CALIFORNIA INDEPENDENT BANCORP
Form 10-Q
November 12, 2003

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number 0-265520

California Independent Bancorp

(Exact name of registrant as specified in its charter)

California	**68-0349947**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1227 Bridge St., Suite C, Yuba City, California 95991
(Address of principal executive offices)
(Zip Code)

(530) 674-6025
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2003
Common stock, no par value	2,074,957 shares

This report contains 28 pages. The Exhibit Index is on pages 27.

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

2

PART I Financial Information

ITEM 1. FINANCIAL STATEMENTS

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of September 30, 2003, December 31, 2002, and September 30, 2002
(Dollars in thousands except share data)
(UNAUDITED)

	September 30, 2003	December 31, 2002	September 30, 2002
Assets			
Cash and Due From Banks	$ 16,780	$ 21,801	$ 13,850
Federal Funds Sold	17,515	18,245	
Cash and Cash Equivalents	34,295	40,046	13,850
Investment Securities Held-to-Maturity	2,440	2,265	2,335
Investment Securities Available-for-Sale	116,880	97,974	88,697
Total Investments	$ 119,320	$ 100,239	$ 91,032
Loans and Leases	204,391	214,428	222,214
Less: Allowance for Loan and Lease Losses	(5,975)	(6,532)	(5,913)
Net Loans and Leases	$ 198,416	$ 207,896	$ 216,301
Premises and Equipment, Net	6,381	6,731	6,717
Other Real Estate	2,875		455
Cash Surrender Value of Insurance Policies	6,421	6,239	5,292
Other Assets	8,193	5,932	5,058
Total Assets	$ 375,901	$ 367,083	$ 338,705

Liabilities and Shareholders' Equity

		September 30, 2003		December 31, 2002		September 30, 2002
Deposits:						
Noninterest-Bearing	$	75,164	$	75,381	$	58,491
Interest-Bearing		241,411		231,345		223,539
Total Deposits	$	316,575	$	306,726	$	282,030
Federal Home Loan Bank Borrowings		15,000		15,000		15,000
Other Borrowings		80		80		6,880
Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust		10,000		10,000		
Other Liabilities		6,589		6,221		5,124
Total Liabilities	$	348,244	$	338,027	$	309,034
Commitments and Contingencies						
Shareholders' Equity:						
Common Stock, No Par Value Shares Authorized 20,000,000, Shares Issued and Outstanding 2,074,957 at September 30, 2003, 2,152,751 at December 31, 2002, and 2,227,756 at September 30, 2002	$	20,348	$	22,600	$	24,484
Retained Earnings		7,489		5,589		4,220
Debt Guarantee of ESOP		(80)		(80)		(120)
Accumulated Other Comprehensive (Loss) Income		(100)		947		1,087
Total Shareholders' Equity	$	27,657	$	29,056	$	29,671
Total Liabilities and Shareholders' Equity	$	375,901	$	367,083	$	338,705

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

3

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except share data)
(UNAUDITED)

		Three months ended September 30, 2003		Three months ended September 30, 2002
Interest Income				
Interest and Fees on Loans and Leases	$	3,695	$	3,989
Interest on Investments				
Taxable Interest Income		1,146		1,286
Nontaxable Interest Income		27		16
Interest on Federal Funds Sold		8		10
Total Interest Income		4,876		5,301

	Three months ended September 30, 2003	Three months ended September 30, 2002
Interest Expense		
Interest on Deposits	1,012	1,212
Interest on Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust	119	
Interest on Borrowed Funds	178	178
Total Interest Expense	1,309	1,390
Net Interest Income	3,567	3,911
Provision for Loan and Lease Losses		150
Net Interest Income After Provision for Loan and Lease Losses	3,567	3,761
Noninterest Income		
Service Charges on Deposit Accounts	374	406
Brokered Loan Fees	81	39
Loan Servicing Fees	101	115
Gain on Sale of Other Real Estate	243	
Other	120	184
Total Noninterest Income	919	744
Noninterest Expense		
Salaries and Employee Benefits	1,672	1,639
Occupancy Expense	236	234
Furniture and Equipment Expense	330	309
Merger and Acquisition Related Expenses	378	
Other	715	749
Total Noninterest Expense	3,331	2,931
Income Before Provision for Income Taxes	1,155	1,574
Provision for Income Taxes	385	593
Net Income	$ 770	$ 981
Per Share Amounts		
Basic Earnings Per Share	$ 0.37	$ 0.44
Diluted Earnings Per Share	$ 0.35	$ 0.44
Basic Weighted Average Shares Outstanding	2,074,269	2,225,069

	Three months ended September 30, 2003	Three months ended September 30, 2002
Diluted Weighted Average Shares Outstanding	2,178,510	2,239,169

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands except share data)
(UNAUDITED)

	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Interest Income		
Interest and Fees on Loans and Leases	$ 11,536	$ 11,336
Interest on Investments		
Taxable Interest Income	3,511	3,809
Nontaxable Interest Income	71	52
Interest on Federal Funds Sold	108	52
Total Interest Income	15,226	15,249
Interest Expense		
Interest on Deposits	3,200	3,290
Interest on Mandatorily Redeemable Cumulative Trust Preferred Securities of Subsidiary Grantor Trust	364	
Interest on Borrowed Funds	508	438
Total Interest Expense	4,072	3,728
Net Interest Income	11,154	11,521
Provision for Loan and Lease Losses	10	450
Net Interest Income After Provision for Loan and Lease Losses	11,144	11,071
Noninterest Income		
Service Charges on Deposit Accounts	1,078	1,104
Brokered Loan Fees	209	100
Loan Servicing Fees	234	273
Loss on Disposal of Available-for-Sale Security		(55)
Gain on Sale of Other Real Estate	351	
Other	463	541

	Nine months ended September 30, 2003	Nine months ended September 30, 2002
Total Noninterest Income	2,335	1,963
Noninterest Expense		
Salaries and Employee Benefits	5,065	5,091
Occupancy Expense	663	641
Furniture and Equipment Expense	964	946
Merger and Acquisition Related Expenses	378	
Other	2,273	2,325
Total Noninterest Expense	9,343	9,003
Income Before Provision for Income Taxes	4,136	4,031
Provision for Income Taxes	1,442	1,492
Net Income	$ 2,694	$ 2,539
Per Share Amounts		
Basic Earnings Per Share	$ 1.28	$ 1.14
Diluted Earnings Per Share	$ 1.23	$ 1.14
Basic Weighted Average Shares Outstanding	2,110,896	2,223,610
Diluted Weighted Average Shares Outstanding	2,197,898	2,235,551

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine-month Periods Ended September 30, 2003 and September 30, 2002
(Dollars in thousands)
(UNAUDITED)

	September 30, 2003	September 30, 2002
Cash Flows From Operating Activities		
Net Income	$ 2,694	$ 2,539
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	745	725
Provision for Loan and Lease Losses	10	450

