MONTEREY BAY BANCORP INC
Form 10-Q
November 12, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

[ ] 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: 0-24802

MONTEREY BAY BANCORP, INC.
(Exact Name Of Registrant As Specified In Its Charter)

DELAWARE	77-0381362
(State Or Other Jurisdiction Of Incorporation Or Organization)	(I.R.S. Employer Identification Number)

567 Auto Center Drive, Watsonville, California 95076
(Address Of Principal Executive Offices)(Zip Code)

(831) 768 - 4800
(Registrant's Telephone Number, Including Area Code)

(831) 722 - 6794
(Registrant's Facsimile Number, Including Area Code)

WWW.MONTEREYBAYBANK.COM
(Registrant's Internet Site)

INFO@MONTEREYBAYBANK.COM
(Registrant's Electronic Mail Address)

Indicate by check mark whether the registrant (1) has filed all the 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 _X_ NO ___

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: 3,449,756 shares of common stock, par value $0.01 per share, were outstanding as of November 11, 2002.

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

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Item 1. Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
SEPTEMBER 30, 2002 AND DECEMBER 31, 2001
(Dollars In Thousands)

	September 30, 2002
ASSETS	
Cash and cash equivalents	$ 9,513
Securities available for sale, at estimated fair value:	
Investment securities (amortized cost of $7,716 and $7,707 at September 30, 2002 and December 31, 2001, respectively)	7,060
Mortgage backed securities (amortized cost of $42,721 and $30,358 at September 30, 2002 and December 31, 2001, respectively)	43,000
Loans held for sale, at lower of cost or market	170
Loans receivable held for investment (net of allowances for loan losses of $7,742 at September 30, 2002 and $6,665 at December 31, 2001)	496,006
Investment in capital stock of the Federal Home Loan Bank, at cost	3,347
Accrued interest receivable	3,024
Premises and equipment, net	7,278
Core deposit intangibles, net	1,003
Other assets	5,029
TOTAL ASSETS	$575,430

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED) (Continued)
SEPTEMBER 30, 2002 AND DECEMBER 31, 2001
(Dollars In Thousands)

	September 30, 2002

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES	
Non-interest bearing demand deposits	$ 24,898
Interest bearing NOW checking accounts	43,561
Savings deposits	18,703
Money market deposits	119,398
Certificates of deposit	255,118
Total deposits	461,678
Advances from the Federal Home Loan Bank and other borrowings	57,654
Accounts payable and other liabilities	1,328
Total liabilities	520,660
Commitments and contingencies	
STOCKHOLDERS' EQUITY	
Preferred stock, $0.01 par value, 2,000,000 shares authorized; none issued	--
Common stock, $0.01 par value, 9,000,000 shares authorized; 4,492,085 issued at September 30, 2002 and December 31, 2001; 3,480,756 outstanding at September 30, 2002 and 3,456,097 outstanding at December 31, 2001	45
Additional paid-in capital	29,108
Retained earnings, substantially restricted	40,493
Unallocated ESOP shares	(518)
Treasury shares designated for compensation plans, at cost (14,802 shares at September 30, 2002 and 17,969 shares at December 31, 2001)	(142)
Treasury stock, at cost (1,011,329 shares at September 30, 2002 and 1,035,988 shares at December 31, 2001)	(13,994)
Accumulated other comprehensive loss, net of taxes	(222)
Total stockholders' equity	54,770
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$575,430

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(Dollars In Thousands, Except Per Share Amounts)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR E
	2002	2001	200
INTEREST AND DIVIDEND INCOME:			
Loans receivable	$8,549	$9,084	$25,29
Mortgage backed securities	323	488	96
Investment securities and cash equivalents	107	186	36
Total interest and dividend income	8,979	9,758	26,62
INTEREST EXPENSE:			
Deposit accounts	2,578	4,032	8,08
Advances from the FHLB and other borrowings	606	711	1,83
Total interest expense	3,184	4,743	9,91
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	5,795	5,015	16,70
PROVISION FOR LOAN LOSSES	400	275	1,11
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,395	4,740	15,59
NON-INTEREST INCOME:			
Customer service charges	387	401	1,13
(Loss) gain on sale of mortgage backed securities	(8)	156	3
Commissions from sales of noninsured products	25	35	10
Gain on sale of loans	33	18	8
Income from loan servicing	18	33	4
Other income	35	47	11
Total non-interest income	490	690	1,50

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED) (Continued)
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(Dollars In Thousands, Except Per Share Amounts)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FO E
	2002	2001	2
NON-INTEREST EXPENSE:			
Compensation and employee benefits	1,960	1,739	5,
Occupancy and equipment	444	440	1,
Deposit insurance premiums	19	50	
Data processing fees	146	133	
Legal and accounting expenses	107	274	
Supplies, postage, telephone, and office expenses	158	158	
Advertising and promotion	52	86	
Amortization of intangible assets	170	170	
Consulting	16	31	
Other expense	370	505	1,
Total non-interest expense	3,442	3,586	10,
INCOME BEFORE PROVISION FOR INCOME TAXES	2,443	1,844	6,
PROVISION FOR INCOME TAXES	977	787	2,
NET INCOME	$1,466	$1,057	$ 4,
EARNINGS PER SHARE:			
BASIC EARNINGS PER SHARE	$ 0.43	$ 0.32	$ 1
DILUTED EARNINGS PER SHARE	$ 0.42	$ 0.31	$ 1

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2002
(Dollars And Shares In Thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unallocated ESOP Shares	Treasury Shares Designated For Compensation Plans	T
Balance at December 31, 2001	3,456	$ 45	$ 28,584	$ 36,473	$(690)	$ (173)	$
Purchase of treasury stock	(30)						
Exercise of stock options	47		153				
Director fees paid using treasury stock	8		61				
Amortization of stock compensation			310		172	31	
Comprehensive income:							
Net income				4,020			
Other comprehensive income (loss):							
Change in net unrealized loss on securities available for sale, net of taxes of $(91)							
Reclassification adjustment for gains on securities available for sale included in income, net of taxes of ($15)							
Other comprehensive income (loss), net							
Total comprehensive income							
Balance at September 30, 2002	3,481	$ 45	$ 29,108	$ 40,493	$(518)	$ (142)	$

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(Dollars In Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation and amortization of premises and equipment
Amortization of intangible assets
Amortization of purchase premiums, net of accretion of discounts
Amortization of deferred loan fees and costs, net
Provision for loan losses
Federal Home Loan Bank stock dividends
Gross ESOP expense before dividends received on unallocated shares
Compensation expense associated with stock compensation plans
Director retainer fees paid in stock
Gain on sale of mortgage backed securities
Gain on sale of loans held for sale
Loss (gain) on sale of fixed assets
Origination of loans held for sale
Proceeds from sales of loans held for sale
Increase in accrued interest receivable
Increase in other assets
Increase (decrease) in accounts payable and other liabilities
Other, net

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Net increase in loans held for investment
Purchases of investment securities available for sale
Proceeds from maturities of investment securities available for sale
Purchases of mortgage backed securities available for sale
Principal repayments on mortgage backed securities available for sale
Proceeds from sales of mortgage backed securities available for sale
Purchases of Federal Home Loan Bank stock
Proceeds from the sale of premises and equipment

Purchases of premises and equipment

Net cash used in investing activities

See Notes to Condensed Consolidated Financial Statements

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MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001
(Dollars In Thousands)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in deposits
Proceeds (repayments) of Federal Home Loan Bank advances, net
Proceeds of other borrowings, net
Purchases of treasury stock
Sales of treasury stock for exercise of stock options

Net cash provided by financing activities

NET DECREASE IN CASH & CASH EQUIVALENTS

CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD

CASH & CASH EQUIVALENTS AT END OF PERIOD

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Cash paid during the period for:
Interest on deposits and borrowings
Income taxes

SUPPLEMENTAL DISCLOSURES OF NON CASH
INVESTING AND FINANCING ACTIVITIES

Loan transferred to held for investment, at market value

See Notes to Condensed Consolidated Financial Statements

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1: Basis Of Presentation

The accompanying condensed consolidated unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of Management, all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation have been included. The results of operations for the three and nine month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Monterey Bay Bancorp, Inc. ("MBBC") is incorporated in the State of Delaware and is the holding company for Monterey Bay Bank ("Bank"). The Bank maintains a subsidiary, Portola Investment Corporation ("Portola"). These three companies are referred to herein on a consolidated basis as the "Company". The Company's headquarters are in Watsonville, California. The Company offers a broad range of financial services to both consumers and businesses. All significant inter-company transactions and balances have been eliminated.

Monterey Bay Bancorp, Inc. operates as a single business segment. Consequently, no segment information is provided in this Form 10-Q.

These unaudited condensed consolidated financial statements and the information under the heading "Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations" and the information under the heading "Item 3. Quantitative And Qualitative Disclosure About Market Risk" have been prepared with the presumption that users of this interim financial information have read, or have access to, the most recent audited consolidated financial statements and notes thereto of Monterey Bay Bancorp, Inc. for the fiscal year ended December 31, 2001 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

The preparation of the condensed consolidated financial statements of Monterey Bay Bancorp, Inc. and subsidiary requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported revenues and expenses for the periods covered. These estimates are based on information available as of the date of the financial statements. Therefore, actual results could significantly differ from those estimates.

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 2. Computation Of Earnings Per Share

All of the Company's net income has been available to common stockholders during the periods covered in this Form 10-Q.

Basic earnings per share ("EPS") are computed by dividing net income by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if options or other contracts to issue common stock were exercised and converted into common stock.

There was no difference in the numerator, net income, used in the calculation of basic earnings per share and diluted earnings per share. The denominator used in the calculation of basic earnings per share and diluted earnings per share for the three and nine month periods ended September 30, 2002 and 2001 is reconciled in the following table. The following table also presents the calculation of the Company's Basic EPS and Diluted EPS for the periods indicated.

(In Whole Dollars And Whole Shares)	For The Three Months Ended September 30,		
	2002	2001	
Net income	$1,466,000	$1,057,000	$4,0
Average shares issued	4,492,085	4,492,085	4,4
Less weighted average:			
Uncommitted ESOP shares	(85,352)	(121,289)	(
Non-vested stock award shares	(15,166)	(26,903)	(
Treasury shares	(1,007,045)	(1,050,040)	(1,0
Sub-total	(1,107,563)	(1,198,232)	(1,1
Weighted average BASIC shares outstanding	3,384,522	3,293,853	3,3
Add dilutive effect of:			
Stock options	123,253	90,591	1
Stock awards	1,343	1,112	

Sub-total	124,596	91,703	1
Weighted average DILUTED shares outstanding	3,509,118	3,385,556	3,4
Earnings per share:			
BASIC	$ 0.43	$ 0.32	$
DILUTED	$ 0.42	$ 0.31	$

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MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 3: Other Comprehensive Income

The Company's only current source of other comprehensive income is derived from unrealized gains and losses on the portfolios of investment and mortgage backed securities classified as available for sale.

Reclassification adjustments for realized net gains included in other comprehensive income for investment and mortgage backed securities classified as available for sale for the three and nine month periods ended September 30, 2002 and 2001 are summarized as follows:

	Three Months Ended September 30,		Nine Months
	2002	2001	20
(Dollars In Thousands)			
Gross reclassification adjustment	$ (8)	$ 156	$
Tax benefit (expense)	3	(64)	(
Reclassification adjustment, net of tax	$ (5)	$ 92	$

A reconciliation of the net unrealized gain or loss on available for sale securities recognized in other comprehensive income is as follows:

	Three Months Ended September 30,	
	2002	2001

(Dollars In Thousands)			
Holding (loss) gain arising during the period, net of tax	$ (208)	$ 208	$
Reclassification adjustment, net of tax	5	(92)	
Net unrealized (loss) gain recognized in other comprehensive income	$ (203)	$ 116	$

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 4: Stock Option Plans

The Company maintains the Amended 1995 Incentive Stock Option Plan and the 1995 Stock Option Plan For Outside Directors. Under these plans, stock options typically vest over a five year time period, although other vesting periods are permitted under the Amended 1995 Incentive Stock Option Plan and have been utilized by the Company in certain instances. All outstanding stock options under both of these plans vest upon a change in control of the Company. The following tables summarize the combined status of these plans:

Date	Stock Options Authorized	Stock Options Outstanding	Stock Options Cumulatively Vested And Outstanding	Stock Options Cumulatively Exercised	Av For
December 31, 2001	757,929	425,104	255,224	195,761	
March 31, 2002	757,929	390,999	238,390	225,566	
June 30, 2002	757,929	386,174	249,915	230,391	
September 30, 2002	757,929	371,866	238,182	242,724	

Activity during the three and nine months ended September 30, 2002 included:

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Granted	4,500	10,000
Canceled	6,475	16,275
Exercised	12,333	46,963
Vested	600	29,921

The exercise price of individual vested stock options ranged from a low of $8.19 per share to a high of $16.60 per share as of September 30, 2002.

MONTEREY BAY BANCORP, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 5: Stock Award Plan

The Company maintains the Performance Equity Program ("PEP") for officers and employees. Awards under the PEP typically vest over a five year time period, although in certain instances the Company has utilized unallocated or forfeited PEP shares for immediately vested stock grants in lieu of cash compensation. Awards under the PEP are both time-based and performance-based. All outstanding stock awards under the PEP vest in the event of a change in control of the Company. Compensation expense related to the PEP for the nine months ended September 30, 2002 and 2001 was $65 thousand and $110 thousand. The following table summarizes the status of this plan:

Date	Stock Awards Authorized	Stock Awards Outstanding And Not Vested	Stock Awards Cumulatively Vested	Stock Awards Available For Future Grants
December 31, 2001	141,677	17,969	123,708	--
March 31, 2002	141,677	16,486	125,191	--
June 30, 2002	141,677	15,436	126,241	--
September 30, 2002	141,677	14,802	126,875	--

Activity during the three and nine months ended September 30, 2002 included:

	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2002
Granted	450	450
Canceled	450	450
Vested	634	3,167

NOTE 6: Commitments & Contingencies

At September 30, 2002, commitments maintained by the Company included firm commitments to originate $25.9 million in various types of loans, a firm commitment to purchase a $1.0 million commercial real estate loan, and optional commitments to sell $3.6 million in fixed rate residential mortgages on a servicing released basis. The Company maintained no firm commitments to purchase securities, to assume borrowings, or to sell securities at September 30, 2002.

