

MID-STATE BANCSHARES
Form 10-Q
November 12, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20429

FORM 10-Q

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

for the quarterly period ended September 30, 2002.

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

for the transition period from N/A to N/A .

Commission File Number 000-23925

MID-STATE BANCSHARES

(Exact name of registrant as specified in its charter)

California

(State or Other Jurisdiction of
Incorporation or Organization)

77-0442667

(I.R.S. Employer Identification No.)

**1026 Grand Ave.
Arroyo Grande, CA**

(Address of Principal Executive Offices)

93420-0580

(Zip Code)

Issuer's Telephone Number: **(805) 473-7700**

Securities to be registered under Section 12(b) of the Act: **None**

Securities to be registered under Section 12(g) of the Act:

Common Stock, no par value

(Title of class)

Check whether the Bank (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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

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As of November 5, 2002, the aggregate market value of the common stock held by non-affiliates of the Company was: \$406,644,982.

Number of shares of common stock of the Company outstanding as of November 5, 2002: 23,790,233 shares.

Mid-State Bancshares

September 30, 2002

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Item 1 Financial Statements

Mid-State Bancshares
Consolidated Statements of Financial Position
(Unaudited figures in 000's)

| | Sept. 30, 2002 | Dec. 31, 2001 | Sept. 30, 2001 |
|--|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and Due From Banks | \$ 110,454 | \$ 102,970 | \$ 95,742 |
| Fed Funds Sold | 5,000 | 73,000 | 72,000 |
| Securities Available For Sale | 632,124 | 451,345 | 441,492 |
| Loans, Net of Unearned Income | 1,109,944 | 1,149,703 | 1,176,486 |
| Allowance for Loan Losses | (17,465) | (19,073) | (18,238) |
| Net Loans | 1,092,479 | 1,130,630 | 1,158,248 |
| Premises and Equipment, Net | 24,555 | 25,851 | 26,047 |
| Accrued Interest Receivable | 13,700 | 11,060 | 12,797 |
| Investments in Real Estate, Net | 200 | 233 | 231 |
| Goodwill | 33,448 | 33,448 | 35,383 |
| Other Intangibles | 8,806 | 9,294 | 6,894 |
| Other Assets | 7,256 | 15,833 | 14,857 |
| Total Assets | \$ 1,928,022 | \$ 1,853,664 | \$ 1,863,691 |
| LIABILITIES AND EQUITY | | | |
| Non Interest Bearing Demand | \$ 391,350 | \$ 367,370 | \$ 359,628 |
| NOW Accounts, Money Market and Savings Deposits | 842,791 | 769,173 | 765,555 |
| Time Deposits Under \$100 | 253,391 | 280,667 | 287,333 |
| Time Deposits \$100 or More | 151,805 | 166,956 | 177,220 |
| Total Deposits | 1,639,337 | 1,584,166 | 1,589,736 |
| Other Borrowings | 11,573 | 17,714 | 14,238 |
| Allowance for Losses | | | |
| Unfunded Commitments | 1,687 | 1,586 | 2,297 |
| Accrued Interest Payable and Other Liabilities | 23,515 | 15,647 | 23,678 |
| Total Liabilities | 1,676,112 | 1,619,113 | 1,629,949 |
| Shareholders' Equity: | | | |
| Common Stock, No Par Value: | | | |
| Authorized 100,000 shares | | | |
| Outstanding 23,839, 24,089 and 24,197, respectively | 80,098 | 84,872 | 87,346 |
| Undivided Profits | 157,200 | 143,257 | 137,184 |
| Accumulated Other Comprehensive Income, Net of Taxes | 14,612 | 6,422 | 9,212 |
| Total Equity | 251,910 | 234,551 | 233,742 |
| Total Liabilities and Equity | \$ 1,928,022 | \$ 1,853,664 | \$ 1,863,691 |

Mid-State Bancshares

Consolidated Statements of Income

(Unaudited figures in 000's except earnings per share data)

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---|---|---------------|--|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 20,771 | \$ 24,279 | \$ 64,307 | \$ 68,482 |
| Interest on investment securities | | | | |
| U.S. Treasury securities | 296 | 328 | 1,068 | 1,337 |
| U.S. Government agencies and corporations | 2,579 | 1,482 | 6,383 | 3,786 |
| Obligations of states and political Subdivisions and other securities | 3,175 | 3,093 | 9,454 | 9,501 |
| Interest on fed funds sold and other | 343 | 720 | 1,013 | 1,540 |
| Total Interest Income | 27,164 | 29,902 | 82,225 | 84,646 |
| Interest Expense: | | | | |
| Interest on NOW, money market and savings | 1,364 | 2,043 | 3,867 | 6,327 |
| Interest on time deposits less than \$100 | 1,694 | 2,734 | 5,811 | 8,807 |
| Interest on time deposits of \$100 or more | 907 | 1,579 | 3,137 | 5,191 |
| Interest on mortgages, other | 56 | 71 | 163 | 191 |
| Total Interest Expense | 4,021 | 6,427 | 12,978 | 20,516 |
| Net Interest Income before provision | 23,143 | 23,475 | 69,247 | 64,130 |
| Less: Provision for loan losses | | 3,200 | 600 | 3,800 |
| Net Interest Income after provision | 23,143 | 20,275 | 68,647 | 60,330 |
| Other Operating Income: | | | | |
| Service charges and fees | 2,155 | 1,920 | 6,584 | 5,818 |
| Other non-interest income | 4,020 | 3,265 | 11,318 | 9,961 |
| Total Other Operating Income | 6,175 | 5,185 | 17,902 | 15,779 |
| Other Operating Expense: | | | | |
| Salaries and employee benefits | 9,122 | 8,588 | 27,634 | 25,022 |
| Occupancy and furniture | 2,873 | 2,187 | 8,277 | 6,607 |
| Other operating expenses | 6,272 | 5,773 | 17,573 | 16,267 |
| Total Other Operating Expense | 18,267 | 16,548 | 53,484 | 47,896 |
| Income Before Taxes | 11,051 | 8,912 | 33,065 | 28,213 |
| Provision for income taxes | 3,965 | 3,317 | 11,925 | 9,294 |

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| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---------------------------------|---|----------|--|-----------|
| | | | | |
| Net Income | \$ 7,086 | \$ 5,595 | \$ 21,140 | \$ 18,919 |
| Earnings per share basic | \$ 0.30 | \$ 0.26 | \$ 0.88 | \$ 0.86 |
| diluted | \$ 0.29 | \$ 0.25 | \$ 0.85 | \$ 0.84 |
| Dividends per share | \$ 0.10 | \$ 0.09 | \$ 0.30 | \$ 0.27 |

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Mid-State Bancshares
Consolidated Statements of Comprehensive Income
(Unaudited figures in 000's)