	September 30, 2003	September 30, 2002
Loss on Disposal of Investment Securities		55
Proceeds from Loan and Lease Sales		130
Gain on Sale of Other Real Estate, Net	(351)	(32)
Gain on Sale of Loans and Leases, Net		(6)
Gain on Sale of Premises and Equipment		(10)
(Increase) Decrease in Other Assets	(1,819)	579
(Decrease) Increase in Other Liabilities	(485)	1,865
Net Cash Provided By Operating Activities	794	6,295
Cash Flows From Investing Activities		
Net Decrease (Increase) in Loans and Leases	7,688	(30,250)
Purchases of Securities Available-for-Sale	(73,378)	(25,788)
Purchases of Securities Held-to-Maturity	(1,175)	
Proceeds From Maturity of Securities Held-to-Maturity	1,000	450
Proceeds From Sales, Maturities and Calls of Securities Available-for-Sale	52,566	12,738
Proceeds From Sales of Other Real Estate	351	277
Purchases of Premises and Equipment	(395)	(496)
Net Cash Used for Investing Activities	(13,343)	(43,069)
Cash Flows From Financing Activities		
Net Decrease in Noninterest-Bearing Deposits	(217)	(11,477)
Net Increase in Interest-Bearing Deposits	10,066	17,931
Net Increase in Borrowed Funds		21,760
Repurchase of Common Stock	(2,361)	(117)
Cash Dividends	(794)	(698)
Stock Options Exercised	104	188
Cash Paid in Lieu of Fractional Shares		(10)
Net Cash Provided by Financing Activities	6,798	27,577
Net Decrease in Cash and Cash Equivalents	**(5,751)**	**(9,197)**
Cash and Cash Equivalents, Beginning of Year	**40,046**	**23,047**
Cash and Cash Equivalents, End of Period	**$ 34,295**	**$ 13,850**

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

CALIFORNIA INDEPENDENT BANCORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 ***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of Management, the unaudited consolidated financial statements contain all adjustments (consisting solely of recurring adjustments) that are necessary to present fairly the financial position of California Independent Bancorp ("CIB") and its subsidiaries (collectively, the "Company") at September 30, 2003, December 31, 2002, and September 30, 2002, the results of its operations for the three and nine-month periods ended September 30, 2003 and September 30, 2002, and cash flows for the nine-month periods ended September 30, 2003 and September 30, 2002.

Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with SEC rules or regulations. The results of operations for the three and nine-month periods ended September 30, 2003 are not necessarily indicative of the operating results for the full year ending December 31, 2003. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Note 2 ***Principles of Consolidation***

The consolidated financial statements include the accounts of CIB and its wholly owned subsidiaries, Feather River State Bank, E.P.I. Leasing Company, Inc., and CIB Capital Trust. Significant intercompany transactions and balances have been eliminated in consolidation.

Note 3 ***Commitments and Contingent Liabilities***

In the normal course of business there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and letters of credit that are not reflected in the financial statements. Management does not anticipate any material loss as a result of these transactions.

The contract amount of commitments not reflected on the balance sheet at September 30, 2003 and September 30, 2002 were as follows:

(Dollars in thousands)	**September 30, 2003**	**September 30, 2002**
Loan Commitments	$ 55,806	$ 48,437
Standby Letters of Credit	840	520

Note 4 ***Cash and Stock Dividends***

In February, May, August, and November of 2002, CIB paid an eleven-cent ($0.11) per share cash dividend and in February, May, and August of 2003, CIB paid a twelve and one-half cent ($0.125) per share cash dividend.

Note 5 ***Stock-Based Compensation***

At September 30, 2003, the Company had three stock-based compensation plans: the Feather River State Bank 1989 Amended and Restated Stock Option Plan, the California Independent Bancorp 1996 Stock Option Plan, and the California Independent Bancorp 2000 Stock Option Plan (the "Plans"). The Company accounts for the Plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-

based compensation cost is reflected in net income, as all options granted under the Plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation is recognized to expense primarily over the vesting period. The following tables illustrate the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation.

	For the three-months ended,	
(Dollars in thousands, except share data)	**September 30, 2003**	**September 30, 2002**

	For the three-months ended,	
Net Income, As Reported	$ 770	$ 981
Deduct Total Stock-Based Employee Compensation Expense Determined Under the Fair Value Based Method for all Awards, Net of Related Tax Effects	(42)	(178)
Pro Forma Net Income	$ 728	$ 803
Basic Earnings Per Share:		
As Reported	$ 0.37	$ 0.44
Pro Forma	$ 0.35	$ 0.36
Diluted Earnings Per Share:		
As Reported	$ 0.35	$ 0.44
Pro Forma	$ 0.34	$ 0.36

	For the nine-months ended,	
(Dollars in thousands, except share data)	September 30, 2003	September 30, 2002
Net Income, As Reported	$ 2,694	$ 2,539
Deduct Total Stock-Based Employee Compensation Expense Determined Under the Fair Value Based Method for all Awards, Net of Related Tax Effects	(124)	(303)
Pro Forma Net Income	$ 2,570	$ 2,236
Basic Earnings Per Share:		
As Reported	$ 1.28	$ 1.14
Pro Forma	$ 1.22	$ 1.01
Diluted Earnings Per Share:		
As Reported	$ 1.23	$ 1.14
Pro Forma	$ 1.17	$ 1.00

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

	Three-months ended, September 30, 2002
Weighted Average Fair Value of Options Granted	$ 5.66
Dividend Yield	2.33%
Expected Volatility	30.78%
Risk-Free Interest Rate	3.50%
Expected Option Life	7.50 Years

	For the nine months ended,	
	September 30, 2003	September 30, 2002
Weighted Average Fair Value of Options Granted	$ 9.29	$ 3.64
Dividend Yield	1.70%	2.33%
Expected Volatility	32.65%	30.78%

	For the nine months ended,	
Risk-Free Interest Rate	3.54%	3.53%
Expected Option Life	7.50 Years	7.50 Years

There were no option grants made for the three-month period ended September 30, 2003.

Note 6 ***Earnings Per Share***

Basic earnings per share ("EPS"), which excludes dilution, is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock, which shares in the earnings of the Company. All data with respect to computing earnings per share is retroactively adjusted to reflect stock dividends and the treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

Note 7 ***Comprehensive Income***

For the Company, total comprehensive income or loss includes net income and unrealized changes in the fair value, net of applicable taxes, of its Available-for-Sale investment securities. Total comprehensive income (loss) for the three and nine months ended September 30, 2003 and September 30, 2002 was ($121,000) and $1,647,000, respectively, and $1,176,000 and $3,096,000, respectively, as shown in the following table.