NOTE 7: Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

NOTE 8: Reclassifications

Certain amounts in the December 31, 2001 and September 30, 2001 financial statements have been reclassified to conform to the September 30, 2002 financial statement presentation.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Forward-looking Statements

Discussions of certain matters in this Report on Form 10-Q may constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions or future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which Monterey Bay Bancorp, Inc. operates, opportunities and expectations regarding technologies, anticipated performance or contributions from new and existing employees, projections of future performance, potential future credit experience, possible changes in laws and regulations, potential risks and benefits arising from the implementation of the Company's strategic and tactical plans, perceived opportunities in the market, potential actions of significant stockholders and investment banking firms, and statements regarding the Company's mission and vision. The Company's actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the demand for the Company's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the US Government, US Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies, consumer and business response to news events or economic trends, and other risks detailed in the Company's reports filed with the Securities and Exchange Commission ("SEC") from time to time, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2001. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Availability Of Information

This Report on Form 10-Q is available free of charge at the following Internet sites:

- www.sec.gov
- www.montereybaybank.com

Monterey Bay Bancorp, Inc. makes available free of charge through its Internet site its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities & Exchange Commission ("SEC").

Additional corporate information regarding Monterey Bay Bancorp, Inc. and Monterey Bay Bank is also available at the www.montereybaybank.com Internet site. This Internet site is not a part of this Report on Form 10-Q.

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General

Monterey Bay Bancorp, Inc. (referred to herein on an unconsolidated basis as "MBBC" and on a consolidated basis as the "Company") is a unitary savings and loan holding company incorporated in 1994 under the laws of the state of Delaware. MBBC currently maintains a single subsidiary company, Monterey Bay Bank (the "Bank"), a federally chartered savings & loan. MBBC was organized as the holding company for the Bank in connection with the Bank's conversion from the mutual to stock form of ownership in 1995.

At September 30, 2002, the Company had $575.4 million in total assets, $496.2 million in net loans receivable, and $461.7 million in total deposits. The Company is subject to regulation by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"). The principal executive offices of the Company and the Bank are located at 567 Auto Center Drive, Watsonville, California, 95076, telephone number (831) 768 - 4800, facsimile number (831) 722 - 6794. The Company may also be contacted via electronic mail at: INFO@MONTEREYBAYBANK.COM. The Bank is a member of the Federal Home Loan Bank of San Francisco ("FHLB") and its deposits are insured by the FDIC to the maximum extent permitted by law.

The Company conducts business from eight full service branch offices in its primary market area in Central California, one loan production office in Los Angeles, 11 automated teller machines ("ATM's") including two stand-alone ATM's, and its administrative facilities in Watsonville, California. In addition, the Company supports its customers through bilingual (English / Spanish) 24 hour telephone banking, Internet banking, electronic bill payment, remote deposit capability, bank by mail, and ATM access through an array of networks including STAR, CIRRUS, and PLUS. Through its network of banking offices, the Bank emphasizes personalized service in assisting individuals, families, community organizations, and businesses in attaining their financial objectives. The Bank offers a wide complement of lending and deposit products.

The Bank also supports its customers by functioning as a federal tax depository, selling and purchasing foreign banknotes, issuing debit cards, providing domestic and international collection services, and supplying various forms of electronic funds transfer. Through its wholly owned subsidiary, Portola Investment Corporation ("Portola"), the Bank provides, on an agency basis, mortgage, term, universal, and whole life insurance and a large selection of non-FDIC insured investment products including fixed and variable annuities, mutual funds, and individual securities.

The Company's revenues are primarily derived from interest on its loan and mortgage backed securities portfolios, interest and dividends on its investment securities, and fee income associated with the provision of various customer services. Interest paid on deposits and borrowings typically constitutes the Company's largest type of expense. The Company's primary sources of funds are deposits, principal and interest payments on its asset portfolios, and various sources of wholesale borrowings including FHLB advances and securities sold under agreements to repurchase. The Company's most significant operating expenditures are its staffing expenses and the costs associated with maintaining its branch network.

Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company's significant accounting policies are presented in Note 1 to the Consolidated Financial Statements contained in the Company's 2001 Annual Report on Form 10-K. The Company follows accounting policies typical to the community commercial banking industry and in compliance with various regulations and guidelines as established by the Financial Accounting Standards Board ("FASB") and the Bank's primary federal regulator, the OTS.

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The Company's most significant management accounting estimate is the appropriate level for the allowance for loan losses. The Company follows a methodology for calculating the appropriate level for the allowance for loan losses. However, various factors, many of which are beyond the control of the Company, could lead to significant revisions in the amount of allowance for loan losses in future periods, with a corresponding impact upon the results of operations. In addition, the calculation of the allowance for loan losses is by nature inexact, as the allowance represents Management's best estimate of the loan losses inherent in the Company's credit portfolios at the reporting date. These loan losses will occur in the future, and as such cannot be determined with absolute certainty at the reporting date. Please see also "Asset Quality / Credit Profile - Allowance For Loan Losses".

Other estimates that the Company utilizes in its accounting include the expected useful lives of depreciable assets, such as buildings, building improvements, equipment, and furniture. The useful lives of various technology related hardware and software can be subject to change due to advances in technology and the general adoption of new standards for technology or interfaces among computer or telecommunication systems.

The Company applies Accounting Principles Board ("APB") Opinion No. 25

and related interpretations in accounting for stock options. Under APB No. 25, compensation cost for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of grant over the amount the employee or director must pay to acquire the stock. Because the Company's stock option Plans provide for the issuance of options at a price of no less than the fair market value at the date of grant, no compensation cost is required to be recognized for the Plans.

Had compensation costs for the stock option Plans been determined based upon the fair value at the date of grant consistent with SFAS No. 123, "Accounting For Stock Based Compensation", the Company's net income and earnings per share would have been reduced. The amount of the reduction for the fiscal years 1999 through 2001 is disclosed in Note 18 to the Consolidated Financial Statements contained in the 2001 Annual Report on Form 10-K, based upon the assumptions listed therein.

GAAP itself may change over time, impacting the reporting of the Company's financial activity. Although the economic substance of the Company's transactions would not change, alterations in GAAP could affect the timing or manner of accounting or reporting.

Recent Developments

Recent regulatory, financial industry, and other developments have included the following:

o On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. This new legislation addresses accounting oversight and corporate governance. The new law creates a five member oversight board appointed by the Securities & Exchange Commission ("SEC") that will set standards for accountants and have investigative and disciplinary powers. The new legislation prohibits accounting firms from providing various types of consulting services to public attest clients and requires accounting firms to rotate partners among public client assignments every five years. The new legislation also increases penalties for financial crimes, requires expanded disclosure of corporate operations and internal controls, enhances controls on and reporting of insider trading, expands the SEC's budget, and places statutory separations between investment bankers and analysts. Various aspects of the new legislation are dependent upon subsequent rulemaking by the SEC. Management is currently evaluating what impacts the new legislation will have upon the Company, including a likely increase in certain outside professional costs. The Company currently utilizes its external attestation auditor only for audit services and other closely related services, and assistance with the preparation of income tax returns.

o Federal legislation reforming the bankruptcy code remains in conference between the House of Representatives and the Senate. This legislation, depending upon its final form, if any, could potentially assist the Bank in collecting certain credits.

o The Federal Reserve is pursuing modifications in its discount window program to encourage borrowings from financial institutions. These changes are projected to favorably impact the liquidity of financial institutions, including the Bank.

o Congress continues to debate lifting restrictions on the payment of interest on business checking accounts and easing restrictions on the number of certain transactions for MMDA accounts at insured depository institutions. The potential payment of interest on sterile reserves at the Federal Reserve banks is also being considered. Depending on the nature of such changes eventually approved, if any, there could be various favorable and / or unfavorable impacts upon the Company.

o The new capital plan of the FHLB-San Francisco was approved by the Federal Housing Finance Board on June 12, 2002. The FHLB-SF has not yet established an implementation date for the new capital plan, with such implementation required by June 2005. The Bank will receive at least 240 days' written notice of the implementation date. The new capital plan incorporates a single class of stock and requires each member to own stock in amount equal to the greater of: a) a membership stock requirement, or b) an activity based stock requirement. The new capital stock is redeemable on five years' written notice, subject to certain conditions. The Company does not believe that the initial implementation of the FHLB-SF new capital plan as most recently communicated by the FHLB-SF will have a material impact upon the Company's financial condition, cash flows, or results of operations. However, latitude for the FHLB-SF included within the new capital plan could result in the Bank's being required to purchase as much as 50% additional capital stock or sell as much as 50% of its proposed capital stock requirement at the discretion of the FHLB-SF.

o A possible increase in (e.g. from $100,000 to $130,000 per depositor, or special limits for retirement accounts) or broadening of (e.g. higher limits for public agency deposits) federal deposit insurance coverage, which may be combined with a new formula for FDIC insurance premiums, is under evaluation at the FDIC and in Congress. Congress also continues to discuss the potential merger of the Bank Insurance Fund ("BIF") and Savings Association Insurance Fund ("SAIF") of the FDIC.

o The FDIC has scheduled a meeting in November 2002 to determine whether to implement higher federal deposit insurance premium rates in 2003. This evaluation has been spurred by a decline in the BIF reserve ratio to near the 1.25% statutory minimum. An increase in premium rates, depending upon how implemented, could adversely affect the Company's results of operations.

o The US House of Representatives is considering a regulatory relief bill for the financial services industry. Similar legislative action has not proceeded in the Senate.

o The State of California is facing a significant budget deficit. The potential imposition of new fees or taxes or higher tax rates by the State of California could impact the Company's business and earnings. The possible suspension, curtailment, or elimination of various State programs could also affect the Company. The Company is unable to predict what, if any, actions might be taken by the State of California and the possible impact of those actions upon the Company's consolidated financial condition or results of operations.

o The State of California legislature approved and the governor signed in September 2002 new tax laws that impact the utilization of net operating losses and conform bank bad debt deductions to federal tax law, with a transition provision for 2002. The Company has no net operating loss carryovers, and the transition provision associated with the State treatment of bad debt deductions provided a one time benefit to the Company, but will also accelerate the payment (but not impact the amount) of certain tax obligations.

Strategic Plan

The Company's strategic plan envisions transforming the Bank from a 77 year old savings & loan into a community focused commercial bank serving the financial needs of individuals, families, organizations, and businesses. The strategic plan incorporates a greater amount of income property, construction, and business lending funded with a higher percentage of transaction deposit accounts. The strategic plan also includes improvements in the Company's efficiency ratio and return on stockholders' equity, two key measures of financial performance where the Company has lagged high performing peer institutions. However, the pace of the Company's conversion from a savings & loan into a locally focused community bank will be impacted in coming quarters by multiple factors, many of which are outside the Company's control, including the strength of the California and national economies, competition, regulatory and legislative changes, and trends in real estate values. The State of California budget deficit could also unfavorably impact the Company and / or slow its strategic transformation. The strategy being pursued by the Company also presents various types of tactical implementation risks. The Bank is under no immediate pressure to pursue a change in charter at this time, as its Qualified Thrift Lender ("QTL") ratio was 71.0% at September 30, 2002, compared to a minimum requirement of 65.0% to retain its federal thrift charter.

Overview Of Business Activity

During the third quarter and first nine months of 2002, the Company continued the implementation of its strategic plan. The Bank focuses on building longstanding customer relationships, investing the time and energy to get to know customers well and understand their financial objectives. Another key aspect of the transformation strategy is a significant increase in the community involvement and contributions made by the Bank, its Directors, and its employees. These efforts are facilitated by the Bank's Director of Community Relations. The Company seeks to differentiate itself from its competition through various means, particularly by providing a superior level of customer service.

Key accomplishments during the third quarter of 2002 included:

o record quarterly net income of $1.47 million and diluted earnings per share of $0.42

o improving the Company's return on average assets to 1.03% and return on average equity to 10.73%, from 0.80% and 8.76%, respectively, during the same quarter the prior year

o the attainment of record levels of total assets, loans, deposits, and stockholders' equity at September 30, 2002

o significant progress in shifting the composition of the loan portfolio

o net interest income rose versus the same period during the prior year, due to both a larger average balance sheet fueled by increased deposits and loans and due to expanded spreads resulting from the planned change in balance sheet composition

o a further improvement in the Company's efficiency ratio, to 54.77% for the three months ended September 30, 2002

o continued maintenance of favorable credit quality as measured by net charge-offs, with a decline in non-accrual loans from June 30, 2002 to September 30, 2002

- increased local commercial banking business

- expanded local community and financial benefits arising from the Company's participation in the State of California Enterprise Zone program

- the Bank's visibility and relationships with community leaders and business associations continued to strengthen, as evidenced by the Bank's being nominated for "Business Of The Year" by a local Chamber of Commerce

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The Company has realized certain operating efficiencies from the new technology environment implemented and better optimized over the past 18 months. Additionally, the favorable credit quality experienced during the first nine months of 2002 allowed the Company to avoid significant operating costs for collections and foreclosures. The Company's commitment to quality customer service was exemplified during the third quarter and early fourth quarter of 2002, when telecommunications network upgrades were implemented to speed transaction processing for both deposits and new account openings.

Stockholder Value

The Company has continued its strong focus on enhancing stockholder value during 2002. Tangible book value per share increased from $14.08 at December 31, 2001 to $15.45 at September 30, 2002. Coverage of the Company by a second equity analyst was obtained during the second quarter, and Management is pursuing coverage by a third equity analyst to begin during the fourth quarter of 2002. The Company has also added additional market makers in the past year to facilitate the liquidity of its common stock. Subject to the terms of its stock repurchase plan, the Company has accelerated the pace of its stock repurchases during the third and fourth quarters of 2002.

Effective November 1, 2002, the Company's Directors will be paid under a revised Director fee program. The new program provides for all Director compensation of any type, other than travel reimbursement, to be paid exclusively in Company common stock. In addition, base retainer fees were reduced, with new fees implemented based upon meeting attendance and the number of Board committees served. In adopting the new Director fee plan, the Board sought to even more closely align their compensation with stockholder interests by making Director compensation more performance and activity based. Total annual costs under the new Director fee plan are projected to be close to those associated with the prior program that was primarily focused upon flat retainer fees.

The Company's executive Management has volunteered to accept a portion of their 2002 cash incentive compensation in Company common stock, repeating elections made in prior years.

The Company's Directors and Officers have continued to be net purchasers of the Company's common stock during 2002. For example, in October 2002, the Company's Chief Executive Officer and Chief Financial Officer purchased an additional 1,000 and 300 shares, respectively, on the open market, adding to their investment in the Company.