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|--|---|------------------|--|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net Income | \$ 7,086 | \$ 5,595 | \$ 21,140 | \$ 18,919 |
| Unrealized gains on securities available for sale: | | | | |
| Unrealized holding gains arising during period | 9,301 | 8,542 | 13,662 | 13,412 |
| Reclassification adjustment for (gains) included in net income | (21) | (6) | (12) | (69) |
| Other comprehensive income, before tax | 9,280 | 8,536 | 13,650 | 13,343 |
| Income tax provision related to items in comprehensive income | 3,712 | 3,415 | 5,460 | 5,338 |
| Other Comprehensive Income, Net of Taxes | 5,568 | 5,121 | 8,190 | 8,005 |
| Total Comprehensive Income | \$ 12,654 | \$ 10,716 | \$ 29,330 | \$ 26,924 |

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Mid-State Bancshares
Consolidated Statements of Cash Flows
(Unaudited figures in 000's)

| | Nine Month Period Ended September 30, | |
|---|--|-----------|
| | 2002 | 2001 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 21,140 | \$ 18,919 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 600 | 3,800 |
| Depreciation | 3,277 | 2,941 |
| Net amortization of premiums/discounts | 2,863 | 785 |

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| | Nine Month Period Ended September 30, | |
|--|--|------------|
| | 2002 | 2001 |
| Amortization of other intangibles | 960 | 73 |
| Increase in mortgage servicing rights | (472) | (277) |
| Change in deferred loan fees | (32) | 717 |
| Changes in assets and liabilities: | | |
| Accrued interest receivable | (2,640) | (43) |
| Other assets, net | 3,117 | (226) |
| Other liabilities | 7,969 | (3,492) |
| Net cash provided by operating activities | 36,782 | 23,197 |
| INVESTING ACTIVITIES | | |
| Net cash proceeds from investment in real estate | 33 | (3) |
| Proceeds from sales and maturities of investments | 73,280 | 115,512 |
| Purchases of investments | (243,272) | (122,378) |
| Decrease (increase) in loans | 37,583 | (69,202) |
| Cash acquired in acquisition, net of cash used | | 53,308 |
| Purchases of premises and equipment, net | (1,981) | (30) |
| Net cash used in investing activities | (134,357) | (22,793) |
| FINANCING ACTIVITIES | | |
| Increase in deposits | 55,171 | 104,576 |
| Decrease in other borrowings | (6,141) | (16,002) |
| Exercise of stock options | 792 | 379 |
| Cash dividends paid | (7,197) | (5,898) |
| Retirement of company stock | (5,566) | (4,705) |
| Net cash provided by financing activities | 37,059 | 78,350 |
| (Decrease) increase in cash and cash equivalents | (60,516) | 78,754 |
| Cash and cash equivalents, beginning of period | 175,970 | 88,988 |
| Cash and cash equivalents, end of period | \$ 115,454 | \$ 167,742 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | \$ 13,364 | \$ 20,247 |
| Cash paid during the period for taxes on income | 9,500 | 8,700 |

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Supplemental disclosure of cash flow information (continued):
(Unaudited figures in 000's)

| | Nine Month Period Ended September 30, | |
|--|--|------|
| | 2002 | 2001 |

**Nine Month Period
Ended September 30,**

ACQUISITIONS

The following table outlines the assets acquired, liabilities assumed and cash paid:

| | | | |
|--|----|----|-----------|
| Fair value of assets acquired | \$ | \$ | 292,901 |
| Goodwill created in acquisition | | | 34,135 |
| Liabilities assumed | | | (255,536) |
| Acquisition price | | | 71,500 |
| Less: | | | |
| Common stock issued | | | (39,900) |
| Amounts payable to Americorp shareholders and other accruals | | | (8,502) |
| Cash paid | | | (23,098) |
| Cash acquired | | | 76,406 |
| Cash acquired, net of cash paid | \$ | \$ | 53,308 |

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Mid-State Bancshares

Notes to Consolidated Financial Statements

(Information with respect to interim periods is unaudited)

NOTE A BASIS OF PRESENTATION AND MANAGEMENT REPRESENTATION

The accompanying consolidated financial statements include the accounts of Mid-State Bancshares and its wholly owned subsidiary Mid-State Bank & Trust and the Bank's subsidiaries, MSB Properties and Mid Coast Land Company (collectively the "Company," "Bank" or "Mid-State"). All significant inter-company transactions have been eliminated in consolidation. These consolidated financial statements should be read in conjunction with the Form 10-K Annual Report for the year ended December 31, 2001 of Mid-State Bancshares. A summary of the Company's significant accounting policies is set forth in the Notes to Consolidated Financial Statements contained therein.

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a basis consistent with the accounting policies reflected in the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2001. They do not, however, include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments including normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year as a whole.

NOTE B EARNINGS PER SHARE

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute earnings per share ("EPS"). Figures are in thousands, except earnings per share data (unaudited).

| | Three Month Period Ended Sept. 30, 2002 | | | Three Month Period Ended Sept. 30, 2001 | | |
|------------------------|--|----------|-----|--|--------|-----|
| | Earnings | Shares | EPS | Earnings | Shares | EPS |
| Net Income as reported | \$ 7,086 | \$ 5,595 | | | | |

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| | Three Month Period Ended Sept. 30, 2002 | | | Three Month Period Ended Sept. 30, 2001 | | |
|---|--|-------|--------|--|------|-------------------------|
| Basic Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ | 7,086 | 23,924 | \$ | 0.30 | \$ 5,595 21,827 \$ 0.26 |
| Effect of dilutive securities: | | | | | | |
| Stock Options | | | 891 | | | 599 |
| Diluted Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ | 7,086 | 24,815 | \$ | 0.29 | \$ 5,595 22,426 \$ 0.25 |
| | | | 8 | | | |

| | Nine Month Period Ended Sept. 30, 2002 | | | Nine Month Period Ended Sept. 30, 2001 | | |
|---|---|--------|--------|---|--------|--------------------------|
| | Earnings | Shares | EPS | Earnings | Shares | EPS |
| Net Income as reported | \$ | 21,140 | | \$ | 18,919 | |
| Basic Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ | 21,140 | 24,026 | \$ | 0.88 | \$ 18,919 21,894 \$ 0.86 |
| Effect of dilutive securities: | | | | | | |
| Stock Options | | | 834 | | | 520 |
| Diluted Earnings Per Share: | | | | | | |
| Income available to Common Shareholders | \$ | 21,140 | 24,860 | \$ | 0.85 | \$ 18,919 22,414 \$ 0.84 |

NOTE C RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for business combinations and is effective for all business combinations accounted for by the purchase method completed after June 30, 2001. SFAS No. 141 requires all business combinations be accounted for using the purchase method. The acquisition of Americorp, the parent company of American Commercial Bank, during the third quarter of 2001 was accounted for in accordance with SFAS No. 141. Management adopted all other provisions of SFAS No. 141 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on the Company's results of operations or financial condition.