	For the Three months ended September 30,		For the Nine months ended September 30,	
(Dollars in thousands)	**2003**	**2002**	**2003**	**2002**
Net Income	$ 770	$ 981	$ 2,694	$ 2,539
Other Comprehensive (Loss) Income:				
Change in Unrealized Gain on Available-for-Sale Investment Securities, net of taxes	(891)	195	(1,047)	526
Reclassification Adjustment for Loss on Sale of Securities, net of taxes				31
Total Comprehensive (Loss) Income	$ (121)	$ 1,176	$ 1,647	$ 3,096

9

Note 8 ***Financial Accounting Pronouncements***

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability for the fair value of an obligation for guarantees issued or modified after December 31, 2002 be recorded in the financial statements of the guarantor. Guarantees existing before the implementation of FIN 45 are required to be disclosed in financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, these guarantees would only result in immaterial increases in future costs, and do not represent significant commitments or contingent liabilities of the indebtedness of others.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires the consolidation of variable interest entities, as defined. FIN 46 is currently applicable to variable interest entities created after January 31, 2003. In October 2003, the FASB agreed to defer the effective date of FIN 46 for variable interests held by public companies in all entities that were acquired prior to February 1, 2003. This deferral is to allow time for certain implementation issues to be addressed through the issuance of a potential modification to the interpretation. The deferral revised the effective date for consolidation of these entities to the period ended December 31, 2003 for calendar year end companies. Based on the current rules, the Company does not believe that the implementation of the interpretation will have a material impact on the Company's financial position or results of operations.

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

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies the accounting for derivative instruments by providing guidance related to circumstances under which a contract with a net investment meets the characteristics of a derivative as discussed in Statement 133. The Statement also clarifies when a derivative contains a financing component. The Statement is intended to result in more consistent reporting for derivative contracts and must be applied prospectively for contracts entered into or modified after June 30, 2003, except for hedging relationships designated after June 30, 2003. Management does not believe that the adoption of this Statement had a material effect on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It

requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified by the Company after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has previously accounted for its mandatorily redeemable cumulative trust preferred securities in a manner consistent with the Statement and, in management's opinion, adoption of this Statement did not have a material effect on the Company's consolidated financial position or results of operations.

Note 9 ***Reclassifications***

Certain reclassifications have been made to amounts previously reported to conform to current presentation methods. Such reclassifications have no effect on net income or shareholders' equity previously reported.

Note 10 ***Merger***

On August 11, 2003, the Company entered into a definitive Agreement and Plan of Merger with Humboldt Bancorp. Under the terms of the merger agreement, the Company will merge into Humboldt Bancorp and Feather River State Bank will merge in Humboldt Bank although it will operate as a division of Humboldt Bank retaining its local identity.

Based on the closing value for a share of Humboldt Bancorp as of on the date of the merger agreement, the transaction is valued at approximately $80 million, or $35.50 per share of the Company. Company shareholders may elect to exchange each share held for cash or stock, although elections may be subject to proration if the results of all shareholders' elections differ from Humboldt's targeted stock-cash split of 60%-40%. The aggregate cash consideration will be approximately $32 million, or 40% of the total consideration, and a total of approximately 3.28 million shares of Humboldt common stock will be issued, representing 60% of the total consideration.

The companies anticipate that the transaction will qualify as a tax-free reorganization, and in general, expect that Company shareholders will not recognize income to the extent they exchange all of their shares of common stock of the Company for Humboldt stock and do not receive cash in lieu of any fractional shares, although shareholders should consult their own tax advisors for the consequences of the merger to them.

Subject to receipt of regulatory and shareholder approval, CIB expects this transaction will be completed during the first quarter of 2004.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

California Independent Bancorp ("CIB") is a California corporation located in Yuba City, California and the holding company for Feather River State Bank ("the Bank"). The Bank was incorporated as a California state banking corporation on December 1, 1976, and commenced operations on April 6, 1977. CIB was incorporated on October 28, 1994, and became the holding company for the Bank on May 2, 1995. The Bank engages in a broad range of financial services activities, and its primary market is located in the Sacramento Valley, with a total of nine branches. The main source of income for the Bank is from lending activities, including commercial, agricultural, real estate, consumer, and installment loans and leases. CIB formed a nonbank subsidiary, CIB Capital Trust, on October 2, 2002, for the sole purpose of issuing trust preferred securities.

CIB has entered into an agreement with Humboldt Bancorp pursuant to which CIB will merge with and into Humboldt Bancorp. Further details may be found in the Form S-4 filed with the SEC by Humboldt Bancorp on October 20, 2003. The Special Meeting of CIB shareholders, at which the principal terms of the transaction will be submitted for approval, will take place on December 15, 2003.

Certain statements in the quarterly report on Form 10-Q and in Management's Discussion and Analysis of Financial Condition and Results of Operations (excluding statements of fact or historical financial information) involve forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the following factors: competitive pressure in the banking industry; reduction in net interest margins due to changes in the interest rate environment; general economic conditions, either nationally or regionally that may result in, among other things, a deterioration in credit quality and an increase in the provision for possible loan and lease losses; the loss of key personnel; changes in the regulatory environment; changes in business conditions; volatility of rate sensitive deposits; operational risks including data processing system failures or fraud; lending concentration in real estate; volatility in agricultural lending; and asset/liability matching risks and liquidity risks.

The following discussion and analysis is designed to provide a better understanding of the significant changes and trends related to California Independent Bancorp's and Feather River State Bank's (CIB and the Bank are collectively, the "Company") financial condition, operating results, asset and liability management, and liquidity and capital resources; and should be read in conjunction with the Consolidated Financial Statements of the Company and its accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

OVERVIEW OF CHANGES IN THE FINANCIAL STATEMENTS

Total assets at September 30, 2003 were $375,901,000, an increase of 2.4% over $367,083,000 at December 31, 2002 and an increase of 11.0% over $338,705,000 at September 30, 2002.

Gross loans and leases were $204,391,000 at September 30, 2003, a decrease of 4.7% from $214,428,000 at December 31, 2002, and a decrease of 8.0% from $222,214,000 at September 30, 2002. The decrease in loans over the past twelve-month period is due to refinancing of loans, resulting from the unprecedented low interest rate environment, intense competitive pressure in the loan market, and the Bank's continued emphasis on credit quality, high underwriting standards, and conservative pricing.

The Company's investment portfolio at September 30, 2003 was $119,320,000, compared to $100,239,000 at December 31, 2002, and $91,032,000 at September 30, 2002. Increases in the Company's investment portfolio during the first nine months of 2003 were due to the Company

investing in qualified Available-for-Sale Securities with excess funds. Cash and cash equivalents, which consisted of cash and due from banks and federal funds sold, were $34,295,000 at September 30, 2003, $40,046,000 at December 31, 2002, and $13,850,000 at September 30, 2002. The increased balance of cash and cash equivalents at September 30, 2003 and December 31, 2002 was primarily due to the growth in total deposits and the issuance of trust preferred securities in the fourth quarter of 2002.

Total deposits of the Company were $316,575,000, $306,726,000, and $282,030,000 at September 30, 2003, December 31, 2002, and September 30, 2002, respectively. The increase at September 30, 2003 from December 31, 2002 and September 30, 2002 is primarily due to the Bank's focus on customer service, growth of newer branches, relationship banking, as well as new customer-centered product development.

The ratio of gross loans to deposits was 64.6%, 69.9%, and 78.8% at September 30, 2003, December 31, 2002, and September 30, 2002, respectively.

Loans and Leases

The Company continues to emphasize real estate, real estate construction, commercial, agricultural, and consumer lending activities. The Company has proactively intensified its focus on real estate secured and commercial lending to meet customers' needs in its geographic market segments. The Company lends primarily to small and medium sized businesses, small to large-sized farms, professionals, and consumers within its market area, which is principally comprised of Sutter, Yuba, Colusa, Yolo, and Placer counties; and, secondarily, Sacramento, El Dorado, Butte, and Glenn counties.

