PUBLIC DISCLOSURE

November 8, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Auburn Community Bank
RSSD # 2651675

412 Auburn Folsom Road
Auburn, California 95603

Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The major factors supporting the institution's rating include:

- Excellent penetration of loans to businesses with gross annual revenues of $1 million or less.
- A majority of loans originated within the assessment area.
- Reasonable geographic distribution of small business loans, with no conspicuous gaps in lending patterns.

PERFORMANCE CONTEXT

Description of Institution

Auburn Community Bank (ACB) is a $108 million institution founded in 1998 under a national charter and headquartered in Auburn, California. The bank converted to a state charter in July 1999. On December 12, 2003, it was acquired by Western Sierra Bancorp (WSBA), and has operated as a wholly-owned subsidiary of WSBA ever since. ACB became a member of the Federal Reserve System effective July 1, 2004, and currently operates two full-service branches in the city of Auburn.

Consistent with its community bank profile, ACB strives to meet the needs of businesses and individuals throughout the communities it serves. In that regard, the bank offers a variety of products and services. The bank's goal is to provide personalized services to its business customers, and to develop a total banking relationship with its clients. As noted in the table below, the lending focus is primarily in the area of commercial and construction lending. Notwithstanding its business focus, the bank also offers a full range of consumer and mortgage products, primarily aimed at those who have developed a business banking relationship with the institution.

The following table illustrates the bank's loan mix as of September 30, 2004:

LOAN TYPE	DOLLAR AMOUNT ('000S)	PERCENT OF TOTAL LOANS
Commercial/Industrial & Non-Farm Non-Residential Real Estate	$54,849	61.7%
Construction & Land Development	25,029	28.1%
Secured by 1-4 Family Residential Real Estate	6,211	7.0%
Secured by Multifamily Residential Real Estate	2,324	2.6%
Consumer Loans & Credit Cards	906	1.0%
Unearned Income	(362)	(0.4%)
Total (Gross)	**$88,957**	**100.0%**

There are no legal or financial impediments that would prevent ACB from helping to meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. The bank's previous CRA examination, conducted by the FDIC in October 2000, resulted in a satisfactory rating.

Description of Assessment Area

Auburn Community Bank's assessment area consists of Placer County in its entirety. Placer County is located 80 miles northeast of San Francisco within the Sacramento-Arden-Arcade-Roseville Metropolitan Statistical Area (MSA). Since the prior examination, the assessment area was modified to exclude El Dorado, Nevada and Sacramento Counties. ACB determined that to effectively serve Placer County, where their two branches are located, they could not adequately serve these far-reaching counties.

The following tables show the mix of census tracts, population, and families for the entire assessment area for both the 1990 and 2000 censuses.[1] As shown in the tables below, there were a greater percentage of tracts and people in the upper-income areas in 2000 than in 1990. There continues to be no low-income areas in the assessment area.

1990 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract	
	Number	Percent	Number	Percent	Number	Percent
Moderate	1	2.8%	2,802	1.6%	625	1.3%
Middle	24	66.7%	106,102	61.8%	29,673	61.2%
Upper	11	30.6%	63,192	36.6%	18,152	37.5%
Total	**36**	**100.0%**	**172,796**	**100.0%**	**48,450**	**100.0%**

2000 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract	
	Number	Percent	Number	Percent	Number	Percent
Moderate	3	5.9%	9,687	3.9%	2,122	3.1%
Middle	27	52.9%	132,598	53.4%	36,117	52.8%
Upper	21	41.2%	106,114	42.7%	30,139	44.1%
Total	**51**	**100.0%**	**248,399**	**100.0%**	**68,378**	**100.0%**

In Placer County, 26 institutions compete for market share. Deposits are concentrated among five financial institutions that collectively control a 64.2 percent market share. As of June 30, 2004, Auburn Community Bank held a 1.74 percent market share and ranked 14th out of 26 banks and thrifts that operate in Placer County. In the city of Auburn, where all of ACB's branches are located, ACB holds a 6.5 percent market share and ranks 6th out of 11 financial institutions that operate in the Auburn market.[2]

Business and Economic Conditions

The economy of Placer County is as robust and diverse as its three regions. The county's geography includes North Lake Tahoe (the High Country), where tourism is the primary

[1] U.S. Census Bureau, 1990 & 2000 census.