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. With the adoption of SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life, rather goodwill will be subject to at least an annual assessment for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, with a provision that states goodwill acquired in a business combination for which the acquisition date is after June 30, 2001 should not be amortized. Management adopted SFAS No. 142 on January 1, 2002. The adoption of SFAS No. 142 resulted in \$1,672,000 not being recognized as amortization expense for the nine month period ended September 30, 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30. It addresses financial accounting and reporting for the impairment of long-lived assets to be disposed of. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's results of operation or financial condition.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Terminations Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred

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in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to the date of an entity's commitment to an exit plan as required under EITF Issue No. 94-3. SFAS No. 146 also requires that measurement of the liability associated with exit or disposal activities be at fair value. SFAS No. 146 is effective for the Company for exit or disposal activities that are initiated after

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December 31, 2002. The implementation of SFAS No. 146 is not expected to have a material impact on the Company's financial statements.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." SFAS No. 147 amends SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and FASB Interpretation No. 9, "Applying APB Opinions Nos. 16 and 17 When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method." This Statement removes acquisitions of financial institutions, other than transactions between two or more mutual enterprises, from the scope of SFAS No. 72 and FASB Interpretation No. 9. SFAS No. 147 also amends SFAS No. 144 to include long-term customer-relationship intangible assets such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. The provisions of SFAS No. 147 are effective October 1, 2002. Management does not anticipate the adoption of SFAS No. 147 having a material impact on the Company's results of operations or financial condition.

NOTE D OTHER INTANGIBLE ASSETS

The following is a summary of the Company's other intangible assets. Figures are in thousands (unaudited).

| | Sept. 30, 2002 | | | Sept. 30, 2001 | | |
|--------------------------------------|----------------|--------------------------|---------------------|----------------|--------------------------|---------------------|
| | Gross Amount | Accumulated Amortization | Net Carrying Amount | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| Core Deposit Intangible | \$ 8,869 | \$ (1,100) | \$ 7,769 | \$ 6,266 | \$ (| \$ 6,266 |
| Originated Mortgage Servicing Rights | 1,633 | (596) | 1,037 | 955 | (327) | 628 |
| Total Other Intangible Assets | \$ 10,502 | \$ (1,696) | \$ 8,806 | \$ 7,221 | \$ (327) | \$ 6,894 |

| | Dec. 31, 2001 | | |
|--------------------------------------|---------------|--------------------------|---------------------|
| | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| Core Deposit Intangible | \$ 8,869 | \$ (296) | \$ 8,573 |
| Originated Mortgage Servicing Rights | 1,161 | (440) | 721 |
| Total Other Intangible Assets | \$ 10,030 | \$ (736) | \$ 9,294 |

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Aggregate Amortization Expense of Other Intangible Assets (\$ in 000's):

| | Three Month Period Ended Sept. 30, | | Nine Month Period Ended Sept. 30, | |
|--|---------------------------------------|--------------|--------------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| Amortization of Core Deposit Intangible | \$ 268 | \$ | \$ 804 | \$ |
| Amortization of Originated Mortgage Servicing Rights | 77 | 32 | 156 | 73 |
| Total aggregate amortization expense | \$ 345 | \$ 32 | \$ 960 | \$ 73 |

The projected amortization expense for intangible assets, assuming no further acquisitions or dispositions, is approximately \$1.3 million per year over the next five years.

NOTE E GOODWILL

No changes in the carrying amount of goodwill occurred in either the three month period or nine month period ended September 30, 2002.

The following table presents net income and basic and diluted earnings per common share, adjusted to reflect results as if the non-amortization provisions of SFAS 142 had not been in effect for the periods presented:

| | Three Month Period Ended Sept. 30, | | Nine Month Period Ended Sept. 30, | |
|--|---------------------------------------|-----------------|--------------------------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 |
| <i>Net Income:</i> | | | | |
| Reported net income | \$ 7,086 | \$ 5,595 | \$ 21,140 | \$ 18,919 |
| Less: Amortization of Goodwill, net of taxes | (323) | | (970) | |
| Adjusted Net Income | \$ 6,763 | \$ 5,595 | \$ 20,170 | \$ 18,919 |
| <i>Basic earnings per share:</i> | | | | |
| Reported basic earnings per share | \$ 0.30 | \$ 0.26 | \$ 0.88 | \$ 0.86 |
| Less: Amortization of Goodwill, net of taxes | (0.02) | | (0.04) | |
| Adjusted basic earnings per share | \$ 0.28 | \$ 0.26 | \$ 0.84 | \$ 0.86 |
| <i>Diluted earnings per share:</i> | | | | |
| Reported diluted earnings per share | \$ 0.29 | \$ 0.25 | \$ 0.85 | \$ 0.84 |
| Less: Amortization of Goodwill, net of taxes | (0.02) | | (0.04) | |
| Adjusted diluted earnings per share | \$ 0.27 | \$ 0.25 | \$ 0.81 | \$ 0.84 |

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Financial Data Summary. The following table provides certain selected financial data as of and for the three and nine month periods ended September 30, 2002 and 2001 (unaudited).

| (Unaudited in thousands, except per share data) | Quarter Ended | | Year-to-Date | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2002 | Sept. 30, 2001 | Sept. 30, 2002 | Sept. 30, 2001 |
| Interest Income (not taxable equivalent) | \$ 27,164 | \$ 29,902 | \$ 82,225 | \$ 84,646 |
| Interest Expense | 4,021 | 6,427 | 12,978 | 20,516 |
| Net Interest Income | 23,143 | 23,475 | 69,247 | 64,130 |
| Provision for Loan Losses | | 3,200 | 600 | 3,800 |
| Net Interest Income after provision for loan losses | 23,143 | 20,275 | 68,647 | 60,330 |
| Non-interest income | 6,175 | 5,185 | 17,902 | 15,779 |
| Non-interest expense operating | 18,267 | 16,548 | 53,484 | 47,896 |
| Income before income taxes | 11,051 | 8,912 | 33,065 | 28,213 |
| Provision for income taxes | 3,965 | 3,317 | 11,925 | 9,294 |
| Net Income | \$ 7,086 | \$ 5,595 | \$ 21,140 | \$ 18,919 |
| Per share: | | | | |
| Net Income basic | \$ 0.30 | \$ 0.26 | \$ 0.88 | \$ 0.86 |
| Net Income diluted | \$ 0.29 | \$ 0.25 | \$ 0.85 | \$ 0.84 |
| Weighted average shares used in Basic E.P.S. | 23,924 | 21,827 | 24,026 | 21,894 |
| Weighted average shares used in Diluted E.P.S. | 24,815 | 22,426 | 24,860 | 22,414 |
| Cash dividends | \$ 0.10 | \$ 0.09 | \$ 0.30 | \$ 0.27 |
| Book value at period-end | | | \$ 10.57 | \$ 9.66 |
| Tangible Book value at period-end | | | \$ 8.79 | \$ 7.91 |
| Ending Shares | | | 23,839 | 24,197 |
| Financial Ratios | | | | |
| Return on assets | 1.47% | 1.44% | 1.51% | 1.71% |
| Return on tangible assets | 1.50% | 1.44% | 1.54% | 1.71% |
| Return on equity | 11.31% | 11.70% | 11.69% | 13.64% |
| Return on tangible equity | 13.63% | 11.84% | 14.18% | 13.78% |
| Net interest margin (not taxable equivalent) | 5.28% | 6.48% | 5.43% | 6.26% |
| Net interest margin (taxable equivalent yield) | 5.61% | 6.77% | 5.74% | 6.57% |
| Net loan losses to avg. loans | 0.62% | 0.80% | 0.25% | 0.28% |
| Efficiency ratio | 62.3% | 57.7% | 61.4% | 59.9% |
| Period Averages | | | | |
| Total Assets | \$ 1,914,466 | \$ 1,542,430 | \$ 1,877,434 | \$ 1,477,056 |
| Total Tangible Assets | 1,872,173 | 1,540,171 | 1,834,976 | 1,475,133 |
| Total Loans & Leases | 1,081,936 | 974,885 | 1,112,715 | 951,568 |
| Total Earning Assets | 1,739,554 | 1,438,098 | 1,705,685 | 1,370,051 |
| Total Deposits | 1,641,953 | 1,330,620 | 1,610,677 | 1,273,122 |
| Common Equity | 248,608 | 189,679 | 241,725 | 185,448 |
| Common Tangible Equity | 206,315 | 187,420 | 199,267 | 183,525 |