Due to the loan and lease portfolio's composition, the Company sustains moderate variations in outstanding loan totals. More specifically, certain seasonal variations are expected to occur in the agricultural and construction loan portfolios. The table below sets forth the composition of the Company's loan and lease portfolio as of September 30, 2003, December 31, 2002, and September 30, 2002.

COMPOSITION OF LOAN AND LEASE PORTFOLIO
(Dollars in thousands)

Loan Category	September 30, 2003	December 31, 2002	September 30, 2002
Commercial	$ 19,296	$ 25,375	$ 24,576
Agricultural	19,000	17,536	20,247
Real Estate Construction	36,628	35,287	35,288
Real Estate Mortgage	123,339	125,094	129,509
Leases	3,308	5,891	6,992
Consumer	3,699	4,391	4,540
Other		1,905	2,107
	$ 205,270	$ 215,479	$ 223,259
Deferred Loan Fees, Net	(879)	(1,051)	(1,045)
Allowance for Loan and Lease Losses	(5,975)	(6,532)	(5,913)
Total	$ 198,416	$ 207,896	$ 216,301

The principal changes in the loan and lease portfolio between September 30, 2003, December 31, 2002, and September 30, 2002 are discussed below:

The Bank makes commercial and small business loans (including lines of credit) that are secured by the assets of the business. Commercial loans decreased $6,079,000, or 24.0%, from December 31, 2002, and decreased $5,280,000, or 21.5%, from September 30, 2002. The decrease in the first nine

months of 2003, as well as the decrease over the year is due to increased refinancing of existing loans outside the Bank, intensified competition and the softening of commercial loan market demand in the Bank's core market areas.

The Bank provides agricultural production lines of credit and other agricultural loans that are secured by crops, crop proceeds, and other collateral. Agricultural loans increased $1,464,000, or 8.3%, over December 31, 2002 but decreased $1,247,000, or 6.2% from September 30, 2002. The increase since December 31, 2002 is due to the seasonality of agricultural loan demand resulting from the agricultural cycle.

The Bank makes real estate construction loans, primarily to finance a variety of commercial, office, and retail projects, as well as for the construction of single-family homes. At September 30, 2003, real estate construction loans increased $1,341,000, or 3.8%, over December 31, 2002, and increased $1,340,000, or 3.8%, over September 30, 2002. The increase over December 31, 2002 and September 30, 2002 is due to the Bank's business development efforts in its primary market area.

Mortgage loans secured by commercial, residential, and agricultural real estate decreased $1,755,000, or 1.4%, from December 31, 2002, and decreased $6,170,000, or 4.8%, from September 30, 2002. At September 30, 2003, the real estate mortgage portfolio was 60.1% of the total loan portfolio. Increased portfolio limits have been approved as a result of enhanced monitoring analysis and limitations set on the sub-classifications within this portfolio segment.

Lease financing receivables declined $3,684,000, or 52.7%, between September 30, 2002 and September 30, 2003 and $2,583,000, or 43.8%, from December 31, 2002. This decline is the direct result of the Bank's decision in the first quarter of 2000 to discontinue originating and purchasing leases through E.P.I. Leasing Company, Inc. Consequently, the reduction of the Bank's lease portfolio was primarily due to scheduled lease portfolio principal reductions.

The Company makes consumer loans, including secured and unsecured loans and lines of credit, to finance a variety of consumer needs. Consumer loans decreased $841,000, or 18.5%, between September 30, 2002 and September 30, 2003 and $692,000, or 15.8%, from December 31, 2002. The decrease in this loan category was due to increased competition in the Bank's core market area and special pricing programs for new car financing by automakers and other financial institutions. Further, the Bank's Consumer lending group has focused on home equity and home improvement loans through a promotional product that is recorded in the real estate loan category.

During the first nine months of 2003, there were no significant changes in the Bank's loan management, lending philosophy, or credit delivery procedures. The Company continues to emphasize high credit quality and superior customer service as two key components of its strategic direction.

Loan and Lease Quality

The Company places loans and leases on nonaccrual status when either principal or interest has been past due for 90 days or more. Exceptions to this policy can be made if the loan or lease is well secured and in the process of collection. The Company also places loans and leases on nonaccrual when payment in full of principal or interest is not expected, or the financial condition of the borrower has significantly deteriorated. At the time that a loan or lease is placed on nonaccrual, any accrued but uncollected interest is reversed and additional income is recorded on a cash basis as payments are received as long as principal is not impaired. Loans or leases that are in the process of renewal in the normal course of business, or that are well secured and in the process of collection may not be placed on nonaccrual status at the discretion of Management. A nonaccrual loan or lease may be restored to an accrual basis when interest and principal payments are current and the prospects for future payments are no longer in doubt.

14

Nonperforming loans and leases consist of accruing loans and leases past due 90 days or more and nonaccrual loans and leases. The table below summarizes the composition of nonperforming loans and leases as of September 30, 2003, December 31, 2002, and September 30, 2002, as well as the changes between the periods. There were no loans and leases that were accruing interest that were past due as to principal or interest for 90 days or more at September 30, 2003, December 31, 2002, or September 30, 2002.

Nonperforming Assets
(Dollars in thousands)

	September 30, 2003	% Change From December 31, 2002 to September 30, 2003	December 31, 2002	% Change From September 30, 2002 to September 30, 2003	September 30, 2002
Nonaccrual Loans and Leases					
Commercial	$ 119	n/a	$	n/a	$ 99
Agricultural	15	(87.0)%	115	(87.0)%	115
Real Estate Construction	1,119	(56.3)%	2,560	n/a	
Real Estate Mortgage	993	(41.7)%	1,702	(79.3)%	4,791
Leases		0.0%		0.0%	
Consumer	10	(33.3)%	15	(41.2)%	17
Total Nonperforming Loans and Leases	$ 2,256	(48.6)%	$ 4,392	(55.1)%	$ 5,022

	September 30, 2003	% Change From December 31, 2002 to September 30, 2003	December 31, 2002	% Change From September 30, 2002 to September 30, 2003	September 30, 2002
Other Real Estate	$ 2,875	n/a	$	531.9%	$ 455
Total Nonperforming Assets	$ 5,131	16.8%	$ 4,392	(6.3)%	$ 5,477

Total nonperforming loans and leases have decreased $2,766,000, or 55.1%, since September 30, 2002 and $2,136,000, or 48.6%, since December 31, 2002. This decrease corresponds with the increase in nonperforming assets due to one large commercial real estate secured loan transitioning to other real estate from nonperforming loans. Management continues its emphasis on reducing classified assets and enhancing quality control in the management of the loan and lease portfolios.

The composition of the Company's nonaccrual loans and leases remain limited primarily to two borrowers. At September 30, 2003, 88.3% of the Company's total nonaccrual loans and leases were concentrated with these two borrowers. One of the relationships totaling $1,119,000, or 49.6%, is a commercial construction real estate relationship while the other totaling $874,000, or 38.7%, is a commercial real estate relationship. Each of these nonaccrual loan relationships is in the process of collection and in management's opinion is adequately supported by collateral.