[2] Federal Deposit Insurance Corporation, Market Share and Bank Holding Company, *Summary of Deposits Market Share Report*, June 30, 2004; accessed November 1, 2004, from http://www2.fdic.gov/sod.

economic activity;[3] Central Placer (the Gold Country), which encompasses the government sector; and South Placer (the Valley), where high technology sectors are the leading employers.[4] Employment continues to increase in all of these sectors.[5] Electronics, led by Hewlett-Packard and NEC, employs a large number of workers, while employment in Squaw Valley, Northstar, and Alpine Meadows grows to meet the demand of visitors who enjoy year-round outdoor activities. In Central Placer, where both of Auburn Community's branches are located, government is the leading employer. The diverse economy of Placer County encourages a range of opportunities and provides a desirable mix of jobs for those migrating to the area, which accounts for the steady increase in population growth.[6]

In 2002, the six largest employment categories in Placer County were:

- trade, transportation and utilities (19.7 percent)
- government (16.2 percent)
- leisure and hospitality (12.4 percent)
- construction (11.9 percent)
- professional and business services (10.7 percent)
- education and health services (10.0 percent)[7]

Overall, county employment levels are relatively high and compare favorably to other areas. Placer County has generally experienced greater year-over-year employment growth rates compared to California, the Bay Area, and the greater Sacramento area since 2002. Although Placer County's employment growth rate fell below the greater Sacramento's rate during 2002, it continued to grow, while the Bay Area and the state both experienced employment declines. The continued strength of the county's employment picture is evidenced by strong year-over-year job growth, as of March 2003, which led the nation.[8] The full-year unemployment rate in 2003 for Placer County was a low 4.7 percent, below the Sacramento average of 5.4 percent, the state average of 6.7 percent and the national average of 6.0 percent.[9]

Dun & Bradstreet reports that small businesses (those with gross annual revenues of $1million or less) accounted for 85 percent of area businesses. These small businesses, detailed in the table below, represent a source of potential effective loan demand and an opportunity for local institutions.

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[3] Placer County Economic and Demographic Profile 2004, Sacramento Regional Research Institute, December 2003. Data Source: Economic Development Department, Labor Market Information.
[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] California Employment Development Department, *Labor Market Info, Data Library,* (accessed November 30, 2004) at http://www.labormarketinfo.edd.ca.gov/cgi/dataAnalysis/LabForceReport.asp.

Income Categories	Total Businesses by Census Tract		Businesses by Census Tract and Revenue Size[10]					
			Less Than or Equal to $1 Million		Greater Than $1 Million		Revenue Not Reported	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Moderate	387	4.5%	333	4.6%	44	4.2%	10	3.9%
Middle	5,116	59.7%	4,321	59.4%	640	61.7%	155	59.8%
Upper	3,066	35.8%	2,619	36.0%	353	34.0%	94	36.3%
Total	8,569	100.0%	7,273	100.0%	1,037	100.0%	259	100.0%
Percentage of Total Businesses:			**84.9%**		**12.1%**		**3.0%**	

Demographic and economic information for the assessment area, including interviews with community representatives, indicate that small business financing and other credit facilities designed for early stage businesses represent a significant credit need. Small business loans in amounts less than $100,000, to finance working capital, inventory, and equipment are particularly in demand. Community contacts also cite a need for affordable housing and construction financing throughout the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

CRA performance was evaluated using the small bank examination procedures. The evaluation was based upon the following performance criteria:

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio)
- Lending inside and outside the assessment area (Lending in Assessment Area)
- Distribution of lending to businesses with different revenue sizes (Lending by Business Revenue)
- Dispersion of lending throughout the assessment area (Geographic Distribution of Loans)

Responsiveness to consumer complaints was not evaluated because the bank received no CRA-related complaints during the review period.