A significant number of the Bank's employees have an ownership interest in the Company, through one or more of the following:

- direct stock purchases

- the Employee Stock Ownership Plan ("ESOP")
- incentive stock options
- stock grant awards
- stock purchased with funds contributed by employees to the Bank's 401(k) Plan

The Board of Directors and Management have targeted the transformation strategy into a community focused commercial bank based on their belief that this approach presents the best current opportunity to enhance long term stockholder value. The Company maintains an active relationship with its investment banker in monitoring potential opportunities to augment stockholder value. The Company selected as its investment banker a firm that specializes in financial institutions.

Holding Company Bylaw Changes

At its October 2002 meeting, the MBBC Board of Directors approved two changes to the bylaws of the holding company. The retirement date for Directors was modified from no later than December 31 of the year in which they attain an age of 72 to no later than December 31 of the year in which they attain an age of 73. In addition, the total Company stock ownership requirement for Directors was increased, subject to certain conditions, from 1,000 shares to 5,000 shares. McKenzie Moss, Chairman of the Board, is currently 72 years old. The amended and restated bylaws, effective October 24, 2002, are attached to this Form 10-Q as an Exhibit.

Changes In Financial Condition From December 31, 2001 To September 30, 2002

Total assets increased $38.0 million (7.1%) from $537.4 million at December 31, 2001 to a record $575.4 million at September 30, 2002.

Cash & cash equivalents decreased from $13.1 million at December 31, 2001 to $9.5 million at September 30, 2002 due to the Company using cash & cash equivalents to fund expansions in the security and loan portfolios.

Securities

At September 30, 2002, the Company owned no corporate bonds issued by WorldCom, Enron, or any other companies primarily engaged in the telecommunications, technology, or energy industries.

Investment securities available for sale were little changed during the first nine months of 2002, totaling $7.3 million at December 31, 2001 and $7.1 million at September 30, 2002. At both these dates, the Company's investment security portfolio was identically composed of two floating rate corporate trust preferred bonds rated "A" and "A-" by Standard & Poors at September 30, 2002. These corporate trust preferred securities are issued by large US financial institutions. The slight decrease in balance during 2002 resulted from the mark to market adjustment for available for sale securities, which reflects increased credit spreads and reduced demand for long term corporate bonds repricing based upon three month LIBOR.

The average balance of investment securities during the first nine months of 2002 was increased by the purchase of Agency debentures which had been called for redemption by the issuer. The Company acquired these bonds, which typically have a remaining term of ten to fourteen days, as a higher yielding alternative to federal funds sold, repurchase agreements, and other short term investments. The Company owned no Agency debentures at September 30, 2002.

Mortgage backed securities available for sale increased from $30.6 million at December 31, 2001 to $43.0 million at September 30, 2002. The Company continued to purchase relatively low duration Agency collateralized mortgage obligations ("CMO's") during the third quarter of 2002 to serve as collateral for certain deposits and to invest available liquidity. The low duration was targeted in conjunction with the Company's asset / liability management program and in order to provide cash flows in subsequent periods to fund anticipated loan production.

During the first quarter of 2002, the Company sold a somewhat higher duration private label CMO with $2.7 million in par value in conjunction with its interest rate risk management program. In early July 2002, the Company sold an Agency CMO with $2.0 million in par value to further moderate its net liability sensitivity (see Interest Rate Risk Management And Exposure). The vast majority of the Company's mortgage backed securities at September 30, 2002 were relatively low duration bonds, and all of the Company's mortgage backed securities at September 30, 2002 passed the Federal Financial Institutions Examination Council ("FFIEC") test for volatility. Management believes that allocating asset duration to new loans versus securities facilitates better community support and derives a higher yield for the same level of exposure to future increases in general market interest rates.

Loans

Loans held for sale totaled $170 thousand at September 30, 2002, down from $713 thousand at December 31, 2001. The Company sells most of its long term, fixed rate residential mortgage production into the secondary market on a servicing released basis, and purchases more interest rate sensitive loans as part of its interest rate risk management program. All loans held for sale at September 30, 2002 were matched with optional commitments to deliver such loans into the secondary market.

Loans held for investment, net, increased from $465.9 million at December 31, 2001 to a record $496.0 million at September 30, 2002. The increase resulted from a combination of strong internal loan originations and from purchases of, or participations in, individual income property and construction loans from correspondent banks. The Company follows its customary underwriting policies in evaluating loan purchases and participations.

Relatively high loan payoff volumes stemming from the low interest rate environment restrained the rate of loan portfolio growth during 2002.

The Company opened its Los Angeles loan production office during the first quarter of 2002. This office concentrates on relationship based lending to local real estate investors and developers, with a particular emphasis on income property and construction lending. The Los Angeles loan production office ended the third quarter of 2002 with a significant loan pipeline, fueled by the local market knowledge of the Company's lending staff and by the relative strength of the economy and real estate markets in southern California.

Total net loans as a percentage of total assets were 86.2% at September 30, 2002, down slightly from 86.8% at December 31, 2001. The Company has targeted increasing this ratio to 90.0% as part of its strategy of supporting its interest margin, fostering economic activity in its local communities, and effectively utilizing the Bank's capital.

The loan portfolio product mix shifted during the first nine months of 2002 in conformity with the Company's strategic plan. Residential one to four unit loans declined from 42.3% of gross loans at December 31, 2001 to 35.5% of gross loans at September 30, 2002. In contrast, commercial real estate loans rose from 22.6% to 23.9%, construction loans increased from 7.9% to 10.2%, land loans increased from 2.5% to 4.1%, commercial loans rose from 1.8% to 3.1%, and consumer loans (primarily home equity lines of credit) increased from 1.4% to 1.9%. This change in loan mix was facilitated by the commercial business relationship officers the Company hired over the past year and by the new Los Angeles loan production office. To the extent economic and competitive conditions permit, the Company plans to continue decreasing the percentage of its loan portfolio allocated to residential mortgages in favor of other generally higher yielding and more interest rate sensitive types of loans.

Management anticipates for the fourth quarter of 2002:

- a significant volume of new loans, as the Company intends to more extensively meet the credit needs of its customers and local communities

- historically high prepayment rates for mortgages and mortgage related securities, fueled by the record level of refinance activity occurring, which in turn has been supported by historically low interest rates

- residential mortgages comprising a smaller percentage of total gross loans

Despite the Company's concluding the third quarter of 2002 with a significant loan pipeline, Management is uncertain regarding the projected size of the loan portfolio at the end of 2002, as prepayments during October 2002 were historically high at $18.5 million, and could continue at historically high levels in the current low interest rate environment. Other factors, including many outside the control of the Company, could affect the realization of the above expectations.

The Company's commercial banking group continued to produce increased business during the first nine months of 2002. Commercial business loans outstanding increased from $8.8 million at December 31, 2001 to $16.7 million at September 30, 2002. This group has also generated applications for commercial real estate mortgages and construction loans in 2002, in addition to acquiring new deposits. The commercial lending pipeline at September 30, 2002 pointed toward the continued gradual expansion of commercial banking customer relationships during the fourth quarter of 2002.

During the third quarter of 2002, the Company introduced "remote deposit" services to its business and high net worth individual accounts. Via this new service, the Bank's customers can make deposits to their Monterey Bay Bank checking account at any branch of a correspondent bank with over 4,900 banking locations in 23 states. Remote deposit services were implemented to offer improved convenience and assist the Bank in competing with larger financial institutions with more extensive branch networks. Management plans to utilize this new service to continue expanding deposits by commercial banking group customers, which totaled $8.5 million at September 30, 2002.

Additional information regarding loan portfolio composition is presented in the following table:

(Dollars In Thousands)	September 30, 2002
Held for investment:	
Loans secured by real estate:	
Residential one to four unit	$187,484
Multifamily five or more units	112,407
Commercial and industrial	126,606
Construction	54,207
Land	21,598
Sub-total loans secured by real estate	502,302
Other loans:	
Home equity lines of credit	9,574
Loans secured by deposits	215
Consumer lines of credit, unsecured	155
Commercial term loans	5,130
Commercial lines of credit	11,520
Sub-total other loans	26,594
Sub-total gross loans held for investment	528,896
(Less) / Plus:	
Undisbursed construction loan funds	(24,935)
Unamortized purchase premiums, net of purchase discounts	568
Deferred loan fees and costs, net	(781)
Allowance for loan losses	(7,742)
Loans receivable held for investment, net	$496,006
Held for sale:	
Residential one to four unit	$ 170

FHLB Stock

The Company's investment in the capital stock of the FHLB-SF increased from $3.0 million at December 31, 2001 to $3.3 million at September 30, 2002 due to stock dividends and the required purchase of additional stock as a result of the growth in the Bank's balance sheet.

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Premises and Equipment

Premises and equipment, net, decreased from $7.6 million at December 31, 2001 to $7.3 million at September 30, 2002, as periodic depreciation and amortization exceeded new purchases. Because the Company acquired significant new hardware and software during 2001 in support of the new core processing system, fixed asset acquisitions in 2002 have been and are expected to continue to be moderate. This expectation could, however, change in the event the Company is successful in opening a de novo branch or acquiring a branch from another financial institution. Fixed asset requirements for the new Los Angeles loan production office were not significant.

Core Deposit Intangibles

Core deposit intangibles, net, declined from $1.5 million at December 31, 2001 to $1.0 million at September 30, 2002 in conjunction with periodic amortization. Under OTS regulations, intangible assets, including core deposit premiums, reduce regulatory capital, resulting in lower regulatory capital ratios than would otherwise be the case.

Deposits

Deposits increased from $432.3 million at December 31, 2001 to a record $461.7 million at September 30, 2002. This increase primarily resulted from:

- The Bank's issuance of its first brokered certificate of deposit ("CD"), for $20.0 million, during the second quarter of 2002.

- A $9.0 million increase in deposits from the State of California time deposit program during 2002. The State places funds with California banks as a vehicle for encouraging employment and economic growth.

The Bank issued the $20.0 million one year CD on an uncollateralized basis through one of the country's largest investment banks / securities dealers at an all-in cost of LIBOR plus 12 basis points. The brokered CD was issued in order to provide funding for anticipated loan production in the second and third quarters of 2002. While the Company does not intend to become a significant issuer of brokered CD's, Management took advantage of the opportunity due to:

- the Company's projected need for funding

- the efficiency of one relatively large issuance

- the attractiveness of the pricing

- the Company's loan to deposit ratio approaching 110%

- the one year term integrating effectively with the Company's asset / liability management program

The Company continues to pursue increases in transaction account balances as a fundamental component of its strategic plan. Excluding the impact of the aggregate $29.0 million increase in brokered and State certificates of deposit, transaction accounts increased from 43.6% of total deposits at December 31, 2001 to 47.7% of total deposits at September 30, 2002. This shift in mix contributed to the Company's reducing its weighted average cost of deposits from 2.41% during the second quarter of 2002 to 2.26% during the third quarter of 2002. This 15 basis point reduction in deposit cost was attained despite the historically low level of interest rates and therefore the Company's limited ability to decrease interest rates on many deposit products that are currently priced between zero and one percent.

Key trends and results within the deposit portfolio during the first nine months of 2002 included:

- Non-interest bearing demand deposits increased from $21.1 million at December 31, 2001 to $24.9 million at September 30, 2002. This rise was supported by balances maintained by commercial banking customers and the Company's targeting demand deposit balances as part of its sales management program.

- Interest bearing NOW checking account balances increased from $42.6 million at December 31, 2001 to $43.6 million at September 30, 2002. The Company has pursued new consumer checking accounts throughout 2002, with a special promotion during October providing new checking account customers with the opportunity to earn a bonus yield on a new three year CD placed on combined statement with the new checking account. During the first nine months of 2002, the Company experienced particularly aggressive advertising and price competition for consumer NOW deposits from one large national thrift. This thrift paid interest rates far above market and significantly in excess of the federal funds rate. The Company has been reluctant to match these prices, and has instead focused on competing based upon service, convenience, flexible access (e.g. bilingual telephone banking, Internet banking, ATM access, debit card, and in-branch service), and overall business relationships.

- Savings deposits decreased from $19.1 million at December 31, 2001 to $18.7 million at September 30, 2002. While the Company continues to offer traditional statement savings products, its sales focus has instead concentrated on checking and money market accounts due to the greater features and flexibility offered.

- Money market deposits increased from $105.8 million at December 31, 2001 to $119.4 million at September 30, 2002. Money market deposit balances during the first nine months of 2002 were positively impacted by Bank advertising and sales programs, and by certain customers waiting to commit funds to certificates of deposit given the historically low interest rate environment. In addition, during the first nine months of 2002, the Company offered interest rates on its Money Market Plus product that were in excess of many money market mutual funds and money market accounts offered through securities firms. The Bank's sales staff was trained to highlight this differential, and to explain the many attractive attributes of the Money Market Plus product, including:

  A. access via telephone banking, Internet banking, ATM's, bank by mail, check writing, and in-branch service

  B. extensively tiered interest rates, whereby earnings on the account increase as each successively higher balance tier is attained

  C. FDIC insurance to the maximum amount permitted by law

  D. combined statement with other Bank products

  E. automatic transfers and direct deposit

- Certificate of deposit balances excluding the $20.0 million brokered CD and the $9.0 million rise in time deposits from the State of California decreased from $243.8 million at December 31, 2001 to $226.1 million at September 30, 2002. This decline in part resulted from certain customers delaying committing funds to fixed term, fixed rate certificates of deposit due to the historically low interest rate environment and from significant price competition from two large thrifts, one local credit union, and several non-traditional competitors. Price competition from banks specializing in credit card lending has also been significant during 2002, as certain customers needing a given level of nominal interest income have pursued national avenues for their CD funds due to the historically low interest rate environment. During the first nine months of 2002, the Company priced its longer term (18 to 60 months) CD's attractively as part of its asset / liability management program and to encourage the development of longer term customer relationships. In addition, the Company has conducted various print advertising campaigns for 24 to 36 month CD's during 2002. These campaigns attracted new customers, with whom the Company's employees discussed the establishment of a more complete banking relationship.