As of December 31, 2002, $4,108,000, or 93.5%, of the Company's total nonaccrual loans and leases were concentrated in three relationships, consisting of a real estate construction loan relationship totaling $2,443,000, or 55.6%, an agricultural loan relationship for $747,000, or 17.0%, and a commercial real estate loan relationship for $918,000, or 20.9%.

The Company maintains an allowance for loan and lease losses ("ALLL ") to absorb probable losses inherent in the loan and lease portfolio and is based upon management's estimated range of those losses. The ALLL is established through a provision for loan and lease losses and is increased by provisions charged against current earnings and reduced by net charge-offs. Actual losses for these loans can vary significantly from this estimate. The methodology and assumptions used to calculate the allowance are continually reviewed as to their appropriateness given the most recent losses realized and other factors that influence the estimation process. The model assumptions and resulting allowance level are adjusted accordingly as these factors change. The Company's ALLL totaled $5,975,000, or 2.9% of gross loans and leases, as of September 30, 2003. This amount compares to $6,532,000, or 3.0% of gross loans and leases, as of December 31, 2002 and $5,913,000, or 2.7% of gross loans and leases, as of September 30, 2002.

The adequacy of the ALLL and the level of the related provision for loan and lease losses is determined based on management's judgment after consideration of numerous factors including but not limited to: (i) local and regional economic conditions, (ii) borrowers' financial condition, (iii) loan impairment and the related level of expected charge-offs, (iv) evaluation of industry trends, (v) industry and other concentrations, (vi) loans which are contractually current as to payment terms but demonstrate a higher degree of risk as identified by management, (vii) continuing evaluations of the performing loan portfolio, (viii) ongoing review and evaluation of problem loans identified as having loss potential, (ix) quarterly review by the Board of Directors, and (x) assessments by banking regulators and other third parties. Management and the Board of Directors evaluate the ALLL and determine its desired level considering objective and subjective measures, such as knowledge of the borrowers' businesses, valuation of collateral, the determination of impaired loans or leases and exposure to potential losses.

The Company establishes general reserves in accordance with Statement of Accounting Standards ("SFAS") No. 5., "Accounting for Contingencies," and specific reserves in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." The ALLL is maintained by categories of the loan portfolio based on loan type and loan rating; however, the entire allowance is available to cover actual loan and lease losses. While Management uses available information to recognize possible losses on loans and leases, future additions to the allowance may be necessary, based on changes in economic conditions and other matters. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ALLL. Such agencies may require the Company to provide additions to the allowance based on their judgment of information available to them at the time of their examination.

The adequacy of the ALLL is determined based on three components. First considered is the dollar weighted risk rating of the loan portfolio, including all outstanding loans and leases. Every extension of credit has been assigned a risk rating based upon a comprehensive definition intended to measure the inherent risk of lending money. Each rating has an assigned risk factor expressed as a reserve percentage. Secondly, established specific reserves consistent with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" are assigned to individually impaired and adversely graded loans. These are estimated potential losses associated with specific borrowers based upon estimated cash flows or collateral value and events affecting the risk rating. Thirdly, the Company maintains a reserve for qualitative factors that may affect the portfolio as a whole, such as those factors described above, including a reserve for model imprecision consistent with SFAS No. 5, "Accounting for Contingencies."

Provisions to the ALLL are made to maintain an ALLL level deemed adequate by Management. No provision to the ALLL was made during the three-month period ended September 30, 2003, while a provision to the ALLL of $150,000 was made for the three-month period ended September 30, 2002. Provisions to the ALLL totaled $10,000 and $450,000 for the nine-month periods ended September 30, 2003 and September 30, 2002, respectively. Total provisions to the ALLL for the year ended

December 31, 2002 equaled $550,000. Loan and lease charge-offs for the three months ended September 30, 2003 totaled $36,000, compared to $172,000 for the three months ended September 30, 2002. Loan and lease charge-offs for the nine months ended September 30, 2003 totaled $728,000, compared to $369,000 for the nine months ended September 30, 2002. Loan and lease recoveries were $48,000 for the three months ended September 30, 2003, compared to $119,000 for the three months ended September 30, 2002. For the nine months ended September 30, 2003 and September 30, 2002, loan and lease recoveries were $161,000 and $334,000, respectively. The following table illustrates the activity in the Bank's ALLL for the three and nine months ended September 30, 2003 and September 30, 2002.

The decrease in provisions made to the ALLL in 2003 is primarily due to the improvement in asset quality and reduction in total outstanding loans.

Activity in Allowance for Loan and Lease Losses
(Dollars in thousands)

	For the Three months ended September 30,		For the Nine months ended September 30,	
	2003	2002	2003	2002
Beginning Balance	$ 5,963	$ 5,817	$ 6,532	$ 5,498
Charge-offs by Loan Category:				
Commercial				
Agricultural	9		9	
Real Estate			581	20
Leases	22	168	127	338
Consumer	5	5	11	11
Total	36	173	728	369
Recoveries by Loan Category:				
Commercial		2	20	12
Agricultural		92	1	246
Real Estate				
Leases	48	23	139	73
Consumer		2	1	3
Total	48	119	161	334
Net (Recoveries) Charge-offs	(12)	54	567	35
Provision Charged to Expense		150	10	450
Balance, September 30	$ 5,975	$ 5,913	$ 5,975	$ 5,913

Investments

The Company's investment portfolio was $119,320,000 at September 30, 2003, compared to $100,239,000 at December 31, 2002, and $91,032,000 at September 30, 2002. The increase of $28,288,000, or 31.1%, from September 30, 2002 to September 30, 2003, is primarily due to the Company investing its excess funds in qualified Available-for-Sale Securities.

As of September 30, 2003, the Company's "available-for-sale" category adjustment reflected a net unrealized loss of $100,000, net of taxes. The approximate market value of the Company's investment

portfolio at September 30, 2003 was $119,138,000. As of September 30, 2002, the Company's "available-for-sale" category adjustment reflected a net unrealized gain of $1,087,000, net of taxes, and the approximate market value of the Company's investment portfolio was $93,008,000. The $1,187,000 change in the unrealized gain/loss, net of taxes, between the two periods is primarily the result of the interest rate environment and changes in the portfolio's composition.

RESULTS OF OPERATIONS
Three and Nine Months Ended September 30, 2003
Compared with
Three and Nine Months Ended September 30, 2002

The Company recognized net income of $2,694,000 for the nine-month period ended September 30, 2003, resulting in diluted earnings per share of $1.23. Net income for the three months ended September 30, 2003 was $770,000, resulting in diluted earnings per share of $0.35. Net Income and diluted earnings per share for the nine-month period ended September 30, 2003 were higher than the same period in 2002, while net income and diluted earnings per share for the three-month period ended September 30, 2003 were lower that the comparable period in 2002 due to merger and acquisition related expenses. Net income for the three and nine-month periods ended September 30, 2002 were $981,000 and $2,539,000, respectively. The diluted earnings per share for the same three and nine-month periods were $0.44 and $1.14, respectively. The return on average equity and the return on average assets for the three-month period ended September 30, 2003 were 11.17% and 0.82%, respectively, as compared to 13.39% and 1.18%, respectively, for the same period in 2002. The return on average equity and the return on average assets for the nine-month period ended September 30, 2003 were 12.58% and 0.98%, respectively, as compared to 11.92% and 1.05%, respectively, for the same period in 2002.