The CRA performance review was based upon small business loans originated between July 1, 2002, and June 30, 2004. A total of 123 small business loans were originated during the review period and these loans were used in the evaluation of Lending in Assessment Area. All 101 loans extended within the assessment area were used in the Geographic Distribution of Loans analysis. Because census data for 2000 was available at this examination, split reviews of geographic distribution were performed. Lending by income geography for July 1, 2002, through December 31, 2002, was evaluated using the 1990 census data. Loans originated from

[10] Based on 2003 Dun & Bradstreet information according to the 2000 census boundaries.

January 1, 2003, through June 30, 2004, were analyzed using data from the 2000 census. A statistical sample of 48 loans extended inside the assessment area was used to evaluate Lending by Business Revenue. Consumer loans were not a major focus and accounted for only one percent of the loan portfolio.

Loan-to-Deposit Ratio

The loan-to-deposit ratio meets the standards for satisfactory performance. The eight-quarter average of 96.2 percent exceeds both the state ratio of 79.4 percent and the national peer ratio of 82.9 percent.

Lending in Assessment Area

The concentration of loans extended inside the assessment area meets standards for satisfactory performance as the majority was originated within these boundaries. The percentages of small business loans extended within the assessment area were 82 percent and 72 percent, by number and dollar volume, respectively.

Lending by Business Revenue

Lending patterns demonstrate excellent penetration among businesses of different sizes. A significant majority (77 percent) of the small business loans were extended to businesses with gross annual revenues of $1 million or less. Although lending to small businesses was below the concentration of small businesses in the area (85 percent), the bank's performance surpassed that of the aggregate market, which extended only 36 percent of its loans to these businesses. Additionally, 58 percent of loans extended to small businesses were in amounts of $100,000 or less, which addressed credit needs articulated by community representatives.

Geographic Distribution of Loans

The geographic distribution of small business loans meets standards for satisfactory performance. As illustrated by the following table, small business lending is concentrated in middle-income census tracts. The distribution is reasonable as middle-income tracts comprise the largest portion of the assessment area (67 percent based on the 1990 census data and 53 percent based on the 2000 census data) and middle-income tracts contain the highest concentration of businesses (65 percent based on the 1990 census data and 60 percent based on the 2000 census data). In addition, loans were primarily extended near branch offices, with no conspicuous gaps in the lending patterns. Although no loans were extended in the three moderate-income tracts, this is understandable given strong competition in the bank's target market and the distant location of ACB's two branches to the moderate-income tracts. In addition, according to Dun & Bradstreet, only 4.5 percent of area businesses are located in moderate-income tracts evidencing relatively limited opportunities. As previously stated, there are no low-income census tracts in the assessment area.

Census Tract Income Category	1990 Census Data			2000 Census Data		
	Bank Loans	Business Concentration	Aggregate Lending	Bank Loans	Business Concentration	Aggregate Lending
Moderate	0.0%	1.1%	0.3%	0.0%	4.5%	3.6%
Middle	89.5%	65.4%	59.8%	83.3%	59.7%	55.8%
Upper	10.5%	33.5%	39.9%	16.7%	35.8%	40.6%

Response to Complaints

ACB received no complaints relating to its CRA performance since the previous examination. Accordingly, this component was not reviewed to determine the overall CRA performance rating.

Compliance with Fair Lending Laws and Regulations

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified at this examination. Additionally, there was no evidence of prohibitive lending practices.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area ("BNA"): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into "male householder" (a family with a male household and no wife present) or "female householder" (a family with a female householder and no husband present).

Full review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act ("HMDA"): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Metropolitan area: Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small loans to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of $500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.