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(unaudited in thousands)

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| | Sept. 30, 2002 | Sept. 30, 2001 |
|---|---------------------|---------------------|
| Balance Sheet At Period-End | | |
| Cash and due from banks | \$ 110,454 | \$ 95,742 |
| Investments and Fed Funds Sold | 637,124 | 513,492 |
| Loans, net of deferred fees, before allowance for loan losses | 1,109,944 | 1,176,486 |
| Allowance for Loan Losses | (17,465) | (18,238) |
| Goodwill and Other Intangibles | 42,254 | 42,277 |
| Other assets | 45,711 | 53,932 |
| Total Assets | \$ 1,928,022 | \$ 1,863,691 |
| Non-interest bearing deposits | \$ 391,350 | \$ 359,628 |
| Interest bearing deposits | 1,247,987 | 1,230,109 |
| Other borrowings | 11,573 | 14,238 |
| Allowance for losses unfunded commitments | 1,687 | 2,297 |
| Other liabilities | 23,515 | 23,677 |
| Shareholders' equity | 251,910 | 233,742 |
| Total Liabilities and Shareholders' equity | \$ 1,928,022 | \$ 1,863,691 |
| Asset Quality & Capital At Period-End | | |
| Non-accrual loans | \$ 10,729 | \$ 6,845 |
| Loans past due 90 days or more | 4 | 243 |
| Other real estate owned | | |
| Total non-performing assets | \$ 10,733 | \$ 7,088 |
| Loan loss allowance to loans, gross (1) | 1.7% | 1.7% |
| Non-accrual loans to total loans, gross | 1.0% | 0.6% |
| Non-performing assets to total assets | 0.6% | 0.4% |
| Allowance for loan losses to non-performing loans (1) | 178.4% | 289.7% |
| Equity to average assets (leverage ratio) | 10.5% | 12.2% |
| Tier One capital to risk-adjusted assets | 14.5% | 13.2% |
| Total capital to risk-adjusted assets | 15.7% | 14.4% |

(1)

Includes allowance for loan losses and allowance for losses unfunded commitments

Performance Summary. The Company posted net income of \$7.1 million for the three months ended September 30, 2002, compared to \$5.6 million earned in the like 2001 period. Diluted earnings per share were \$0.29 in the third quarter of 2002 compared to \$0.25 in the like period one year earlier. These earnings represent an annualized return on assets of 1.47% and 1.44%, respectively, for the comparable 2002 and 2001 periods. The annualized return on equity was 11.31% for the third quarter of 2002 compared to 11.70% in the third quarter of 2001.

For the nine months year-to-date, the Company posted net income of \$21.1 million compared to \$18.9 million earned in the like 2001 period. Diluted earnings per share were \$0.85 compared to \$0.84 in the like period one year earlier. The annualized return on assets for the first nine months is 1.51% and 1.71%, respectively, for the comparable 2002 and 2001 periods. The annualized return on equity was 11.69% for the nine months year-to-date in 2002 compared to 13.64% in 2001. When adjusted for the additional goodwill and other intangibles outstanding as a result of the Company's merger with Americorp and its wholly owned subsidiary, American Commercial Bank of Ventura (collectively "Americorp"), return on tangible equity was 14.18% for the first nine months of 2002 compared to 13.78% in the like 2001 period.

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Net Interest Income. The following tables delineate the impacts of changes in the volume of earning assets, changes in the volume of interest bearing liabilities, and changes in interest rates on net interest income for both the nine month and three month periods ended September 30, 2002 and 2001.

| dollars in 000's | 9 Months 2002 | | | 9 Months 2001 | | | 2002 Compared to 2001 Composition of Change | | |
|---|--------------------|--------------------------------|----------------------------|--------------------|--------------------------------|----------------------------|--|-----------------|-----------------|
| | Average Balance | Interest Income/ Expense | Average Yield / Rate | Average Balance | Interest Income/ Expense | Average Yield / Rate | Change Due To: | | |
| | | | | | | | Volume | Rate | Total Change |
| EARNING ASSETS: | | | | | | | | | |
| Loans | 1,112,715 | 64,307 | 7.73% | 951,568 | 68,482 | 9.62% | 13,979 | (18,154) | (4,175) |
| Investment Securities | 507,699 | 16,905 | 4.45% | 366,006 | 14,624 | 5.34% | 6,939 | (4,658) | 2,281 |
| Fed Funds, Other | 85,271 | 1,013 | 1.59% | 52,477 | 1,540 | 3.92% | 904 | (1,431) | (527) |
| TOTAL EARNING ASSETS | 1,705,685 | 82,225 | 6.45% | 1,370,051 | 84,646 | 8.26% | 21,822 | (24,243) | (2,421) |
| INTEREST BEARING LIABILITIES: | | | | | | | | | |
| NOW, Savings, and Money | | | | | | | | | |
| Market Accounts | 1,189,962 | 3,867 | 0.43% | 635,484 | 6,327 | 1.33% | 4,895 | (7,355) | (2,460) |
| Time Deposits | 424,193 | 8,948 | 2.82% | 375,678 | 13,998 | 4.98% | 1,893 | (6,943) | (5,050) |
| Interest Bearing Deposits | 1,614,155 | 12,815 | 1.06% | 1,011,162 | 20,325 | 2.69% | 6,788 | (14,298) | (7,510) |
| Other Borrowings | 8,086 | 163 | 2.70% | 5,808 | 191 | 4.40% | 81 | (109) | (28) |
| TOTAL INTEREST BEARING LIABILITIES | 1,622,241 | 12,978 | 1.07% | 1,016,970 | 20,516 | 2.70% | 6,869 | (14,407) | (7,538) |
| NET INTEREST INCOME | 1,705,685 | 69,247 | 5.43% | 1,370,051 | 64,130 | 6.26% | 14,953 | (9,836) | 5,117 |