Net interest income for the three and nine months ended September 30, 2003 were $3,567,000 and $11,154,000, respectively, compared to $3,911,000 and $11,521,000, respectively, for the same three and nine-month periods in 2002. The change in net interest income for three and nine months ended September 30, 2003 reflects the combined effect of a variety of factors, including the average loan balance and interest rates, affecting interest income and interest expense as shown and described below.

Average Daily Balance Sheets

(Dollars in thousands, except percentages)

	Three Months Ended,					
	September 30, 2003			September 30, 2002		
	Average Balance	Yield/ Rate	Interest Amount	Average Balance	Yield/ Rate	Interest Amount
Assets						
Earning Assets:						
Short-Term Investments:						
Federal Funds Sold	$ 3,240	0.98%	$ 8	$ 2,619	1.51%	$ 10

	Three Months Ended,					
Investment Securities:						
Taxable	128,113	3.55%	1,146	94,444	5.40%	1,286
Non-Taxable	2,440	4.39%	27	1,474	4.31%	16
Total	130,553	3.56%	1,173	95,918	5.39%	1,302
Loans and Leases	207,252	7.07%	3,695	210,268	7.53%	3,989
Total Earning Assets	341,045	5.67%	4,876	308,804	6.81%	5,301
Allowance for Loan and Lease Losses	(5,964)			(5,832)		
Non Earning Assets:						
Cash and Due From Banks	14,813			13,851		
Premises and Equipment	6,483			6,834		
Other	17,541			10,261		
Total Non-Earning Assets	38,836			30,946		
Total Assets	$ 373,918			$ 333,918		
Liabilities and Shareholders' Equity						
Interest-Bearing Liabilities:						
Demand, Savings and Money Market	$ 128,402	0.55%	$ 177	$ 114,900	0.93%	$ 269
Time Certificates	111,393	2.97%	835	108,646	3.44%	943
Other Interest-Bearing Liabilities	29,685	3.97%	297	17,962	3.93%	178
Total Interest-Bearing Liabilities	269,480	1.93%	1,309	241,508	2.28%	1,390
Noninterest-Bearing Liabilities:						
Demand	71,688			59,136		
Other Liabilities	5,184			3,976		
Total Noninterest-Bearing Liabilities	76,872			63,112		
Shareholders' Equity	27,566			29,297		
Total Liabilities and Shareholders' Equity	373,918			333,918		
Net Interest Income			$ 3,567			$ 3,911
Net Interest Margin		4.18%			5.07%	

19

Average Daily Balance Sheets

(Dollars in thousands, except percentages)

Nine Months Ended,

	Nine Months Ended,					
	September 30, 2003			September 30, 2002		
	Average Balance	Yield/ Rate	Interest Amount	Average Balance	Yield/ Rate	Interest Amount
Assets						
Earning Assets:						
Short-Term Investments:						
Federal Funds Sold	$ 12,350	1.17%	$ 108	$ 4,358	1.60%	$ 52
Investment Securities:						
Taxable	116,506	4.04%	3,511	91,813	5.57%	3,809
Non-Taxable	2,147	4.44%	71	1,645	4.24%	52
Total	118,653	4.05%	3,582	93,458	5.54%	3,861
Loans and Leases	206,567	7.49%	11,536	197,668	7.70%	11,336
Total Earning Assets	337,570	6.05%	15,226	295,484	6.93%	15,249
Allowance for Loan and Lease Losses	(6,156)			(5,732)		
Non Earning Assets:						
Cash and Due From Banks	14,760			13,856		
Premises and Equipment	6,614			6,832		
Other	14,380			10,743		
Total Non-Earning Assets	35,754			31,431		
Total Assets	$ 367,168			$ 321,183		
Liabilities and Shareholders' Equity						
Interest-Bearing Liabilities:						
Demand, Savings and Money Market	$ 126,798	0.67%	$ 633	$ 118,584	1.01%	$ 890
Time Certificates	110,198	3.13%	2,567	96,377	3.34%	2,400
Other Interest-Bearing Liabilities	27,495	4.26%	872	15,269	3.85%	438
Total Interest-Bearing Liabilities	264,491	2.07%	4,072	230,230	2.17%	3,728
Noninterest-Bearing Liabilities:						
Demand	69,077			58,731		
Other Liabilities	5,056			3,810		
Total Noninterest-Bearing Liabilities	74,133			62,541		
Shareholders' Equity	28,544			28,412		
Total Liabilities and Shareholders' Equity	367,168			321,183		
Net Interest Income			$ 11,154			$ 11,521
Net Interest Margin		4.41%			5.20%	

	Nine Months Ended,	

The Company's net interest margin was 4.18% for the three months ended September 30, 2003, a decrease from 5.07% at September 30, 2002. For the nine months ended September 30, 2003, the net interest margin was 4.41% compared to 5.20% for the comparable period in 2002. The Company has been impacted by the repricing characteristics of certain assets in the current low interest rate environment. Additionally, the Company was impacted due to the composition of its earning assets. Securities increased by a larger percentage than loans year-over-year, but were more heavily impacted by the low rate environment, with the yield on securities decreasing from 5.54% to 4.05%.

The Company's primary source of income is interest and fees on loans and leases. The three-month average outstanding loans and leases at September 30, 2003 were down $3,016,000, or 1.4%, while nine-month average outstanding loans and leases at September 30, 2003 were up $8,899,000, or 4.5%, over the comparable three and nine-month periods in 2002. The Bank experienced a decrease in yield, which was primarily the result of the low interest rate environment and the increase in competitive pressure to acquire and retain quality customers.

The three and nine-month average interest-bearing deposits at September 30, 2003 were $239,795,000 and $236,996,000, respectively, compared to $223,546,000 and $214,961,000, respectively, for the same periods in 2002. Considering the increase in average interest-bearing deposits, the increase in interest expense on deposits was lessened by the decrease in rates paid, resulting from the low interest rate environment. The average rate paid on interest-bearing deposits fell from 2.17% for the three months ended September 30, 2002 to 1.69% for the three months ended September 30, 2003. For the nine months ended September 30, 2003, the average rate paid on interest-bearing deposits was 1.80%, compared to 2.04% for the same period in 2002.

The Company experienced a decrease in total interest expense of 5.8%, or $81,000, for the three-month period ended September 30, 2003, in comparison to the same three-month period for 2002. For the nine-month period ended September 30, 2003, the Company experienced an increase in total interest expense of $344,000, or 9.2%, compared to the same period in 2002. The primary component of the increase in total interest expense for the nine-month period ended September 30, 2003 was the result of the issuance of trust preferred securities during the fourth quarter of 2002. The Bank continues to monitor its cost of funds.