Management is, however, not satisfied with the volume of deposit acquisition achieved by its eight full service retail branches during the first nine months of 2002, particularly in light of general deposit inflows into the banking system from investors leaving the equity markets. Management responded to this performance by:

- designing new relationship oriented deposit products, as detailed below
- recruiting a Branch Sales Manager during the second quarter of 2002, whose primary responsibility is to implement and manage an improved sales culture throughout the branch network
- adjusting branch staff compensation to provide for an increased incentive opportunity based upon deposit growth and quality customer service

Increasing the percentage of total deposits comprised of checking, savings, and money market accounts is integral to the Company's strategic plan, as transaction accounts provide for a lower cost of funds versus most other funding sources, generate fee income, furnish opportunities for expanding business relationships and cross-selling other products and services to customers, and are typically less interest rate sensitive than many other funding sources. The Company plans to introduce a new suite of transaction account products during the fourth quarter of 2002 and the first quarter of 2003. These new products will focus on two key characteristics:

- providing customer choice and options
- promoting relationship banking

For example, the new consumer checking account products will facilitate the customer's selection of how they wish to avoid periodic service charges and how to earn more interest based upon their individual financial profile. Many of the new accounts provide benefits such as free services, eliminated periodic service charges, or higher rates of interest for building a relationship with the Bank through multiple deposit products and combined statements. The new products also further encourage businesses to bank with the Company, as the principals can obtain preferred personal pricing while the business benefits from new products and services. The Company plans to coordinate the introduction of these new deposit products with marketing and promotion activities.

The Company plans to introduce two new money market accounts in the latter part of the fourth quarter of 2002: Investors Money Market and Business Money Market. Investors Money Market is a highly tiered product targeted to attract funds from money market mutual funds and brokerage firms. Business Money Market is a product designed specifically for the Bank's local commercial customers seeking an attractive return on liquid funds while also enjoying the many attractive attributes provided by the Bank, including Internet banking, global ATM access, 24 hour bilingual telephone banking, and, above all, superior customer service by local bankers familiar with their business.

The Company's ratio of loans to deposits was 107.47% at September 30, 2002, down slightly from December 31, 2001. In light of this ratio, the Company has implemented the following strategic and tactical actions during the first nine months of 2002:

- modified staff incentive programs to more strongly focus on expanding deposit relationships

- directed a higher percentage of the advertising and promotion budget to deposit generation

- accepted a brokered deposit and established a new deposit broker relationship

- acquired additional deposits through the State of California time deposit program

- implemented "remote deposit" services for businesses (including those introduced to the Company through the Los Angeles loan production office) and individuals maintaining relatively higher deposit balances

In addition, due to the Company's objective of effectively leveraging its capital position through lending, the Company is exploring various strategic and tactical alternatives for further increasing its funding base, including:

- pursuing opportunities for additional branch locations, either de novo or acquisition of existing branches from other financial institutions

- introducing new deposit products and related services, as discussed above

- increased business lending with associated compensating customer deposit balances

- relationship loan pricing for income property owners maintaining operating accounts with the Company

Early in the fourth quarter of 2002, Management initiated discussions to negotiate the lease of commercial retail space for a de novo branch in the Company's primary market area. However, no assurance can be provided that the Company will be successful in securing the site and adding this de novo branch to its current network.

Despite Management's lack of satisfaction with the deposit generation stemming from its eight full service branches, during the first nine months of 2002, the Company has not, however, pursued the offering of deposit rates substantially above market in order to avoid:

- attracting highly volatile funds

- placing pressure on the net interest margin

- decreasing focus on its relationship banking approach and commitment to providing superior customer service

Borrowings

Borrowings increased from $53.8 million at December 31, 2001 to $57.7 million at September 30, 2002. The increase was associated with funding the rise in the loan and security portfolios. The $57.7 million balance at September 30, 2002 included $53.6 million in term FHLB advances and a $3.7 million overnight FHLB advance. All of the Company's FHLB advances at September 30, 2002 were fixed rate, fixed term or overnight borrowings without call or put option features. The Company has $8.0 million in term FHLB advances with a weighted average interest rate of 2.33% scheduled to mature during the fourth quarter of 2002. Management plans to roll over this debt for the terms that best integrate with the Company's objectives for interest rate risk management.

Stockholders' Equity

Total stockholders' equity increased from $50.2 million at December 31, 2001 to a record $54.8 million at September 30, 2002. Factors contributing to the increase included:

- $4.0 million in 2002 year to date net income
- continued amortization of deferred stock compensation, including both ESOP and PEP shares
- the ongoing payment of Director retainer fees with Company common stock
- the exercise of 46,963 vested stock options, generating $603 thousand in additional stockholders' equity

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The above factors more than offset the impact of:

- the repurchase of 30,000 shares of the Company's common stock
- depreciation in the portfolio of securities classified as available for sale

Repurchases of the Company's common stock under the current authorization during 2002 are summarized as follows:

Quarter In 2002	Number Of Shares Repurchased	Price Range Of Repurchases
First	5,000	$16.25
Second	--	--
Third	25,000	$17.10 - $17.36
Fourth [1]	31,000	$18.15
Total / Average	61,000	$17.62

[1] Through November 11, 2002

At November 11, 2002, there were 53,035 remaining shares authorized for repurchase under the Company's current repurchase program.

The Company did not declare or pay any cash dividends during the first nine months of 2002. The Board of Directors continues to believe that alternative uses for the Company's capital, at this time, are more attractive than the payment of a cash dividend.

Tangible book value per share increased from $14.08 at December 31, 2001 to $15.45 at September 30, 2002. The amount of increase in tangible book value per share during the fourth quarter of 2002 may be favorably impacted by:

- o the impact on additional paid-in capital of the Company's higher stock price as reflected in the accounting for the ESOP
- o the effect of utilizing deferred stock compensation in lieu of certain cash incentive compensation
- o the adoption of a new Director fee plan effective November 1, 2002, whereby all Director compensation, except for travel reimbursement, will be paid in Company common stock, with the number of shares earned by each Director dependent upon the quantity of meetings attended and Board committees served

Interest Rate Risk Management And Exposure

The table below presents an overview of the interest rate environment during the 21 months ended September 30, 2002. The 12 MTA and 11th District Cost Of Funds Index ("COFI") are by nature lagging indices that trail changes in more responsive interest rate indices such as those associated with the Treasury or LIBOR markets.

Index / Rate (1)	12/31/00	3/31/01	6/30/01	9/30/01	12/31/01	3/31/02	6/30/02
3 month Treasury bill	5.89%	4.28%	3.65%	2.37%	1.72%	1.78%	1.68%
6 month Treasury bill	5.70%	4.13%	3.64%	2.35%	1.79%	2.10%	1.74%
2 year Treasury note	5.09%	4.18%	4.24%	2.85%	3.02%	3.72%	2.81%
5 year Treasury note	4.97%	4.56%	4.95%	3.80%	4.30%	4.84%	4.03%
10 year Treasury note	5.11%	4.92%	5.41%	4.59%	5.05%	5.40%	4.80%
Target federal funds	6.50%	5.00%	3.75%	3.00%	1.75%	1.75%	1.75%
Prime rate	9.50%	8.00%	6.75%	6.00%	4.75%	4.75%	4.75%
3 month LIBOR	6.40%	4.88%	3.84%	2.59%	1.88%	2.03%	1.86%
12 month LIBOR	6.00%	4.67%	4.18%	2.64%	2.44%	3.00%	2.29%
1 Year CMT (2)	5.60%	4.30%	3.58%	2.82%	2.22%	2.57%	2.20%
12 MTA (2)	6.11%	5.71%	5.10%	4.40%	3.48%	2.91%	2.55%
COFI (2)	5.62%	5.20%	4.50%	3.97%	3.07%	2.65%	2.85%

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(1) Indices / rates are spot values unless otherwise noted.
(2) These indices / rates are monthly averages.

In an effort to limit the Company's exposure to interest rate changes, Management monitors and evaluates interest rate risk on a regular basis, including participation in the OTS Net Portfolio Value Model and associated regulatory reporting. Management believes that interest rate risk and credit risk compose the two greatest financial exposures faced by the Company in the normal course of its business. The Company is not directly exposed to risks associated with commodity prices or fluctuations in foreign currency values.

The Company has recently maintained a relatively balanced, though slightly net liability sensitive, exposure to changes in general market interest rates as measured by potential prospective changes in net portfolio value, also referred to as market value of portfolio equity. These potential prospective changes in net portfolio value are calculated based upon immediate, sustained, and parallel shifts in the term structure of interest rates, often referred to as the "yield curve". In other words, these calculations highlight that the fair value of the Company's assets exhibits almost the same, though slightly more, volatility as does its liabilities. However, in addition to the overall direction of general market interest rates, changes in relative rates (i.e. the slope of the term structure of interest rates) and relative credit spreads also impact net portfolio value and the Company's profitability.

As highlighted in the above table, beginning in early 2001, the Federal Reserve commenced decreasing its benchmark interest rates in response to the slowing national economy, increases in unemployment, falling equity values, weak manufacturing activity, and other negative or unfavorable economic trends or statistics. By the end of 2001, the Federal Reserve had cut interest rates 11 times for a total of 475 basis points, representing one of the largest and fastest series of rate decreases ever experienced in the United States. The Federal Reserve continued cutting interest rates throughout 2001 in part in response to the onset of the first national economic recession in many years. In addition to cutting interest rates, the Federal Reserve also fostered significant expansion in the money supply, with a particular increase following the events of September 11, 2001.

The eleven rate cuts in 2001 led to nominal levels of interest rates that were the lowest in decades, with the target federal funds rate decreasing to 1.75%. The Prime Rate followed the target federal funds rate down in 2001, while the COFI and 12 MTA indices lagged the more responsive Treasury and LIBOR rates throughout 2001. The low nominal level of interest rates in effect in the latter part of 2001 and in the first nine months of 2002 presented a particular challenge to the Company, as the rates on its NOW and Savings deposit accounts were already at low levels by mid 2001 and could not be decreased to the same extent as declines in many capital markets interest rates. The Company addressed this issue through its asset / liability management program, whereby decisions regarding pricing, promotion, and incentives are integrated with tactical transactions to moderate the Company's exposure to changes in interest rates.

Various interest rates increased in the first quarter of 2002 when the capital markets assumed that the Federal Reserve would not continue decreasing its benchmark interest rates. In addition, concerns about the impact of interest rates staying at such low levels for an extended period of time began to raise worries about potential future inflation, leading to a rise in longer term interest rates. At the end of the first quarter of 2002, many economists were predicting a relatively strong recovery from the US recession and were forecasting increases of 100 basis points or more in the target federal funds rate by the end of the year. In March 2002, the Dow Jones Industrial Average had recovered the losses that occurred in September 2001, with the Index again closing over 10,500. By the end of the first quarter, the Treasury curve had become significantly steeper, with the differential between federal funds and the 2 year Treasury Note at 197 basis points. Steep yield curves are generally beneficial for financial institutions, including the Bank, as greater income is derived from short term maturity mismatches and as customer demand often shifts toward adjustable mortgages due to the rate differential between adjustable and fixed rate loans.

Most interest rates reversed course and declined during the second and third quarters of 2002. Among the factors leading to this reduction in interest rates were:

o the "crisis of confidence" stemming from the restatement of financial information by Enron, WorldCom, and other large companies

- the broad decline in equity indices during the second and third quarters of 2002, with certain investors seeking relative safe harbor in US government and Agency fixed income investments

- companies being slow to rehire despite growth in gross domestic product, contributing to the term "jobless recovery"

- ongoing tensions in the Middle East and continued discussion of a potential US invasion of Iraq encouraging "flight to quality" investments by certain capital markets participants

- increasing discussion of new rounds of rate cuts by the Federal Reserve in the latter half of 2002, facilitated by low measured inflation and a lack of inflationary pressures stemming from higher rates of unemployment and continuing jobless claims, low capacity utilization at factories, and a general lack of pricing power reinforced by high levels of global competition

- uncertainty regarding control of both houses of Congress following the November 2002 elections leading certain investors and companies to avoid committing to significant new investments

The Treasury yield curve was flatter at September 30, 2002 than three, six, and nine months earlier, with the differential between federal funds and the 2 year Treasury Note declining from a positive 197 basis points at March 31, 2002 to a negative 7 basis points at September 30, 2002. The negative 7 basis point spread was one of many capital market indicators at the end of the third quarter of 2002 that pointed toward additional rate reductions by the Federal Reserve. In an unusual announcement, the Federal Open Market Committee ("FOMC") communicated that two Federal Reserve governors dissented from the majority opinion at the September 24, 2002 meeting and voted for a rate cut at that time. On November 6, 2002, the FOMC voted to reduce the target federal funds rate by 50 basis points to 1.25%.

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Management is uncertain regarding the potential impacts of interest rates being at low levels not seen in many decades, and thus never experienced by the modern economy and capital markets. For example, with the target federal funds rate at 1.25%, many money market mutual funds will be paying rates of less than 1.00%, possibly encouraging some consumers to shift funds into federally insured deposit accounts or pursue other, and perhaps less traditional, investment alternatives.

The divergence of the COFI index in the above table from other capital markets interest rates may have been in part caused by the payment of deposit rates significantly above market by two very large thrifts with operations in the 11th Federal Home Loan Bank District - the largest component of which is California.

The analytical results of the Company's interest rate risk modeling have been empirically validated over the past several years, as the Company's interest margin has remained stable or expanded during periods of both rising and falling general market interest rates. The expansion in interest margin over the past several years has been significantly impacted by the implementation of the Company's strategic plan, in addition to being influenced by the interest rate environment.

The Company plans to maintain its relatively balanced interest rate risk profile by avoiding adding significant volumes of long term, fixed rate assets to the balance sheet. Long term, fixed rate assets are relatively more challenging to match fund, and therefore can expose the Company to interest rate risk in rising interest rate environments. During the first nine months of 2002, the Company continued to sell the vast majority of its long term, fixed rate residential loan production into the secondary market on a servicing released basis. The low interest rate environment contributed to continued prepayments on the Company's existing portfolios of residential fixed rate mortgages held for investment and higher duration mortgage backed securities classified as available for sale.

Mortgage backed security purchases during the first nine months of 2002 were primarily low duration CMO's with limited extension risk and above market coupon rates. The Company also sold one relatively higher duration CMO during the first quarter of 2002 and its one remaining volatile, support tranche CMO in the third quarter of 2002. Loan purchases during the first nine months of 2002 were generally either adjustable rate or fixed rate for a short period of time, then converting to adjustable rate ("hybrid mortgages"). During the past year, the Company has periodically prepaid and extended certain FHLB advances in order to increase the duration of its funding and therefore moderate its net liability sensitivity. Effective July 1, 2002, the Company was no longer originating mortgages tied to the 11th District COFI Index due to concerns regarding the capacity of a small number of large thrifts to dominate this Index. In addition, in July 2002, the Company commenced offering two year fixed rate hybrid loans that adjust every six months thereafter as a means of differentiating itself in the market and increasing the interest rate sensitivity of its asset portfolio. The Company has also increased the average remaining term of its certificate of deposit portfolio from 228 days at December 31, 2001 to 303 days at September 30, 2002 through continued marketing of intermediate to longer term accounts.

