilutive stock options		<u>85,991</u>	
Diluted earnings per share	<u>\$ 654,582</u>	<u>1,234,514</u>	<u>\$ 0.53</u>
<u>December 31, 1999</u>			
Basic earnings per share	\$ 459,697	1,147,995	<u>\$ 0.40</u>
Effect of dilutive stock options		<u>91,741</u>	
Diluted earnings per share	<u>\$ 459,697</u>	<u>1,239,736</u>	<u>\$ 0.37</u>

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

Stock Options

During 1998, the Bank established 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.

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 vested options been determined based on the fair value at grant date for awards granted in 2001, 2000 and 1998, the Bank's net income and income per share for the years ended December 31, 2001, 2000 and 1999 would have been reduced to the pro forma amounts indicated below:

	2001	2000	1999
Net income - as reported	\$ 677,180	\$ 654,582	\$ 459,697
Net income - pro forma	\$ 590,510	\$ 592,176	\$ 430,405
Basic income - as reported	\$ 0.59	\$ 0.57	\$ 0.40
Basic income - pro forma	\$ 0.51	\$ 0.52	\$ 0.37
Diluted income per share - as reported	\$ 0.56	\$ 0.53	\$ 0.37
Diluted income per share - pro forma	\$ 0.49	\$ 0.48	\$ 0.35

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

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

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

Stock Options (Continued)

A summary of the activity within the plan follows:

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	260,813	\$ 8.45	222,338	\$ 7.35	222,488	\$ 7.35
Options granted	3,000	\$ 11.50	54,975	\$ 12.54	-	-
Options exercised	-	-	(1,500)	\$ 7.33	-	-
Options canceled	-	-	(15,000)	\$ 7.33	(150)	\$ 7.33
Options outstanding, end of year	<u>263,813</u>	\$ 8.48	<u>260,813</u>	\$ 8.45	<u>222,338</u>	\$ 7.35
Options exercisable, end of year	<u>179,980</u>	\$ 7.73	<u>128,121</u>	\$ 7.33	<u>111,909</u>	\$ 7.33
Weighted average fair value of options granted during the year		\$ 5.34		\$ 5.57		

A summary of options outstanding at December 31, 2001 follows:

<u>Range of Exercise Prices</u>	Number of Options Outstanding December 31, 2001	Weighted Average Remaining Contractual Life	Options Exercisable December 31, 2001
\$ 7.33	198,338	6.4 years	160,838
\$ 7.83	7,500	6.5 years	6,000
\$11.50	3,000	9.1 years	-
\$12.08	12,000	8.3 years	2,400
\$12.67	<u>42,975</u>	8.5 years	<u>10,742</u>
Total	<u><u>263,813</u></u>		<u><u>179,980</u></u>

Stock Split

On January 18, 2001, the Board of Directors declared a three-for-two stock split, payable on February 26, 2001 to shareholders of record on February 5, 2001. All per share, shares outstanding and stock option data in the financial statements have been retroactively restated to reflect the stock split.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHAREHOLDERS' EQUITY (Continued)

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 met all its capital adequacy requirements as of December 31, 2001 and 2000.

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.

	2001		2000	
	Amount	Ratio	Amount	Ratio
<u>Leverage Ratio</u>				
Bank of Alameda	\$ 8,561,897	7.0%	\$ 7,884,717	7.5%
Minimum requirement for "Well-Capitalized" institution	\$ 6,116,000	5.0%	\$ 5,246,000	5.0%
Minimum regulatory requirement	\$ 4,892,000	4.0%	\$ 4,197,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
Bank of Alameda	\$ 8,561,897	9.0%	\$ 7,884,717	10.5%
Minimum requirement for "Well-Capitalized" institution	\$ 5,698,000	6.0%	\$ 4,526,000	6.0%
Minimum regulatory requirement	\$ 3,799,000	4.0%	\$ 3,017,000	4.0%
<u>Total Risk-Based Capital Ratio</u>				
Bank of Alameda	\$ 9,749,047	10.3%	\$ 8,827,775	11.7%
Minimum requirement for "Well-Capitalized" institution	\$ 9,497,000	10.0%	\$ 7,543,000	10.0%
Minimum regulatory requirement	\$ 7,598,000	8.0%	\$ 6,034,000	8.0%