Noninterest Income

The Company experienced an increase in total noninterest income of $372,000, or 19.0%, for the nine-month period ended September 30, 2003 versus the same period in 2002. For the three-month period ended September 30, 2003, the Company experienced an increase in noninterest income of $175,000, or 23.5%, compared to the same period in 2002. The three and nine-month periods increase over the same periods in the prior year are primarily due to gains on the sale of Other Real Estate. Total noninterest income consists principally of service charges on deposit accounts, loan servicing fees, brokered loan fees, and other noninterest income.

Service charge income on deposit accounts showed a decrease of $32,000, or 7.9%, for the three-month period ended September 30, 2003 and a decrease of $26,000, or 2.4%, for the nine-month period ended September 30, 2003, compared to the same periods in 2002. Income derived from service charges on deposit accounts was $374,000 and $1,078,000, respectively, for the three and nine-month periods ended September 30, 2003, compared to $406,000 and $1,104,000, respectively, for the comparable periods in 2002.

Loan service fee income for the three-month period ended September 30, 2003 decreased $14,000, or 12.2%, and decreased $39,000, or 14.3%, for the nine-month period ended September 30, 2003 in comparison to the same periods in 2002. The decrease is attributable to normal principal amortization on serviced loans, loan payoffs, and fewer originations of "servicing retained" brokered and sold loans.

Income from brokered loan fees for the three months ended September 30, 2003 increased $42,000, or 107.7%, and increased $109,000, or 109.0%, for the nine months ended September 30, 2003 in comparison to the same periods in 2002. The increases are predominantly due to the steady demand in the refinance market.

Gain on sale of other real estate was $243,000 and $351,000, respectively, for the three and nine-month periods ended September 30, 2003. For both the three and nine-month periods ended September 30, 2002, gain on sale of other real estate was $32,000.

Noninterest Expense

During the three and nine-month periods ended September 30, 2003, the Company experienced increases of $400,000, or 13.6%, and $340,000, or 3.8%, in total noninterest expense from the three and nine-month periods ended September 30, 2002. Total noninterest expense stood at $3,331,000 and $9,343,000, respectively, for the three and nine-month periods ended September 30, 2003 compared to $2,931,000 and $9,003,000, respectively, for the same periods ended September 30, 2002. Noninterest expenses consist of salaries and employee benefits, occupancy, furniture and equipment expense, merger and acquisition related expenses, legal and professional fees, telephone expense, and other general and administrative operating expenses. The overall increase in total noninterest expense is primarily due to merger and acquisition related expenses.

Salaries and employee benefits increased $33,000, or 2.0%, but decreased $26,000, or 0.5%, respectively, for the three and nine-month periods ended September 30, 2003, over the same periods in 2002. Salaries and employee benefits for the three and nine-month periods ended September 30, 2003 were $1,672,000 and $5,065,000, respectively, compared to $1,639,000 and $5,091,000, respectively, for the same periods in 2002.

Collectively, occupancy and furniture and equipment expenses increased $23,000, or 4.2%, and $40,000, or 2.5%, respectively, for the three and nine-month periods ended September 30, 2003, over the same periods in 2002. These two categories stood jointly at $566,000 and $1,627,000, respectively, for the three and nine-month periods ended September 30, 2003, compared to $543,000 and $1,587,000, respectively, for the same periods ended September 30, 2002.

Merger and acquisition related expenses for both three and nine-month periods ended September 30, 2003 were $378,000. There were no such expenses for the same periods ended September 30, 2002.

Other noninterest expense decreased from $749,000 and $2,325,000, respectively, for the three and nine months ended September 30, 2002 to $715,000 and $2,273,000, respectively, for the three and nine months ended September 30, 2003. The components of other noninterest expense are illustrated in the table below.

Other Operating and Administrative Expenses

(Dollars in thousands)

	Three-months ended September 30, 2003	Three-months ended September 30, 2002	Nine-months ended September 30, 2003	Nine-months ended September 30, 2002
Legal & Professional Fees	$ 110	$ 96	$ 362	$ 390
Telephone Expense	58	67	180	200
Stationery & Supplies	57	53	180	155
Courier Expense	43	57	144	141
Director Fees	69	56	181	182
Stockholders Expense	23	50	123	114
Postage Expense	39	51	121	113
Insurance	61	48	167	182
Other	255	271	815	848
Total	$ 715	$ 749	$ 2,273	$ 2,325

Legal and professional fees consisted primarily of outside legal counsel, independent accountants, and consultants.

Provision for Income Taxes

Applicable income taxes for the three and nine-months ended September 30, 2003, were $385,000 and $1,442,000, respectively. This compares to $593,000 and $1,492,000 for the three and nine-month periods ended September 30, 2002, respectively. The Company's effective tax rate was 33.3% and 34.9% for the three and nine-month periods ended September 30, 2003, respectively, compared to 37.7% and 37.0%, for the three and nine months ended September 30, 2002, respectively.

LIQUIDITY

The need for liquidity in a banking institution arises principally to provide for deposit withdrawals, the credit needs of its customers, and to take advantage of investment opportunities. A banking institution may achieve desired liquidity from both assets and liabilities. The Company considers cash and deposits held in other banks, federal funds sold, other short-term investments, maturing loans and investments, receipts of principal and interest on loans, investments available-for-sale, and potential loan sales as sources of asset liquidity. Deposit growth, access to credit lines established with correspondent banks and market sources of funds are considered by the Company as sources of liability liquidity.

Historically, during the first half of each year the Bank experiences excess liquidity. The Bank's seasonal agricultural and construction loan demand, which typically occurs each year from early June through late October, tends to absorb excess liquidity and usually results in a net borrowed position during that time frame.

The Bank's short-term liquid assets consist of cash and due from banks, federal funds sold, and investment securities with maturities of one year or less (exclusive of pledged securities). Irrespective of maturity, U.S. Government and Agency securities qualify as collateral for borrowings at the Federal Home Loan Bank ("FHLB"), Federal Reserve Bank, and with broker-dealers.

In order to fund its liquidity needs, the Bank maintains formal and informal borrowing arrangements with the Federal Reserve Bank to meet unforeseen deposit outflows or seasonal loan funding demands. The Bank has also entered an agreement to borrow funds from the FHLB secured by U.S. Government and Agency obligations in the Bank's investment portfolio. As of September 30,

2003, the Bank had $15,000,000 outstanding on these lines. There were FHLB borrowings outstanding of $15,000,000 at December 31, 2002, as well as September 30, 2002. Also, during the fourth quarter of 2002, CIB Capital Trust issued 10,000 of its Floating Rate Trust Preferred Securities with a liquidation amount of $1,000 per security for gross proceeds of $10,000,000.

The Bank monitors its credit facility availability and unencumbered qualifying collateral in conjunction with its asset and liability management process. Policy limits are established and monitored for maximum borrowings and minimum contingency liquidity levels.

Management believes the Company maintains adequate amounts of liquidity to meet its needs.