The aforementioned and other tactical and strategic actions were conducted as part of the interest rate risk management program in general, and specifically to prepare the Company for what Management believes is a likely eventual return to an increasing interest rate environment commencing some time in 2003. In other words, Management believes it unlikely that interest rates will remain at historically low levels, with negative real federal funds, for an extended period of time. Management has recently considered shifting the Company's interest rate risk profile to very slightly net asset sensitive at some point in the next several quarters in preparation for a return to an increasing interest rate environment.

The strategic plan of transforming the Bank into a community focused financial services provider by nature presents a lower interest rate risk profile than historically experienced by the Bank when the balance sheet was highly concentrated in residential mortgages (including long term, fixed rate), which present greater embedded optionality than many other types of loans. Serving the financial needs of local businesses is by nature asset sensitive, as primarily variable rate commercial loans are in part funded with demand deposit balances. Growth in the Company's business banking thus helps offset some of the interest rate risk (net liability sensitivity) typically present in mortgage lending.

Liquidity

Liquidity is actively managed to ensure sufficient funds are available to meet ongoing needs of both the Company and the Bank. Liquidity management includes projections of future sources and uses of funds to ensure the availability of sufficient liquid reserves to provide for unanticipated circumstances. The Company's primary sources of funds are customer deposits, principal and interest payments on loans and securities, FHLB advances and other borrowings, and, to a lesser extent, proceeds from sales of loans and securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and prepayments on mortgage related assets are significantly influenced by general market interest rates, economic conditions, and competition.

OTS regulations require that the Bank maintain a safe and sound level of liquidity at all times. Management believes that having a surplus of available liquidity at all times is prudent and fundamental to effective Bank management.

At September 30, 2002, the Company had $9.5 million in cash and cash equivalents, available borrowing capacity in excess of $180.0 million at the FHLB-SF, $2.9 million in unpledged securities, and a significant volume of residential mortgages that could be securitized, liquidated, or used in collateralized borrowings in order to meet future liquidity requirements.

The State of California is the Bank's largest single depositor, with $28.0 million in certificates of deposit placed in the Bank as of September 30, 2002. Should the State of California not renew these certificates of deposit upon maturity, replacement funding would likely be more costly. The maturity dates for the State of California certificates of deposit are staggered to avoid a concentration of repricing and funding risk. The Bank's second largest depositor is a $20.0 million brokered CD that matures in May 2003. The Asset / Liability Management Committee ("ALCO") of the Bank is planning how to best address the future maturity of that funding, from both liquidity and repricing perspectives.

MBBC and the Bank have each entered into several Master Repurchase Agreements to permit securities sold under agreements to repurchase transactions with a number of counterparties. In addition, at September 30, 2002, the Bank maintained $34.5 million in unsecured federal funds lines of credit from five correspondent financial institutions. However, there can be no assurance that funds from these lines of credit will be available at all times, or that the lines will be maintained in future periods.

The Bank is able to issue wholesale "DTC" certificates of deposit through four investment banking firms as an additional source of liquidity. The Bank intends to add the ability to issue DTC certificates of deposit through an additional firm during the fourth quarter of 2002 in order to further increase its available liquidity and to obtain even more competitive pricing.

At September 30, 2002, MBBC on a stand alone basis had cash & cash equivalents of $4.4 million. In addition, MBBC had no outstanding balance on a $3.0 million committed revolving line of credit. This line of credit is scheduled to mature at the end of 2002. The Company is currently pursuing a renewal of, and possible increase in, this credit facility.

Capital Resources And Regulatory Capital Compliance

Federal banking regulatory agencies maintain a system providing for regulatory sanctions against financial institutions that are not adequately capitalized. The severity of these sanctions increases to the extent that an institution's capital falls further below the adequately capitalized thresholds. OTS Prompt Corrective Action ("PCA") regulations require specific capital ratios for five separate capital categories as set forth below:

	Core Capital To Adjusted Total Assets (Leverage Ratio)	Core Capital To Risk-weighted Assets
Well capitalized	5% or above	6% or above
Adequately capitalized	4% or above	4% or above
Undercapitalized	Under 4%	Under 4%
Significantly undercapitalized	Under 3%	Under 3%
Critically undercapitalized	Ratio of tangible equity to adjusted total asset	

As of September 30, 2002, the most recent notification from the OTS categorized the Bank as "well capitalized". There are no conditions or events since that notification that Management believes have changed the Bank's category. The following table summarizes the capital ratios required for an institution to be considered "well capitalized" and the Bank's regulatory capital at September 30, 2002 as compared to such ratios.

(Dollars In Thousands)	Core Capital To Adjusted Total Assets		Core Capital To Risk-weighted Assets		
	Balance	Percent	Balance	Percent	
Bank regulatory capital	$ 49,221	8.57%	$ 49,221	11.76%	$
Well capitalized requirement	28,718	5.00%	25,122	6.00%	
Excess	$ 20,503	3.57%	$ 24,099	5.76%	$
Adjusted assets (1)	$574,356		$418,693		$

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(1) The above line for "adjusted assets" refers to the term "adjusted total assets" as defined in 12 C.F.R. Section 567.1(a) for purposes of core capital requirements, and refers to the term "risk-weighted assets" as defined in C.F.R. Section 567.1(bb) for purposes of risk-based capital requirements.

Other OTS capital regulations require the Bank to maintain: (a) tangible capital of at least 1.5% of adjusted total assets (as defined in the regulations), (b) core capital of at least 4.0% of adjusted total assets (as defined in the regulations) (unless the Bank has been assigned the highest composite rating under the Uniform Financial Institutions Rating System, in which case 3.00%), and (c) total capital of at least 8.0% of risk-weighted assets (as defined in the regulations).

The following table summarizes these regulatory capital requirements for the Bank. As indicated in the table, the Bank's capital levels at September 30, 2002 exceeded all three of the currently applicable minimum regulatory capital requirements.

(Dollars In Thousands)	Amount	Percent Of Adjusted Total Assets
Tangible Capital		
Regulatory capital	$49,221	8.57%
Minimum required	8,615	1.50%
Excess	$40,606	7.07%
Core Capital		
Regulatory capital	$49,221	8.57%
Minimum required	22,974	4.00%
Excess	$26,247	4.57%

	Amount	Percent Of Risk-weighted Assets
Risk-based Capital		
Regulatory capital	$54,480	13.01%
Minimum required	33,495	8.00%
Excess	$20,985	5.01%

At September 30, 2002, the Bank's regulatory capital levels exceeded the thresholds required to be classified as a "well capitalized" institution. The Bank's regulatory capital ratios detailed above do not reflect the additional capital (and assets) maintained by MBBC. Management believes that, under current regulations, the Bank will continue to meet its minimum capital requirements. However, events beyond the control of the Bank, such as changing interest rates or a downturn in the economy or real estate markets in the areas where the Bank has most of its loans, could adversely affect future earnings and, consequently, the ability of the Bank to meet its future minimum regulatory capital requirements.

Asset Quality / Credit Profile

Non-performing Assets

The following table sets forth information regarding non-performing assets at the dates indicated.

(Dollars In Thousands)	September 30, 2002	Dec
Outstanding Balances Before Valuation Reserves		
Non-accrual loans	$ 3,554	
Loans 90 or more days delinquent and accruing interest	--	
Restructured loans in compliance with modified terms	--	
Total gross non-performing loans	3,554	
Investment in foreclosed real estate before valuation reserves	--	
Repossessed consumer assets	--	
Total gross non-performing assets	$ 3,554	
Gross non-accrual loans to total loans	0.72%	
Gross non-performing loans to total loans	0.72%	
Gross non-performing assets to total assets	0.62%	
Allowance for loan losses	$7,742	
Allowance for loan losses to non-performing loans	217.84%	
Valuation allowances for foreclosed real estate	$ --	

Non-accrual loans at September 30, 2002 are detailed in the following table:

(Dollars In Thousands) Category Of Loan	Number Of Loans	Principal Balan Outstanding September 30, 20
Residential mortgage one to four units	2	$ 1,1
Commercial & industrial real estate	1	2,2
Land	1	1
Total	4	$ 3,5

Non-accrual loans increased from $2.3 million at December 31, 2001 to $3.6 million at September 30, 2002 primarily due to the placement of a $2.3 million commercial real estate mortgage on non-accrual status. This credit is a participation loan where the Bank is not the lead financial institution. The loan is secured by a first deed of trust on a hotel / resort located within the Company's primary market area and by a first deed of trust on a residential lot located in California. The borrowers are directly personally indebted. The hotel / resort is a relatively new development that has experienced limited cash flow. The hotel / resort was also adversely impacted by the decline in tourism and travel following the events of September 11, 2001 and the national economic recession.

At September 30, 2002, the Company maintained a $475 thousand specific reserve for this hotel / resort loan, based upon estimated net proceeds following foreclosure and sale. This specific reserve was decreased from $754 thousand at June 30, 2002 due to payments received from the borrowers during the third quarter, the borrowers providing additional real estate collateral (the first deed of trust on the residential lot), and the Company's receipt of updated valuation and financial information regarding the hotel / resort. Although the loan was current in its payments at September 30, 2002, the Company maintained the loan on non-accrual status at September 30, 2002 due to concern about the future net cash flow of the hotel / resort following the peak summer season, particularly in light of the status of the economy, the tourism industry, and the outlook for business travel activity. These factors also create particular volatility in the market value of the hotel / resort.

Non-accrual loans at September 30, 2002 also included:

- An $846 thousand residential mortgage secured by a first deed of trust. The borrowers have declared bankruptcy. There are significant junior mortgages from other lenders secured by the subject collateral. The Company is currently pursuing approval from the bankruptcy court to proceed with foreclosure.

- A residential mortgage with a balance of $303 thousand that is associated with a chronically late paying borrower.

- A $129 thousand loan secured by a first deed of trust on residential land. This loan has matured. The Company has conducted a recent site visit and is currently pursuing foreclosure.

The Company does not anticipate recording a loss on any of the above three non-accrual loans due to the estimated value of the underlying real estate collateral. All non-accrual loans at September 30, 2002 were secured by real estate. The Company had no foreclosed real estate at September 30, 2002.

Criticized And Classified Assets

The following table presents information concerning the Company's criticized ("OAEM") and classified ("substandard" and lower) assets. The category "OAEM" refers to "Other Assets Especially Mentioned", or those assets that present indications of potential future credit deterioration.

(Dollars In Thousands)	OAEM	Substandard	Doubtful	Lo
December 31, 2001	$ 6,207	$ 5,098	$ --	$
March 31, 2002	$ 3,296	$ 4,386	$ --	$ 7
June 30, 2002	$ 6,230	$ 4,819	$ --	$ 7
September 30, 2002	$ 6,234	$ 5,022	$ --	$ 4

Classified assets as a percent of stockholders' equity decreased slightly from 10.2% at December 31, 2001 to 10.0% at September 30, 2002.

The amounts classified as "Loss" in the prior table are associated with the specific reserve for the $2.3 million commercial real estate mortgage secured by a hotel / resort located in the Company's primary market area, as described above under "Non-performing Assets". The remainder of this $2.3 million loan is classified as substandard. September 30, 2002 substandard assets in the above table also include:

- The Company's other non-accrual loans as described above under "Non-performing Assets".

- An $836 thousand commercial real estate mortgage secured by a first deed of trust. The borrower fully reinstated this loan during the third quarter of 2002 and paid in full all delinquent property taxes. This loan is well secured by the value of the real property, and there is a significant junior mortgage from another lender secured by the subject collateral.

- A total of $419 thousand in commercial loans to a corporation that experienced a slowdown in sales during the first half of 2002, in part due to staff turnover. The slowdown in sales contributed to loan covenant violations. The loans were current in their payments at September 30, 2002. The Company is presently working with the borrowers to pay down the outstanding debt. The Company has obtained real estate collateral to secure a portion of the debt.

- A total of $334 thousand in commercial loans to a corporation whose sole stockholder has declared personal bankruptcy. These loans were current in their payments as of September 30, 2002 and the borrower has indicated his intent to continue making payments per the terms of the loans.

- A total of $298 thousand in commercial loans to a corporation that experienced a slowdown in sales during the first half of 2002, resulting in loan covenant violations. The loans were current in their payments at September 30, 2002, and the borrowers have been cooperative. Recent sales have improved. The loans are secured by business assets and real estate.

Criticized loans at September 30, 2002 included:

- A $1.7 million residential mortgage in the Company's primary market area where the borrowers have repeatedly failed to make timely payments. This loan was current in its payments as of early November 2002.

- A $1.3 million mortgage, current in its payments at September 30, 2002, secured by a motel located in the Silicon Valley area of the San Francisco Bay Area. The motel's cash flow has been unfavorably impacted by the economic difficulties being experienced in the technology industry and by a reduction in business travel in general.

- A $981 thousand mortgage secured by an apartment complex in the Silicon Valley area. This loan was current in its payments at September 30, 2002; however, rents in the subject area have been adversely affected by the economic difficulties in the technology industry.

- A $561 thousand commercial loan to a business in the Company's primary market area that participates in the telecommunications industry. This loan is secured by business assets and a deed of trust on residential real estate, and was current in its payments at September 30, 2002. At September 30, 2002, the borrower was in the process of refinancing certain residential real estate with the intention of using the net proceeds from such refinancing to pay off the Company's commercial loan.

- A total of $299 thousand in commercial loans to a winery. The winery experienced some financial difficulty during 2002, resulting in sporadic late payments. The loans were fully current in early November 2002 and the borrowers have been cooperative. The loans are secured by real estate.

At the present time, the Company does not anticipate recording a loss on any of the above detailed criticized loans due to borrower cooperation and / or the estimated fair value of the associated collateral.

Impaired Loans

At September 30, 2002, the Company had total gross impaired loans, before specific reserves, of $3.6 million, constituting four credits. Specific reserves on these $3.6 million in impaired loans totaled $475 thousand. This compares to total gross impaired loans of $2.3 million, with no specific reserves, at December 31, 2001. Interest is accrued on impaired loans on a monthly basis except for those loans that are 90 or more days delinquent or those loans which are less than 90 days delinquent but where Management has identified concerns regarding the collection of the credit. For the nine months ended September 30, 2002, accrued interest on impaired loans was zero and interest of $132 thousand was received in cash. The average balance of impaired loans during the three and nine months ended September 30, 2002 was $4.7 million and $4.0 million, respectively. If all non-accrual loans had been performing in accordance with their original loan terms, the Company would have recorded interest income of $201 thousand during the nine months ended September 30, 2002, instead of interest income actually recognized, based on cash payments, of $132 thousand.