| dollars in 000's | 3 Months 2002 | | | 3 Months 2001 | | | 2002 Compared to 2001 Composition of Change | | |
|---|--------------------|--------------------------------|----------------------------|--------------------|--------------------------------|----------------------------|--|-----------------|-----------------|
| | Average Balance | Interest Income/ Expense | Average Yield / Rate | Average Balance | Interest Income/ Expense | Average Yield / Rate | Change Due To: | | |
| | | | | | | | Volume | Rate | Total Change |
| EARNING ASSETS: | | | | | | | | | |
| Loans | 1,081,936 | 20,771 | 7.62% | 974,885 | 24,279 | 9.88% | 9,365 | (12,873) | (3,508) |
| Investment Securities | 573,403 | 6,050 | 4.19% | 379,529 | 4,903 | 5.13% | 9,026 | (7,879) | 1,147 |
| Fed Funds, Other | 84,215 | 343 | 1.62% | 83,684 | 720 | 3.41% | 13 | (390) | (377) |
| TOTAL EARNING ASSETS | 1,739,554 | 27,164 | 6.09% | 1,438,098 | 29,902 | 8.26% | 18,404 | (21,142) | (2,738) |
| INTEREST BEARING LIABILITIES: | | | | | | | | | |
| NOW, Savings, and Money | | | | | | | | | |
| Market Accounts | 840,885 | 1,364 | 0.64% | 669,995 | 2,043 | 1.21% | 1,584 | (2,263) | (679) |
| Time Deposits | 410,557 | 2,601 | 2.51% | 383,139 | 4,313 | 4.47% | 957 | (2,669) | (1,712) |
| Interest Bearing Deposits | 1,251,442 | 3,965 | 1.26% | 1,053,134 | 6,356 | 2.39% | 2,541 | (4,932) | (2,391) |
| Other Borrowings | 8,035 | 56 | 2.77% | 7,542 | 71 | 3.73% | 16 | (31) | (15) |
| TOTAL INTEREST BEARING LIABILITIES | 1,259,477 | 4,021 | 1.27% | 1,060,676 | 6,427 | 2.40% | 2,557 | (4,963) | (2,406) |

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| | 3 Months 2002 | | | 3 Months 2001 | | | 2002 Compared to 2001 Composition of Change | | |
|---------------------|------------------|--------|-------|------------------|--------|-------|--|----------|-------|
| NET INTEREST INCOME | 1,739,554 | 23,143 | 5.28% | 1,438,098 | 23,475 | 6.48% | 15,847 | (16,179) | (332) |

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Mid-State's annualized yield on interest earning assets was 6.45% for the first nine months of 2002 (6.76% on a taxable equivalent basis) and 6.20% (6.53% on a taxable equivalent basis) for the third quarter of 2002. This compares to 8.26% in the nine month 2001 period (8.57% on a taxable equivalent basis) and 8.25% in the third quarter of 2001 (8.54% on a taxable equivalent basis). The decrease in yield is related to the general decline in interest rates. The Prime Rate, to which many of the Bank's loans are tied, was steady at 4.75% in the first nine months of 2002 compared to an average of 7.50% in the 2001 period. The decrease in yield was magnified by virtue of the \$2.8 million recovery of interest on loans previously charged-off which was realized in the third quarter of 2001 and was of a non-recurring nature. Annualized interest expense as a percent of earning assets has also declined from the prior year. In the first nine months of 2001, annualized interest expense represented 2.00% of earning assets compared to 1.02% in this year's first nine month period. Similarly, the annualized interest expense in the third quarter of this year was 0.92% compared to 1.77% in the like quarter of 2001. The following table delineates the components of net interest income, both as reported and as adjusted for the non-recurring recovery, covering the three month and nine month periods of 2002 and 2001 on a taxable equivalent and non taxable equivalent basis.

Not Taxable Equivalent

| | Q3-2002 | As Reported Q3-2001 | As Adjusted* Q3-2001 | 9 Mos '02 | As Reported 9 Mos '01 | As Adjusted* 9 Mos '01 |
|---------------------|---------|---------------------------|----------------------------|-----------|-----------------------------|------------------------------|
| Interest Income | 6.20% | 8.25% | 7.48% | 6.45% | 8.26% | 7.99% |
| Interest Expense | 0.92% | 1.77% | 1.77% | 1.02% | 2.00% | 2.00% |
| Net Interest Income | 5.28% | 6.48% | 5.71% | 5.43% | 6.26% | 5.99% |

Taxable Equivalent Basis

| | Q3-2002 | As Reported Q3-2001 | As Adjusted* Q3-2001 | 9 Mos '02 | As Reported 9 Mos '01 | As Adjusted* 9 Mos '01 |
|---------------------|---------|---------------------------|----------------------------|--------------|-----------------------------|------------------------------|
| Interest Income | 6.53% | 8.54% | 7.76% | 6.76% | 8.57% | 8.30% |
| Interest Expense | 0.92% | 1.77% | 1.77% | 1.02% | 2.00% | 2.00% |
| Net Interest Income | 5.61% | 6.77% | 5.99% | 5.74% | 6.57% | 6.30% |

*

Excludes the non-recurring recovery of \$2.8 million of interest income on loans previously charged-off and recovered in the third quarter of 2001.

Overall, Mid-State's annualized net interest income, when adjusted for the non-recurring recovery and expressed as a percent of earning assets, decreased from 5.99% for the nine month period of 2001 (6.30% on a taxable equivalent basis) to 5.43% in the comparable 2002 period (5.74% on a taxable equivalent basis). For the third quarter of 2002 compared to the third quarter of 2001, net interest income when adjusted for the non-recurring recovery and expressed as a percent of earning assets, decreased from 5.71% (5.99% taxable equivalent) to 5.28% (5.61% taxable equivalent).

Average earning assets for the nine months ended September 30, 2002 increased from the like 2001 period (\$1,705.7 million compared to \$1,370.1 million). Average deposits in this same time-frame were up \$337.6 million (\$1,610.7 million compared to \$1,273.1 million). In comparing third quarter 2002 to third quarter 2001, average earning assets increased from \$1,438.1 million one year ago to \$1,739.6 million and average deposits increased \$311.4 million from \$1,330.6 million one year ago to \$1,642.0 million. The increases in average balances noted are to a large extent the result of the

Company's Americorp acquisition. That merger was effective near the very end of the third quarter on September 28, 2001 and as a result, the quarterly and 9 month year-to-date average balances in 2001 were not significantly influenced by the addition of the Americorp totals. However, in 2002, the averages fully reflect the addition of the Americorp totals.