CAPITAL RESOURCES

CIB and the Bank are subject to respective Federal Reserve Board ("FRB") and Federal Deposit Insurance Corporation ("FDIC") regulations governing capital adequacy. These regulations are intended to reflect the degree of risk associated with both on and off balance sheet items. Financial institutions are expected to comply with a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%. At least half of the qualifying total capital must be in Tier 1 Capital, as defined by the regulations. Federal regulatory agencies have also adopted a minimum leverage ratio of 4.0%, which is intended to supplement the risk-based capital requirements and to ensure that all financial institutions continue to maintain a minimum level of core capital. Under applicable regulatory guidance, the amount of trust preferred securities that is eligible as Tier I capital is limited to twenty-five percent of the Company's Tier I capital on a pro forma basis. At September 30, 2003, $9,185,000 of the Trust Preferred Securities qualified as Tier I capital, and the remaining $815,000 as Tier II capital.

Total shareholders' equity on September 30, 2003 decreased by $1,399,000, or 4.8%, to $27,657,000 from December 31, 2002 total shareholders' equity of $29,056,000. The decrease is attributed to a decrease in other comprehensive income, net of tax, of $1,047,000 associated with the market value adjustment on the Company's Available-for-Sale securities, cash dividends paid in the amount of $794,000 and the repurchase of common stock of $2,361,000. These decreases to shareholders' equity were offset by net income of $2,694,000 during the first nine months of 2003 and exercised options of $104,000 with a $5,000 tax benefit. As can be seen by the following table, the Company and Bank exceeded all minimum regulatory capital ratio guidelines at September 30, 2003.

Capital Ratios
(Dollars in thousands)

	Sept 30, 2003	
	Amount	Ratio
Tier 1 Leverage Ratio:		
California Independent Bancorp and Subsidiaries	$ 36,742	9.82%
Minimum regulatory requirement	$ 14,969	4.0%
Feather River State Bank	$ 32,002	8.57%
Minimum requirement for "Well Capitalized" institution	$ 18,680	5.0%
Minimum regulatory requirement	$ 14,944	4.0%
Tier 1 Risked Based Capital:		
California Independent Bancorp and Subsidiaries	$ 36,742	13.23%
Minimum regulatory requirement	$ 11,111	4.0%
Feather River State Bank	$ 32,002	11.53%
Minimum requirement for "Well Capitalized" institution	$ 16,649	6.0%
Minimum regulatory requirement	$ 11,099	4.0%
Total Risk-Based Capital:		
California Independent Bancorp and Subsidiaries	$ 41,059	14.78%
Minimum regulatory requirement	$ 22,222	8.0%
Feather River State Bank	$ 35,501	12.79%
Minimum requirement for "Well Capitalized" institution	$ 27,749	10.0%
Minimum regulatory requirement	$ 22,199	8.0%

On November 13, 2001, CIB's Board of Directors approved a plan to repurchase, as conditions warrant, up to 5% of CIB's common stock on the open market. The duration of the plan is open-ended and the timing of the purchases is dependent on market conditions. In addition, CIB has purchased shares in privately negotiated transactions. During the first nine months of 2003, CIB repurchased in open market and private transactions 83,384 of its own common stock at a weighted average purchase price of $28.31 per share.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE SENSITIVITY

Interest rate sensitivity is the relationship between market interest rates and net interest income ("NII") due to the repricing characteristics of assets and liabilities. As interest rates change, interest income and expense also change, thereby changing NII. If more liabilities reprice than assets in a given period, a liability sensitive position is created. If interest rates decline, a liability sensitive position will benefit NII. Alternatively, where assets reprice more quickly than liabilities in a given period (an asset sensitive position), a decline in market rates will have an adverse effect on NII.

Asset and liability management encompasses an analysis of market risk, the control of interest rate risk (interest sensitivity management), and the ongoing maintenance and planning of liquidity and capital. The composition of the Company's Balance Sheet is planned and monitored by the Asset and Liability Committee ("ALCO"), a committee comprised of the Bank's executive management. The primary tool used by the ALCO to measure and manage interest rate exposure is a simulation model.

Use of the model to perform simulations reflecting changes in interest rates over one and two-year time horizons have enabled Management to develop and initiate strategies for managing exposure to interest rate risks. The ALCO believes that, both individually and in the aggregate, its modeling assumptions are reasonable, but the complexity of the simulation modeling process results in a sophisticated estimate, not an absolutely precise calculation of exposure.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all assets and liabilities reflected on the Company's Consolidated Balance Sheet as well as for off balance sheet financial instruments. This sensitivity analysis is compared to the ALCO policy limits that specify a maximum tolerance level for NII exposure over a one-year horizon, assuming no balance sheet growth, given both a 200 basis point ("bp") upward and downward shift in interest rates. A parallel shift in rate, pro-rated over a 12-month period is assumed. The Bank's policy limit threshold is that NII exposure shall not exceed 10% of estimated NII over the next 12 months.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of future operating results. These hypothetical estimates are based on numerous assumptions, including the nature and timing of interest rate levels including yield curve shape, repayments on loans, leases, and securities, deposit rates, pricing decisions on loans and deposits, reinvestment and replacement of assets and liability cash flows, and others. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change. Also, as market conditions vary from those assumed in the sensitivity analysis, actual results will also differ due to prepayment and refinancing levels deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other internal and external variables. Furthermore, the sensitivity analysis does not reflect actions that the ALCO might take in responding to or anticipating changes in interest rates.

MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates and prices such as interest rates, foreign currency exchange rates, commodity prices, and equity prices. The Company's primary market risk exposure is interest rate risk. The continuous monitoring and management of this risk is an important component of the Company's asset and liability management process, which is governed by policies established by its Board of Directors, which are reviewed and approved annually. The Board of Directors delegates responsibility for carrying out the asset and liability management policies to the ALCO. In this capacity, Management develops guidelines and strategies impacting the Company's asset and liability management related activities based upon estimated market risk sensitivity, policy limits, and overall market interest rate levels and trends.

In Management's opinion, the Company's market risk and interest rate risk profiles are within reasonable tolerances at this time. No significant changes to the market risk or interest rate risk positions of the Company have occurred since December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's Management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q are effective in timely alerting them to material information relating to the Company required to be included in this Form 10-Q.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

During the normal course of business, CIB and the Bank are involved in certain litigation arising in the ordinary course of business. Based on current information, CIB does not believe that the current litigation involving the Bank or CIB will have a material adverse effect on either CIB or the Bank.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

No changes.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None reported.

ITEM 5. OTHER INFORMATION.

None reported.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Exhibit No.	
31.1	Certification by the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by the Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification by the Principal Executive Officer and Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

(b) Reports on Form 8-K.

On July 17, 2003, the Company filed a Current Report on Form 8-K, regarding second quarter results for 2003.

On August 13, 2003, the Company filed a Current Report on Form 8-K, regarding a definitive agreement with Humboldt Bancorp pursuant to which the Company will merge into Humboldt Bancorp.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CALIFORNIA INDEPENDENT BANCORP
Date: November 12, 2003	/s/ JOHN I. JELAVICH
	John I. Jelavich *President and Chief Executive Officer* *(Principal Executive Officer)*
Date: November 12, 2003	/s/ KEVIN R. WATSON
	Kevin R. Watson *Chief Financial Officer and Corporate Secretary* *(Principal Financial and Accounting Officer)*

28

QuickLinks