Allowance For Loan Losses

The allowance for loan losses is established through a provision for loan losses based on Management's evaluation of the risks inherent in the loan portfolio, including unused commitments to provide financing. In determining levels of risk, Management considers a variety of factors, including, but not limited to, asset classifications, economic trends, industry experience and trends, geographic concentrations, estimated collateral values, historical loan loss experience, and the Company's underwriting policies. The allowance for loan losses is maintained at an amount Management considers adequate to cover losses in loans receivable that are deemed probable and estimable. While Management uses the best information available to make these estimates, future adjustments to allowances may be necessary due to economic, operating, regulatory, and other conditions that may be beyond the Company's control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgements different from those of Management.

The allowance for loan losses is comprised of three primary types of allowances:

1. Formula Allowance

Formula allowances are based upon loan loss factors that reflect Management's estimate of the inherent loss in various segments of, or pools within, the loan portfolio. The loss factor is multiplied by the portfolio segment (e.g. multifamily permanent mortgages) balance (or credit commitment, as applicable) to derive the formula allowance amount. The loss factors are updated periodically by the Company to reflect current information that has an effect on the amount of loss inherent in each segment. For example, the Company increased the formula allowance for commercial business loans during the third quarter of 2002 in response to reports of weaker sales by a number of borrowers across several industries, as described above under "Criticized And Classified Assets". The formula allowance at September 30, 2002 was $6.8 million, compared to $6.0

million at December 31, 2001.

2. Specific Allowance

Specific allowances are established in cases where Management has identified significant conditions or circumstances related to an individually impaired credit. In other words, these allowances are specific to the loss inherent in a particular loan. The amount for a specific allowance is calculated in accordance with SFAS No. 114, "Accounting By Creditors For Impairment Of A Loan". The Company had $475 thousand in specific allowance at September 30, 2002, compared to none at December 31, 2001.

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3. Unallocated Allowance

The Company maintains an unallocated loan loss allowance that is based upon Management's evaluation of conditions that are not directly measured in the determination of the formula and specific allowances. The evaluation of inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or historical performance of loan portfolio segments. The conditions evaluated in connection with the unallocated allowance at September 30, 2002 included the following, which existed at the balance sheet date:

o general business and economic conditions affecting the Company's key lending areas

o real estate values in California

o loan volumes and concentrations

o seasoning of the loan portfolio

o status of the current business cycle

o specific industry or market conditions within portfolio segments

The unallocated allowance at September 30, 2002 was $509 thousand, compared to $668 thousand at December 31, 2001.

The following table presents activity in the Company's allowance for loan losses during the nine months ended September 30, 2002 and September 30, 2001:

	Nine Months End
	2002
Allowance For Loan Losses	(Dollars
Balance at beginning of year	$ 6,665
Charge-offs:	
Consumer lines of credit	(10)
Commercial term loans	(30)

Commercial lines of credit	--
Total charge-offs	(40)
Recoveries:	
Consumer lines of credit	4
Commercial lines of credit	3
Total recoveries	7
Provision for loan losses	1,110
Balance at September 30	$ 7,742
Annualized ratio of net charge-offs during the period to average loans receivable, net, outstanding during the period	0.01%

Additional ratios applicable to the allowance for loan losses include:

	September 30, 2002
Allowance for loan losses as a percent of non-performing loans	217.84%
Allowance for loan losses as a percent of gross loans receivable net of undisbursed loan funds and unamortized yield adjustments	1.54%
Allowance for loan losses as a percent of classified assets	140.84%

The $509 thousand in unallocated allowance at September 30, 2002 reflected the Company's consideration of the following factors, as well as the more general factors listed above in conjunction with the definition of the unallocated allowance:

- The adverse impacts of the weak technology and telecommunications industries upon commercial real estate values. The Company's primary lending area is near the Silicon Valley area of the San Francisco Bay Area, which has been impacted by the slump in various telecommunications, technology, and technology related businesses. Recent reports indicate a rise in office vacancy rates and a decline in rental rates for office space in multiple markets within the greater San Francisco Bay Area. Based on Management estimates, this impact could be in the range of $100 thousand to $1.1 million.

- Recent reports of selected areas of soft or declining apartment rents in Northern California resulting from reduced employment, weakness in the technology and telecommunications industries, and a strong home purchase market. The soft or declining rents could lead to decreased multifamily property values. Based on Management estimates, this impact could be in the range of $100 thousand to $900 thousand.

As subsequently discussed (see "Provision For Loan Losses"), the Company recorded similar provisions for loan losses during the first nine months of 2002 versus the same period in the prior year. The primary factors impacting the Company's reserve requirements, and resulting provision for loan losses, however, varied between the first nine months of 2002 and the first nine months of 2001, as highlighted in the following table:

First Nine Months Of 2002	First Nine Months Of 2001
1) Change in loan portfolio product mix	1) National economic recession
2) Growth in loan portfolio	2) Growth in loan portfolio
3) Impact of weak economic recovery upon commercial business credits	3) Portfolio of residential mo favorable credit profile th pursued by the Company (pai $3.3 million at September 3 with no credit losses)
4) Establishment of $475 thousand specific reserve for $2.3 million hotel / resort loan	4) Uncertain impacts from the September 11, 2001, partic business travel and touris
5) Origination of relatively larger loans in conjunction with change in product mix and opening of the Los Angeles loan production office in 2002	5) "Business Express" commerci (discontinued product in 2
6) State of California budget deficit	6) Recapture of $600 thousand
	7) State of California energ

Management anticipates that should the Company accomplish its strategic plan and be successful in:

- generating further growth in loans receivable held for investment
- emphasizing the origination, purchase, and participation of income property real estate loans
- expanding the construction loan portfolio
- continuing expansion of commercial business lending

future provisions will result and the ratio of the allowance for loan losses to loans outstanding will increase. Experience across the financial services industry indicates that commercial business, construction, and income property loans present greater risks than residential real estate loans, and therefore should be accompanied by suitably higher levels of reserves.

Comparison Of Operating Results For The Three Months And Nine Months Ended September 30, 2002 and September 30, 2001

General

During the third quarter of 2002, the Company reported net income $1.47 million, equivalent to $0.42 diluted earnings per share, compared to net income of $1.06 million, or $0.31 diluted earnings per share, for the same period in 2001. Net income during the quarter ended June 30, 2002 (the immediately preceding quarter) was $1.35 million, equivalent to $0.38 diluted earnings per share. The Company's diluted earnings per share have increased for six consecutive quarters.

For the nine months ended September 30, 2002, net income was $4.02 million, equivalent to $1.15 diluted earnings per share. This compares to net income of $2.61 million, or $0.79 diluted earnings per share, for the first nine months of 2001. The 54.1% increase in net income for the first nine months of 2002 compared to the same period in 2001 primarily resulted from three key factors:

- the continued implementation of the Company's strategic plan to transform the Bank into a community commercial bank serving the financial needs of individuals, families, local community organizations, and businesses

- a $2.2 million rise in net interest income resulting from a combination of increased spreads and larger average balances of interest earning assets and liabilities

- during the nine months of 2001, the Company incurred pre-tax operating costs of $447 thousand for the conversion of the core data processing system and $284 thousand for legal expenses associated with the arbitration of claims by a former executive

The third quarter of 2002 earnings were the highest of any quarter in the Company's history. Annualized return on average stockholders' equity improved from 8.76% during the third quarter of 2001 to 10.73% during the third quarter of 2002.

Interest Rate Environment

The table presented above under "Interest Rate Risk Management And Exposure" furnishes an overview of the interest rate environment during the most recent nine quarters. Market interest rates have varied considerably during this time period, generally falling throughout 2001, with certain interest rates rising in the first quarter of 2002 and then falling in the second and third quarters of 2002. In addition, the slope of the Treasury curve shifted from inverted at the beginning of 2001, to flatter by the end of the first quarter of 2001, to positively sloped by mid 2001. From mid 2001 to March 31, 2002, the Treasury curve generally became progressively more steeply sloped (i.e. a greater differential between short term and longer term interest rates). During the second and third quarters of 2002, the Treasury curve flattened.

Financial institutions, including the Bank, generally benefit from a positively sloped term structure of interest rates, whereby higher duration assets may be funded at a favorable spread with shorter term liabilities, and whereby fixed rate assets appreciate in market price as they move nearer to maturity. In addition, steep yield curves often lead to increased customer demand for adjustable rate mortgages due to the rate differential to long term, fixed rate mortgages.

As a result of the interest rate environment over the past 21 months, yields and rates for most assets and liabilities were substantially lower in the first nine months and third quarter of 2002 compared to the same periods in

2001.

Net Interest Income

Net interest income increased from $5.0 million and $14.5 million during the third quarter and first nine months of 2001, respectively, to $5.8 million and $16.7 million during the same periods in 2002 due to both expanded spreads and greater average balances of interest earning assets and liabilities. The Company's ratio of net interest income to average total assets was 4.07% for the third quarter of 2002, up from 3.79% during the same period in 2001. This ratio similarly increased from 3.80% during the first nine months of 2001 to 4.01% during the same period in 2002. The increased spreads in 2002 in part stemmed from the Company's continued implementation of its strategic plan.

The spread derived from investing the Company's demand deposit balances and capital was lower in the first nine months of 2002 than the same period in 2001 due to the significantly lower general interest rate environment. However, net interest income during the first nine months of 2002 benefited from lifetime rate floors on certain loans and prepayment penalties received on certain income property loans that were paid off.

Other factors influencing net interest income during the third quarter and first nine months of 2002 compared to the same periods in 2001 included:

- Average net loans as a percentage of average total assets improved from 85.5% and 83.0% during the third quarter and first nine months of 2001 to 86.0% and 86.0% during the same periods in 2002. Because loans constitute the Company's highest yielding type of asset, this change in asset mix favorably affected net interest income.

- Average transaction account (NOW, savings, and MMDA) deposits as a percentage of average total assets increased from 28.5% and 29.2% during the third quarter and first nine months of 2001 to 31.3% and 31.3% during the same periods in 2002. Because transaction accounts represent relatively low cost funding for the Company, this change in funding mix favorably impacted net interest income.

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- Average demand deposits as a percentage of average total assets increased from 3.8% and 3.6% during the third quarter and first nine months of 2001 to 4.1% and 4.0% during the same periods in 2002. In addition, average stockholders' equity as a percentage of average total assets increased from 9.1% and 9.1% during the third quarter and first nine months of 2001 to 9.6% and 9.5% during the same periods in 2002. Increases in interest free funding sources favorably impact the Company's spreads.

- The ratio of interest earning assets to interest bearing liabilities increased slightly from 1.10 and 1.09 during the third quarter and first nine months of 2001 to 1.11 and 1.11 during the same periods in 2002. Increases in this ratio favorably impact average spreads, as this indicates that the Company is earning interest income on a relatively larger base of assets versus the quantity of liabilities upon which it is paying interest. The Company regularly endeavors to allocate as much of its assets as operationally practicable to interest earning alternatives.

The Company's ratio of net interest income to average interest earning assets rose from 4.18% during the second quarter of 2002 to a record 4.27% during the third quarter of 2002. Approximately 3 basis points of this increase resulted from a reduction in earned, but uncollected and unrecorded, interest income on non-accrual loans, which declined from $109 thousand at June 30, 2002 to $69 thousand at September 30, 2002. During the third quarter of 2002, the Company had several loans that were on non-accrual status at June 30, 2002 fully reinstate. The majority of the $69 thousand earned, but uncollected and unrecorded, interest income at September 30, 2002 was associated with a single residential mortgage with a principal balance of $846 thousand, as described in more detail under "Non-performing Assets".

The Company plans to further increase its net interest margin by continuing the transformation into a community commercial bank, increasing the percentage of total assets constituted by loans, decreasing the percentage of the loan portfolio comprised of residential mortgages, and increasing the percentage of the deposit portfolio composed of transaction accounts. However, no assurance can be provided that the Company will be successful in this regard, as interest rates and new business activity are influenced by many factors beyond the control of the Company, such as actions by the Federal Reserve and competition.

The following table presents the average annualized rate earned upon each major category of interest earning assets, the average annualized rate paid for each major category of interest bearing liabilities, and the resulting net interest spread, net interest margin, and average interest margin on total assets for the three months ended September 30, 2002 and 2001.

	Three Months Ended September 30, 2002			Three Months Ended	
(Dollars In Thousands)	Average Balance	Interest	Average Rate	Average Balance	Int
Assets					
Interest earning assets:					
Cash equivalents (1)	$ 1,621	$ 6	1.48%	$ 6,035	$
Investment securities	7,265	52	2.86%	7,404	
Mortgage backed securities (2)	40,806	323	3.17%	32,883	
Loans receivable, net (3)	489,713	8,549	6.98%	453,030	9
FHLB stock	3,323	49	5.90%	3,259	
Total interest earning assets	542,728	8,979	6.62%	502,611	9
Non-interest earnings assets	26,466			27,353	
Total assets	$569,194			$529,964	
Liabilities & Equity					
Interest bearing liabilities:					
NOW accounts	$ 44,318	39	0.35%	$ 40,907	
Savings accounts	18,731	26	0.56%	19,694	
Money market accounts	115,357	621	2.15%	90,186	
Certificates of deposit	254,003	1,892	2.98%	252,369	3
Total interest-bearing deposits	432,409	2,578	2.38%	403,156	4
FHLB advances	56,557	603	4.26%	55,365	
Other borrowings (4)	319	3	3.76%	356	

Total interest-bearing liabilities	489,285	3,184	2.60%	458,877	4
Demand deposit accounts	23,365			20,067	
Other non-interest bearing liabilities	1,893			2,752	
Total liabilities	514,543			481,696	
Stockholders' equity	54,651			48,268	
Total liabilities & equity	$569,194			$529,964	
Net interest income		$ 5,795			$ 5
Interest rate spread (5)			4.02%		
Net interest earning assets	53,443			43,734	
Net interest margin (6)		4.27%			3
Net interest income / average total assets		4.07%			3
Interest earnings assets / Interest bearing liabilities	1.11			1.10	

Average balances in the above table were calculated using average daily figures

(1) Includes federal funds sold, money market fund investments, banker's acceptances, commercial paper, interest earning deposit accounts, and securities purchased under agreements to resell.
(2) Includes mortgage backed securities and collateralized mortgage obligations.
(3) In computing the average balance of loans receivable, non-accrual loans and loans held for sale have been included. Amount is net of deferred loan fees, premiums and discounts, and undisbursed loan funds. Interest income on loans includes amortized loan fees and costs, net, of $96,000 and $45,000 in 2002 and 2001, respectively.
(4) Includes federal funds purchased, securities sold under agreements to repurchase, and borrowings drawn on MBBC's line of credit.
(5) Interest rate spread represents the difference between the average rate on interest earning assets and the average rate on interest bearing liabilities.
(6) Net interest margin equals net interest income before provision for loan losses divided by average interest earning assets.