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

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 2001:

Balance, January 1, 2001	\$ 42,000
Disbursements	155,000
Amounts repaid	<u>(7,687)</u>
Balance, December 31, 2001	<u>\$ 189,313</u>
Undisbursed commitments to related parties, December 31, 2001	<u>\$ 65,000</u>

11. OTHER EXPENSES

Other expenses for the years ended December 31, 2001, 2000 and 1999 consisted of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Data processing	\$ 328,492	\$ 280,164	\$ 190,817
Professional fees	264,365	216,913	135,297
Centrix servicing fees	130,035	216,906	69,588
Stationery and supplies	83,564	73,388	77,987
Advertising and promotion	105,481	62,630	32,948
Communications and postage	92,167	56,521	45,760
Other operating expenses	<u>417,303</u>	<u>358,049</u>	<u>235,719</u>
Total	<u>\$ 1,421,407</u>	<u>\$ 1,264,571</u>	<u>\$ 788,116</u>

12. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is reported in addition to net income 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. 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.

BANK OF ALAMEDA

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. COMPREHENSIVE INCOME (LOSS) (Continued)

For the years ended December 31, 2001, 2000 and 1999, the Bank held securities classified as available-for-sale which had unrealized gains (losses) as follows:

	Before Tax	Tax (Expense) Benefit	After Tax
	<u> </u>	<u> </u>	<u> </u>
<u>For the Year Ended December 31, 2001</u>			
Other comprehensive income:			
Unrealized holding gains	\$ 564,163	\$ (191,668)	\$ 372,495
Reclassification adjustment for gains included in net income	<u>13,909</u>	<u>(4,729)</u>	<u>9,180</u>
Total other comprehensive income	<u>\$ 550,254</u>	<u>\$ (186,939)</u>	<u>\$ 363,315</u>
<u>For the Year Ended December 31, 2000</u>			
Other comprehensive income:			
Unrealized holding gains	\$ 784,093	\$ (266,637)	\$ 517,456
Reclassification adjustment for losses included in net income	<u>(15,000)</u>	<u>5,100</u>	<u>(9,900)</u>
Total other comprehensive income	<u>\$ 799,093</u>	<u>\$ (271,737)</u>	<u>\$ 527,356</u>
<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	<u>2,491</u>	<u>(1,021)</u>	<u>1,470</u>
Total other comprehensive loss	<u>\$ (870,714)</u>	<u>\$ 300,032</u>	<u>\$ (570,682)</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, 2001 and 2000:

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 credit-worthiness. 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.

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.

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:

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 4,329,013	\$ 4,329,013	\$ 3,818,047	\$ 3,818,047
Federal funds sold	1,350,000	1,350,000	5,395,000	5,395,000
Interest-bearing deposits in banks	400,000	400,000		
Investment securities	32,426,074	32,403,000	26,087,000	26,087,000
Loans	80,346,697	82,741,000	61,293,045	61,451,000
Accrued interest receivable	949,846	949,846	918,142	918,142
	<u>\$ 119,801,630</u>	<u>\$ 122,172,859</u>	<u>\$ 97,511,234</u>	<u>\$ 97,669,189</u>
Financial liabilities:				
Deposits	\$ 112,330,645	\$ 112,602,000	\$ 91,340,831	\$ 91,372,000
Accrued interest payable	162,630	162,630	183,500	183,500
	<u>\$ 112,493,275</u>	<u>\$ 112,764,630</u>	<u>\$ 91,524,331</u>	<u>\$ 91,555,500</u>
Off-balance-sheet financial instruments:				
Commitments to extend credit	\$ 20,113,000	\$ 20,113,000	\$ 21,258,000	\$ 21,258,000
Standby letters of credit	527,000	527,000	576,000	576,000
	<u>\$ 20,640,000</u>	<u>\$ 20,640,000</u>	<u>\$ 21,834,000</u>	<u>\$ 21,834,000</u>

14. EMPLOYEE RETIREMENT PLAN

During 1998, 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 \$35,840, \$25,840 and \$10,934 for the years ended December 31, 2001, 2000 and 1999, respectively.



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and Owner, Riviera Ventures, LLC

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Joel Vuylsteke
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Alameda First National Bank

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Senior Vice President and
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