Provision and Allowance for Loan Losses. The Bank made a provision to the allowance for loan losses of \$600 thousand in the first nine months of 2002. The Bank provided \$3.8 million in the comparable 2001 period. The effects of an economic slowdown in 2001 prompted management to re-evaluate the allowance for loan losses. Accordingly management recommended, and the Board of Directors authorized, an additional \$2.9 million provision for loan losses during the third quarter of that year. On a quarterly basis, management performs an analysis of the adequacy of the allowance for loan losses. The results of this analysis for the quarter ended September 30, 2002 determined that the allowance was adequate to cover losses inherent in the portfolio and therefore no additional provision for loan losses was recorded in the quarter.

During the first quarter of 2002, Management reclassified the portion of its allowance for loan losses related to unfunded commitments and letters of credit to allowance for losses unfunded commitments. This change was undertaken to be in conformity with accounting principles generally accepted in the United States. Both the allowance for loan losses and the allowance for losses unfunded commitments, are available to absorb inherent credit losses.

The \$19.2 million total allowance for credit losses is approximately 178% of the level of non performing assets which stand at \$10.7 million. This compares to one year earlier when the allowance for credit losses stood at \$20.5 million which was 290% of the \$7.1 million in non performing assets at that time. The decline in the ratio was thus a result of an increase in non performing assets coupled with a decrease in the level of the reserve relative to one year ago. Non performing assets consist of loans on non-accrual, accruing loans 90 days or more past due, and other real estate owned.

Management believes that the allowance, which stands at 1.7% of total loans at September 30, 2002, the same as the 1.7% level one year earlier, is adequate to cover inherent losses. While continuing efforts are made to improve overall asset quality, Management is unable to estimate with certainty how and under what terms, problem assets will be resolved.

Changes in the allowance for loan losses for the periods ended September 30, 2002 and 2001 are as follows (in thousands):

| | 3 Months Ended Sept. 30, | | 9 Months Ended Sept. 30, | |
|---|--------------------------|-----------|--------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 |
| Allowance for loan losses at beginning of period | \$ 19,160 | \$ 12,245 | \$ 20,659 | \$ 13,280 |
| Provision for loan losses | | 3,200 | 600 | 3,800 |
| Reclassification of allowance for losses unfunded commitments | | (703) | (1,687) | (2,297) |
| Loans charged off | (1,882) | (2,124) | (2,669) | (2,548) |
| Recoveries of loans previously charged-off | 187 | 156 | 562 | 539 |
| Acquisition of allowance for loan losses Americorp | | 5,464 | | 5,464 |
| Allowance for loan losses | \$ 17,465 | \$ 18,238 | \$ 17,465 | \$ 18,238 |

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| | <u>3 Months Ended Sept. 30,</u> | | <u>9 Months Ended Sept. 30,</u> | |
|--|---------------------------------|-----------|---------------------------------|-----------|
| at end of period | | | | |
| Allowance for losses unfunded commitments | 1,687 | 2,297 | 1,687 | 2,297 |
| Balance at end of period | \$ 19,152 | \$ 20,535 | \$ 19,152 | \$ 20,535 |

At September 30, 2002, the recorded investment in loans, which have been identified as impaired, totaled \$11,843,000. Of this amount, \$9,814,000 related to loans with no valuation allowance and \$2,029,000 related to loans with a corresponding valuation allowance of \$431,000. Impaired loans totaled \$7,568,000 at September 30, 2001. Of that amount, \$4,531,000 related to loans with no valuation allowance and \$3,036,000 related to loans with a corresponding valuation allowance of \$1,204,000. The valuation allowance for impaired loans is included within the general allowance shown above and netted against loans on the consolidated statements of financial position. For the quarter ended September 30, 2002, the average recorded investment in impaired loans was \$12,959,000, compared to \$8,224,000 in the 2001 period. A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Because this definition is very similar to that used by bank regulators to determine on which loans interest should not be accrued, the Bank expects that most impaired loans will be on non-accrual status.

Non-interest Income. Non-interest income for the first nine months of 2002 was \$17.9 million, up from \$15.8 million earned in the same 2001 period, an increase of 13.3%. The increase was primarily related to improved service charge income of \$766 thousand over the comparable periods, a \$408 thousand increase in ATM and debit card fee income, and a \$390 thousand increase in merchant mastercard fee income. The same categories accounted for the overall increase in non-interest income from \$5.2 million in the third quarter of 2001 to \$6.2 million in the third quarter of 2002.

Much of these increases in non-interest income are related to the activity generated by the customers of the former American Commercial Bank in Ventura. That acquisition was completed on September 28, 2001, therefore the Company's income statement for the nine month period ended September 30, 2002 reflected the benefit of Americorp's customers which was, except for two days, not

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reflected in the comparable period in 2001. Americorp's non interest income was approximately 12% of Mid-State's levels prior to the completion of the merger.

Non-interest Expense. Non-interest expense for the first nine months of 2002 totaled \$53.5 million compared to \$47.9 million in the like 2001 period. This increase was primarily the result of increases in salaries and benefits of approximately \$2.6 million and an increase in occupancy expense of \$1.7 million as a result of the Americorp merger. In addition, the increase was caused by an increase in merchant mastercard processing charges of \$1.0 million and an increase in amortization of core deposit intangibles (due to the amortization of the core deposit intangible created in the merger with Americorp) of \$804 thousand. All other categories of expense showed a net \$516 thousand decrease.

For the three months ended September 30, 2002 non-interest expense totaled \$18.3 million compared to \$16.5 million in the 2001 quarter. This increase was primarily the result of increases in occupancy expense of \$686 thousand and an increase in salaries and benefits of \$534 thousand. All other categories of expense showed a net \$499 thousand increase.

Provision for Income Taxes. The year-to-date provision for income taxes was \$11.9 million, compared to \$9.3 million for the same period in 2001. The effective tax rate in 2002 was 36.1% compared to 32.9% in 2001. The effective tax rate for the first nine months of 2001 is lower than the current year's effective tax rate due to the Company benefiting from the State of California's new Natural Heritage Tax Credit and certain attendant deductions.

For the three months ended September 30, 2002 the provision for income taxes was \$4.0 million, compared to \$3.3 million for the same 2001 time frame. The effective tax rate in 2002 was 35.9% compared to 37.2% in 2001. While the statutory combined federal and state statutory tax rate is 42% for Mid-State Bancshares, the tax exempt income generated by its municipal bond portfolio is the primary reason that the effective rate is usually lower.