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The following table presents the average annualized rate earned upon each major category of interest earning assets, the average annualized rate paid for each major category of interest bearing liabilities, and the resulting net interest spread, net interest margin, and average interest margin on total assets for the nine months ended September 30, 2002 and 2001.

	Nine Months Ended September 30, 2002			Nine Months Ended S	
(Dollars In Thousands)	Average Balance	Interest	Average Rate	Average Balance	Int
Assets					

Interest earning assets:					
Cash equivalents (1)	$ 3,912	$ 51	1.74%	$ 8,123	$
Investment securities	7,441	162	2.90%	7,356	
Mortgage backed securities (2)	36,454	963	3.52%	41,644	
Loans receivable, net (3)	477,609	25,298	7.06%	423,124	2
FHLB stock	3,196	151	6.30%	3,051	
Total interest earning assets	528,612	26,625	6.72%	483,298	2
Non-interest earnings assets	26,714			26,748	
Total assets	$ 555,326			$ 510,046	
Liabilities & Equity					
Interest bearing liabilities:					
NOW accounts	$ 43,530	123	0.38%	$ 40,811	
Savings accounts	18,752	78	0.55%	19,318	
Money market accounts	111,316	1,813	2.17%	88,859	
Certificates of deposit	248,448	6,070	3.26%	246,996	
Total interest-bearing deposits	422,046	8,084	2.55%	395,984	1
FHLB advances	55,959	1,823	4.34%	46,538	
Other borrowings (4)	303	10	4.40%	214	
Total interest-bearing liabilities	478,308	9,917	2.76%	442,736	1
Demand deposit accounts	22,260			18,561	
Other non-interest bearing liabilities	1,738			2,427	
Total liabilities	502,306			463,724	
Stockholders' equity	53,020			46,322	
Total liabilities & equity	$ 555,326			$ 510,046	
Net interest income		$16,708			$ 1
Interest rate spread (5)			3.96%		
Net interest earning assets	50,304			40,562	
Net interest margin (6)		4.21%			
Net interest income / average total assets		4.01%			
Interest earnings assets / Interest bearing liabilities	1.11			1.09	

Average balances in the above table were calculated using average daily figures.

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1) Includes federal funds sold, money market fund investments, banker's acceptances, commercial paper, interest earning deposit accounts, and securities purchased under agreements to resell.
2) Includes mortgage backed securities and collateralized mortgage obligations.
3) In computing the average balance of loans receivable, non-accrual loans and loans held for sale have been included. Amount is net of deferred loan fees, premiums and discounts, and undisbursed loan funds. Interest income on loans includes amortized loan fees and costs, net, of $212,000 and $159,000 in 2002 and 2001, respectively.
4) Includes federal funds purchased, securities sold under agreements to

repurchase, and borrowings drawn on MBBC's line of credit.

5) Interest rate spread represents the difference between the average rate on interest earning assets and the average rate on interest bearing liabilities.

6) Net interest margin equals net interest income before provision for loan losses divided by average interest earning assets.

Rate / Volume Analysis

The most significant impact upon the Company's net interest income between periods is derived from the interaction of changes in the volumes of and rates earned or paid on interest-earning assets and interest-bearing liabilities. The following table utilizes the figures from the preceding table to present a comparison of interest income and interest expense resulting from changes in the volumes and the rates on average interest-earning assets and average interest-bearing liabilities for the periods indicated. Changes in interest income or interest expense attributable to volume changes are calculated by multiplying the change in volume by the prior period average interest rate. The changes in interest income or interest expense attributable to interest rate changes are calculated by multiplying the change in interest rate by the prior year period volume. The changes in interest income or interest expense attributable to the combined impact of changes in volume and changes in interest rate are calculated by multiplying the change in rate by the change in volume.

	Three Months Ended September 30, 200 Compared To Three Months Ended September 30, 200		
(Dollars In Thousands)	Volume	Rate	Volume / Rate
Interest-earning assets			
Cash equivalents	$ (37)	$ (28)	$ 21
Investment securities	(2)	(40)	1
Mortgage backed securities	118	(228)	(55)
Loans receivable, net	735	(1,175)	(95)
FHLB Stock	1	5	0
Total interest-earning assets	815	(1,466)	(128)
Interest-bearing liabilities			
NOW Accounts	6	(41)	(3)
Savings accounts	(2)	(24)	1
Money market accounts	225	(322)	(89)
Certificates of deposit	20	(1,217)	(8)
Total interest-bearing deposits	249	(1,604)	(99)
FHLB advances	15	(118)	(2)
Other borrowings	0	0	0
Total interest-bearing liabilities	264	(1,722)	(101)
Increase in net interest income	$ 551	$ 256	$ (27)

(Dollars In Thousands)	Nine Months Ended September 30, 2002 Compared To Nine Months Ended September 30, 2001 Volume	Rate	Volume / Rate
Interest-earning assets			
Cash equivalents	$ (144)	$ (171)	$ 89
Investment securities	4	(178)	(2)
Mortgage backed securities	(246)	(871)	110
Loans receivable, net	3,445	(4,341)	(559)
FHLB Stock	6	18	1
Total interest-earning assets	3,065	(5,543)	(361)
Interest-bearing liabilities			
NOW Accounts	21	(202)	(13)
Savings accounts	(5)	(107)	3
Money market accounts	699	(1,317)	(333)
Certificates of deposit	58	(3,769)	(23)
Total interest-bearing deposits	773	(5,395)	(366)
FHLB advances	371	(318)	(64)
Other borrowings	7	(11)	(4)
Total interest-bearing liabilities	1,151	(5,724)	(434)
Increase in net interest income	$ 1,914	$ 181	$ 73

Interest Income

Interest income decreased from $9.8 million and $29.5 million during the three and nine months ended September 30, 2001 to $9.0 million and $26.6 million during the same periods in 2002. This decrease was primarily due to the much lower interest rate environment present in 2002. The effect of lower general market interest rates more than offset the impact of an 8.0% rise in average interest earning assets from the third quarter of 2001 to the third quarter of 2002 and a shift in asset mix towards loans, coincident with the Company's strategic plan of better supporting its local communities with the delivery of credit.

Interest income on loans decreased from $9.1 million and $26.8 million during the three and nine months ended September 30, 2001 to $8.5 million and $25.3 million during the same periods in 2002. The effect of lower interest rates more than offset the impact of 8.1% and 12.9% rises in average net loan balances outstanding from the three and nine months ended September 30, 2001 to the three and nine months ended September 30, 2002. The greater volume stemmed from the Company's strategic plan of increasing the percentage of the balance sheet comprised of loans through internal originations, loan purchases from correspondent banks, and loan participations; with the latter primarily sourced through other California community banks. The Company plans to increase total loans to approximately 90.0% of total assets over time. Management believes stockholder value is maximized through the extension and effective management of credit.

Interest income on cash equivalents decreased from $50 thousand and $277 thousand for the three and nine months ended September 30, 2001 to $6 thousand and $51 thousand for the same period in 2002. This decline was due to:

o lower average rates resulting from the interest rate cuts implemented by the Federal Reserve in 2001

o lower average volumes stemming from:

A. the Company's redeploying funds from cash equivalents into loans as a result of the demand for credit

B. the Company's purchasing short term investment securities (called Agency debentures) during the first quarter of 2002 in lieu of investing in cash equivalents

Interest income on investment securities declined from $93 thousand and $338 thousand during the three and nine months ended September 30, 2001 to $52 thousand and $162 thousand during the same periods in 2002. The reduced interest income resulted from lower yields on variable rate corporate trust preferred securities that reprice quarterly based upon 3 month LIBOR, which was significantly lower in the first nine months of 2002 than during the same period in 2001. This impact was only partially offset by interest income earned on short term Agency debentures purchased during the first quarter of 2002 as a vehicle for investing short term excess liquidity.

Interest income on mortgage backed securities fell from $488 thousand and $2.0 million during the three and nine months ended September 30, 2001 to $323 thousand and $963 thousand during the same periods in 2002. These decreases were primarily caused by reductions in average rates. Average volumes were lower for the nine month comparative period, but higher for the three month comparative period. The mix of the Company's mortgage backed securities has changed over the past two years, with an increase in lower duration, high cash flow instruments and a reduction in higher duration, lower cash flow securities in order to better support greater funding requirements stemming from the Company's increased lending. The Company also purchased additional adjustable rate mortgage backed securities during 2001, which adjusted downward in rate in conjunction with the decline in interest rates during 2001 and 2002. The Company's effective yield on mortgage backed securities during the third quarter of 2002 was unfavorably impacted by the Company's purchasing short term, above market coupon CMO's in conjunction with its interest rate risk management program. When residential mortgage prepayment speeds accelerated during the third quarter of 2002, the Company's effective yield on CMO's was negatively impacted by faster amortization of the purchase premium.

Dividend income on FHLB stock increased from $43 thousand and $126 thousand during the three and nine months ended September 30, 2001 to $49 thousand and $151 thousand during the same periods in 2002. Greater average balances of FHLB stock stemming from the expansion in the Bank's balance sheet contributed to these increases. In addition, the FHLB-SF declared a particularly high fourth quarter 2001 dividend rate of 5.99% during the first quarter of 2002. This rate was above that accrued by the Company in 2001, and therefore increased the Company's reported yield on FHLB stock during 2002.

Interest Expense

Interest expense decreased from $4.7 million and $14.9 million during the three and nine months ended September 30, 2001 to $3.2 million and $9.9 million during the same periods in 2002, as the effect of the lower interest rate environment more than offset the impact of increases in average interest bearing liabilities.

Interest expense on deposits decreased from $4.0 million and $13.1 million during the three and nine months ended September 30, 2001 to $2.6 million and $8.1 million during the same periods in 2002. This decline was due to the effect of a significant decrease in average interest rate more than offsetting the impact of a rise in average balances. The large decrease in average rates resulted from the lower interest rate environment and a shift in the composition of the deposit portfolio. Relatively higher cost certificates of deposit decreased from 59.6% of average total deposits during the third quarter of 2001 to 55.7% during the third quarter of 2002 despite the Company's issuing a $20.0 million brokered certificate of deposit during May 2002. Relatively lower cost transaction deposit accounts experienced a complementary increase, with money market deposits experiencing a significant rise from 21.3% to 25.3% of average total deposits during the same time periods. This change in deposit mix is a fundamental component of the Company's strategic plan.

At September 30, 2002, the Company's weighted average nominal cost of deposits was 2.15%, down from 2.87% at December 31, 2001. The Company paid an average rate of just 0.35% on its NOW deposits and 0.56% on its savings deposits during the third quarter of 2002, highlighting the limited ability of the Company to further reduce the cost of this funding should general market interest rates decline in future periods. At September 30, 2002, $56.1 million in certificates of deposit with a weighted average nominal rate of 2.58% were scheduled to mature in the next quarter. This figure included $6.0 million in State of California deposits. At September 30, 2002, the longest term permitted by the State under its time deposit program was six months.

The Company has worked to more uniformly distribute its certificate of deposit maturities by month in order to facilitate cash management and avoid concentrated exposure to capital market events at any one point in time. This objective has been accomplished through the use of "odd term" certificates of deposit such as 7, 8, and 19 months, augmented by ongoing sales and periodic print advertising of longer term certificates of deposit. For example, the Company conducted two rounds of print advertising throughout its primary market area in the second quarter of 2002 promoting 24 month and 30 month certificates of deposit. Three year certificates of deposit were extensively advertised during the early part of the fourth quarter of 2002. At September 30, 2002, the weighted average cost of the certificate of deposit portfolio was 2.81%, down from 3.14% at June 30, 2002.

During the fourth quarter of 2002, the Company plans to continue promoting money market accounts, including new consumer and business MMDA products, intermediate to longer term certificates of deposit, and business checking accounts. The Company's deposit products are highly tiered, encouraging greater account balances in order to earn higher rates of interest. Customer accounts are accessible via bilingual telephone banking, Internet banking, global ATM networks, mail, and in-branch service. The Company also intends to continue pursuing compensating balances, typically demand deposit balances, for commercial credit facilities.

Interest expense on FHLB advances and other borrowings decreased from

$711 thousand during the three months ended September 30, 2001 to $606 thousand during the same period in 2002 due to the effect of lower average rates more than offsetting a slight increase in average balances. Interest expense on FHLB advances and other borrowings was little changed for the first nine months of 2002 compared to the same period during the prior year, as the impact of greater average balances negated the effect of lower average rates. The Company had higher levels of borrowings outstanding in the first nine months of 2002 than the same period in 2001 due to borrowings being utilized to fund some of the growth in the loan portfolio.

The Company's average interest rate on other borrowings was inflated during 2001 and 2002 as a result of the amortization of loan fees (discount on a liability) on MBBC's $3.0 million revolving line of credit combined with a lack of draws (outstanding balances) on the line.

Provision For Loan Losses

The Company recorded provisions for loan losses totaling $400 thousand and $1.1 million during the three and nine months ended September 30, 2002, compared to $275 thousand and $1.1 million during the same periods in 2001. The Company determines its periodic provision for loan losses based upon its analysis of loan loss reserve adequacy. Net charge-offs during the first nine months of 2002 were $33 thousand (of which less than $1 thousand occurred in the third quarter), versus $52 thousand during the first nine months of 2001. The Company's ratio of loan loss reserves to loans outstanding increased from 1.41% at December 31, 2001 to 1.54% at September 30, 2002, while the nominal amount of the loan loss reserve rose from $6.7 million at December 31, 2001 to $7.7 million at September 30, 2002.

Factors contributing to the provision for loan losses during the first nine months of 2002 included:

- the establishment of a specific reserve of $475 thousand associated with a $2.3 million commercial real estate mortgage secured by a hotel / resort described above under "Non-performing Assets"
- the expansion in the loan portfolio
- the addition of a large volume of new credits to the loan portfolio
- the origination of relatively larger loans by the Los Angeles loan production office
- the stage of the economic and credit cycles, with Management's belief that California typically lags national economic trends
- the change in loan portfolio mix, particularly the reduced concentration of relatively lower risk residential mortgages
- the Company's updating its formula general reserve factors during 2002 to reflect current information regarding real estate valuations, business conditions, rental and vacancy rates for various types of income property, and other factors in estimating the amount of loss inherent in the loan portfolio at September 30, 2002
- year to date net charge-offs

Because the $2.3 million commercial real estate mortgage secured by a hotel / resort was already classified as substandard at December 31, 2001, the incremental loan loss reserves associated with this loan at September 30, 2002 were less than the $475 thousand specific reserve.

Commercial & industrial and multifamily real estate loans typically present greater credit, concentration, and event risks than home mortgages, thereby requiring proportionately greater reserve levels. Newer loans typically present more credit exposure than seasoned loans with many years of prompt payment experience and amortized principal balances. Commercial lines of credit and term loans to businesses also typically present a greater level of credit risk than residential mortgages.

The Company anticipates that its ratio of loan loss reserves to loans outstanding will continue to increase in future periods to the extent that the Company is successful in its strategic plan of increasing total loans while expanding the proportion of the loan portfolio represented by income property, construction, and commercial business lending. This change in portfolio mix is anticipated to continue to be accelerated by the Los Angeles loan production office, which concentrates on construction and income property lending. The Los Angeles loan production office presents the Company with the opportunity to better geographically diversify its real estate loan portfolio, such that the Company becomes less exposed to a downturn in real estate values, economic weakness, or a natural disaster in any one local real estate market. The Company does not, however, pursue lending outside the State of California, but does occasionally make real estate loans secured by property in other states as an accommodation to existing customers.

Non-interest Income

Non-interest income totaled $490 thousand and $1.5 million during the three and nine months ended September 30, 2002, down from $690 thousand and $2.0 million during the same periods in 2001.

Customer service charge income was $387 thousand and $1.1 million during the three and nine months ended September 30, 2002, down from $401 thousand and $1.3 million during the same periods in 2001. In conjunction with the conversion to the new core data processing system in March 2001, the Company implemented a revamped consumer checking product line and an associated revised fee and service charge schedule. These changes contributed to the closing of certain lower balance, recurring overdraft, and / or higher transaction volume consumer checking accounts beginning in the second quarter of 2001, as such accounts began incurring increased service charges. The closure of these accounts contributed to the reduced levels of customer service charge income, but also decreased certain operating costs for the Company. In addition, certain uncollected funds fees charged in 2001 were eliminated by the beginning of 2002 due to competitive factors.

Commissions from the sale of non-FDIC insured investment products were $25 thousand and $100 thousand during the three and nine months ended September 30, 2002, down from $35 thousand and $223 thousand during the same periods in 2001. This decrease was primarily due to vacancies in positions for licensed investment sales representatives and the general state of the capital markets in the first nine months of 2002. The Company expects revenue from these operations to remain constrained during the fourth quarter of 2002.

Loan servicing income totaled $18 thousand and $47 thousand during the three and nine months ended September 30, 2002, compared to $33 thousand and $77 thousand during the same periods in 2001. The Company continues to sell the vast majority of its long term, fixed rate residential loan production into the secondary market on a servicing released basis, and purchases more interest rate sensitive loans as part of its interest rate risk management program. Additions to loans serviced for others during 2002 have thus been limited to loan participations sold to correspondent banks. As a result, the portfolio of loans serviced for others is declining as loans pay off. At September 30, 2002, the Company serviced $38.3 million in various types of loans for other investors, compared to $42.6 million at December 31, 2001. The Company maintained loan servicing assets of $39 thousand at September 30, 2002, and is thus limited in its exposure of loan servicing income to the accelerated loan prepayment speeds now occurring as a result of the low interest rate environment and high volume of residential mortgage refinance activity.

Gains on the sale of loans were $33 thousand during the third quarter of 2002, up from $18 thousand during the third quarter of 2001. For the first nine months of 2002, gains on the sale of loans totaled $81 thousand, a 72.3% increase from the $47 thousand recorded during the first nine months of 2001. The Company anticipates continued favorable results from its mortgage banking operations during the fourth quarter of 2002, stimulated by the availability of thirty and fifteen year fixed rate residential mortgages at rates below 6.25% and 5.75%, respectively, at the beginning of the quarter.

The Company recorded a loss of $8 thousand on the sale of an Agency collateralized mortgage obligation ("CMO") during the third quarter of 2002, compared to realizing a gain of $156 thousand on the sale of two non-Agency CMO's during the third quarter of 2001. The recent sale was conducted in conjunction with the Company's asset / liability management program. Gains on sale of mortgage backed securities were $35 thousand during the first nine months of 2002, compared to $190 thousand during the same period in 2001. Although many of the Company's mortgage backed securities appreciated in fair value during the first nine months of 2002 due to the decline in most capital markets interest rates, the Company retained the securities as a means of generating net interest income.

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Other income declined from $47 thousand and $209 thousand during the three and nine months ended September 30, 2001 to $35 thousand and $112 thousand during the same periods in 2002. Various factors contributed to this decline, including:

- the collection of a $25 thousand fee in the second quarter of 2001 in conjunction with the workout of a troubled loan
- the Company's earning $39 thousand more in fees in the first nine months of 2001 versus the same period in 2002 associated with the (discontinued) issuance of Bank official checks drawn on a third party
- the Company's collecting $3 thousand less in rent from sub-leased space in its branches and administrative buildings during the first nine months of 2002 versus the same period in 2001, as certain rent increases were insufficient to offset the loss of two tenants

The Company's strategic plan incorporates non-interest income representing a greater percentage of total revenue. The Company's efforts in this regard during the third quarter of 2002 included an employee incentive campaign to provide debit cards to existing customers, highlighting the many attractive benefits of paying for purchases with a debit card rather than a check. The Company intends to pursue increased non-interest income in future periods through:

- further increases in the portfolio of deposit transaction accounts

- the continued sale of consumer Internet banking with electronic bill payment

- the expanded sale of Internet banking and cash management services for businesses

- the continued marketing of debit cards

- the recent introduction of trade and standby letter of credit services for business customers in conjunction with a correspondent bank

However, no assurance can be provided regarding the amount of or trends in the Company's future levels and composition of non-interest income.

Non-interest Expense

Non-interest expense totaled $3.4 million and $10.3 million during the three and nine months ended September 30, 2002, comparing favorably to $3.6 million and $10.9 million during the same periods in 2001. Factors contributing to the lower expenses included the Company's incurring significant costs in the first nine months of 2001 associated with its data processing conversion ($447 thousand) and the arbitration of claims by a former executive ($284 thousand). The data processing conversion costs included de-conversion charges from the Company's external service bureau, travel and training costs for employees to assist with the implementation of the new system, printing and postage for additional customer mailings, and consultant fees.

Compensation and employee benefits costs were higher in the three and nine months ended September 30, 2002 than during the same periods the prior year due to:

- compensation costs associated with the Los Angeles loan production office which opened during the first quarter of 2002

- other staff additions and changes in support of the Company's strategic plan, particularly in the Company's commercial banking, income property lending, and information technology functions

- higher costs for the Bank's Employee Stock Ownership Plan due to the greater average market price of the Company's common stock; associated expenses were $467 thousand for the first nine months of 2002 compared to $314 thousand for the first nine months of 2001

- higher costs for payroll taxes on a greater compensation base

- increased expenses for worker's compensation insurance, which is a general problem faced by businesses in the State of California

Deposit insurance premiums decreased from $50 thousand and $148 thousand for the three and nine months ended September 30, 2001 to $19 thousand and $121 thousand during the same periods in 2002, despite the expansion in the Company's deposit portfolio. The decline resulted from an adjustment in the Company's insurance premium rate effective July 1, 2002. The lower insurance premium rate will also favorably impact deposit insurance expenses during the fourth quarter of 2002.

Legal and accounting expenses declined from $274 thousand and $724 thousand during the three and nine months ended September 30, 2001 to $107 thousand and $328 thousand during the same periods in 2002 primarily due to the aforementioned arbitration in 2001 and due to the Company's utilizing more cost effective providers for certain professional services in 2002.

Advertising and promotion costs totaled $52 thousand during the third quarter of 2002, down from $86 thousand during the same period during the prior year. The Company limited its print and broadcast advertising during the third quarter of 2002 in light of the challenges of advertising for deposits with interest rates at historic low levels. Advertising and promotion costs totaled $214 thousand during the first nine months of 2002, up from $143 thousand during the same period the prior year. These costs were unusually low in the first half of 2001, as the Company postponed certain advertising and promotional activities due to the implementation of the new computer systems environment. In conjunction with the Company's strategic plan and as an alternative to print and broadcast media, the Company's employees and Directors enhanced the Bank's visibility during 2002 by their extensive participation in a significant number of community events and organizations. As just one example, the Bank's employees logged over 150 volunteer hours during the month of September participating in various community events, the majority of which were fundraisers to support local non-profit organizations in the Bank's primary market area.

Consulting expenses declined from $31 thousand and $336 thousand during the three and nine months ended September 30, 2001 to $16 thousand and $59 thousand during the same periods in 2002. In 2001, the Company hired several consultants to assist with the core systems conversion and the implementation of complementary technology following the conversion.

The Company's efficiency ratio during the third quarter of 2002 was 54.77%, comparing favorably to 62.86% during the third quarter of 2001 and improving from 56.12% during the second quarter of 2002 (the immediately preceding quarter). Despite this progress, the Company's efficiency ratio is still above those of high performing peer financial institutions. The expansion in the Company's interest margin has been a significant factor in the improvement in the efficiency ratio during the past year.

The Company continues to restructure its operations both to better utilize new technology and improve efficiency. A major upgrade of the Company's core banking system is planned for the fourth quarter of 2002. The Company also continues to evaluate new vendors for various products and services, seeking more cost effective business relationships. In 2002, the Company altered the manner in which its facilities management is conducted to provide for better expense control. By mid 2002, the Company implemented revised practices for check ordering and printing, leading to cost savings. In the third quarter of 2002, the Company completed the transition to a higher quality and lower cost cellular phone service and streamlined certain electronic transaction processing. In upcoming quarters, the Company plans to obtain better pricing for certain correspondent banking services, reconfigure its item processing operations, and improve the cost effectiveness of its Internet banking program. Through these and other initiatives, the Company continues to target progress in improving its efficiency ratio.

However, the Company's progress in improving its efficiency ratio in the next several quarters may be tempered by the up front costs associated with the hiring of additional experienced commercial bankers in order to speed the implementation of the strategic plan. In addition, should the Company open a de novo branch in order to improve its coverage of its local market area, attract additional deposits and new customers, build franchise value, and reduce the loan to deposit ratio, such would likely unfavorably impact the efficiency ratio, as new branches typically generate negative incremental contributions in the first year of operation. Moreover, the Company is subject to certain third party pricing increases for health insurance and worker's compensation insurance, which are common issues for many businesses in the State of California.

In light of the above and because of the uncertain impacts of competition, the regulatory environment, and other factors over which the Company has no control, Management cannot predict the Company's efficiency ratio in future periods.

Income Taxes

Income tax expense increased in 2002 versus 2001 due to greater pre-tax income. The Company's effective book income tax rate was 40.8% for the first nine months of 2002, down from 42.6% for the first nine months of 2001 due to:

- certain non-deductible expenses and other adjustments to taxable income representing a smaller percentage of the increased amount of book pre-tax income

- the Company's filing for additional State income tax credits in 2002 under the Enterprise Zone program

In addition, net income during the third quarter of 2002 was increased by $32 thousand associated with a non-recurring reduction in the Company's provision for income taxes resulting from a change in California tax law. This one time reduction contributed to the Company's reporting an effective book income tax rate of 40.0% for the third quarter of 2002, compared to the Company's effective book income tax rate of 40.8% for the first nine months of 2002.

Item 3. Quantitative And Qualitative Disclosures About Market Risk

For a current discussion of the nature of market risk exposures, see "Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations - Interest Rate Risk Management And Exposure". Readers should also refer to the quantitative and qualitative disclosures (consisting primarily of interest rate risk) in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. There has been no significant change in these disclosures since the filing of that document.

Item 4. Controls And Procedures

(a) The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports in compliance with the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to the Company's Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c) promulgated under the Exchange Act. Within 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 the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

(b) There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is party to claims and legal proceedings in the ordinary course of business. Management believes that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

Item 2. Changes In Securities

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission Of Matters To A Vote Of Security Holders

No matters were submitted to a vote of security holders during the quarter ended September 30, 2002.

Item 5. Other Information

None.

Item 6. Exhibits And Reports On Form 8-K

A. Exhibits

10.23 Monterey Bay Bancorp, Inc. Form Of Indemnification Agreement Between The Company And All Directors Plus The Chief Financial Officer

10.24 Monterey Bay Bank Form Of Indemnification Agreement Between The Company And All Directors Plus The Chief Financial Officer

10.25 Amended And Restated Bylaws Of Monterey Bay Bancorp, Inc.

99.1 Chief Executive Officer Certification Pursuant To 18 U.S.C. Section 1350

99.2 Chief Financial Officer Certification Pursuant To 18 U.S.C. Section 1350

B. Reports On Form 8-K

The Company has recently filed the following Current Reports on Form 8-K:

1. Form 8-K dated September 9, 2002. This Current Report reported:

   - an expansion in the number of Company Directors from nine to ten
   - the appointment of a new Director for Monterey Bay Bancorp, Inc. and its subsidiary, Monterey Bay Bank
   - third quarter 2002 share repurchases by the Company
   - increased Insider ownership of the Company

2. Form 8-K dated October 21, 2002. This Current Report reported the Company's financial and operating results for the three month and nine month periods ending September 30, 2002.

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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.

MONTEREY BAY BANCORP, INC.
(Registrant)

Date: November 12, 2002 By: /s/ C. Edward Holden

C. Edward Holden
Chief Executive Officer
President
Vice Chairman Of The Board Of Directors

Date: November 12, 2002 By: /s/ Mark R. Andino

Mark R. Andino

Chief Financial Officer
Treasurer
(Principal Financial & Accounting Officer)

Certification of the Principal Executive Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, C. Edward Holden, Chief Executive Officer and President, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monterey Bay Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain and 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;

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 the 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 and any material weakness 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 12, 2002

By: /s/ C. Edward Holden

C. Edward Holden
Chief Executive Officer
President
Vice Chairman

Certification of the Principal Financial Officer
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Mark R. Andino, Chief Financial Officer and Treasurer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monterey Bay Bancorp, Inc.;

2. Based on my knowledge, this quarterly report does not contain and 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;

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 the 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 and any material weakness 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 12, 2002

By: /s/ Mark R. Andino

Mark R. Andino
Chief Financial Officer
Treasurer