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Balance Sheet. Total assets at September 30, 2002 totaled \$1,928.0 million, up 3.5% from the level one year earlier of \$1,863.7 million. This growth was fueled primarily by an increase in deposits of 3.1% to \$1.639 billion, up from \$1.590 billion one year earlier. The growth in deposits was centered in core deposits. While Time Deposits decreased from \$464.6 million one year earlier to \$405.2 million at period end, all other core deposit categories of Demand, NOW, Money Market and Savings increased to \$1.234 billion from \$1.125 billion one year earlier. In an ongoing effort to improve earnings, the Company continues to focus its attention on attracting lower cost core deposits and has consciously chosen not to pay the higher rates on certain more expensive Time Deposits. Loan activity over the last year has been slow with loans declining by \$66.5 million from \$1.176 billion to \$1.110 billion at period-end. Other liabilities decreased from \$40.2 million at September 30, 2001 to \$36.8 million at September 30, 2002. Other borrowings contributed \$2.7 million of this decrease. Stockholders' equity increased by \$18.2 million when comparing September, 2002 over September, 2001.

Mid-State Bank's loan to deposit ratio of 67.7% at September 30, 2002 is down from the 74.0% ratio one year earlier. A continued decline in this ratio could result in lower net interest income in future periods. There is ample internal liquidity to fund improvements in this ratio through Mid-State's investment portfolio which is categorized as available for sale.

Investment Securities and Fed Funds Sold. Of the \$637.1 million portfolio at September 30, 2002, 1% is invested in overnight fed funds sold, 4% is invested in U.S. Treasury securities, 41% is invested in U.S. Government agency obligations, 50% is invested in securities issued by states and political subdivisions in the U.S. and 4% is invested in mortgage-backed securities and other securities. 68% of all investment securities and fed funds sold combined mature within five years. Approximately 25% of investment securities and fed funds sold combined mature in less than one year. The Bank's investment in mortgage-backed securities consist of investments in FNMA, FHLMC and other pass-thru pools

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which have contractual maturities of up to 30 years. The actual time of repayment will be shorter due to prepayments made on the underlying collateral.

Capital Resources. The Company announced on May 1, 2002 that it had authorized a stock repurchase program for up to five percent (5%) of its outstanding shares. Based on the then outstanding shares, the buyback may result in the purchase of up to approximately 1,203,580 shares. These repurchases will be made from time to time by the Company in the open market or in block purchases or in privately negotiated transactions in compliance with the Securities and Exchange Commission rules. The program began in early May 2002 and is expected by Management to be effective for one year. Through September 30, 2002, the Company has purchased 240,296 shares under the new repurchase program. The Company's previous stock repurchase program began in April 2000 and saw the repurchase of 1,130,000 shares of stock. The new authorization allowed the Company to continue its buy-back program uninterrupted. During 2002 the Company repurchased a total of 99,938 shares in the first half of the year and an additional 215,120 shares in the third quarter for a total of 315,058 shares in the first nine months of 2002. In the comparable 2001 period, the Company repurchased 186,612 shares in the first half of the year and 126,944 shares in the third quarter for a total of 313,556 shares repurchased for the nine month period.

Total stockholders' equity increased from \$233.7 million at September 30, 2001 to \$251.9 million at September 30, 2002. Changes in stockholders' equity over this 12 month period includes activity outlined in the following table:

| | Common Stock & Surplus | Undivided Profits | Accumulated Comprehensive Income | Total Equity |
|--|---------------------------|----------------------|--|-----------------|
| Ending Equity at September 30, 2001 | \$ 87,346 | \$ 137,184 | \$ 9,212 | \$ 233,742 |
| Net Income | | 8,483 | | 8,483 |
| Common Stock Repurchased and Retired | (2,809) | | | (2,809) |
| Stock Options Exercised | 335 | | | 335 |
| Dividends Declared | | (2,410) | | (2,410) |
| Change in Accumulated Other Comprehensive Income | | | (2,790) | (2,790) |

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| | Common Stock & Surplus | Undivided Profits | Accumulated Comprehensive Income | Total Equity |
|--|---------------------------|----------------------|--|-------------------|
| Ending Equity at December 31, 2001 | 84,872 | 143,257 | 6,422 | 234,551 |
| Net Income | | 21,140 | | 21,140 |
| Common Stock Repurchased and Retired | (5,566) | | | (5,566) |
| Stock Options Exercised | 792 | | | 792 |
| Dividends Declared | | (7,197) | | (7,197) |
| Change in Accumulated Other Comprehensive Income | | | 8,190 | 8,190 |
| Ending Equity at September 30, 2002 | \$ 80,098 | \$ 157,200 | \$ 14,612 | \$ 251,910 |

Liquidity. The focus of the Company's liquidity management is to ensure its ability to meet cash requirements. Sources of liquidity include cash, due from bank balances (net of Federal Reserve requirements to maintain reserves against deposit liabilities), fed funds sold, investment securities (net of pledging requirements), loan repayments, deposits and fed funds borrowing lines. Typical demands on liquidity are deposit run-off from demand deposits and savings accounts, maturing time deposits, which are not renewed, and anticipated funding under credit commitments to customers.

The Bank has adequate liquidity at the present time. Its loan to deposit ratio at September 30, 2002 was 67.7% versus 74.0% one year earlier. The Bank's internally calculated liquidity ratio stands at 40.6% at September 30, 2002, which is above its minimum policy of 15% and above the 33.3% level as

of September 30, 2001. This ratio is calculated by combining cash, fed funds sold, and securities, less securities pledged, divided by total liabilities. Management is not aware of any future capital expenditures or other significant demands or commitments which would severely impair liquidity.

Off Balance Sheet Transactions. The Company is contingently liable for letter of credit accommodations made to its customers in the ordinary course of business totaling \$35.7 million at September 30, 2002, up from \$30.9 million one year earlier. Additionally, the Company has undisbursed loan commitments, also made in the ordinary course of business, totaling \$556.5 million at September 30, 2002, which is up from the \$461.6 million outstanding one year earlier.

There are no Special Purpose Entity ("SPE") trusts, corporations, or other legal entities established by Mid-State which reside off-balance sheet. There are no other off-balance sheet items other than the aforementioned items related to letter of credit accommodations and undisbursed loan commitments.

Critical Accounting Policies and Estimates This "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as, disclosures included elsewhere in this Form 10-Q, are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingencies. A summary of the more significant accounting policies of the Company can be found in Footnote One to the financial statements which is included in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Additionally, because it involves some of the more significant judgments and estimates used in preparation of the consolidated financial statements, the reader's attention is directed to the earlier section on page 14 addressing the allowance for loan losses.

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Important Factors Relating to Forward-Looking Statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. All of the statements contained in this Quarterly Report on Form 10-Q which are not identified as historical should be considered forward-looking. In connection with certain forward-looking statements contained in this Quarterly Report on Form 10-Q and those that may be made in the future by or on behalf of the Company which are identified as forward-looking, the Company notes that there are various factors that could cause actual results to differ materially from those set forth in any such forward-looking statements. Such factors include, but are not limited to, the real estate market, the availability of loans at acceptable prices, the general level of economic activity both locally and nationally, interest rates, the actions by the Company's regulatory agencies, and actions by competitors of the Company. Additional information on these and other factors that could affect financial results are included in the Company's Securities and Exchange Commission filings. The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments. There can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-Q will be realized or that actual results will not be significantly higher or lower. The forward-looking statements have not been audited by, examined by or subjected to agreed-upon procedures by independent accountants, and no third-party has independently verified or reviewed such statements. Readers of this Quarterly Report on Form 10-Q should consider these facts in evaluating the information contained herein. The inclusion of the forward-looking statements contained in this Quarterly Report on Form 10-Q should not be regarded as a representation by the Company or any other person that the forward-looking statements contained in this Quarterly Report on Form 10-Q will

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be achieved. In light of the foregoing, readers of this Quarterly Report on Form 10-Q are cautioned not to place undue reliance on the forward-looking statements contained herein.

Item 3 Quantitative and Qualitative Disclosure About Market Risk

The Bank's risk exposure to changes in interest rates is not expected to be significant. A recent review of the potential changes in the Bank's net interest income over a 12 month time horizon showed that it could fluctuate under very extreme alternative interest rate assumptions, which are set at the discretion of Management, from between +6.6% and -11.8% of the base case (rates unchanged). The Bank's policy is to maintain a structure of assets and liabilities which are such that net interest income will not vary more than plus or minus 15% of the base forecast over the next 12 months. Management feels that its exposure to interest rate risk is manageable and it will continue to strive for an optimal trade-off between risk and earnings.

The following table presents a summary of the Bank's net interest income forecasted for the coming 12 months under alternative interest rate scenarios.

| | Change From Base |
|--|---------------------------------|
| Rates Down Very Significant (Prime down to 2.00% within 8 months) | -11.8% |
| Rates Down Significant (Prime down to 2.75% within 10 months) | -5.7% |
| Rates Down Modestly (Prime down to 3.75% within 10 months) | -3.0% |
| Base Case Rates Unchanged (Prime unchanged at 4.75% over 12 months) | |
| Rates Up Modestly (Prime up to 5.75% within 10 months) | +2.2% |
| Rates Up Aggressive (Prime up to 6.75% within 10 months) | +3.6% |

**Change
From
Base**

Rates Up Very Aggressive
(Prime up to 8.75% over 12 months)

+6.6%

Net interest income under the above scenarios is influenced by the characteristics of the Bank's assets and liabilities. In the case of N.O.W., savings and money market deposits (total \$842.8 million) interest is based on rates set at the discretion of Management ranging from 0.25% to 1.04%. In a downward rate environment, there is a limit to how far these deposit instruments can be re-priced and this behavior is similar to that of fixed rate instruments. In an upward rate environment, the magnitude and timing of changes in rates on these deposits is assumed to be more reflective of variable rate instruments. These characteristics are the main reasons that a 2.75% decline in Prime decreases net interest income by 11.8% while a 4% increase in Prime increases net interest income 6.6%.

It is important to note that the above table is a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of Management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to competitors' behavior, economic conditions both locally and nationally, actions taken by the Federal Reserve Board, customer behavior, and Management's responses. Historically, the Bank has been able to manage its Net Interest Income in a fairly narrow range reflecting the Bank's relative insensitivity to interest rate changes. The impact of prepayment behavior on mortgages, real estate loans, mortgage backed securities, securities with call features, etc. is not considered material to the sensitivity analysis. Over the last 5 years, and excluding the first nine months of 2002, the Bank's net interest margin (which is net interest income divided by average earning assets of the Bank) has ranged from a low of 5.77% to a high of 6.44% (not taxable equivalent). The Bank's net interest

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margin in the third quarter of 2002 of 5.28% is certainly below average by these historical standards. Based on the scenarios above, the net interest margin under the alternative scenarios ranges from 4.54% to 5.50%. Management feels this range of scenarios is appropriate in view of recent performance, but no assurances can be given that actual experience will fall within this range.

The Bank's exposure with respect to interest rate derivatives, exchange rate fluctuations, and/or commodity price movements is nil. The Bank does not own any instruments within these markets.

Item 4 Controls and Procedures

(a) Evaluation of disclosure controls and procedures:

Within the 90 days prior to the date of this report, 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 and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission Filings.

(b) Changes in internal controls:

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

(c) Asset-Backed issuers:
Not applicable.

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PART II OTHER INFORMATION

Item 1 Legal Proceedings

Mid-State is not a party to any material legal proceeding.

Item 2 Changes in Securities and Use of Proceeds

There were no material changes in securities and uses of proceeds during the period covered by this report.

Item 3 Defaults Upon Senior Securities

Not applicable.

Item 4 Submission of Matters to a Vote of Security Holders

No matters were submitted to the Shareholders for a vote during the third quarter of 2002.

Item 5 Other Information

On October 31, 2002, the Company lost its Vice Chairman of the Board of Directors as a result of the death of Mr. A.J. Diani.

Item 6 Exhibits and Reports on Form 8-K

- A)
Exhibits

| Exhibit No. | Exhibit |
|--------------------|----------------|
| 99.1 | Certification |

- B)
Reports on Form 8-K

During the third quarter of 2002, the Company filed one report under Item 4 of Form 8-K. That report, filed on July 15, 2002 reported that on July 12, 2002, the Company announced that it has appointed PricewaterhouseCoopers LLP as the Company's independent accounting firm to replace Arthur Andersen LLP. It further noted that during the years ended December 31, 2001 and 2000, and the interim period between December 31, 2001 and June 30, 2002, the Company did not consult with PricewaterhouseCoopers LLP regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

SIGNATURES

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

MID-STATE BANCSHARES
(registrant)

Date: November 6, 2002

By: /s/ JAMES W. LOKEY

JAMES W. LOKEY
President
Chief Executive Officer

Date: November 6, 2002

By: /s/ JAMES G. STATHOS

JAMES G. STATHOS
Executive Vice President
Chief Financial Officer

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CERTIFICATIONS

I, James W. Lokey, President and Chief Executive Officer of Mid-State Bancshares, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mid-State Bancshares;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

By: /s/ JAMES W. LOKEY

JAMES W. LOKEY
President
Chief Executive Officer

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CERTIFICATIONS

I, James G. Stathos, Executive Vice President and Chief Financial Officer of Mid-State Bancshares, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Mid-State Bancshares;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a)

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designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.

The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

By: /s/ JAMES G. STATHOS

JAMES G. STATHOS
Executive Vice President
Chief Financial Officer

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Mid-State Bancshares Consolidated Statements of Income (Unaudited figures in 000's except earnings per share data)

Mid-State Bancshares Consolidated Statements of Comprehensive Income (Unaudited figures in 000's)

Mid-State Bancshares Consolidated Statements of Cash Flows (Unaudited figures in 000's)

Mid-State Bancshares Notes to Consolidated Financial Statements (Information with respect to interim periods is unaudited)

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